

Audit Committee
4 JANUARY 2017

Present: Councillors: Godfrey Newman (Chairman), Stuart Ritchie (Vice-Chairman), Brian Donnelly, Adrian Lee and Paul Marshall

Apologies: Councillors: John Chidlow and Tim Lloyd

Also Present: Paul King, Audit Director, Ernst & Young

AAG/29 **MINUTES**

The minutes of the meeting held on 13th September 2016 were approved as a correct record and signed by the Chairman.

AAG/30 **DECLARATIONS OF MEMBERS' INTERESTS**

There were no declarations of interest.

AAG/31 **ANNOUNCEMENTS**

There were no announcements.

AAG/32 **AUDIT PLAN 2016/17**

Paul King, Audit Director, Ernst & Young presented the External Auditors Plan in respect of the 2016/17 audit. The Plan set out the audit work the Auditor proposed to undertake for the audit of financial statements; the statutory conclusion on the Council's arrangements to secure value for money (economy, efficiency and effectiveness); and the review of the Whole of Government Accounts return.

The Audit Director drew attention to one risk that had been identified as being relevant to the audit of financial statements and indicated how this areas would be audited:

- Risk of management override (the Audit Director reassured Members that this was not a particular risk at Horsham but one that was identified and responded to on every audit engagement they undertook).

With regard to value for money, the Audit Director had identified one significant risk: Sustainable Resource Deployment (the predicted budget gaps in future years).

The Audit Director referred to the definition used by the auditors for materiality when determining whether the financial statements were free from material error.

It was noted that the planned fee for the 2016/17 audit had been set at £50,094, which was the same as the fee for 2015/16.

The timetable for the 2016/17 audit had been set with the statutory changes to accounting deadlines in 2017/18 in mind and it was hoped the audit would be completed in time to be reported to the meeting of the Committee in July 2017. If this was not achieved the report would be submitted to the September meeting.

AAG/33 **CONFIRMATION OF AUDITOR APPOINTMENT FOR 2017/18**

The Director of Corporate Resources submitted a letter received from Public Sector Audit Appointments confirming the re-appointment of Ernst & Young LLP as the Council's external auditor for 2017/18.

AAG/34 **TREASURY MANAGEMENT STRATEGY 2017/18**

The Director of Corporate Resources reminded Members that the Council had significant investments which required an overall strategy as well as sets of practices and procedures to identify, monitor and control the associated risks. The Treasury Management Strategy for 2017/18, which both fulfilled legal requirements and provided a workable framework for day-to-day operations, was therefore submitted for approval.

The strategy had been prepared taking account of the general economic situation, statutory requirements and relevant Government and Council policies including the resource projections to 2019/20. The wider use of pooled funds had been introduced in the 2016/17 strategy and the strategy for 2017/18 would provide the opportunity to develop the use of this type of fund whilst recognising the risk of the volatility of capital values.

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.

The Head of Finance would advise Committee Members on the likely effect on the capital values of pooled funds, especially bonds, if interest rates were to rise. In addition, the Head of Finance would advise Committee Members on the expected average interest returns on the pooled funds over the medium term.

Members agreed that a prudent approach to treasury management was appropriate as some of the money available for investment by the Council was being held on behalf of other bodies.

RECOMMENDED

- (i) That the Treasury Management Strategy for 2017/18 be approved.
- (ii) That the Treasury Management Indicators for 2017/18 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 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/35 **TREASURY MANAGEMENT ACTIVITY AND PRUDENTIAL INDICATORS MID-YEAR REPORT 2016/17**

The Director of Corporate Resources presented a report on treasury management activity and prudential indicators for the first half of 2016/17.

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. There had been one instance when the single institution limit of £2,500,000 had been breached by £80,000 for one day, otherwise all limits and indicators had been within estimates.

At 30th September 2016, the Council's external debt was £4,000,000 and its investments totalled £52,800,000.

It was noted that, during the first half of 2016/17, the Council's cash balances had been invested in accordance with the Council's treasury management strategy, with interest of £260,000 being earned on investments, an average return of 1.1% compared to the full year return of 0.8% in 2015/16.

RESOLVED

That the mid-year treasury management stewardship report and mid-year prudential indicators for 2015/16 be noted.

REASON

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

AAG/36 **RISK MANAGEMENT - QUARTERLY UPDATE**

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

The Senior Leadership Team had reviewed all outstanding actions on the corporate risk register and updated the comments to reflect the current position for each risk. The corporate risk profile highlighted four risks as being high and details of control actions in respect of all risks on the register were submitted. It was noted that risk CRR19 relating to future uncertainty in the UK economy would be amended so that it did not refer solely to Brexit. The Director of Corporate Resources would advise the Committee Members on how it might be possible to further sub-divide CRR19 to relate to specific risks.

One emerging risk relating to the implementation of the new Financial Management System (CRR20) had been added. Risks relating to an overly-bureaucratic Constitution (CRR08) and decisions not always being based on data (CRR13) had now been mitigated and would be removed from the register.

RESOLVED

That the report be noted.

REASON

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

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

The Chief Internal Auditor submitted a report summarising the work of the Internal Audit Section since September 2016.

A summary of audit findings in respect of Emergency Planning; Software License Management; Release and Change Management; Events Management; and Complaints Management (all of which had achieved an overall audit opinion of satisfactory assurance); and Contracts and Payment Card Industry Data Security Standard (both of which had achieved an overall audit opinion of limited assurance) was submitted. The Committee was advised of actions being undertaken to address the control weaknesses identified in respect of those areas identified as being of limited assurance.

The report also summarised other work being undertaken by the Internal Audit team and gave a progress update in respect of the Audit Plan.

RESOLVED

That the summary of audit and project work undertaken since September 2016 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 **URGENT BUSINESS**

There were no urgent matters to be considered.

AAG/39 **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/40 **INTERNAL AUDIT – QUARTERLY UPDATE ON AUDIT FOLLOW-UPS**

The Chief Internal Auditor submitted a report summarising progress since September 2016 on the implementation of actions in respect of audits undertaken in 2016/17, 2015/16 and 2014/15.

RESOLVED

- (i) That progress in terms of agreed actions implemented since September 2016 be noted.
- (ii) That the position in respect of the specific areas highlighted by the Chief Internal Auditor be noted.

REASON

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

The meeting closed at 6.31 pm having commenced at 5.30 pm

CHAIRMAN