

Audit Committee Minutes

Wednesday 23 November 2022

PRESENT

Committee members: Councillors Patrick Walsh (Chair), Paul Alexander, Florian Chevoppe-Verdier, Adrian Pascu-Talbure and Ashok Patel

Other Councillors

Councillor Alexandra Sanderson (Cabinet Member for Children and Education) (attended remotely)

Officers

David Hughes (Director of Audit, Fraud, Risk and Insurance) (attended remotely)

Moira Mackie (Head of Internal Audit)

Sharon Lea (Interim Chief Executive)

Jon Pickstone (Strategic Director of Economy)

Phil Triggs (Director of Treasury and Pensions)

Patrick Rowe (Strategic Finance Manager, Treasury and Pensions)

Sukvinder Kalsi (Director of Finance)

Craig Tucker (Head of Finance)

David Abbott (Head of Governance)

Guests

Andy Conlan (Grant Thornton)

Paul Dossett (Grant Thornton) (attended remotely)

Mary Berrisford (Principal of William Morris Sixth Form)

1. APOLOGIES FOR ABSENCE

There were no apologies for absence.

Apologies for lateness were received from Councillor Paul Alexander who entered the meeting at 7.38pm.

Councillors Ashok Patel and Alex Sanderson (Cabinet Member for Children and Education) attended remotely.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MINUTES

The Chair noted that David Hughes had circulated responses to outstanding actions.

RESOLVED

That the open and exempt minutes of the previous meeting held on 13 September 2022 were agreed as accurate records of the meeting.

4. TREASURY MANAGEMENT STRATEGY - MID-YEAR REVIEW 2022/23

Phil Triggs (Director of Treasury and Pensions) presented the report which provided an update on the implementation of the 2022/23 Treasury Management Strategy, approved by Full Council on 24 February 2022.

Councillor Ashok Patel, in reference to paragraph 5, noted a large amount of money was held in cash and asked if it would be better deployed in easily liquidated equities. Phil Triggs said money market funds were used because they generally provided a good rate of return with commensurate risk for treasury cash portfolios, and instant liquidity/access when required.

Councillor Adrian Pascu-Talbure, in reference to paragraph 15, asked if officers had any comment on the average return being 1.06%. Phil Triggs said there had been a steep rise in rates since February 2022. That yield represented significant accrued interest from previous lower yield investments and as they dropped out over time they would be replaced with higher returns. The higher rate would be reported at the next meeting.

Councillor Florian Chevoppe-Verdier asked how the Council's average borrowing rate compared with other authorities. Phil Triggs said the figure in paragraph 7 was a weighted average for the whole portfolio which included older loans at higher rates, but it compared very favourably with other authorities.

Councillor Chevoppe-Verdier noted the Council was under-borrowed and asked if that was the Council's strategy. Phil Triggs said the strategy was to utilise the Council's internal cash reserves as an alternative to external borrowing until rates went down.

The Chair asked if officers expected the Government's 'mini budget' in September 2022 to have long term effects or if markets would return to their pre-budget baseline. Phil Triggs said the mini budget led to a steep rise in UK gilt yields, but markets had been calmer since then. He hoped that continued fiscal discipline would lead to lower borrowing rates in future.

Councillor Patel asked who made decisions about which assets to invest in. Phil Triggs said there was an approved strategy which was strictly adhered to. The strategy, based on advice from the council's treasury consultant, was approved every year by Full Council in February, in consultation with the Director of Finance.

Each asset class was set out in the strategy, prescribed with an upper limit. It was the job of the Director of Treasury and Pensions to ensure that the Council had a diversified basket of investments and a balanced portfolio.

RESOLVED

The Committee noted the Treasury Management Strategy 2022/23 mid-year review.

5. STATEMENT OF ACCOUNTS 2020/21 - INCLUDING PENSION FUND ACCOUNTS AND ANNUAL GOVERNANCE STATEMENT

Sukvinder Kalsi (Director of Finance) introduced the report on the revised 2020/21 Statement of Accounts. He noted that some of the outstanding issues around classification from the last report had been addressed but there was one matter that was outstanding nationally and would require statutory regulations in the New Year to correct so the accounts would remain open until then. A further report would come to the Committee in March to formally close the accounts.

Andy Conlan (Grant Thornton) took members through the detail of the report.

Councillor Adrian Pascu-Tulbure noted the report said there was some difficulty getting information from third-party providers and asked how that could be improved in future. Andy Conlan said that was an issue for all authorities. Auditors sent requests to a large number of third parties (e.g. banks and investment firms). Some were more complex than others. The Auditors worked closely with the Finance team to ensure they had the information they needed.

The Chair asked how much of the delays were from Covid and how much were normal behaviour. Andy Conlan said remote auditing took longer and noted it was getting better as more workplaces returned to normal.

Councillor Florian Chevoppe-Verdier asked what the end of the contract for the Private Finance Initiative referenced on page 71 meant for the service. Craig Tucker said he would need to go back to the service for detail.

ACTION: Craig Tucker

Councillor Chevoppe-Verdier asked what the TfL capital grants referred to on page 90 were. Craig Tucker said they were likely to be highways infrastructure, but he could get more detail from the service.

ACTION: Craig Tucker

Councillor Chevoppe-Verdier asked officers and partners to ensure that future reports were fully accessible.

ACTION: All report authors

Councillor Chevoppe-Verdier noted the report suggested on page 197 that 2000 employee contracts hadn't been signed and asked what had happened. Andy Conlan clarified that a sample of contracts had been checked and confirmed all had

been signed would have required checking all 2000. He said he would follow this up in the audit plan for 21/22.

ACTION: Andy Conlan

The Chair asked what the basis was for estimating assets and liabilities (on page 88) given the differences between the Council's numbers and those of the LPFA. Patrick Rowe said the H&F fund had a separate actuary with their own assumptions. Phil Triggs added that it could also be due to the characteristics of the different memberships.

Councillor Chevoppe-Verdier asked if the assurance around information rights was from an audit by the ICO or if it was self-assessed (page 151). Craig Tucker said he could follow up with the service.

ACTION: Craig Tucker

The Chair noted that page 116 showed non-dwelling rents of £40k for 2019/20 but nothing for 2020/21 and asked for an explanation. Sukvinder Kalsi said it was probably due to disposals, but he would check with the service.

ACTION: Sukvinder Kalsi

The Chair asked how much of the increase in rent arrears shown on page 118 was due to Covid and how much was due to other financial issues. Sukvinder Kalsi said the increase reflected the rent increase in 2021 as well as the impact of Covid. He expected this to increase further due to the ongoing cost-of-living crisis.

Councillor Chevoppe-Verdier asked when the new code of practice for local authority accounting came into force and its impact on the cost of audits. Craig Tucker said the code was updated every year and approved by CIPFA. There had been no major changes in recent years, but changes could impact costs if additional work was required, and infrastructure assets were an example of that. Councillor Chevoppe-Verdier encouraged officers to send responses to Government consultations to relevant committees.

ACTION: All officers

Paul Dossett (Grant Thornton) said audit costs were driven by accounting and auditing standards. Two changes were coming on fraud and on risk assessments and estimation. Those will come with the 2022/23 audit.

The Chair noted the delay getting the bank reconciliation process operational (referred to page 195) and asked if it had been resolved. Andy Conlan said it was a recurring issue and he would speak with management to see if there had been progress during the 2021/22 audit. Craig Tucker added that it was being done monthly and updates were being provided to the auditors.

The Chair questioned why the draft letters of representation started 'Dear Sirs'. Andy Conlan said he would make them more inclusive.

ACTION: Andy Conlan

RESOLVED

1. That the Committee noted the revised Statement of Accounts for 2020/21 (Appendix 1).
2. That the Committee noted that the accounts remain 'unaudited' until final sign-off by the external auditor.
3. That the Committee noted the content of the external auditor's revised 'Audit Findings Report' (ISA260), including the auditor's findings, recommendations and the Council's response to those recommendations (Appendix 2).
4. That the Committee approved the amended 2020/21 management representation letters (Appendices 3 and 4).

6. EXTERNAL AUDIT PLAN

Andy Conlan (Grant Thornton) presented the external audit plan for 2021/22 for the Committee to note and comment on.

The Chair asked if officers supported the move to more working on site. Craig Tucker said his team welcomed a return to in-person audit work.

The Chair asked a question about the increase in fees and the reasoning behind it. Sukvinder Kalsi said that would be covering in Item 7.

RESOLVED

1. That the Committee noted the content of the external auditor's Audit Plan for 2021/22 (Appendix 1).
2. That the Committee noted the content of the Informing the Audit Risk Assessment Report for 2021/22 (Appendix 2).

7. EXTERNAL AUDIT APPOINTMENT OF GRANT THORNTON 2023-28

Sukvinder Kalsi (Director of Finance) presented the report which notified the committee of the appointment of Grant Thornton by Public Sector Audit Appointments (PSAA) as external auditor for 2023-28. He noted there would be a significant increase in fees as the sector underestimated the work required when the framework was first introduced.

Councillor Ashok Patel said he would like to see the other bids for the contract. Sukvinder Kalsi said he could request detail of the procurement process and the bids from PSAA.

ACTION: Sukvinder Kalsi

Councillor Florian Chevoppe-Verdier said he would be interested in seeing quotes from outside the PSAA to give a wider view of market. David Hughes explained that PSAA carried out a full competitive tender covering 98 percent of authorities. Most authorities had signed up due to the economies of scale offered.

Councillor Chevoppe-Verdier and other members expressed concern that the Council did not appear to have any control over the cost. He asked if there were any assurances that the fees would be in the proposed range. Sukvinder Kalsi said officers had made representations to PSAA that the fees were unsustainable. There was sector-wide concern about the increase. However, the Council needed an external auditor, both legally and to provide assurance to members, residents, and partners that the Council was a well-managed organisation.

Sukvinder Kalsi said officers would bring back a note to the Committee on the fee structure once it had been agreed.

ACTION: Sukvinder Kalsi

Councillor Patel noted that the Act regulating the process required a 'local auditor' and asked if any local auditors had been approached. The Chair explained that there were a limited number of accredited auditors that could undertake an audit of this size and complexity. David Hughes further clarified that 'local auditor' was a term used by PSAA. He said officers would circulate the original decision report from December 2021. He added that a small number of authorities didn't join the framework, but they had issues around cost and quality.

RESOLVED

1. That the Committee noted the appointment of Grant Thornton by the PSAA as external auditor for 2023-28.
2. That the Committee noted the potential significant increase in audit fees for the 2023-28 cycle.

8. INTERNAL AUDIT PROGRESS REPORT (SEPTEMBER TO OCTOBER 2022)

Moira Mackie (Head of Internal Audit) introduced the report which summarised the status of work included in the 2022/23 Internal Audit Plan as at the end of October 2022. Eight audits were finalised, one of which received a Substantial assurance opinion, five receiving Satisfactory assurance and two Limited assurance. The two Limited assurance reports were regarding William Morris Sixth Form and tenants service charges.

Mary Berrisford (Principal at William Morris Sixth Form) attended the meeting and noted that all of the recommendations had been agreed and implemented.

Councillor Florian Chevoppe-Verdier asked how many of the recommendations in Appendix 1 had been actioned. Moira Mackie said Appendix 1 showed the number of recommendations following the initial audits. Officers would follow those up, then report back to members if any of those recommendations hadn't been implemented.

Jon Pickstone (Strategic Director of Economy) attended the meeting to discuss the tenant service charges limited assurance report. He said a recent Cabinet report addressed the areas raised in the audit. David Hughes agreed and said the service had moved on since the audit work was undertaken.

Councillor Ashok Patel asked what procedures had been put in place for each of the areas receiving limited assurance audits. Moira Mackie said the recommendations for William Morris Sixth Form related to putting in more robust procedures around purchasing. All the recommendations had been implemented. Jon Pickstone explained that the tenant service charge issues were more complex, as they related to the fact that the service charge framework set in 2012 wasn't recovering the full cost of the service, but a lot of work had been done to resolve them.

Councillor Chevoppe-Verdier noted that a project team had been put in place and asked what that looked like in practice – how many officers were involved? Jon Pickstone said the core group consisted of officers from the Finance and Economy departments and they worked with Legal when required. The group had oversight from the Chief Executive and the Strategic Director of Economy.

Councillor Chevoppe-Verdier asked Mary Berrisford if the School Business Manager position had been filled. She replied that it had been filled in February 2022.

RESOLVED

The Committee noted the Internal Audit Progress report.

9. CORPORATE ANTI-FRAUD SERVICE HALF-YEAR REPORT – 1 APRIL 2022 TO 30 SEPTEMBER 2022

This item was deferred.

10. ANTI-FRAUD POLICY REVIEW

This item was deferred.

11. INTERNAL AUDIT CHARTER

This item was deferred.

12. DATE OF NEXT MEETING

The Committee noted the date of the next meeting:

- 13 March 2023

Meeting started: 7.00 pm
Meeting ended: 8.57 pm

Chair

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