

ACCOUNTS, AUDIT & GOVERNANCE COMMITTEE
7TH JANUARY 2015

Present: Councillors: David Holmes (Chairman), John Bailey, Leonard Crosbie, Stuart Ritchie

Apologies: Councillors: Roy Cornell, Gordon Lindsay (Vice-Chairman), Jim Rae,

Also present: Paul King, Audit Director, Ernst & Young
Katharine Eberhart, Director of Corporate Resources
Sue McMillan, Head of Finance
Paul Miller, Chief Internal Auditor
Julian Olszowka, Group Accountant (Technical)

AAG/30 **MINUTES**

The minutes of the meeting held on 25th September 2014 were approved as a correct record and signed by the Chairman, subject to the following amendments:

(a) The description of Paul King being changed to Audit Director in the list of attendees and in Minute No. AAG/20;

(b) The first paragraph of Minute No. AAG/22 being amended to read: "Statements were presented for 2013/14 on which the *External* Auditor anticipated issuing an unqualified opinion."

(c) The second paragraph of Minute No. AAG/22 being amended by the addition of the following words: "The workshop had allowed Members to ask various questions of Officers to satisfy themselves that:

- fixed assets and investments were stated at fair value;
- debtors were recoverable, and provision for doubtful debts had been made;
- creditors were not understated, and provision for known claims and liabilities had been made;
- income was both complete and had been recognised in the correct accounting period;
- expenses were not overstated and had been recognised in the correct accounting period;
- only properly authorised expenditure had been incurred; and
- the accounting policies had been followed.

Members were satisfied with the responses given and were grateful for the opportunity to examine matters in greater detail with the relevant Officers."

(d) The last sentence of Minute No. AAG/25 being amended to read: "The Vice-Chairman requested *that it be made (delete "Internal Audit make it)* clear to managers that it is their responsibility to ensure that the correct training forms are completed as required."

AAG/31 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

AAG/32 **ANNOUNCEMENTS**

The Chairman reminded the Members of the Committee that he had circulated to them the notes of a meeting held with Councillor John Chidlow regarding questions he had raised at Council on various internal audit issues. The points raised were noted.

AAG/33 **ANNUAL AUDIT LETTER 2013/14**

The Committee received and noted the Annual Audit Letter 2013/14, which summarised the External Auditor's findings from the 2013/14 audit, as discussed at the last meeting of the Committee.

Paul King, Audit Director, Ernst & Young gave an update on the current position regarding the qualification letter issued in respect of the housing benefits claim. The external auditor explained that it was not unusual to find such errors in Benefit Claims however those found could result in the Council receiving £160,000 less towards reimbursement of benefit payments for 2014/15. The CenSus Revenue and Benefit team was currently reviewing the issues raised in the qualification letter and would be resubmitting work to the external auditors and the DWP to clarify the potential financial impact of the errors identified. This additional work would be completed by the end of February. Both Paul King and the Director of Corporate Resources answered Members questions on the claims assessment process.

The Director of Corporate Resources indicated that a report on the final outcome regarding the qualification letter would be reported to the next meeting of the Committee.

AAG/34 **LOCAL GOVERNMENT AUDIT COMMITTEE BRIEFING**

Paul King, Audit Director, Ernst & Young presented the most recent edition of Ernst & Young's Local Government Audit Committee briefing. With reference to the 'Key Questions for the Audit Committee' listed in the briefing, the Director of Corporate Resources indicated that the fraud issues covered by the National Fraud Initiative (NFI) were addressed by the Council's internal control policies. However, she would review Appendix 2 of the latest Audit Commission publication "Protecting the Public Purse" to ensure that all relevant questions were being dealt with. She also advised that the Council's whistleblowing policy would shortly be updated. It was noted that other "Key Questions For the Audit Committee" were "whether the Council had clear lines of responsibility for contract management" and "the need to have outcome based contracts."

AAG/35 **TREASURY MANAGEMENT STRATEGY 2015/16**

The Director of Corporate Resources reminded Members that the Council had significant investments and borrowing and had to manage its cash flow in both the short and long term. This required an overall strategy as well as sets of practices and procedures and the Treasury Management Strategy for 2015/16 was therefore submitted for approval.

Details of the current treasury portfolio were submitted together with information in respect of the borrowing and investment strategies, treasury management indicators, the policy on the use of financial derivatives, the Council's treasury management advisers, staff training and the investment of money borrowed in advance of need.

Members expressed concerns regarding the proposed use of Pooled Funds (other than Money Market Funds), as they considered that the risks and the tying-up of funds long term was not appropriate at a time of financial uncertainty. In response to Members' questions regarding the Council's Treasury Management Advisers, Arlingclose Limited, the Director of Corporate Resources assured the Committee that they received no financial gain as a result of their advice to the Council.

It was also noted that the liquidity benchmark for 2015/16 was a change to the previous benchmark and not a modification. The strategy would be amended to show this.

Members were also advised of the authorisation procedures used by officers in managing the Council's investments.

Members commented on the highly technical nature of the strategy and suggested that, in future, the addition of a less technical summary would be helpful for the Committee.

As Members were unhappy with the inclusion of Pooled Funds (other than Money Market Funds) within the strategy, it was suggested that references to these could be deleted (in particular paragraphs 5.10 and 5.11).

RECOMMENDED

- (i) That the Treasury Management Strategy for 2015/16 be approved, subject to consultation with all Committee Members following the deletion of all references to Pooled Funds (other than Money Market Funds) and its amendment to show that the liquidity benchmark for 2015/16 was a change to the previous benchmark not a modification.

AAG/35 Treasury Management Strategy 2015/16 (cont.)

- (ii) That, subject to (i) above, the Treasury Management Indicators for 2015/16 be approved.

REASONS

- (i) The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.
- (ii) The Department for Communities and Local Government issued revised guidance on local authority investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

AAG/36 **TREASURY MANAGEMENT ACTIVITY AND PRUDENTIAL INDICATORS
MID YEAR REPORT 2014/15**

The Director of Corporate Resources presented a report on treasury management activity and prudential indicators for the first half of 2014/15.

The report confirmed that, during this period, the Council had complied with its legislative and regulatory requirements and the statutory borrowing limit, the Authorised Limit, had not been breached.

At 30th September 2014, the Council's external debt was £4,000,000 and its investments totalled £31,500,000 including call accounts and money market funds.

It was noted that, during the first half of 2014/15, the Council's cash balances had been invested in accordance with the Council's treasury management strategy, with interest of £100,000 being earned on investments, an average return of 0.6%.

RESOLVED

That the mid-year treasury management stewardship report and mid-year prudential indicators for 2014/15 be noted.

AAG/36 Treasury Management Activity And Prudential Indicators Mid Year Report 2014/15 (cont.)

REASON

The report meets the requirements of the relevant CIPFA Codes of Practice for Treasury Management and Prudential Indicators in Capital Finance.

AAG/37 **INTERNAL AUDIT – QUARTERLY UPDATE REPORT**

The Chief Internal Auditor submitted a report summarising the work of the Internal Audit Section since September 2014.

In introducing the report he indicated that, following the question raised by Councillor John Chidlow as to whether the Council's rate of moderate assurance audit opinions (20%) was acceptable, he had consulted with four other local authorities regarding the outcome of their internal audits. Of the four authorities consulted one had a moderate assurance audit opinion rate of 17%, one of 24% and two of 27%. It was therefore considered that the Council's rate of 20% was acceptable.

A summary of audit findings in respect of Cash and Bank; Debtors; and Housing Rents and Maintenance, all of which had achieved an overall audit opinion of substantial assurance, and Health and Safety; Contracts and BACS, all of which had achieved an overall audit opinion of moderate assurance, was submitted. Concern was expressed at weaknesses found relating to the management and control of contracts given that previous action had been taken to tighten up procedures. The Internal Auditor confirmed that the weakness was not in the procedures but failure to follow them. Members were advised of actions that were being taken to address the issues raised in respect of the three areas that had achieved an overall audit opinion of moderate assurance. The Director of Corporate Resources reported on action already being taken to review the Council's internal control environment and indicated that she would report further on this to the next meeting of the Committee.

The Chief Internal Auditor also reported on two special investigations that had been carried out, one in respect of missing laptop computers and one following a fuel theft at the Hurston Lane Depot. Members discussed both issues at length and the Director of Corporate Resources and Chief Internal Auditor advised Members on action being taken to improve the control environment and security in both areas. Members expressed concern regarding these two incidents.

The Chief Internal Auditor advised that all departmental risk registers had now been reviewed and converted to 5x5 risk matrices. Internal audit was

AAG/37 Internal Audit – Quarterly Update Report (cont.)

also involved in a number of project team meetings including the office move and disaster recovery.

The audit plan was progressing well and it was anticipated that 85% of the plan would be completed, which was within the performance target set.

RESOLVED

That the summary of audit and project work undertaken since September 2014 be noted.

REASONS

- (i) To comply with the requirements set out in the Public Sector Internal Audit Standards 2013.
- (ii) The Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

AAG/38 RISK MANAGEMENT – QUARTERLY UPDATE REPORT

The Director of Corporate Resources presented the latest quarterly update in respect of the Corporate Risk Register.

It was noted that the corporate risk register had been fully reviewed by the Senior Leadership Team and that all departmental risk registers had been reviewed and updated.

With regard to CRR38 (relating to the Community Infrastructure Levy Scheme), Members queried whether there were any control actions that needed to be included, given that approval of the Horsham District Planning Framework and therefore CIL procedures was now delayed. The Director of Corporate Resources would raise this with the risk owner.

RESOLVED

That the report be noted.

REASON

To ensure that the Council has adequate risk management arrangements in place.

AAG/39 URGENT MATTERS

There were no urgent matters to be considered.

AAG/40 **EXCLUSION OF THE PRESS AND PUBLIC**

RESOLVED

That, under Section 100A(2) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information, as defined in Part I of Schedule 12A of the Act, by virtue of the paragraph specified against each item, and in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

AAG/41 **INTERNAL AUDIT – QUARTERLY UPDATE REPORT ON AUDIT FOLLOW UPS (PARAGRAPH 3)**

The Chief Internal Auditor submitted a report summarising progress since September 2014 on the implementation of actions in respect of audits undertaken in 2014/15, 2013/14, 2012/13, 2011/12 and 2010/11.

The Chief Internal Auditor gave an update on the current position in respect of three specific areas: Casual Worker Policy & Volunteers Policy; Land Charges; and ICT Hardware.

RESOLVED

- (i) That progress in terms of agreed actions implemented since September 2014 be noted.
- (ii) That the position in respect of the specific areas of concern highlighted by the Chief Internal Auditor be noted.

RESOLVED

The Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

The meeting finished at 8.20pm having commenced at 5.30pm.

CHAIRMAN