

**Confirmed**



Minutes of a Meeting of the **Audit and Governance Committee** held remotely via the Zoom Video Conferencing System on **Tuesday, 22 September 2020 at 6.30pm**

**Members of the Committee present:**

Councillor Edward Back, Councillor Judy Cloke, Councillor Linda Coulam, Councillor Tess Gandy, Councillor Geoff Lynch, Councillor Rachel Smith-Lyte, Councillor Ed Thompson

**Other Members present:**

Councillor Peter Byatt, Councillor Maurice Cook

**Officers present:**

Katherine Abbott (Democratic Services Officer), Sarah Davis (Democratic Services Officer), Siobhan Martin (Head of Internal Audit), Marie McKissock (Finance Manager Compliance), Brian Mew (Finance Consultant), Lorraine Rogers (Deputy Chief Finance Officer) and Julian Sturman (Senior Accountant)

**Others present:**

Debbie Hansen and Tony Poynton (Ernst & Young)

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**1 Apologies for Absence and Substitutions**

Apologies for absence were received from Councillor Cooper and Mrs L Fuller, Audit Manager.

**2 Declarations of Interest**

There were no declarations of interest.

**3 Minutes**

**RESOLVED**

That the Minutes of the Meeting held on 29 June 2020 be agreed as a correct record and signed by the Chairman.

**4 Item for Information - Rent Arrears**

Further to the information shared at the meeting on 2 March 2020, the Committee received, for information only, another update in relation to rent arrears and the impact of Covid-19.

## 5 Treasury Management Outturn 2019/20 and Mid Year Report 2020/21

In accordance with the requirements of the Treasury Management Policy Statement for 2019/20, the Committee received the report of the Cabinet Member with responsibility for Resources which reviewed the performance of the Treasury Management function, including prudential indicators for 2019/20, and incorporated a mid-year review of 2020/21. It was noted that in 2019/20:

- Investments totalled £109.68m as at 31<sup>st</sup> March 2020, which was made up of £84m of short-term investments, £18.68m of long-term investments and £7m of liquidity investments.
- Interest received during the year totalled £1.46m which exceeded the planned budget of £750k
- Borrowing totalled £77.41m as at 31<sup>st</sup> March 2020 of which £71.17m related to the Housing Revenue Account and £6.24m related to the General Fund.

In relation to 2020/21 to date:

- Investments totalled £160.28m as at 31<sup>st</sup> August 2020, which was made up of £68.6m of short-term investments, £24.86m of long-term investments and £68m of liquidity investments.
- Interest received to 31<sup>st</sup> August 2019 totalled £330k.
- The Council received £101.5m of Covid19 grant money from MHCLG in April 2020 for distribution to eligible employers.

The Cabinet Member concluded that the Council had operated its Treasury Management function within the prescribed Treasury Management Policy and Prudential Indicators for 2019/20 and for the first half of 2020/21.

The Chairman stated that it was fantastic that the income forecast had actually nearly doubled and he queried if these were secure investments. The Cabinet Member reassured the Committee that all the investments made had been in accordance with the Council's approved lists and within prescribed parameters.

Reference was made to the return of the remaining discretionary grant funding to MHCLG and it was queried whether there had been sufficient promotion to businesses that the grants were available. The Cabinet Member responded that, whilst the Government had given £101.5m, the Council had estimated that only approximately £74m was needed for the Small Business Grants and Retail, Hospitality and Leisure Grants as it had soon become apparent that a number of business were not eligible for them eg those that shared accommodation ie Adastral Park, or small businesses that were not liable for business rates. He reassured the Committee that the funding had been very well advertised and efforts had been made to contact those that were thought to be eligible. The Finance Consultant stated that the report contained information on the return of the funding to MHCLG. He added that a very large amount of the original grant allocation related to properties that were not eligible within the scheme eg beach huts, which amounted to £15m. Approximately £10m related to businesses that were national chains such as larger retail premises which

were ineligible due to State Aid rules. The discretionary grant element of the allocation of £3.8m had been completely utilised and paid out.

The Chairman referred to the counterparty limits being increased from £20m to £25m and the Senior Accountant confirmed that this was being done following guidance from the Council's external treasury advisers and CIPFA guidance to ensure that if the Council received any further grant money in the future, there was scope to be able to securely invest them without any risk to the monies. He confirmed that this was within the limits set down by the Government.

On the proposition of Councillor Back, seconded by Councillor Coulam, it was

**RESOLVED**

1. That the Annual Report on the Council's Treasury Management activity for 2019/20 incorporating the Mid-Year review for 2020/21 be noted.
2. That the Prudential Indicators Outturn position for 2019/20 in Appendix A be noted.
3. That the revised Counterparty limits for 2020/21 in Appendix B be approved

**Councillor Cloke and the Head of Internal Audit joined the meeting at 6.55pm.**

**6 Suffolk Coastal District Council and Waveney District Council Concluding Annual Governance Statement Letter 2018/19**

The Committee received the report of the Cabinet Member with responsibility for Resources which presented the Concluding Annual Governance Statement Letter 2018/19. Members were reminded that the Annual Governance Statements for Suffolk Coastal District Council and Waveney District Council relating to the period 1 April 2018 to 31 January 2019 had been approved by the authorities' Audit and Governance Committees on 12 March 2019 and 15 March 2019 respectively. The Cabinet Member explained that this Concluding Letter provided an assurance that there had been no movement on the wording and assurance levels stated in the 2018/19 Annual Governance Statements for Suffolk Coastal District Council and Waveney District Council in respect of the period from 1 February 2019 to 31 March 2019.

On the proposition of Councillor Coulam, seconded by Councillor Back, it was

**RESOLVED**

That the Concluding Annual Governance Statement Letter for the year ended 31 March 2019 in respect of Suffolk Coastal District Council and Waveney District Council be noted.

**7 Suffolk Coastal District Council Audit Results Report 2018/19**

The Committee received the report of the Cabinet Member with responsibility for Resources and the Cabinet Member explained that the Council's external auditor, Ernst and Young (EY), were required to produce an Audit Results Report on the work they had carried out to discharge their statutory audit responsibilities together with any governance issues identified. It was noted that EY were expected to issue an unqualified audit opinion, however, due to continuing work regarding an objection to the accounts, EY had not yet issued their opinion as to whether Suffolk Coastal District Council made appropriate arrangements to ensure economy, efficiency and effectiveness in the use of resources.

Debbie Hanson, Associate Partner, presented the Audit Results Report to the Committee, explaining that EY was required to do so before issuing the final Audit Letter. She highlighted the challenges faced by EY whilst conducting the audit including Covid-19 and staff resourcing. She added that there were a number of outstanding matters listed within their report particularly around the objection to the accounts from a member of the public but she stressed that she did not feel this would impact on their final conclusion. Attention was drawn to a number of disclosures made by the Council regarding Covid-19 and cash flow projection which EY were currently working through but Debbie stated that there was nothing of concern. She asked Members to consider whether a paragraph should be included regarding the impact of Covid-19 as an "emphasis of matter". Debbie referred in particular to page 38 of the report and it was noted that EY had decided not to include the audit differences identified as the amounts involved were not felt to be material and there was no impact on the General Fund. Reference was then made to Section 2 of the report which detailed Areas of Audit Focus including significant risks, the procedures undertaken and the conclusions reached. It was noted that no significant value for money risks had been identified in the Provisional Audit Plan, however, work needed to be concluded on the objection before a final conclusion was reached. Members also noted the Audit fees for 2018/19 on page 64 which included an additional fee for considering the objection to the accounts and the impact of Covid-19.

In the absence of any questions from the Committee, the Chairman queried why EY had increased the fees due to the impact of Covid-19 given the audit was for the 2018/19 accounts and had only been delayed into 2020 due to EY's issues with staff resources. Debbie acknowledged that this was a point well made and stated that she would consider the issue further. Clarification was sought on how much of the additional £10K fee had been added due to the impact of Covid-19, however, Debbie responded that she was not able to provide a split for the figure.

**Councillor Byatt, observer, joined the meeting at 7.14pm.**

On the proposition of Councillor Coulam, seconded by Councillor Cloke, it was:

#### **RESOLVED**

That the findings within the Audit Results report in respect of Suffolk Coastal District Council for 2018/19 be noted and, as promised, EY look again at the proposed fees for 2018/19.

## **8 Suffolk Coastal District Council Audited Statement of Accounts 2018/19**

The Committee received the report of the Cabinet Member with responsibility for Resources and it was noted that, as outlined by EY in their Audit Results Report, the delayed audit work had now been concluded, and EY were finalising their Partner review before issuing an unqualified audit opinion on the Suffolk Coastal 2018/19 Statement of Accounts. The issue of the Value for Money opinion for the year had been delayed as a result of an objection to the accounts which was yet to be concluded. The Committee was informed that this report presented the Suffolk Coastal Adjusted for Audit Statement of Accounts for approval.

On the proposition of Councillor Cloke, seconded by Councillor Coulam, it was

### **RESOLVED**

1. That, having reviewed the Suffolk Coastal District Council Audited Statement of Accounts for 2018/19, it be approved.
2. That, should any further minor amendments be required, the Chief Finance Officer, in consultation with the Chairman of the Audit and Governance Committee, be given delegated authority to make these changes.

## **9 Waveney District Council Audit Results Report 2018/19**

The Committee received the report of the Cabinet Member with responsibility for Resources who explained that, as before, the EY representatives would take the Committee through the report. He added that EY had been expected to issue an unqualified audit opinion and conclude that Waveney District Council made appropriate arrangements to secure economy, efficiency, and effectiveness in the use of resources. However, the audit had identified a number of adjusted and unadjusted differences, which were detailed within Section 4 of Appendix A. EY had requested that these uncorrected misstatements be corrected or a rationale as to why they were not corrected be considered and approved by the Committee and provided within the Letter of Representation. The Audit Results Report noted that Management have determined not to amend the statements for these audit differences as they were individually and cumulatively immaterial. Having consulted further with Finance Officers, they remained of this opinion and, in addition, were acutely aware of the need for a final Statement of Accounts to be presented to this Committee, given that it was now nearly eighteen months after the relevant year end. Members were also asked to note a number of points regarding the individual items referred to as unadjusted misstatements:

- EY previously agreed that the Past Service Cost item would not be adjusted;
- There was a difference of view between Management and EY regarding the “Surplus on available for sale financial assets” item;
- The bad debt provision item had obviously been superseded by the review of, and an increase in, this provision in the 2019/20 East Suffolk Council Statement of Accounts.

Consequently, the Cabinet Member proposed that these unadjusted misstatements not be corrected and that this rationale be approved by the Committee and provided within the Letter of Representation.

Debbie Hanson, Associate Partner, explained that Waveney's Audit Results Report was similar to Suffolk Coastal's except for the Statement of Audit and the differences identified, and the objection which related to Coastal not Waveney. Debbie highlighted in particular Section 2 of the report which contained the key risks, management over-ride, valuation of land and buildings which included community assets that had a different value. Errors in the disclosure of grants and Officer's remuneration which were potentially sensitive but not found to be material were also drawn to Members' attention.

The Chairman thanked Debbie for her report but pointed out that, again, these were historic accounts so he did not see why there should be an increase in the fees because if they had been completed on time, they would have been dealt with prior to the pandemic occurring. He reiterated his request for EY to review their fees.

On the proposition of Councillor Back, seconded by Councillor Cloke, it was

**RESOLVED**

1. That the findings within the Audit Results report in respect of Waveney District Council for 2018/19 be noted.
2. That the Cabinet Member's suggested response to the uncorrected misstatements referred to in paragraph 2.2 and Section 4 of Appendix A be endorsed and they not be corrected.
3. That EY review their position in relation to the proposed increase in fees.

**Tony Poynton, EY, left the meeting at this point.**

**The Committee adjourned for a comfort break at 7.32pm and returned at 7.37pm.**

**10 Waveney District Council Audited Statement of Accounts 2018/19**

The Committee received the report of the Cabinet Member with responsibility for Resources and it was noted that, as outlined by EY in their Audit Results Report, the delayed audit work had now been concluded and EY were finalising their Partner review before issuing an unqualified audit opinion on the Waveney 2018/19 Statement of Accounts. Members noted that this report presented the Waveney Adjusted for Audit Statement of Accounts for approval.

On the proposition of Councillor Coulam, seconded by Councillor Back, it was

**RESOLVED**

1. That, having reviewed the Waveney DC Audited Statement of Accounts for 2018/19, they be approved.

2. That, should any further minor amendments be required the Chief Finance Officer, in consultation with the Chairman of the Audit and Governance Committee, be given delegated authority to make these changes.

## **11 External Audit Plan 2019/20**

The Committee received the report of the Cabinet Member with responsibility for Resources and it was noted that EY's external audit plan summarised their assessment of the key risks driving the development of an effective audit for the Council; outlined their planned audit strategy in response to those risks; proposed timescales and indicative audit fees. The Cabinet Member invited the EY representatives to take the Committee through their proposed plan.

Debbie stated that she wanted to ensure that the Committee understood the risks identified and the reality that the External Audit Team were working to, and also give Members a chance to challenge any of the risks or flag up any assurance not identified in the planning process. She drew Members' attention to Section 1 of the Plan which was an overview of their 2019/20 audit strategy and it was noted that EY had identified again the two risks that had just been reported in the Audit Results Report for the predecessor Authorities, namely the mistakes due to fraud and error and the incorrect capitalisation of revenue expenditure, both of which had been identified as potential fraud risks so the same procedures would be undertaken as for the previous years. Debbie went through the areas of focus within the report that had been deemed to have a higher inherent risk, namely land and building valuations and investment property valuations and the impact from Covid-19; the Pension Liability Evaluation due to the formal valuation of the whole fund required every three years; the establishment of East Suffolk Council and determining opening balances; the going concern assessment and disclosures; and the impact of Covid-19. In addition, she highlighted that materiality had been set at £2.86million which represented 2% of the gross expenditure on provision of services in the draft 2019/20 accounts; performance materiality had been set at £1.43million which was at 50% to reflect the fact that 2019/20 was the first year of existence of East Suffolk; and that audit differences would be reported over £143K. Debbie went through the remainder of the Plan, including the audit risks, value for money risks, audit materiality, scope of the audit, the EY team, audit timeline and independence. She highlighted in particular that consideration would need to be given to the impact of Covid-19 on the valuation of land and buildings. She concluded that it was intended that the 2019/20 accounts would be completed by the end of December 2020.

In relation to the fee, Debbie stated that EY was discussing with the PSAA that the scale of fees was insufficient to address the risk in Local Authority accounts. She added that they had already submitted an appropriate scale fee of £69,964, however, representations had also been made to PSAA that this was too low. It was noted that the PSAA were still considering this issue.

The Chairman referred to page 365 in relation to the fees and expressed the concern at the large increase for a Council of this size, given it was over a 50% increase. Debbie explained that the base scale fees needed to be increased given the greater expectation from the regulators and challenges especially around Pensions etc. She stated that external audit was there for public assurance too. Debbie added that staff recruitment and retention was not just an EY issue and she pointed out how

fundamental external audit was to the role of this Committee. The point was made that it was difficult to accept having a 50% increase to a fee given the Council had had to wait 15 months for EY to audit the accounts. Debbie responded the deadline for the 2019/20 accounts had been the end of August 2020 which had been delayed due to Covid-19 but was not a significant delay. She also clarified that EY had asked for the fees to be increased but the PSAA had not yet responded. Clarification was sought on whether EY were recommended accountants for local authorities and Debbie responded that EY was approved. She added that the Council had adopted the PSAA route rather than contracting external auditors themselves.

The Chairman queried if the audit of the 2019/20 accounts would be ready for the next Committee meeting on 14 December 2020 and Debbie responded that this was the date they were working towards and she would give an update to Officers in the interim. The Interim Finance Manager reported that the Chief Finance Officers for Suffolk as a whole had made representations to the PSAA regarding fee levels.

On the proposition of Councillor Gandy, seconded by Councillor Cloke, it was

### **RESOLVED**

That, having considered the 2019/20 External Audit Plan, it be noted and EY be asked to consider all the Committee's comments made on the contents of the report.

**Debbie Hanson, EY, and the Finance Officers left the meeting at 8.05pm.**

## **12 Internal Audit: Annual Internal Audit Plan 2020-21**

The Committee received the report of the Cabinet Member with responsibility for Resources on the proposed Internal Audit Plan for East Suffolk Council 2020-21 as agreed with Corporate Management Team in February 2020 and again with relevant Heads of Service in September 2020. It was noted that presentation of the Plan to the Audit and Governance Committee had been deferred due to the coronavirus pandemic. The development of the Plan involved many factors and drivers and the greatest weight had been given to the current risks facing the Council, and a diagram was incorporated within the report, which illustrated the overall methodology. The point was made that coronavirus had resulted in a significant level of strain being placed on normal procedures and control arrangements. The level of impact was also changing as the situation developed. Internal Audit had and would continue to carry out work to assess whether there had been any changes to the Council's key activities where workarounds to normal business practices had occurred in response to Covid-19. Examples included democratic decisions, statutory responsibilities, financial systems / processes, and procurement practices. It was noted that, where needed, Internal Audit had been proactive in providing input, advice, and assurance to services on any proposed changes.

The Cabinet Member stated that it was not possible at this date to quantify the additional risk arising from the current short-term measures or the overall impact on the framework of governance, risk management and control. This plan had been developed to consider these impacts and to present the work that Internal Audit intended to undertake during 2020-21. It was stressed that this plan might have to be



reviewed and adjusted in response to any changes to risk or business need during these unprecedented times.

The Committee was informed that this report was being presented in accordance with their terms of reference which stipulated that the Committee was to *'approve, (but not direct) internal audit's work plan.'* Also *'to promote the value of the audit process.'* Members were reminded that Internal Audit Services acted in accordance with the Accounts and Audit Regulations (2015) and followed the Public Sector Internal Audit Standards (2017) (PSIAS) and Local Government Application Note (2019). The Cabinet Member concluded that the report had been prepared in accordance with the Council's Audit Charter.

The Head of Internal Audit reported that the Committee should be reassured that, whilst she had a small finite team, the compliance plan being put in place could be undertaken with the resources available and it incorporated everything that had been deferred. She reminded Members that the Service had been externally inspected and was PSIAS compliant. She added that Senior Managers had been consulted in preparing the plan and the timing allowed them to tie in to the Annual Governance Statement. She concluded that an update on the plan would be provided at the next meeting.

The Chairman commented that it was understandable that it might not be so easy to do audits during the pandemic so the plan needed to be fluid.

The Head of Internal Audit was thanked for her report and work.

On the proposition of Councillor Coulam, seconded by Councillor Cloke, it was

## **RESOLVED**

That, having commented on the Annual Internal Audit Plan 2020-21, it be approved and noted that any further changes would be reported to the Committee in December 2020.

### **13 Whistleblowing Policy**

The Committee received the report of the Cabinet Member with responsibility for Resources who explained that the Chartered Institute of Public Finance and Accountancy (CIPFA) suggested a regular review of the organisation's Whistleblowing Policy. Members were reminded that the Council had a legal obligation to adhere to the Public Interest Disclosure Act, commonly known as Whistleblowing. The Council's Whistleblowing Policy had last been reviewed in January 2019. The main content of the Policy remained compliant with expected good practices with minor changes made to the structure and length of the Policy following a training session delivered by Protect, formerly known as Public Concern at Work, which was a leading independent whistleblowing charity in the UK. The Committee was informed that there was a key change in emphasis to "whistleblowing in the public interest" from "whistleblowing in good faith". It was also noted that the Policy had been revised in line with the EU Whistleblowing Directive April 2019. The Cabinet Member concluded that the report enabled the Committee to fulfil its terms of reference "To review the Council's Whistleblowing Policy".

The Head of Internal Audit stated that it was felt that whistleblowers should be able to speak to others not just internally and under the EU Directive there was a requirement to list "prescribed people and bodies" such as MPs, Ombudsman etc that they could speak to. She explained that, although the previous Policy had listed those people and bodies, it had not used the terminology in the Directive so this had been changed. The Policy had also been "plain englished" and gave details of who could blow the whistle. She concluded that she felt the changes enhanced the Policy.

The Chairman acknowledged that it was important for the Committee to review this Policy on a regular basis.

On the proposition of Councillor Back, seconded by Councillor Coulam, it was

**RESOLVED**

That, having commented on the refreshed Whistleblowing Policy, it be approved.

**14 Audit and Governance Committee's Forward Work Programme**

The Audit and Governance Committee reviewed and agreed the Work Programme for the remainder of the 2020/21 Municipal Year.

**15 Exempt/Confidential Items**

**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.

**16 Exempt Minutes**

**17 Internal Audit: Status of Actions**

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

**18 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 8.40pm.

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Chairman