

Minutes of a Meeting of the Audit Committee held on 16 November 2016 from 7.00 p.m. to 7.55 p.m.

Present: John Belsey (Chairman)
Ruth de Mierre (Vice-Chairman)

Anne Boutrup*	Andrew Lea	Neville Walker
Tony Dorey	Linda Stockwell	

* Absent.

Also Present: Councillor Jonathan Ash-Edwards.

Also in Attendance: Paul King, Ernst and Young
Gillian Edwards, Internal Auditor
Peter Stuart, Head of Corporate Resources and Section 151 Officer

1. SUBSTITUTES AT MEETINGS OF COMMITTEE – COUNCIL PROCEDURE RULE 4

None.

2. APOLOGIES FOR ABSENCE

Apologies were received from Councillor Anne Boutrup.

3. DECLARATIONS OF INTEREST

None.

4. MINUTES

The Minutes of the meeting of the Committee held on 20 September 2016 were agreed as correct record and signed by the Chairman.

5. URGENT BUSINESS

None.

6. EXTERNAL AUDIT BUSINESS

Paul King, External Auditor, introduced the report. He summarised that the Annual Audit Letter provides an overview of the Audit Results Report provided in the meeting of the Audit Committee held on 20 September. He stated he will bring the report of the Certification of Housing Benefits Claim to the next meeting.

He directed Members' attention to page 31 of the report which outlines the ongoing impact of Brexit and the local appointment of Auditors.

From 2018/19 onwards, local authorities will be responsible for appointing their own auditors and directly managing the resulting contract and the relationship. There will be an acceleration of the closedown process which needs to be completed by 31 July 2017, rather than the historical deadline of September. Therefore, the External Audit will bring forward planned work.

He reassured Members that the bulk of the audit work will be completed by July 2017 before it becomes a mandatory deadline.

He referred Members to the Annual Audit and Certification Fees 2016/17 letter. He noted that the fee for 2016/17 is unchanged from the previous year, and is 25% less than the fee for 2014/15 due to the reduced workload. There has been a reduced indicative fee due to a reduction of the Certification of Housing Benefit Subsidy fee.

Regarding the Audit Committee Progress Report, he advised that the main focus is the certifying of housing benefit subsidy claims.

A Member referenced page 44 of the report and queried why the Grant Claims 2016/17 were due to be reported on after the completion of the Audit. Mr King replied that the timetable on Housing Benefit Certification is dictated by the Department for Work and Pensions.

A Member noted how the Council is due to appoint new Auditors for 2018/19 and asked whether the process for this had been started.

The Chairman stated that we planned to start the work on finding new Auditors in 2017, and suggested this be added to the Work Programme for a new meeting to be scheduled for January 2017.

Peter Stuart, Head of Corporate Resources advised Members that there are a range of options for appointing new Auditors, including joining a consortium or going alone.

One Member asked whether the fee for the Certification of Housing Benefit Subsidy is guaranteed to be at the level as outlined in the letter, and whether the subsidy mechanism for housing benefit is likely to change in the future.

Paul King advised that the housing benefit regime will continue in the medium term and will therefore still need certification. However, he reiterated that this was a decision for the relevant central government department to make.

A Member wished to know if there were any upcoming issues the Committee needed to be informed about and if there would be any implications for Treasury Management or Audit due to the Brexit vote.

Paul King informed the Committee that the External Audit will continue to report issues and any details will be in the report scheduled for the meeting in January 2017, and qualification letter will be provided.

Regarding Brexit, he stated that it is a fast moving event, which Ernst and Young are monitoring. He explained to Members that it represents a huge increase in the amount of work for central government, but does not result in a significant increase in the work of Local Government. The impact of Brexit on Local Government is likely to be more indirect due to market volatility and investments. He stated that any fall in the base rate may affect investment returns but overall this is difficult to forecast, he advised the Committee that there will be more information in the Chancellor's upcoming Autumn Statement for Local Authority funding.

The Head of Corporate Resources noted that there had not been an obvious increase in the workload for the Council, but this is an issue that will be monitored and the Committee can be provided an update in the January 2017 Committee.

As there were no further questions the Chairman took the Committee to the

recommendation set out in the report, which was agreed unanimously.

RESOLVED

That the report be received and noted.

7. REVIEW OF TREASURY MANAGEMENT ACTIVITY 1 APRIL – 30 SEPTEMBER 2016.

Peter Stuart, Head of Corporate Resources, introduced the report. He summarised that it was a 'business as usual' report outlining the Council's Treasury management activity from the half year to 30 September 2016.

He informed Members that the key item to note is the proposed amendment to the Prudential Indicators to allow for increased external borrowing.

A Member asked what the interest rates are for new borrowing.

The Head of Corporate Resources stated that the Council is forward borrowing money. The Counter Parties are local authorities, including pension funds, County Councils and London Boroughs. He noted that the Council is borrowing at rates of 0.35% for a seven month period, 0.9% for a one year loan, 1% for a four year loan and 1.1% for five years. He concluded that the rates are very favourable for the Council.

He stated that Capita have advised the Council there is likely to be no change to interest rates in the short term. Overall, this year the cost of borrowing will be £50,000, in the New Year this will rise to approximately £100,000. He also clarified to Members that Non-HRA stands for a non-housing revenue account authority.

The Chairman sought clarification that that Council recently authorised borrowing for 2-5 years.

The Head of Corporate Resources clarified that the Council borrowed in the short term to cover maturing loans and that the Council's borrowing will be evenly spread between one, four and five year loans. He advised that sometimes the Council has to reject Counterparties and has secured the best rates it could.

In response to a Member query, the Head of Corporate resources clarified that forward borrowing is when the Council agrees to borrow money in advance of the date that the money is transacted.

A Member referenced recommendation 3. iii) on page 45 of the report and sought clarification as to why interest costs will exceed budgetary estimates.

The Head of Corporate Resources stated that the budget for borrowing has increased and the forecast will be amended.

A Member queried why in page 62 of the report, that the borrowing limit for District Councils in England and Wales will be temporarily suspended from the 14 November 2016 until the completion of an agreed property purchase of up to £25m.

The Head of Corporate Resources advised Members that that if the completion of the large asset purchase were delayed, then the Council would have too much money, therefore in this situation the Council has agreed that it will lend the excess money to Adur and Worthing Councils, which is essentially a work around. He reassured Members that borrowing from Local Authorities provides the Council with cast-iron guarantees.

A Member noted that the report asks the committee to note the recommendations when they needed to be agreed.

Members then agreed to change the recommendation to *agree* rather than *note* the Half Year Annual Report for 2016/17.

The Head of Corporate Resources told Members that this would be retrospectively agreed by Members in the next meeting of full Council and the Deputy Leader and Cabinet Member for Resources and Economic Growth supports the recommendations.

As there were no further questions, the Chairman took the Committee to the recommendations as set out in the report which were agreed unanimously by Members.

RESOLVED

That the Committee agree the Half Year Annual Report for 2016/17, in particular:

- i) the increase in net investments from £32.364m to £45.397m in the period 1 April to 30 September 2016. (Para 3.1)
- ii) that no new long term borrowing has been necessary in the 6 months to 30th September 2016. However, the Council has approved a property purchase amounting to approximately £25m, which will take place by the end of November and will require new borrowing of £22m. (Para 4.3)
- iii) that interest costs will exceed budgetary estimates due to new borrowing (Para 4.4), while interest from investments will be £35k below the annual budgetary target due to the reduction in interest rates available in the market.
- iv) that the counterparty limits with other local authorities (see appendix 4) will be temporarily suspended from 14th November 2016 until the completion of the agreed property purchase of up to £25m. Adur & Worthing Councils will invest these funds in line with their own counterparty limits.
- v) and that the changes to the Prudential Indicators are agreed by Council at the next opportunity.

8. INTERNAL AUDIT – MONITORING REPORT 30 OCTOBER 2016

Gillian Edwards, Internal Auditor, informed the Committee that the report covers a six week period from the date of the previous Committee held on 20 September 2016.

Since the previous Audit committee, the Procurement Audit has been started and the National Fraud Initiative (NFI) has been completed and they will receive the results soon.

She informed Members that the Audit for Council Tax and the Electoral Register will be in December. The Internal Audit is still completing data matching to which most are dealt with as satisfactory. There have been no cases of fraud, only human error.

She informed the Committee that the Business Unit Leader for parking is reviewing the insurance for car parking machines and contents.

The Internal Auditor directed Members attention to paragraph 4.7 of the report, which outlines the implementation of controls to remove defunct Census Users. She stated

that these controls are not as strong as user deletion and there is a possibility a script can be created to automatically block inactive users.

Regarding paragraph 5.1 she advised Members that CenSus is going to run live users against a database of established users and Council employees.

She noted that Appendix A and B of the report will be fuller as planned work is undertaken.

A Member thanked the Internal Auditor for following up Members questions arising from the previous committee. The Member enquired whether it would be easier and simpler to run a script to delete inactive users.

The Internal Auditor answered that she will consult with the relevant officers to ascertain how much work and how long it would take, and advised any script would likely include Non Domestic Rates and Council Tax. She stated that since the Audit has been undertaken there is less reason to include this script and she will advise Members in the next Committee.

A Member stated that if a user knows the script timing, they could use an account before the script is enacted, and a script may remove genuine users if they had been inactive for a period of time. He noted that the best controls for managers to inform CenSus when staff have left.

One Member said that there is no accountability and an individual needs to take responsibility for systems being secure. She stated that as part of leaving the employment of the Council, all user accounts that the former employee used should be deleted and this should be signed off by their manager. This would then form a paper trail.

The Head of Corporate Resources stated that this is an anti-fraud issue and a review of the processes regarding new starters and leavers need to be undertaken. Managers need to inform Census when staff leave their employ. He suggested that this could be undertaken as part of the anti-fraud work of the Internal Audit.

As there were no further questions the Chairman took Members to the recommendations in the report.

RESOLVED

That the Committee receive and note the report.

9. COMMITTEE WORK PROGRAMME 2016/2017

The Committee noted that there will be an extra meeting scheduled for January 2017 to include: an item on Auditor Recruitment for 2018/19; an interim report on Treasury Management; an update to Housing Benefit Subsidy, and an Internal Audit update.

RESOLVED

That the Committee Work Programme for 2016/17 be noted including the addition of a January 2017 meeting.

10. QUESTIONS PURSUANT TO COUNCIL PROCEDURE RULE 10.2 DUE NOTICE OF WHICH HAS BEEN GIVEN.

None.

Chairman.