

Audit Committee
11 JULY 2019

Present: Councillors: Stuart Ritchie (Chairman), Tony Bevis, John Blackall, Paul Clarke, Ruth Fletcher and Jack Saheid

Apologies: Councillors: Paul Marshall (Vice-Chairman)

Also Present: Frances Haigh

AAG/4 **MINUTES**

The minutes of the meeting held on 22 May 2019 were approved as a correct record and signed by the Chairman.

AAG/5 **DECLARATIONS OF MEMBERS' INTERESTS**

None.

AAG/6 **ANNOUNCEMENTS**

None.

AAG/7 **AUDIT RESULTS REPORT**

The External Auditor provided the Audit Results Report for the year ending 31st March 2019. It was noted that the audit of the Council's financial statements for the year ended 31 March 2019 had been substantially completed as had the procedures outlined in the Audit planning report, subject to the satisfactory completion of outstanding items. An updated report would be provided to the committee when the outstanding items had been finalised. Liaison with council officers would continue on the technical treatment of the accounts, arising from the IFRS 9 accounting standard. However, until the Guidance Notes were issued and any statutory overrides were confirmed there remains some uncertainty on the accounting treatment.

The External Auditor went on to say that a potential late change may be required to the Council's pension net asset which related to legal rulings regarding age discrimination known as the McCloud judgment. The draft accounts have recognised this matter as a contingent liability. Officers had requested that their actuary update their estimate of net pension scheme liability and any difference between actual and estimated return on pension scheme assets.

He added that external audit were required to provide a value for money opinion the Council's finances. For 2018/19 this was based on the overall evaluation

criterion. No significant risks around these criteria had been identified and an unqualified value for money conclusion would be provided.

In the ensuing discussion, the following issues were addressed:

The increase in technology meant that the audit fee had dropped. Increased use of technology, such as a portal that could be used by the council officers to input evidence directly into files. The flow of information was more efficient as a result. The increased use of data analytics, which allowed all of the transactions and journals to be analysed within the system. This ensured that all areas were being looked at, providing a more robust assurance.

RESOLVED

That the report be noted.

AAG/8 **STATEMENT OF ACCOUNTS**

The Chairman introduced the report and said that the Annual accounts had been considered at an informal meeting ahead of the Committee, where Members had an opportunity to pose questions on the detail. Issues had been followed up by email.

Sam Wells, Corporate Accountant, presented the accounts and said that at the time of the report there were three outstanding issues that needed to be resolved before the accounts could be approved. The actuary had re-run the IAS19 report to resolve the two issues relating to the pension fund. An amended set of accounts in relation to the pension fund had been emailed to Members. The third issue involved the technical treatment of the Council's pooled funds and officers were discussing this with the auditors. This issue was also being discussed at a national level.

The Accounts had closed with a balance sheet value of £163m, an increase in £3.1m in assets in the year 2018/19. The Pension Fund issues were a technical adjustment, and the IFRS 9 application would not affect the balance sheet.

The Chairman moved that the recommendation be altered to allow the Director of Corporate Resources latitude to ensure the appropriate changes were made. The motion was seconded by the Vice Chairman.

RESOLVED

That the Committee approve the 2018/19 Statement of Accounts, or should any of the three issues be unresolved at the date of the committee, delegate the approval to the Chairman of the Audit Committee, in consultation with the Director of Corporate Resources, to be done before 31 July 2019 or as soon as the unresolved matters are resolved.

AAG/9 **INTERNAL AUDIT REVIEWS OF REVENUES AND BENEFITS 2018/19**

The Director of Corporate Resources reported that the report before the Committee provided an outcome of the internal audit reports of Revenues and Benefits completed by LGSS internal audit as part of the agreement in which LGSS manage Horsham District Council's Revenues and Benefits service. The service that had been procured was an audited service, as LGSS was a larger partnership, and their internal auditors would carry out the audit.

All three audits were completed in the fourth quarter of 2018/19. The one for the control environment achieved substantial assurance on all three elements, council tax, business rates and benefits. The Benefits audit showed substantial assurance for the system and compliance, whilst the Revenues audits had received a substantial opinion for the system and good assurance for compliance.

The changes that had been suggested by the auditors had already been implemented by the Revenues and Benefits Manager.

In reply to a question, the Director said that the definitions used across the audits were different, and varied from Orbis to LGSS

RESOLVED

That the Committee note the report.

AAG/10 **INTERNAL AUDIT - ANNUAL REPORT AND OPINION 2018/19**

The report before the Committee had been compiled by the Chief Internal Auditor which included an overall annual opinion on the adequacy of the Council's governance arrangements, risk management systems and control environment. It also provided an update on internal audit performance, and a summary of audit activity undertaken during Quarter four.

He went on to highlight Appendix B of the report which summarised the key audit findings for Quarter four. There had been two partial assurances, one reasonable and three substantial. A post implementation review had also been undertaken on the alternate weekly refuse collections.

He went on to highlight the audit that had been undertaken on Fire Safety. There was a portfolio of 27 council occupied properties. He had looked at the strategic aspect of these, but had also visited six properties. Overall, the main finding was a weakness in the reporting framework. Actions from some fire risk assessments had failed to be implemented, and issues arising were not being escalated to senior managers. A framework was now in place to ensure that this information was channelled to the appropriate level of management. In addition to this, at the time of the review, fire doors in Swan Walk Car Park were being locked after 6.30pm. This has now been changed. Fire drills were also a weak area, and there were agreed actions to deal with this.

The Chairman welcomed the opportunity to get consistency across the council. The Chief Internal Auditor went on to say that the other partial assurance was the cultural compliance audit at the Capitol, which was a high level review. The main issue was around the bar and catering facility. A decision had been made to bring the operation of this back in house, but there had been no business case and the decision had not been published on the Forward Plan. The Monitoring Officer had become involved to resolve the issue, and it had been decided to run the operation for a six month trial period to ensure the viability. Fire drills were an issue, and mandatory training and authorisation of purchase orders at the correct level.

In reply to a question about whether volunteers received mandatory training at the Capitol, it was agreed that a reply would be provided to the committee. It was further agreed that information regarding whether safety measures were provided to external contractors putting on performances with their own staff would be provided to the committee.

No assurance could be absolute; however, based on the internal audit work completed, the Chief Internal Auditor could provide reasonable assurance that Horsham District Council had in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2018 to 31 March 2019.

RESOLVED

The Committee noted

- i) the annual opinion of the Chief Internal Auditor on the overall adequacy and effectiveness of the Council's internal control environment, governance and risk management systems;
- ii) the summary of audit and project work undertaken during Quarter 4;
- iii) the performance of internal audit against performance targets.

AAG/11 **RISK MANAGEMENT - QUARTERLY UPDATE**

The Director of Corporate Resources presented the Corporate Risk Register to July 2019. She highlighted the three red risks that were in the report. The Medium Term Financial Strategy had been re-written twice, to include concerns about the revaluing and localisation of business rates and the fair funding review. No additional information had been forthcoming from Government on these issues. There was considerable uncertainty, and the council would actually be better off if the reviews did not go ahead for April 2020.

She went on to say that the second issue was uncertainty in the UK and global economy. The council's treasury advisors had indicated that there were signs that the country was heading towards a recession. Associated with this, is the

increase in cost of homelessness, housing services, recycling and transport arising from decisions made by the County Council.

RESOLVED

That the Committee note the report.

AAG/12 **ANNUAL GOVERNANCE STATEMENT**

The Director of Corporate Resources introduced the report and said that the annual review of the Council's governance, risk management and internal control arrangements had been undertaken to support the Annual Governance Statement for 2018/19. The review included information and assurance gathering processes as well as a review of the Council's Governance framework against the best practice framework devised by CIPFA/SOLACE. The aim was to ensure that the Council had effective governance, risk management and internal control processes in place to assist with accountability and the delivery of objectives. The review process had identified any shortfalls in these arrangements to enable them to be addressed.

RESOLVED

That the Annual Governance Statement for 2018/19 be approved.

AAG/13 **TREASURY MANAGEMENT ACTIVITY AND PRUDENTIAL INDICATORS 2018/19**

The Group Accountant (Technical) reported that the report covered treasury activity and prudential indicators for 2018/19. As at 31 March 2019, the Council's external debt was £4m (£4m in 2017/18) and investments totalled £36.1m (£37.7m in 2017/18) including call accounts and Money Market Funds. During 2018/19, the Council's cash balances had been invested in accordance with the Council's treasury management strategy. Interest of £0.887m (£0.911m in 2017/18) had been earned on investments, an average return of 2.1% (1.6% in 2017/18). There was one instance reported to this Committee on 12 December 2018 when the single institution limit of £2.5m had been breached overnight in the Council's own bank; otherwise all activity was within limits and in line with indicators.

RESOLVED

That the Committee note:

- a) the Treasury Management stewardship report for 2018/19.
- b) the actual prudential indicators for 2018/19.

- c) Recommend that Council approve an increase from £1m to £1.5m in the limit on lending to subsidiary companies in the 2019/20 Investment Strategy.
- d) Recommend that Council approve a £0.5m limit on shareholding in its subsidiary companies in the 2019/20 Investment Strategy

AAG/14 **AUDIT WORK PROGRAMME 2019**

RESOLVED

That the Committee note its Annual Work Programme.

AAG/15 **URGENT BUSINESS**

There was no urgent business.

The meeting closed at 7.10 pm having commenced at 5.30 pm

CHAIRMAN