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NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

24 January 2024

PRESENT: - Councillor K Vickers (Chairman)

Councillors T Foster (Vice-Chair), A Davison, H Yates, L Yeadon and D Wells

The meeting was held in Room F01e, Conference Room, Church Square House, Scunthorpe.

765 **SUBSTITUTIONS (IF ANY)** - Councillor Wells substituted for Councillor Clark.

766 **DECLARATIONS OF DISCLOSABLE PECUNIARY INTERESTS AND PERSONAL OR PERSONAL AND PREJUDICIAL INTERESTS (IF ANY)** - Councillor Wells declared a personal interest as he was a school governor.

767 **TO TAKE THE MINUTES OF THE MEETING HELD ON 22 NOVEMBER 2023 AS A CORRECT RECORD AND AUTHORISE THE CHAIRMAN TO SIGN** - That the minutes of the proceedings of the meeting held on 22 November 2023, having been printed and circulated amongst the members, be taken as read and correctly recorded and be signed by the Chairman, subject to the removal of the agreed paragraph from page 19.

768 **DRAFT TREASURY MANAGEMENT STRATEGY STATEMENT AND TREASURY MANAGEMENT PRACTICES** - The Director: Outcomes submitted the draft Treasury Management Strategy Statement (TMSS) and the Draft Treasury Management Practices (TMPs) prior to submission to Council for approval in February 2024.

The draft TMSS and TMPs for 2024-25 were attached to the report as an appendix.

The Strategy and TMPs had been developed in consultation with the council's treasury management advisors, Link Asset Services Ltd. The statement also incorporated the Investment Strategy.

Members heard that whilst the Council had appointed advisors to support effective treasury management arrangements, it was ultimately responsible for its treasury decisions and activity. Members were reminded that no treasury activity was without risk. The successful identification, monitoring and control of risk was therefore an important and integral element of treasury management activities.

Following the verbal update, the Chair facilitated a discussion between the Committee and the Director.

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Recommended to Council – That following consideration of the report and appendices, the draft Treasury Management Strategy Statement and the Draft Treasury Management Practices be approved.

769 **TREASURY MANAGEMENT QUARTER 3 REPORT 2023-24** - The Director: Outcomes submitted a report that provided an overview of the council's treasury performance during the first three months of 2023-24 and sets out national factors that affected the council's treasury activity.

The Director informed the meeting that the report fulfilled the council's legal obligation under the Local Government Act to have regard to both the CIPFA Code and the Department for Levelling Up, Housing and Communities (DLUHC). The Treasury Management Code of Practice 2021 stipulated that quarterly update reports on treasury management were required from 2023-24, providing assurance on the effectiveness of the council's treasury management arrangements.

The CIPFA Code sets out the following objectives for treasury management:

"It was important that treasury management policies adequately reflected risk and in particular security, liquidity and yield risk, in that order of importance. No treasury management transaction was without risk and management of risks was the key purpose of the treasury management strategy."

Members were reminded that Council agreed the Treasury Management Strategy Statement for 2023-24 in February 2023.

The Director informed the committee that –

- Interest rates had remained elevated during the year. The bank rate was expected to remain at the current 5.25% until June 2024, when a decrease to 5% was predicted. Rates were then expected to continue to reduce reaching 3% by December 2025.
- The Council aimed to achieve optimum return on its investments in accordance with its priorities of security, liquidity, and risk appetite. Investment returns to 31st December 2023 were £1.650m.
- Average investment balances during the quarter were £49.6m. The council remained in a position where it could meet its liabilities, while managing risks associated with carrying cash balances.
- The investment activity during the year conformed to the approved limits within the strategy, and the council had no liquidity difficulties.
- No new borrowing had taken place during the first quarter of the year.
- It was likely that further borrowing would be required towards the end of this financial year.

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The Chairman then facilitated a discussion between the Committee and the Director.

Resolved – (a) That the Treasury Management Quarter 3 report provided a sufficient level of assurance on the adequacy of the council's Treasury Management arrangements, and it Committee considers the assurance provided by this report on the effectiveness of the arrangements for treasury management, and (b) that the treasury management activity during the first quarter of 2023-24 be noted.

770 **AUDIT PROGRESS REPORT - JANUARY 2024 - REPORT OF MAZARS -**
The Chairman welcomed a representative of the council's External Auditors Mazars to the meeting and invited them to present the council's audit progress report for January 2024.

The report provided the Audit Committee with an update on progress in delivering Mazars responsibilities as the council's external auditors and also included, at Section 2, a summary of recent reports and publications.

Following the verbal presentation, the Chairman facilitated a discussion between Panel Members and the council's External Auditors.

Resolved – That the audit progress report for January 2024 be received with thanks.

771 **ACCOUNTING POLICIES 2023-24 -** The Director: Outcomes informed the meeting that the Code of Practice on Local Authority Accounting in the United Kingdom 2023-2024 (The Code) required each local authority to adopt accounting policies that set principles for recording financial transactions within the council's accounts.

The Code specified the principles and practices required to prepare a Statement of Accounts to give a true and fair view of the financial position, financial performance and cash flows of the council.

The policies proposed for North Lincolnshire were based upon guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and amended to take account of local circumstances.

The local amendments to the standard accounting policies were set out below.

a) A de minimis level had been applied to the accrual of income and expenditure. The de minimis level had been applied to reduce the administration surrounding the accrual of income and expenditure, without materially affecting the accounts. For 2023/2024 the level remains unchanged from previous years, being set at £10,000, subject to justified exceptions e.g., where grant conditions applied

b) The council had set a de minimis level of £100,000 for inventories. Any

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inventories valued at less than £100,000 were not accounted for as inventories. This reduced administration and does not have a material effect on the accounts.

- c) Accruals were not processed for Housing Benefit Payments, Social Services Income for Home Care, Travel payments and supply Teachers and Property Rental Income. The accounts still contained 12 months activity.

Some of the standard accounting policies within the Code were not relevant to the council and in the interest of clarity, had been removed. e.g., References to Housing Revenue Account (HRA) sales and Private Finance Initiative (PFI) arrangements.

There had been no amendments to the accounting policies this financial year. It was proposed that delegated approval be given to the Director of Finance & s151 Officer (Interim) or the Chief Finance Officer to amend any existing policies during the production and audit of the financial statements. This allowed for amendments to be made which may be picked up during the audit. Any amendments to accounting policies would be reported back to this committee at the time of approving the audited version of the accounts.

Resolved – (a) That the accounting policies attached to the report as an appendix be approved, and (b) that members delegate to the Director of Finance and s151 Officer (Interim) or the Chief Finance Officer the power to make new accounting policies and amend existing policies as may become necessary in the production of the accounts or during the audit of the accounts, with any such changes being reported to the next meeting of this committee.

772 **STRATEGIC RISK REGISTER** - The Director: Outcomes circulated the council's newly formed Strategic Risk Register.

Members were informed that at a horizon scanning workshop, facilitated by the council's liability insurers Zurich Municipal, the following strategic risks were identified and adopted:

- Economic disruption through the loss of key business in the area (Economic)
- Inability to strategically plan long term investments and growth due to increasing costs (Economic)
- Employee retention and attraction to critical service areas where there were key person dependencies and or a legal duty or care (Social)
- Increasing health inequalities due to socio economic conditions resulting in additional pressure on front line council staff (Social)
- Lack of investment into organisation transformation resulting in insufficient systems and processes, increasing the risk of data loss or cyber attacks (Technological)
- Lack of a cohesive strategy and required resources to achieve carbon neutral targets and the wider sustainability agenda (Environmental)

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The above risks had been firmed up with some minor changes being made to the titles in some cases. One of the previous risks 'Failure to achieve long-term financial sustainability' had remained and subsequently reviewed. The SRR was agreed by the Corporate Assurance and Risk Board on 18 December 2023. The residual score for each of the risks were listed below:

- Failure to achieve long-term financial sustainability – 12 (high)
- Increasing Health Equalities due to socio-economic conditions resulting in additional pressure on front line services – 12 (high)
- Economic disruption through the loss of key businesses within the local economy – 9 (medium)
- Employee Retention and Recruitment into critical service areas where there are key person dependencies or a legal duty of care - 9 (medium)
- Failure to achieve net zero, nature recovery and wider sustainability targets – 6 (medium)
- Inability to strategically plan long-term investments and growth – 6 (medium)
- Lack of investment into organisation transformation resulting in insufficient systems and processes, increasing the risk of data loss or cyber attacks – 8 (medium)

Once the risks had been agreed work would commence on re-stating the council's risk appetite. Risk Appetite was defined as being the organisation's willingness to accept risk in pursuit of its business objectives. It also formed part of the overall framework around which decisions on were made.

Resolved - That the Strategic Risk Register, which was attached to the report as an appendix, be approved.

773 **INTERIM INTERNAL AUDIT REPORT 2023-24** - The Director: Outcomes circulated the interim internal audit report for 2023-24, which provided an update on internal audit activity up to 31 December 2023. The report highlighted the risks identified to the delivery of the Internal Audit Plan, and the actions being taken to mitigate those risks, including the re-prioritisation of the audit plan.

Members were informed that it was a requirement of the PSIAS for the Audit Committee to receive regular updates on the activities of Internal Audit, in particular:

- providing assurance that sufficient work will be carried to provide a reliable risk based annual opinion on the effectiveness of the control environment and any amendments to the audit plan;
- bringing to the Committee's attention any issues identified during the 2023-24 audit period which could impact on the annual opinion; and
- providing an update on the activities which have occurred during 2023-24 in relation to quality improvement and to ensure Internal Audit's continued compliance with Public Sector Internal Audit Standards (PSIAS).

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On 15 March 2023, the Audit and Governance Committee formally approved an outline plan consisting of 1100 days, whilst on 6 October 2023 it received an updated, more detailed plan. As communicated to the committee there would potentially be ongoing amendment and re-prioritisation to the plan to reflect changes in risk.

Attached to the report as an appendix was an update on the delivery of the audit plan up to 31 December 2023. The report highlighted resourcing issues faced by Audit, which had led to the re-prioritisation of the audit and a reduction in the planned days to 900 days. Although the Head of Internal and Assurance forecasted that sufficient work should still be carried out by May 2024 to provide a reliable opinion on the council's control environment, there remained a possibility that this would include a "limitation in scope".

The Director guided the committee through a list of final reports that had been issued up to 31 December 2023, including three limited assurance reports which had been issued.

The report also discussed the quality assurance activities which had taken place in 2023-24 and the provisional outcome of the 5-yearly External Quality Inspection carried out in November 2023.

The Chairman then facilitated a discussion between the Director and committee members on the reasoning for the reduction in the audit plan, which included vacant posts not being filled during the review, sickness absence and clients service areas not being sufficiently developed in order that any review would be meaningful.

Resolved – That the reduction in the size of the audit plan be noted.

- 774 **DATE AND TIME OF NEXT MEETING - CHANGE OF DATE - 10 APRIL 2024 - Resolved** – That, following a request from council officers, the next meeting of the committee be held on 10 April 2024.
- 775 **EXCLUSION OF PRESS AND PUBLIC** - That the public be excluded from the meeting for consideration of the following item (Minute 776 refers) on the grounds that it involves the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended).
- 776 **QUESTIONS TO THE COUNCIL'S EXTERNAL AUDITORS AND HEAD OF INTERNAL AUDIT AND ASSURANCE (IF REQUIRED)** - The committee had no questions for the council's External Auditors or Head of Internal Audit and Assurance.