

# AUDIT AND RISK MANAGEMENT COMMITTEE

**MONDAY, 4 JULY 2022 - 4.00 PM**



**PRESENT:** Councillor K French (Chairman), Councillor Mrs M Davis (Vice-Chairman), Councillor Mrs J French, Councillor N Meekins, Councillor M Purser, Councillor R Wicks and Councillor F Yeulett

**APOLOGIES:** Councillor I Benney, Councillor G Booth and Councillor R Skoulding

Officers in attendance: Kathy Woodward (Internal Audit Manager) and Neil Krajewski (Deputy Chief Accountant)

## **ARMC1/22 APPOINTMENT OF CHAIRMAN FOR THE MUNICIPAL YEAR**

It was proposed by Councillor Purser, seconded by Councillor Mrs French and resolved that Councillor Miss Kim French be elected as the Chairman of the Audit and Risk Management Committee for the Municipal Year 2022-2023.

## **ARMC2/22 APPOINTMENT OF VICE CHAIRMAN FOR THE MUNICIPAL YEAR**

It was proposed by Councillor Mrs French, seconded by Councillor Purser and resolved that Councillor Mrs Davis be elected as the Vice Chairman of the Audit and Risk Management Committee for the Municipal Year 2022-2023.

## **ARMC3/22 PREVIOUS MINUTES.**

The minutes of 14 March 2022 were approved and signed as a true and accurate record. Councillor Miss French pointed out to members that with regard to minute number ARMC 48/21, Kathy Woodward, the Internal Audit Manager, had circulated some information to all committee members.

## **ARMC4/22 TREASURY MANAGEMENT ANNUAL REVIEW 2021-2022**

Members considered the Treasury Management Annual Review 2021/22 report presented by Neil Krajewski, Deputy Chief Accountant.

Neil Krajewski explained that the Audit Risk and Management Committee is responsible for the review and scrutiny of the Council's treasury management arrangements and the report before members looks back on how those arrangements have worked in practice through the year and provide members with some key information for their understanding and comments. He highlighted that the report will also be presented to Cabinet and Full Council on 11 July 2022. and he explained that the amount of interest that the Council earned on its external investments during the year was just over £52,000 which was in excess of the estimate that officers had predicted when preparing the revised budget by just over £12,000.

Neil Krajewski explained that there are two main factors behind that and one of them is the fact that the Council found itself in a position where it had slightly higher cash balances than would normally be expected and this was largely as a result of Government grants received which would

be in excess of what officers would have anticipated or where delays had occurred in spending the money in delivering some of the projects that were ongoing at the end of the financial year. He added that it is important for members to be aware that at previous meetings officers have indicated that the Council was capable of investing in property funds within the constraints of the Treasury Management Policy and following discussions with external treasury advisors a number of property funds were deemed suitable by the advisors and the Council invested just over £4,000,000 into two property funds at the end of March 2022.

Neil Krajewski explained that he is now receiving reports from those fund managers and this information will be presented to the committee during the 2022 -2023 financial year regarding the performance of those funds and he added that the funds are long term investments for the Council which are intended to achieve an enhanced return on top of what the Council would have been able to achieve, had the money been invested with banks, building societies and other local authorities. He pointed out that there are likely to be varying trends with the investment but the initial signs that officers have received appear to be positive.

Neil Krajewski pointed out that the report contains a lot of detailed information which explains the relationship between the Councils' investments and borrowing needs and he explained that there is currently a focus on the outlook of the economy and various sections of the report are being superseded by updated information all of the time. He drew members attention to the forecasts on Page 14 which provide detail on the Council's treasury advisors view of the future with regards to interest rates which is constantly being updated and the information in the report is likely to be 1 to 1.5% above those shown which he explained does have an impact on the Council in the short term with regards to giving the Council the opportunity to earn higher rates of return on its short term investments than what had been originally forecast but he stressed that as far as the Council's borrowing needs are concerned it is likely to cost the Council more than has previously been forecast and there is the need for borrowing built into the Council's capital programme.

Members asked questions, made comments and received responses as follows:

- Councillor Mrs French asked whether the grant money that had been referred to would need to be repaid? Neil Krajewski explained that no it does not need to be repaid providing that the projects that the authority has committed to are delivered. He added that a lot of the grant money relates to the major regeneration programs such as March Future High Street and a significant amount of money in relation to a project known as Wave One which is being delivered in collaboration with Clarion to improve energy efficiency in homes which is £5 million of grant funding.
- Councillor Mrs French asked where the £4 million that has been invested came from and Neil Krajewski confirmed that it is money which had been identified that there was not a requirement for it in the medium term and it was available to invest in a longer-term project. Councillor Mrs French asked whether it was part of the Horizon money and Neil Krajewski explained that it is not exclusively Horizon money.
- Councillor Yeulett asked that, given the volatile situation in the current economic climate, is the Council in a position where it can take emergency action going forward with the investments or debt repayments that it has? Neil Krajewski stated that options available in terms of the debt repayments are quite limited as the rates on early prepayment of debt tend to be prohibitive so the payment that would be required by the Council in order to redeem its debt means it is outside of what would normally be acceptable from a budgetary point of view although it is monitored and advice and guidance received from the Council's treasury managers. He explained that the Council also receives daily updates if there are any emerging situations that may affect the Council's Investment Strategy with regards to where the Council's funds are placed as many local authorities have taken into consideration that event which occurred a few years ago with the Icelandic banks and Fenland appear to have quite a prudent approach in terms of what counterparties that they work with and also with regards to spreading their risk appropriately. Councillor Yeulett asked whether the authority will be able to be flexible in their action should the pressures arise? Neil Krajewski

stated yes that is correct and added that one of the factors that are being monitored currently is with regards to the Councils' borrowing needs and identifying what the appropriate time would be to take out any borrowing.

**Members agreed to note the report and agreed that it should be presented to Cabinet on 11 July 2022.**

### **ARMC5/22 INTERNAL AUDIT OUTTURN AND QUALITY ASSURANCE REVIEW 2021-22**

Members considered the Internal Audit Outturn and Quality Assurance Review 2021/22 report presented by Kathy Woodward, Internal Audit Manager.

Kathy Woodward highlighted Section 5 of the report to members which shows the detail of the outturn of the Internal Audit function. She added that throughout the year regular updates have been presented to the committee on the progress of the function and explained that all of the completed audits are shown in the report, which contain more detail than has previously been provided to enable members to have more of an overview and provide additional assurance that the committee have been looking for.

Kathy Woodward stated that in addition to the planned audits undertaken the report shows other sources of assurance which has been considered and will look to further support the level of assurance that can be provided on the Council's risk and control activities. She explained that the report highlights the progress made on recommendations throughout the year over a two-year period covering 2020/21 and 2021/22 and the appendix shows a small number of overdue recommendations which are being reported to the Management Team on a quarterly basis and they are being addressed accordingly.

Kathy Woodward highlighted to members the Audit Manager's annual audit opinion which feeds into the Annual Governance statement which forms part of the Council's statutory financial statements. She confirmed to the committee her audit opinion which is that there is adequate assurance to the adequacy and effectiveness of the internal controls, the risk management and governance arrangements of the Council.

Kathy Woodward pointed out to members the effectiveness of the Internal Audit function and highlighted the Chartered Institute of Public Finance and Accountancy (CIPFA) checklist confirms that the internal audit conforms to all of the areas within the checklist. She advised members that this year the Council will be scrutinized through the external quality assessment which takes place on a five yearly cycle and the Audit Team will be audited by an external body.

Members asked questions, made comments and received responses as follows:

- Councillor Yeulett asked whether there was a need for something to be added within the Council's risk plans to highlight the volatile economic situation currently in place? Kathy Woodward stated that risk management is considered by the committee on a quarterly basis and the volatility and economic climate is something that has always been captured when reviewing the overall risk management arrangements for the Council.
- Councillor Wicks asked whether there is a specific risk which identifies and considers those residents who maybe less fortunate than others when dealing with any regular payments they make to the Council, and he asked what mitigation factors are in place to address that type of situation? Kathy Woodward explained that there are various debt management policies in place and the Council works with other partner agencies as well particularly when dealing with those vulnerable customers that the Council has. Neil Krajewski added that it is only responsible and right to point out that the approach taken will vary according to the type of debt and the Council works with Anglia Revenue Partnership in relation to those debts which are related to Council Tax or business rates and then for other services which the Council provides where customers are invoiced, where necessary payment plans have

been put in place, they will be reviewed to actually understand the difficult position customers may find themselves in and the Council also has a good working relationship with Citizen Advice Bureau, as the customer may also be in financial difficulties with other types of debt. He added that the Council try to work with both residents and businesses who maybe experiencing financial difficulties at the current time.

- Councillor Mrs French stated that she is the Chairman of the Anglia Revenues Partnership and at a recent meeting it had been raised that they are working exceptionally well with those residents who find themselves in a difficult position financially.
- Councillor Mrs French stated that she would like to thank Kathy Woodward and her team for all the work they have undertaken over the last year as it has been a very difficult year for everybody.
- Councillor Mrs Davis asked for clarification with regards to the audit opinion on Business Unit Lettings which is shown as limited? Kathy Woodward explained that over the last year her team achieved the greatest number of audits that have been undertaken over a number of years due to the fact that working practices are now returning to normality following on from the pandemic. She explained that she had issued one audit with a limited assurance which does raise concerns with management and added that over a number of years there has been a decline in the level of service throughout the team responsible for business unit lettings which has been primarily caused by staff vacancies and a lack of continuity within the service area and, therefore, three high risk recommendations were suggested which have all been addressed within the three month window that had been given to the team to address the points highlighted. Kathy Woodward advised members that a new Head of Economic Growth and Assets was appointed in February 2022, his name is Mark Greenwood, and he will now address some of the concerns raised. She added that it is her understanding that two more officers have also been appointed in the last few weeks and this will mean that the service will be near to its full capacity and then some of the areas of weakness identified, particularly concerning the legalities with regard to business unit lettings which are being addressed and the high-risk areas have been addressed. Kathy Woodward stressed that the team have made significant progress and are moving forward, but a follow up report will be undertaken this year and a report will be brought back to the committee in the progress reports so that members can see the progress and improvements that have come from that team.
- Councillor Mrs French stated that she was aware of the issues within that team, due to officers moving to other positions outside of the authority, however, she is also aware of the significant progress that has been made since Mark Greenwood joined the authority and it appears to be going from strength to strength.

**Members agreed to note the report.**

## **ARMC6/22 AUDIT AND RISK MANAGEMENT COMMITTEE ANNUAL REPORT 2021-2022**

Members considered the Audit and Risk Management Annual Report 2021/22 presented by Kathy Woodward, Internal Audit Manager.

Kathy Woodward explained that this report evaluates the effectiveness of the Audit and Risk Management Committee for assessment at Full Council and outlined the contents of the report. She highlighted to members that CIPFA are currently undertaking a review process of Audit Committee governance and she anticipates that within the next few months they will be issuing new guidance on the role of committees.

Kathy Woodward referred members to the CIPFA checklist, and she explained to members that this assesses the conformance of various standards and added that the partially compliant areas were of little concern and outlined that the sub-committee created under the Audit and Risk Committee meant that they were only partially compliant with Section 11. She added that in Section 23 it refers to whether the committee has evaluated whether and how it is adding value to

the organisation and she explained that she is waiting for the new guidance to be published as, in her opinion, it will provide better tools to be able to assess the value that the committee adds.

Kathy Woodward explained that whilst the committee does add value, at present there is no way of recording that value and that is something that she would like to see to be put in place.

Members asked questions, made comments and received responses as follows:

- Councillor Wicks stated that with regards to value of the committee, one of the highlights that he has noted from the report are the risks or actions that are needed because of a gap in documentation that is already in place, and he asked how that value can be monitored by identifying extra risks or procedures that are not in place? Kathy Woodward explained that the introduction of the action plan as part of the work programme was designed to be a means to try and capture some of those areas where the committee feels that extra work needs to be addressed and, in her opinion, that is the first of the areas where details can be captured and then identify the value which is added. She expressed the view that a conscious effort needs to be made to fill the action plan out so that when specific questions are raised the detail is completed and can be reviewed.

**Members approved the Annual Report for 2021/22 to be forwarded to Full Council.**

### **ARMC7/22 INDEPENDENT MEMBER APPOINTMENT TO AUDIT COMMITTEE**

Kathy Woodward, Internal Audit Manager, presented the report to members.

Kathy Woodward explained that this report has arisen from the action plan where the committee stated that they wanted to review whether or not to appoint independent members to its committee and within the report it details the view of CIPFA including their guidance for local authority audit committees and its advice is that there should be independent members, albeit not a legal requirement, as it provides additional strength to the committee. She highlighted to members the section of the report relating to national context and made reference to various Government reports including a report by Tony Redmond which had featured an independent review into the oversight of local audits that highlighted a number of areas not solely with external auditors but the governance arrangements within councils themselves and the various improvements that could be made, including the recommendation of the appointment of at least one independent member, suitably qualified to the audit committee.

Kathy Woodward explained that as a result of that report the Department for Levelling Up for Housing and Communities have issued a formal response with four specific measures and the second measure states that they intend to provide funding of £45 million over the course of the next spending review period to support local bodies with the cost of strengthening their financial reporting and new burdens related to the appointment of independent members and other 'Redmond' recommendations and for CIPFA to publish further guidance on audit committees, with its guidance emphasising the role that Audit Committees should have in ensuring that accounts are prepared to the highest of standards alongside making broader changes of making appointments of independent members. She advised the committee that there appears to be a steer from CIPFA, the Government and the regulatory bodies to appoint independent members to Audit Committees.

Kathy Woodward made reference to guidance that was issued on 31 May which stated that although it is not currently mandatory, it is going to become mandatory although there is no current timescale which has been provided. She outlined the benefits and pitfalls of having independent members, with the benefits including the additional knowledge and expertise that they bring to the committee, and they reinforce the political neutrality, independence of the committee and they also maintain continuity where membership is affected by the electoral cycle and the pitfalls being an over reliance on independent members by other committee members, lack of organisational knowledge, poor context amongst independent members and the additional effort by officers, staff

and independent members to establish that working relationship.

Members asked questions, made comments and received responses as follows:

- Councillor Mrs French asked for clarity over the £45 million of funding that had been referred to and she asked how many Local Authorities that funding would be for? Kathy Woodward explained that there are 323 District Councils. Neil Krajewski explained that the funding has been allocated already and it is principally linked to where external audit fees are going and the committee are aware that there is currently a procurement exercise underway for the Council's external auditors and the outcome of that exercise is still not known, however Central Government has already decided a mechanism as to how those monies will be distributed. He added that whilst the Council's fee had been increased, it has been reduced again by the Public Sector Audit Appointments who are an external body that oversees external auditor appointments, however, the result of the procurement exercise is still to be known. He added that if there is any thought that there maybe some of the money left over to fund the costs associated with identifying and remunerating the independent members post is overly optimistic at this point in time.
- Councillor Mrs French asked how much the cost of an independent member would be? Kathy Woodward expressed the view that she does not anticipate it being a significant sum of money and where she has seen other authorities appoint independent members, they appear to follow the same route that the Council has when appointing to committees such as Conduct and the Independent Remuneration Committees. Councillor Mrs French stated that as it is going to become a mandatory function, in her opinion, steps should be taken to achieve an appointment as soon as possible.
- Councillor Wicks asked who would do the selection of the independent person to the committee and what mechanism would be put in place for suitable candidates?
- Councillor Mrs French stated that it would be a sub committee of the Audit and Risk Management Committee. Kathy Woodward stated that she would suggest that the current skills of the committee are analysed to identify any gaps which maybe in place and added that she would suggest that the person should be suitably qualified preferably in a Local Government finance background which would bring significant strengths to the committee. Kathy Woodward added that the Independent Remuneration Panel should be invited to advise the Authority of an appropriate rate of remuneration for the role and it would also need to be approved by Full Council. She suggested that it should be a cross party panel drawn from the Audit and Risk Management Committee to undertake the search and selection process advised by the Monitoring Officer and the Chief Financial Officer (or their nominees).
- Councillor Mrs Davis stated that she also agrees with Councillor Mrs French that the appointment should be made as soon as possible and before it becomes mandatory. She added that she anticipates that there will not be a large pool of individuals to recruit to the post and, in her view, she would expect them to be employed by more than one authority and, therefore, it is important to start the process as soon as possible.
- Kathy Woodward stated that an additional report would be brought back to the committee in September for members to consider further, prior to it being presented to Full Council.

**Members agreed to note the report.**

### **ARMC8/22 AUDIT AND RISK MANAGEMENT COMMITTEE WORK PROGRAMME**

Councillor Miss French presented the Audit and Risk Management Committee Work Programme 2021/22 for information.

**Members noted the work programme.**

### **ARMC9/22 ITEMS OF TOPICAL INTEREST.**

There were no items of topical interest for discussion.

4.41 pm

Chairman