

**Minutes of a meeting of the Audit Committee held on  
16 March 2016 from 7.00 p.m. to 8.08 p.m.**

**Present:** Andrew Lea (Chairman)  
John Belsey (Vice-Chairman)\*

Tony Dorey  
Bruce Forbes\*

Neville Walker\*  
Linda Stockwell

\* Absent.

**Also Present (as an appointed substitute):** Councillor Ruth de Mierre  
Councillor Sandra Ellis  
Councillor Pete Bradbury

**Also in Attendance:** Gillian Edwards, Internal Auditor,  
Hannah Lill and Paul King from Ernst and Young.  
Peter Stuart, Head of Finance and Section 151 Officer.  
Tom Clark, Head of Legal  
Sally Blades, Committee Co-ordinator  
Ben Sherlock, Democratic Services Officer

**35. APPOINTMENT OF VICE-CHAIRMAN**

The Chairman recommended that Councillor Linda Stockwell act as Vice-Chairman for the duration of the meeting, in the absence of Councillor Belsey. The Committee approved his recommendation.

**36. SUBSTITUTES AT MEETINGS OF COMMITTEE – COUNCIL PROCEDURE RULE 4**

The Committee noted that in accordance with Council Procedure Rule 4 – Substitutes at Meetings of Committees etc., Councillor de Mierre had replaced Councillor Belsey, Councillor Bradbury had replaced Councillor Forbes, and Councillor Ellis had replaced Councillor Walker for the duration of the meeting.

**37. APOLOGIES FOR ABSENCE**

Apologies were received from Councillors Belsey, Forbes and Walker.

**38. DECLARATIONS OF INTEREST**

None.

**39. MINUTES**

The Minutes of the meeting of the Committee held on 24 November 2015 were agreed as a correct record and signed by the Chairman.

**40. URGENT BUSINESS**

No Members had any items to be considered as urgent business.

#### **41. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2016/17 TO 2018/19**

The Head of Finance introduced the Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy (AIS) and explained that it was primarily a statement of the Council's investments for the next three years. He directed the Committee's attention to the list of agreed counterparties with whom the local authority has been approved to trade, as previously set by the Council. He noted that two recommended additions had been made this year: Svenska Handelsbanken and Close Brothers Ltd. He told the Committee that these were considered very secure investments.

The Chairman asked the Head of Finance if agreeing with the report's recommendations would mean approving these two additions. The Head of Finance replied that if the recommendations were agreed by the Committee, it would constitute a recommendation to the full Council to approve the additions. If any changes were requested, the Council would receive a verbal report detailing them at the next Council meeting.

Replying to a Member's question, the Head of Finance said that the upcoming EU Referendum was causing uncertainty in the markets and that this had diluted the impact in the UK of the European Central Bank's quantitative easing programme.

One Member asked for clarification regarding the local authority's minimum sovereign rating requirement for its investments. The Head of Finance explained that sovereign ratings no longer played a large part in the council's investments, since many very secure institutions do not have AAA ratings. The Chairman recommended that a verbal update explaining this be given to Council at its next meeting. The Committee agreed.

The Vice-Chairman asked for the source of the investment returns predictions for the next three years, as listed in the TMSS. The Head of Finance told the Committee that they came from Capita. He confirmed that the figures were estimates. In response to a question from the Chairman, the Head of Finance added that, while some of the authority's existing loans were receiving rates of return in excess of these figures, new loans would be unlikely to receive rates as high. The Chairman requested that the Council be given a verbal update explaining this. The Committee agreed.

One Member commented that the safety of the council's capital should take priority over maximising rates of return and liquidity. The Head of Finance confirmed that the authority's financial priorities were financial security, followed by liquidity, followed by yield on investments.

As there were no more speakers, the Chairman took Members to the recommendations of the report, which were agreed.

#### **RESOLVED**

That the Committee recommend to Council:

- (1) the proposed Treasury Management Strategy Statement for 2016/17 and the following two years;
- (2) the Annual Investment Strategy and the Minimum Revenue Provision Statement in the report;
- (3) the Prudential Indicators in the report,

#### **42. EXTERNAL AUDIT BUSINESS**

Paul King from Ernst & Young introduced the report and explained that the 2015/16 audit continued to be a true and fair view of the Council's financial position.

Mr. King noted that in 2014/15 the Council had not reviewed the assumptions made by its external expert in calculating NNDR, nor had it reflected certain developments affecting specific elements of NNDR provision, which had been identified as a risk. Since NNDR calculations were subsequently brought in-house for 2015/16, Mr. King gave his view that the Council needed to examine the effects of this change in order to establish its impact on those risks that had been identified in 2014/15.

Mr. King explained that the Risk of Management Override listed in Part 2 of the report was a generic risk for all audits, and that its inclusion did not indicate any specific concerns in that area.

Mr. King then explained that Ernst & Young had discussed the Council's internal audit with its internal auditors, and that its report would be published by 30 September 2016.

Mr. King brought the Committee's attention to the change of deadline for accounts and audit publication from 2017/18 onwards. From 2017/18, accounts must be prepared and approved by 31 May and the audit published by 31 July, a significant reduction in reporting time from the previous deadline of 30 September. He reminded the Committee that from 2018/19 onwards the Council could appoint new external auditors. He suggested that the Council consider its future external audit options in the coming two years, including a possible joint procurement with other local authorities.

One Member asked if the risks resulting from NNDR collection were now a bigger concern, following the 2016 Budget's reduction in business rates. Mr. King said he would need to examine the details as the Budget had only been announced that day, but that in any case it would have no bearing on the current audit, which was for 2015/16.

Mr. King explained that the new Code of Audit Practice framework gave auditors a wider scope; however, that this was not meant to extend their workload, but to ensure that any risks that are identified can be adequately and accurately assessed. The Chairman asked if this change in the code of practice could result in risks being left unidentified which would previously have been identified. Mr. King confirmed that risks would continue to be identified as they had been in the past.

Hannah Lill introduced the Annual Report for the certification of Claims and Returns for 2014/15. She made one verbal correction to the report: that the exact total of the DWP clawback for overpayments incurred on claims plus their effect on the LA error and administrative delay was still unknown, whereas it was listed in the report at £220,050.

Ms. Lill asked Members to note that the predicted audit fee for 2014/15 had been based on the one for 2012/13, as the work in 2013/14 had incurred significant additional costs that were not expected to recur in 2014/15.

One Member asked for further clarity on the number of errors that had been identified in the audit of Rent Allowances, which he felt was high. Ms. Lill explained that the issues that had resulted in these errors had been highlighted and addressed in the CenSus action plan drawn up last year; however, the measures that would address these issues that had not yet been put into effect. She confirmed that while this number of errors was considered high, it was currently being addressed.

The Vice-Chairman indicated that she thought it prudent for a scrutiny committee to examine the CenSus action plan. The Head of Finance replied that it was not currently in any of their work programmes but that it could be if Members wished. The Chairman recommended that the action plan be brought to the Scrutiny Committee for the Leader and Service Delivery. The Committee agreed.

One Member asked where the Audit Commission's scale fee had come from, given the Audit Commission's abolition. Ms. Lill explained that it was set by Public Sector Audit Appointments (PSAA), a group set up by the Local Government Association (LGA). She confirmed that PSAA would continue to function until further notice, and added that the DWP would continue to request certification of housing benefit claims until housing benefit is incorporated into the DWP's Universal Credit programme.

The Chairman recommended that a letter to auditors regarding the Council's counterparties be drafted, to be signed off by the Audit Committee at the next meeting. The Committee agreed.

As there were no more speakers, the Chairman took Members to the recommendations of the report, which were agreed.

### **RESOLVED**

That the Committee note:

- (1) the 2015/16 Audit Plan and the progress so far;
- (2) the revised Value for Money Code of Practice, and;
- (3) the Annual Report for the certification of Claims and Returns

### **43. INTERNAL AUDIT – MONITORING REPORT**

The Internal Auditor introduced the report and explained that its twofold purpose was to follow up on the implementation of previous recommendations and to inform the Committee of progress made on the current audit plan.

The Internal Auditor confirmed that all outstanding anti-fraud work findings had now been addressed, and the resulting actions implemented. She also told Members that since the last meeting on 28 February, two audits had been completed. She added that only two audits – FMS and NFI Data Matching – remained to be done.

The Internal Auditor told Members that the high priority recommendations from the CenSus Housing Benefits Audit were: first, that the process for identifying errors would be revised; second, that officers would from now on provide better notes to explain any backdating; and third, that CenSus had been advised to test its IT recovery procedure. She emphasised that there was no significant risk of IT failure at present, but that it should be tested because of the high potential impact of such a failure. This test was planned to happen in or after June 2016. The Internal Auditor said she would report further at the next meeting in June.

The Internal Auditor told the Committee that the NFI Data Matching Audit was comparing the Electoral Register and the Council Tax list, and that so far it had found 1200 mismatches, though these were not all high priority and could include errors such as deceased residents still on the electoral register.

One Member gave his opinion that the recommendations table in the report's appendix needed additional information to improve its clarity. He recommended that future tables include a key and simple explanatory notes to help clarify the data presented. The Committee and the Internal Auditor agreed.

Replying to a question from another Member, the Internal Auditor stated that the internal audit's purpose was to check the standards of officers' procedures and processes, which was not the same as the remit of the external audit. She gave her view that the Council's internal control over the Housing Benefit claims process did appear stronger

than in the past, but said that she could not say with certainty there would be no issues.

Paul King added that Housing Benefit was a complex system with an inherently high probability of issues arising for all local authorities. He also reminded Members that for the Department of Work and Pensions required additional testing of all overpayment errors of any amount, without distinction between small and large errors.

As there were no more speakers, the Chairman took Members to the recommendations of the report, which were agreed.

#### **RESOLVED**

That the report be received and noted.

#### **44. THREE YEAR INTERNAL AUDIT PLAN**

The Internal Auditor informed the Committee that 2016/17 was the final year of the three year plan. She explained there were 220 days of audit work planned for the coming year. She told Members that the plan had been sent to the Senior Management Team.

She explained that the audit team would be working with the fraud team at Crawley, who had particular experience in NFI work.

She informed the Committee that parking services would also be audited, owing to the high income levels generated by those services.

She said that 20 days would be spent auditing IT, with the exact allocation to be decided.

As no Members wished to speak, the Chairman took the Committee to the recommendation which was agreed.

#### **RESOLVED**

That the report on the Internal Audit Plan for 2016/17 and the Three Year Internal Audit Plan be received and noted.

#### **45. CLOSE OF MEETING**

The Chairman thanked all present, in particular Sally Blades for her service taking minutes for and coordinating the Audit Committee meetings, of which this was to be her last. The Committee echoed his thanks.

The Chairman closed the meeting.

Chairman.