

ACCOUNTS, AUDIT & GOVERNANCE COMMITTEE
6TH JANUARY 2016

Present: Councillors: Godfrey Newman (Chairman), Stuart Ritchie (Vice-Chairman), Paul Clarke, Brian Donnelly, Ian Howard, Paul Marshall

Apologies: Councillor: Adrian Lee

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

AAG/31 **MINUTES**

The minutes of the meeting held on 23rd September 2015 were approved as a correct record and signed by the Chairman.

AAG/32 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

AAG/33 **ANNOUNCEMENTS**

There were no announcements.

AAG/34 **ANNUAL AUDIT LETTER 2014/15**

The Committee received and noted the Annual Audit Letter 2014/15, which summarised key issues arising from the 2014/15 audit. The detailed findings of the 2014/15 audit had been reported to the last meeting of the Committee.

Paul King, Audit Director, Ernst & Young drew attention to a new requirement effective from 1st April 2016 whereby all local authorities would be required to account for Highways Network Assets (e.g. footways, unadopted roads on industrial estates, cycleways, street furniture etc.). The Head of Finance indicated that work was already underway in preparation for this requirement.

AAG/35 **ANNUAL AUDIT AND CERTIFICATION FEES 2015/16**

Paul King, Audit Director, Ernst & Young, advised the Committee of the audit and certification work proposed to be undertaken for the 2015/16 financial year. This would be the first audit undertaken following the closure of the Audit Commission and the framework contract would now be overseen by Public Sector Audit Appointments Ltd. The responsibility for

AAG/35 Annual Audit and Certification Fees 2015/16 (cont.)

publishing the statutory Code of Audit Practice under which the Auditors would conduct their audit work had transferred to the National Audit Office.

The indicative audit fee for 2015/16 reflected the risk-based approach to audit planning set out in the Code of Audit Practice and it was currently anticipated that it would be lower than the planned fee for 2014/15, as the scale fee had been reduced by 25% following the further tendering of audit contracts in March 2014.

The indicative certification fee for 2015/16 for housing benefit subsidy claim certification was based on the actual 2013/14 fees and also incorporated the 25% reduction.

Both fees would be reviewed and updated as necessary following completion of the 2014/15 audits.

It was anticipated that the plan for the audit of the financial statements would be issued in March 2016.

AAG/36 **AUDIT PROGRESS REPORT**

Paul King, Audit Director, Ernst & Young, summarised the work undertaken by the External Auditors since the last meeting and gave an overview of plans for the 2015/16 audit.

He drew Members' attention to a new approach to their work on value for money arrangements, with a single overall criterion and reporting by exception.

The main issue of concern for Members related to the 2014/15 Grant Certification Work which had identified a high level of local authority (LA) error and administrative delay overpayments in respect of housing benefits. As this had been a concern in previous years, CenSus had carried out a substantial amount of staff training and worked on correcting claims during 2014/15 as part of an overall action plan, which had resulted in the discovery of a high level of overpayments which took them to just below the threshold. During the audit, the auditor identified additional errors, which when extrapolated, breached the Department of Work and Pensions' (DWP) upper threshold resulting in the Council being required to repay the entire overpayment subsidy back to the DWP, resulting in a significant amount of lost subsidy.

It was expected that the implementation of the action plan would have more impact in 2015/16, resulting in a lower error rate.

AAG/36 Audit Progress Report (cont.)

Members were concerned that, although this situation had been highlighted previously, a high level of errors was still occurring. They agreed that the Finance and Performance Working Group should be asked to investigate this further with the Head of CenSus Revenues and Benefits to ascertain what action was being taken to address this issue.

RESOLVED

That the Finance and Performance Working Group be asked to require the Head of CenSus Revenues and Benefits to attend a meeting of the Working Group to explain what action was being taken to address the issue of LA error in respect of housing benefit claims and to answer Members' questions thereon.

AAG/37 **TREASURY MANAGEMENT STRATEGY 2016/17**

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 2016/17, 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. The new strategy added investment options of corporate bonds & funds and, subject to a £5,000,000 overall limit, funds pooling bonds, equities & property. The Committee was advised that many other West Sussex local authorities invested in pooled funds. The balance between risk and reward was discussed.

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.

RECOMMENDED

- (i) That the Treasury Management Strategy for 2016/17 be approved.
- (ii) That the Treasury Management Indicators for 2016/17 be approved.

AAG/37 Treasury Management Strategy 2016/17 (cont.)

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/38 **TREASURY MANAGEMENT ACTIVITY AND PRUDENTIAL INDICATORS
MID YEAR REPORT 2015/16**

The Director of Corporate Resources presented a report on treasury management activity and prudential indicators for the first half of 2015/16.

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 2015, the Council's external debt was £4,000,000 and its investments totalled £35,400,000 including call accounts and money market funds.

It was noted that, during the first half of 2015/16, the Council's cash balances had been invested in accordance with the Council's treasury management strategy, with interest of £130,000 being earned on investments, an average return of 0.7%.

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 relevant CIPFA Codes of Practice for Treasury Management and Prudential Indicators in Capital Finance.

AAG/39 **RISK MANAGEMENT – QUARTERLY UPDATE REPORT**

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. It was noted that the current level of risk in respect of grant funding from Government (CRR01) had been moved from medium to high following the outcome of the Government Spending Review and an additional action to develop a medium term plan had been added. It had been agreed that the following risks would be removed from the corporate risk register as they were now considered to be low risk: Five year land supply (CRR04); Council generally risk averse (CRR10); Skill shortages (CRR11); and Lone workers (CR15).

The Committee suggested that two new risks should be considered in respect of: the impact of continued local authority overpayment error in respect of housing benefit claims and the period during which the Council would not have a Director of Corporate Resources in post following the departure of the current post-holder.

A new Risk Management Strategy for 2015 to 2019 had been approved by the Senior Leadership Team to replace the previous strategy.

RESOLVED

- (i) That the report be noted.
- (ii) That two new risks be added to the Corporate Risk Register in respect of: the impact of continued local authority overpayment error in respect of housing benefit claims and the period during which the Council would not have a Director of Corporate Resources in post following the departure of the current post-holder.

REASON

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

AAG/40 **INTERNAL AUDIT – QUARTERLY UPDATE REPORT**

The Chief Internal Auditor submitted a report summarising the work of the Internal Audit Section since September 2015.

AAG/40 Internal Audit – Quarterly Update Report (cont.)

A summary of audit findings in respect of Security, Vehicle Management and Maintenance, Elections and Backup and Recovery (all of which had achieved an overall audit opinion of satisfactory assurance); and Car Parks and Trade Waste (both limited assurance) was submitted.

It was noted that the audit plan for 2015/16 was currently on schedule.

A summary of other work undertaken by Internal Audit over the last three months was also submitted.

RESOLVED

That the summary of audit and project work undertaken since September 2015 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/41 URGENT MATTERS

There were no urgent matters to be considered.

AAG/42 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/43 **INTERNAL AUDIT – QUARTERLY UPDATE REPORT ON AUDIT
FOLLOW UPS (PARAGRAPH 3)**

The Chief Internal Auditor submitted a report summarising progress since September 2015 on the implementation of actions in respect of audits undertaken in 2015/16, 2014/15, 2013/14 and 2012/13.

RESOLVED

- (i) That progress in terms of agreed actions implemented since September 2015 be noted.
- (ii) That the position in respect of the specific areas 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.

AAG/44 **DIRECTOR OF CORPORATE RESOURCES**

Members expressed their thanks to Katharine Eberhart, Director of Corporate Resources for her service during her time with the Council and wished her well in her new appointment at West Sussex County Council.

The meeting finished at 7.56pm having commenced at 6.00pm.

CHAIRMAN