

AUDIT COMMITTEE

MINUTES of a meeting of the Audit Committee held at County Hall, Lewes on 6 November 2020.

PRESENT Councillors Colin Swansborough (Chair) Councillors Gerard Fox (Vice Chair), Matthew Beaver, Martin Clarke, Philip Daniel and Michael Ensor

ALSO PRESENT Kevin Foster, Chief Operating Officer
Ian Gutsell, Chief Finance Officer
Russell Banks, Chief Internal Auditor
Nigel Chilcott, Audit Manager
Mark Winton, Audit Manager (Delivery)
Elsie Awe, Principal Auditor
Jo Knightley, Principal Accountant (Financial Accounting)
Richard Carcas, Principal Finance Officer (Treasury Management)
Nigel Brown, Assistant Director Property

GRANT THORNTON Andy Conlan, Engagement Manager
Darren Wells, Engagement Lead
Mary Adeson, In-Charge

20 MINUTES OF THE PREVIOUS MEETING

20.1 The Committee RESOLVED to agree the minutes as a correct record.

21 DISCLOSURES OF INTERESTS

21.1 Councillor Matthew Beaver declared a personal interest in item 10, as a family member works as a Finance Officer in the Treasury Management team, but he did not consider this to be prejudicial.

22 REPORTS

22.1 Reports referred to in the minutes below are contained in the minute book.

23 REVIEW OF THE GRANT THORNTON (GT) REPORT TO THOSE CHARGED WITH GOVERNANCE AND STATEMENT OF ACCOUNTS FOR 2019-20

23.1 The Committee considered a report by the Chief Finance Officer which presented the external auditor's (Grant Thornton) report to those charged with governance and the Statement of Accounts before it is presented to the Governance Committee.

23.2 The Committee discussed the following:

- Cash flow, and the comments about "going concern" and reporting to Cabinet
- Property, Plant and Equipment (PPE) valuation
- Savings requirements and the Value for Money Recommendation
- McCloud judgement and contingencies for liabilities

23.3 The Committee was informed that the cash flow forecast to November 2021 had been provided but not yet reviewed, but it was not anticipated to raise significant issues, owing to the short term investments and treasury management in place. It was confirmed that financial reporting to Cabinet has been expanded to present Covid-related spending alongside routine spending, and that a finance risk log is maintained.

23.4 PPE is an area of focus for the external auditors due to the material value within the accounts and the challenge at the national level around investments and valuations. Valuations were highlighted as an issue within the Redmond Review (see Item 7). In respect of the County Council's audit, the professional valuer expressed a material uncertainty related to land and buildings which GT recommended should be included in the notes to the accounts, which was agreed to.

23.5 The scale of any future savings requirements is unknown at this point. The Spending Review, which aimed to issue a 3 year revenue and 4 year capital funding allocations, has been delayed. There will now be a one year Spending Review, to be announced on 25 November 2020, with the Local Government Settlement expected before Christmas as the spending review is in late November with the Local Government Settlement following in December. Cabinet have agreed the budget planning principle to not seek further additional savings at this point, with the potential of using reserves, if required, to set a balanced budget for 2021/22. Any spending announcements from Government have to be analysed, modelled into the Medium Term Financial Plan, assessed against the Core Offer before deciding on any savings.

23.6 It was set out that the provision made in the accounts for liabilities resulting from the McCloud judgement were the best estimate available at 31 March 2020. Subsequent consultation could lead to a lower level of liability, but for the purposes of the 2019/20 accounts the higher estimate is the more appropriate one. In any event any adjustment would not be a material adjustment.

23.7 The Committee RESOLVED to (1) note the Grant Thornton report; and

(2) confirm that there were no additional comments they wished the Governance Committee to consider.

24 REVIEW OF THE GRANT THORNTON (GT) REPORT TO THOSE CHARGED WITH GOVERNANCE AND PENSION FUND ANNUAL REPORT FOR 2019-20

24.1 The Committee considered a report by the Chief Finance Officer which presented the external auditor's (Grant Thornton) report to those charged with governance and the Pension Fund Annual Report before it is presented to the Pension Board and Pension Committee.

24.2 The Committee discussed the management actions and response, and the new Pension Team structure. It was confirmed there were three teams under a new permanent Head of Pensions: governance & compliance, employer engagement and investment & accounting, and that recruitment to fill all levels of the structure was under way. The new structure had been agreed as a result of the Good Governance Review and to increase internal expertise in managing the Fund, to reduce reliance on external advisors.

24.3 The Committee RESOLVED to (1) note the Grant Thornton report; and

(2) note the management actions detailed on page 13 of the Report to those charged with governance.

25 INDEPENDENT REVIEW INTO THE OVERSIGHT OF LOCAL AUDIT AND THE TRANSPARENCY OF LOCAL AUTHORITY FINANCIAL REPORTING: THE REDMOND REVIEW

25.1 The Committee considered a report by the Chief Finance Officer which presented the Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting by Sir Tony Redmond (the Review). The Review, with its 23 recommendations, has been presented to MHCLG which is considering its response. A further report post-implementation will be brought to the Committee.

25.2 The Committee discussed:

- The visibility of the accounts
- Fee levels
- The relationship between Internal and External Audit

25.3 It was confirmed that the GT Report was in the public domain by way of its publication with the Audit Committee agenda, as were the authority's accounts. In relation to the fee levels, nationally the reduced levels have been a challenge to the external audit firms, and the levels of experience they are able to dedicate to local government audit, given the need to separate advisory and audit arms of the firm. Darren Wells set out the increased regulatory requirements put on firms.

25.4 It was confirmed that there was a Review recommendation to reconnect Internal and External Audit. The current External Audit Code of Practice has changed in recent years, to limit the reliance on the work of Internal Audit.

25.5 The Committee RESOLVED to note the report.

26 REVISED INTERNAL AUDIT PLAN 2020/21

26.1 The Committee considered a report by the Chief Internal Auditor which presented a revised Audit Plan for 2020/21, produced as a result of the pandemic. The Chief Internal Auditor confirmed that further revisions may need to be made following the announcement of a second lockdown made after the report had been published. He also highlighted the increase in the volume of Covid-related grant certification work done by the Team, to ensure accurate returns to Government.

26.2 The Committee RESOLVED to (1) endorse the revised Audit Plan for 2020/21; and (2) confirm their understanding that further revisions may be necessary.

27 INTERNAL AUDIT PROGRESS REPORT - QUARTER 2 (01/07/20 - 30/09/20)

27.1 The Committee considered a report by the Chief Internal Auditor which presented the work undertaken by the Internal Audit team for 2020/21 Quarter 2 (July to September). The Audit Manager highlighted the one instance of partial assurance provided on the audit of Direct Payments for Adult Social Care, and the actions agreed with management to address the findings. The Audit Manager also drew attention to the number of completed ICT-related audits, undertaken in response to the Council's current priorities and the increasingly digital environment.

27.2 The Committee discussed the loan provided by the Pension Fund to the County Council. Members were reassured that no such lending would recur and clear guidance had been provided to the Head of Pensions and the Pension Investment Manager to reinforce the need for full understanding of the LGPS rules. The input of the Internal Audit team to assist the Pensions Team with their governance review was acknowledged by the Committee.

27.3 The Committee RESOLVED to (1) note the report; and

(2) confirm that there were no other areas of concern arising from the report.

28 TREASURY MANAGEMENT - STEWARDSHIP REPORT 2019/20

28.1 The Committee considered a report by the Chief Finance Officer, which presented the outcomes of the Treasury Management team's work for 2019/20 and a half-year position for 2020/21.

28.2 The Committee discussed:

- the potential impact of negative interest rates;
- expectations of the contribution to the Revenue budget;
- the short term loan from another authority and whether there was increased volatility which might require further loans of this type.

28.3 The Committee was advised that the Council's Treasury advisors (Link) had confirmed that there were no actions necessary for this financial year to mitigate potential negative interest rates. The position was kept under review and may be reflected in the next iteration of the Treasury Management Strategy to be determined in February 2021.

28.4 It was confirmed that the contribution of Treasury Management to the Revenue Budget is projected to be lower than last year.

28.5 The inter-authority loan took place while Covid-19 related funding was unclear and the loan allowed for flexibility in providing support to the market and suppliers. Further such loans are not anticipated.

28.6 The Committee RESOLVED to note the report.

29 PROPERTY ASSET DISPOSAL AND INVESTMENT STRATEGY

29.1 The Committee considered a report by the Chief Operating Officer, which provided an update on the work done in connection with the Property Asset Disposal and Investment Strategy. The Chief Operating Officer introduced the new Assistant Director Property, Nigel Brown.

29.2 The Committee discussed:

- The Lease register, in connection with the findings of the GT External Audit
- Disposals, protection of the Council's interests ("Cinderella" clauses) and links to the corporate priorities

29.3 Members were informed of the implementation of the Property Asset Management System to assist the Estates team with managing leases and licences, contracts and asset condition. It was confirmed that the Estates team work closely with Legal Services to ensure appropriate clauses are used when agreeing leases. Where the Council acts as a landlord some payments have been deferred where appropriate in response to the pandemic, and the figures are reported to MCHLG.

29.4 Members were assured that disposals were undertaken in line with professional best practice and legal advice, and that there was a range of methods to protect the Council's interests and also benefit the transferee. Paragraphs 2.1 and 2.2 of the report were clarified in that a sale is only undertaken once it has been established that there is no operational requirement for the asset by any department. There is not a policy of selling assets for a simple capital return and that the focus of the Strategy is on maximising the value of the asset to the organisation, which may involve it being retained.

29.5 The Committee RESOLVED to (1) note the report;

(2) confirm that there were no actions that should be taken in response to the contents (other than the clarification of the Strategy referred to Minute 29.4 above);

(3) note that progress continues against the background of wider operational and market uncertainties, and the need to support capacity to ensure delivery; and

(4) confirm that there were no new or emerging items for consideration.

30 WORK PROGRAMME

30.1 The Committee considered the Work Programme which set out the proposed agenda items for the year ahead, together with the informal meeting in January to consider items for the Internal Audit Plan for 2021/22.

30.2 The Committee RESOLVED to note the programme with the suggestion of an item to consider the Departmental actions in Annex A of the Annual Governance Statement.

31 EXCLUSION OF PUBLIC AND PRESS

31.1 The Committee RESOLVED to exclude the public and press for the remaining agenda items on the grounds that if the public and press were present there would be disclosure to them of exempt information as specified in paragraph 3 of Part 1 of the Local Government Act 1972 (as amended), namely information relating to the financial or business affairs of any particular person (including the authority holding that information).

32 PROPERTY ASSET DISPOSAL AND INVESTMENT STRATEGY

32.1 The Committee considered a report by the Chief Operating Officer which provided exempt information in support of an earlier agenda item.

32.2 The Committee RESOLVED to note the information.

The meeting ended at 12.10 pm.

Councillor Colin Swansborough (Chair)