

Confirmed



Minutes of a Meeting of the **Audit and Governance Committee** held in the Conference Room, Riverside, on **Monday, 13 December 2021 at 6.30pm**

Members of the Committee present:

Councillor Tony Cooper, Councillor Linda Coulam, Councillor Tess Gandy, Councillor Geoff Lynch, Councillor Mick Richardson, Councillor Rachel Smith-Lyte, Councillor Ed Thompson

Other Members present:

Councillor Edward Back, Councillor Peter Byatt, Councillor Maurice Cook

Officers present: Kerry Blair (Head of Operations), Mark Fisher (Procurement Manager), Siobhan Martin (Head of Internal Audit Services), Brian Mew (Chief Finance Officer & Section 151 Officer), Marie McKissock (Finance Manager Compliance), Alli Stone (Democratic Services Officer), Julian Sturman (Senior Accountant), Nicola Wotton (Deputy Democratic Services Manager)

Others present: Debbie Hanson (Ernst & Young LLP), Ghulam Hussein (Ernst & Young LLP)

1 Minutes

RESOLVED

That the Minutes of the Meeting held on 20 September 2021 be agreed as a correct record and signed by the Chairman.

2 Declarations of Interest

There were no Declarations of Interest.

3 Apologies for Absence and Substitutions

Apologies for Absence were received from Councillor Judy Cloke.

4 Annual Audit Letter for the year ended 31 March 2020

The Committee received report ES/0972 of Councillor Edward Back, the Assistant Cabinet Member for Resources, which presented Ernst and Young's (EY) 2019/20 Annual Audit Letter.

Councillor Back introduced the report which presented the key issues identified by the External Auditor, Ernst & Young, following completion of their audit procedures for the year ended 31 March 2020. Councillor Back confirmed that detailed findings from EY's audit work had already been reported to the Audit & Governance Committee via the Audit Results Report on 15th March 2021, with an additional verbal update on 28th June 2021. These findings had not been repeated in the annual audit letter.

The Chief Finance Officer confirmed that the proposed fee variation for the 2019/20 financial year was £39,360, in addition to the Public Sector Audit Appointments (PSAA) agreed fee of £69,964. £22,320 of this variation had been agreed to in recognition of the fact that additional work has been necessary in addition to that included in the original PSAA fee. However, the remaining proposed £17,040 had not been agreed, and had been referred to PSAA.

The Chief Finance Officer asked Ms Debbie Hanson, Associate Partner at Ernst & Young LLP (EY), to provide a summary of the audit letter and fee changes. Ms Hanson clarified that EY believed that scale fees had not kept up with the additional work now required for the annual audit, this additional workload had therefore been included in the fee variation. The additional work areas were a result of both the Covid-19 pandemic and the 2019/20 year being the first year that East Suffolk Council had been in existence. Ms Hanson confirmed that fee elements were with PSAA for approval, along with the Council's comments, and an update was awaited on the final fee.

The Chairman asked Ms Hanson to confirm why additional time had been added to costs due to EY staff working from home. Ms Hanson confirmed that staff had been unable to come into offices to do the audit in the usual way and this had presented challenges, which were reflected in the additional costs. Although there were savings for individuals, this was not a saving for the firm. The Chairman argued that travel time had been saved in coming to East Suffolk Council offices in person, and that he felt that the costs should even out. Ms Hanson confirmed that expense costs had never been passed on to the Council under the contract with PSAA, and that savings had not been outweighed by extra costs.

Following a question from Councillor Gandy on why fees had increased due to regulatory requirements, Ms Hanson confirmed that EY had first discussed this with PSAA in 2019, and that these changes had occurred before Covid-19. They reflected the higher level of work required from regulators around what audits should include. These costs had been separated out for clarity, and EY believed these costs should be included in the base fee going forward.

Councillor Cooper asked why the issue of the new accounting standards in respect of leases referred to in the report had been delayed and expressed concern over the lack of knowledge on leases. Ms Hanson confirmed that this had been deferred for the third time due to Covid-19 as the new auditing standard required more in-depth consideration of leases. At present EY had no issue with the disclosure of leases, but requirements were changing and so more work would need to be done going forwards.

The Chief Finance Officer confirmed that this was not an issue specific to East Suffolk and that all Councils would have to go through this process, and the new regulations would apply from 2022/23 onwards. The Council were working towards this and expected to meet the deadline.

Ms Hanson invited Mr Ghulam Hussain, Audit Manager at Ernst & Young LLP, to confirm the timeline for the final audit for 2020/21. Mr Hussain confirmed that there was outstanding work to be done on pensions, Going Concern disclosures and value for money arrangements, which would largely be completed by Christmas. The review would be completed in the New Year and the completed audit would be completed by the end of January.

On the proposition of Councillor Coulam, seconded by Councillor Richardson it was by a unanimous vote

RESOLVED

That the Annual Audit Letter for the year ended 31st March 2020, along with the additional fee analysis be noted.

5 Capital Strategy 2022/23 to 2025/26

The Committee received report ES/0973 of Councillor Maurice Cook, the Cabinet Member with responsibility for Resources. Councillor Cook introduced the report which gave a high-level overview of how capital expenditure, capital financing and treasury management activity contributed to the provision of local public services in East Suffolk, along with an overview of how associated risk was managed and the implications for future financial sustainability.

Councillor Cook highlighted the Prudential Code update under point 9.4 of Appendix A. The updated Code would come into effect in 2023/24 and would prevent Local Authorities from borrowing for the primary purpose of commercial return. The sale of commercial investments would potentially be considered as an alternative to new borrowing.

Following a question from Councillor Gandy on why the Prudential Code had been changed to prevent borrowing, and how this would affect the council down the line, Councillor Cook confirmed that the Council could be restricted in future borrowing, but the results of the final consultation on the revised Code had not yet been published and so the full impact could not be confirmed. Councillor Cook confirmed that the Council did have a number of property assets, some of which had recently been purchased, which could potentially be regarded as commercial assets in the updated Code. In relation to current borrowing, the Chief Finance Officer confirmed that the Council had not borrowed to fund commercial investment, however changes did have the potential to impact on future borrowing and could influence how future projects would be funded.

Councillor Gandy asked whether the building of replacement beach huts in Lowestoft was within budget, and when the new beach huts would be available to rent and

produce an income. Councillor Cook confirmed that the project was within budget, and it was expected that the first huts would be available from the summer of 2022.

In response to a question from Councillor Gandy on the acceleration of the Pakefield Coastal Resilience Project, the Senior Accountant confirmed that the Coastal Management Team were investigating additional grants to help fund the accelerated project timeline, and they believed that they could equal the amount allocated in the General Fund.

Councillor Gandy asked whether the figure identified for the Lowestoft Railway Station building was a fixed amount or estimated. The Senior Accountant confirmed that this figure was an estimated cost for purchase and development as part of the Towns Fund project.

Councillor Cooper asked whether the HRA debt mentioned in paragraph 6.2.2 of Appendix A would be repaid according to the proposed timeline. Councillor Cook stated that at present the Council expected to meet this target, and that the Council was taking a cautious approach to the repayment of HRA debt.

Councillor Coulam asked if the boardwalk which had identified as part of the Lowestoft Beach Hut scheme had been included in these figures. The Senior Accountant confirmed that the boardwalk was committed to as part of the capital programme.

The Chairman stated that he was pleased to see the strong level of investment that the Council was making across the whole district area within the next year.

On the proposition of Councillor Cooper, seconded by Councillor Richardson it was by a unanimous vote

RESOLVED

That having commented upon and reviewed the Capital Strategy 2022/23 to 2025/26 it be recommended to Full Council for approval.

6 Treasury Management Strategy Statement for 2022/23 & Treasury Management Investment Strategy for 2022/23

The Committee received report ES/0974 of Councillor Edward Back, the Assistant Cabinet Member for Resources.

Councillor Back introduced the paper which set out the East Suffolk Council's Treasury Management Strategy Statement for 2022/23 and the Investment Strategy for 2022/23. It was noted that these documents covered:

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy; and
- the investment strategy

Councillor Back invited the Senior Account to summarise the report. The Senior Accountant confirmed that the strategy was subject to the updated CIPFA code (see item 9). The Council's investment and borrowing portfolio was in a good position, and there were sufficient short- and long-term investments which had provided a good rate of return even during the pandemic. However, recent developments due to the pandemic had caused fluctuations in the markets and the finance team would monitor this going forward.

Councillor Gandy referred to the Service Investments table in Appendix B and asked why the organisations that had the opportunity to borrow from the Council had not taken advantage of this, and whether this option had been advertised to them. The Senior Accountant confirmed that Central Government had provided a great deal of grant support to business, and so businesses had not required further loans. The Council did have the opportunity to invest in business, and whilst loans had not been given through this strategy, local businesses were being supported in other ways. The Senior Accountant confirmed that any loan was dependant on the credit standing of the individual business and what the money was required for. The Chief Financial Officer added that any lending under these categories would be very short term (two year) and would primarily be for the Council's own cashflow and treasury management purposes.

The Chairman asked why the Council was lending money to three other local authorities at the same rate (0.05%) as was being paid in interest on two bank accounts. The Senior Accountant confirmed that when these investments had been made, interest rates were less favourable and so the Council had elected to lend money to other local authorities. The Chief Finance Officer added that the Council did have limits on the amount which could be deposited with individual institutions, which sometimes required investments to be made at apparently less attractive rates. The amount of money which had been received in Covid-19 related grants in the past year had meant that on some occasions it had been difficult to obtain the most financially advantageous rates.

On the proposition of Councillor Gandy, seconded by Councillor Coulam it was by a unanimous vote

RESOLVED

That having reviewed and commented upon the Treasury Management Strategy Statement and the Treasury Management Investment Strategy for 2022/23 they be recommended to Full Council for approval.

7 Corporate Risk Management Update

The Committee received report ES/0975 of Councillor Maurice Cook, Cabinet Member with responsibility for Resources and Councillor Edward Back, Assistant Cabinet Member for Resources, in relation to Corporate Risk Management.

Councillor Cook introduced the report which provided members with the latest changes to strategic and operational risk, developments in how the Council managed risk, progress against planned developments and the key risks to the Council. It was noted that there were clearly identified mechanisms and responsibilities which allowed risks to be escalated, when required, onto the corporate risk register. All risks within the ESC Risk Register were assigned to a strategic theme within the East Suffolk Strategic Plan which ensured risks were managed effectively. It was noted that Zurich Insurance had undertaken a health-check of the Strategy which was very positive and resulted in only minor amendments, providing the Council with further confirmation that the Strategy was fit for purpose.

Councillor Cook highlighted three red risks which were incident management and flood risk, high profile or major coastal erosion or coastal incident; and resources to deliver Strategic Plan priorities, in addition there were eighteen amber risks.

Councillor Cooper asked whether the aim to move the flood risk from red to green was overly ambitious given the coastline of East Suffolk. The Head of Digital and Programme Management confirmed that works currently taking place on the flood barrier in Lowestoft would bring the risk down to a green, however they accepted that viewing the district as a whole a green target would not be viable.

Following a question from Councillor Gandy on why the risk around resources would only move from red to amber, Councillor Cook confirmed that this risk did not mean the Council did not have the ability to change the amount of resources, but that there were external factors such as lack of building supplies and the changes in the Prudential Code which could limit the amount of money available for projects. The Chairman agreed with Councillor Gandy's comment and asked that this risk was reviewed as it was felt that this was an overly cautious approach, and the risk was closer to amber. The Head of Digital and Programme Management stated that this risk was new to the strategic plan, and as a result was in the process of being assessed.

Councillor Gandy questioned whether the recruitment of more staff could be made a priority to help reduce this risk. Councillor Cook confirmed that resources had become stretched, but that work was being done to ensure the right staff were in place. Councillor Cook appreciated the Committee's view that this risk was more amber than red but felt it right to bring it to the Committee's attention at this point as a new risk.

On the proposition of Councillor Cooper, seconded by Councillor Gandy it was by a unanimous vote

RESOLVED

1. That, having commented upon the corporate strategic risks from the Council's current Corporate Risk Register (CRR), which was governed and monitored by the Corporate Governance Group (CGG), they be noted.
2. That the revised East Suffolk Risk and Opportunity Management Strategy be approved.

Note: Councillor Gandy left the meeting at 7.45pm.

8 Arrangements for the appointment of External Auditors

The Committee received report ES/0976 of Councillor Edward Back, Assistant Cabinet Member for Resources.

Councillor Back introduced the report which updated members on the appointment process for external auditors for the 5-year period from the financial year beginning 2023/24. The three options for the appointment of External Auditors were to procure external auditors via the PSAA route, form an East Suffolk Council Auditor Panel and conduct a stand-alone procurement exercise, or join with other local authorities, establishing a Joint Auditor Panel and joint procurement. The benefits and risks of each approach were summarised.

It was noted that the way the external audit procurement has operated over the last couple of years had been disappointing and many audits had been delayed. A lack of capacity in the audit market had been exacerbated by increased requirements placed on external auditors by the audit regulator, and the drive for audit quality had resulted in auditors needing more assurance. In turn this additional work had driven higher fees and it was noted that this was likely to continue.

The Chief Finance Officer confirmed that this paper asked the Committee to confirm the framework for appointment of External Auditors, and that the final decision would be by Full Council. The Chief Finance Officer felt that despite the issues noted, the best option was to coordinate efforts through the national arrangements with the PSAA, and that the other Suffolk Chief Finance Officers were of the same view. Consequently there was no interest in pursuing a joint approach with neighbouring authorities.

Councillor Cooper stated that in the past few years there had been numerous issues with EY, and that this could not continue. Councillor Cooper also expressed concern at the lack of options before the Council. Councillor Back stated that even if the Council opted for the PSAA route, this would not mean that EY would be re-appointed. The Chief Finance Officer added that it was his view that looking at the issues with audit at a national level as part of the PSAA would be the best way to address these. The Chief Finance Officer confirmed that the PSAA framework would have to be signed up for by the end of March. The Chairman confirmed that the Council would have an audit company appointed to them.

The Chairman summarised that he felt that procurement of external auditors through the PSAA was the best option, due to lack of interest from other Councils in the area for partnership, and the risk and costs of making a stand-alone appointment. The Chairman asked that East Suffolk Council used this opportunity to resolve issues and strengthen the contract with External Auditors to allow for less flexibility.

On the proposition of Councillor Cooper, seconded by Councillor Coulam it was by a unanimous vote

RESOLVED

1. That the arrangements and options for appointing External Auditors to audit the Final Accounts of the Council from 2023/24 for a 5-year period, and the practical deadline to opt-in of 11th March 2022, be noted.
2. That the Committee recommends that Full Council continues to 'opt-in' to the sector led body, Public Sector Audit Appointments Ltd (PSAA), for the independent appointment of the Council's external Auditor for 5 years from the financial year 2023/24.

9 CIPFA Financial Management Code

The Committee received report ES/0977 of Councillor Maurice Cook, Cabinet Member with responsibility for Resources.

Councillor Cook introduced the report which provided members with an overview of the Chartered Institute of Public Finance & Accountancy (CIPFA) Financial Management Code and reported on self-assessment against the requirements of the Code and progress to date.

Councillor Cook invited the Chief Finance Officer to summarise the report. The Chief Finance Officer stated that the paper was for the committee's information to ensure that they were familiar with the code as an important part of the Council's Financial Management.

The Chief Finance Officer went on to summarise the self-assessment at Appendix B. The main areas for concern were around training and the development of a long-term financial strategy. It was felt that this could remain amber (partly compliant) due to the lack of certainty around finance and local government at present. Generally, the CFO was pleased that the Council was fully compliant in most areas.

The Chairman summarised that he felt this was a good example of the Council taking extra measures to ensure good governance and financial processes.

On the proposition of Councillor Thompson, seconded by Councillor Coulam it was by a unanimous vote

RESOLVED

1. That the CIPFA Financial Management Code attached as Appendix A be noted.
2. That the Self-Assessment attached as Appendix B be noted.
3. That an update on progress and compliance with the Code be considered by the Committee as part of its Work Programme in 2022/23.

10 Revised Internal Audit Plan 2021-22

The Committee received report ES/0979 of Councillor Maurice Cook, Cabinet Member with responsibility for Resources and Councillor Edward Back, Assistant Cabinet Member for Resources.

Councillor Back introduced the report which provided members with the proposed revised Internal Audit Plan for East Suffolk Council 2021-22. Councillor Back confirmed that Head of Service has been informed of the amendment to the plan in their relevant area.

Councillor Back invited the Head of Internal Audit to summarise the main areas of the report. The Head of Internal Audit informed the committee that the report was a live document, and that the plan had shifted due to the ongoing impacts of Covid-19. Items which had been deferred would be assessed in January and February and an additional update would be received by the committee in March. The Head of Internal Audit reassured the committee that all essential works were being completed.

The Chairman thanked the Head of Internal Audit and the internal audit team for their work in this area and reiterated the importance of their work to the Council.

On the proposition of Councillor Cooper, seconded by Councillor Coulam it was by a unanimous vote

RESOLVED

That having commented upon the revisions made to the Internal Audit Plan 2021-22, they be approved.

11 Audit and Governance Committee's Draft Work Programme 2021/22

The Committee considered the Forward Work Programme for 2021/22. It was agreed that there would be an extraordinary meeting of the Committee in January/February to consider the Statement of Accounts and External Audit report. Changes to the Constitution would also be considered at this point.

12 Exempt/Confidential Items

On the proposition of Councillor Thompson, seconded by Councillor Richardson it was by a unanimous vote

RESOLVED

That under Section 100A(4) of the Local Government Act 1972 (as amended) the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Act.

13 Exempt Minutes

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

14 Purchase Order Update

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

15 Internal Audit: Status of Actions

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

16 Internal Audit Reports Recently Issued

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

The meeting concluded at 9.06pm

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Chairman