

24 July 2017.

Dear Councillor,

A meeting of the **AUDIT COMMITTEE** will be held in the **Council Chamber** at these offices on **TUESDAY, 1 AUGUST 2017 at 7.00 p.m.**, when your attendance is requested.

Yours sincerely,

KATHRYN HALL

Chief Executive

A G E N D A

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|-----|--|------------------|
| 1. | To note Substitutes in Accordance with Council Procedure Rule 4 – Substitutes at Meetings of Committees etc. | |
| 2. | To receive Apologies for Absence. | |
| 3. | To receive Declaration of Interests from Members in respect of any matter on the agenda. | |
| 4. | To confirm the Minutes of the meeting of the Committee held on 15 March and 10 May 2017. | 3 - 7 |
| 5. | To consider any items that the Chairman agrees to take as urgent business. | |
| 6. | Internal Audit – Monitoring Report. | 8 - 10 |
| 7. | Internal Audit Annual Report 2016/17. | 11 - 15 |
| 8. | Review of Treasury Management Activity 2016/17. | 16 - 29 |
| 9. | Financial Statements 2017/18. | 30 - 35 |
| 10. | Audit Results Report 2017/18. | To follow |
| 11. | Committee Work Programme 2017/18. | 36 |
| 12. | Questions pursuant to Council Procedure Rule 10.2 due notice of which has been given. | |

To: **Members of Audit Committee** – Councillors Belsey, Boutrup, de Mierre, Dorey, Lea, Stockwell and Walker.

Working together for a better Mid Sussex



Minutes of a Meeting of the Audit Committee held on 15 March 2017 from 7.00 p.m. to 8.30 p.m.

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

Anne Boutrup*	Andrew Lea	Neville Walker
Tony Dorey	Linda Stockwell	

* Absent.

Also in Attendance: Paul King, Ernst and Young
Hannah Lill, Ernst and Young
Gillian Edwards, Audit and Risk Manager, Crawley Borough Council
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 Boutrup.

3. DECLARATIONS OF INTEREST

None.

4. MINUTES

The Minutes of the meeting of the Committee held on 23 January 2017 were agreed as correct record and signed by the Chairman.

The Chairman also informed the Committee that since the previous meeting, the Council has now joined Public Sector Audit Appointments (PSAA).

5. URGENT BUSINESS

None.

6. EXTERNAL AUDIT BUSINESS

Paul King, from Ernst and Young, introduced the report to Members. He informed Members that there are no issues of concern. The Post Statements Audit has been brought forward to July 2017 and any issues will be reported to the August 2017 Audit committee.

A Member noted that the Financial Statements Audit relies on the controls within the Council's own financial systems and asked whether the External Auditors conduct their own testing controls.

Hannah Lill from Ernst and Young, replied that the controls perform to guidelines and when they are reviewed the External Auditors repeat the tests.

The Chairman noted that the significant value-for-money risk for the Orchards purchase only looks at the financing for the purchase, not the feasibility of the purchase itself. He reminded Members that due diligence was undertaken and the Council sought professional third-party advice.

Hannah Lill introduced the Housing Benefit Certification report and highlighted that the total sum which may be clawed back by the DWP is £243,925. She informed Members that any errors caused by the Council may be claimed back by the DWP.

A Member wished to know what percentage of total claims is tested on. Hannah Lill clarified that initially a 20 case sample is taken, and then additional testing is undertaken based on errors found and any errors from the previous year.

A Member noted that many weaknesses go back to 2013/14. This was confirmed by Hannah Lill who clarified that there is a time-lag in the reduction of errors which will continue to decrease over time.

In response to a Member question regarding how the Council pays for any administrative errors, Peter Stuart, Head of Corporate Resources, advised Members that any costs are drawn from the Benefits Equalisation Reserve. He explained that this account is ring-fenced.

A Member asked why these errors arise and what can be done to prevent them.

The Head of Corporate Resources advised that Housing Benefit rules are complex and issues around training and recruitment may impact the error rate. Council staff always concentrate on making sure the claim is correct at the assessment stage and have also been processing change of circumstances much quicker. He noted that in recent years the nature of employment has changed, with an increase in temporary and zero-hours work which means assessing incomes can be more complex.

The Chairman asked whether the causes of errors are fed back to staff.

The Head of Corporate Resources stated that staff have to justify each claim, and the level of errors are starting to come down as outlined in page 29 of the report, suggesting that feedback to staff works.

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

RESOLVED

That the Committee receive and note the report.

7. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY

The Head of Corporate Resources introduced the report and outlined that the report is essentially the same as the previous years' report but includes small changes due to the purchase of the Orchards.

A Member sought clarification on the Capital Financing Requirement projections. The Head of Corporate Resources advised that the loans will be paid back gradually and will be completely paid off by 2021.

A Member noted that the incremental impact of capital investment decisions on band D Council Tax as outlined on page 39 should show a positive increase.

The Head of Corporate Resources agreed that they should be positive sums and highlighted to Members that the approved authorised limits as set out in page 41 of the report which were recently increased will stay at this level for simplicity, and won't be reduced.

The Chairman sought clarification that a policy decision could be made on the Minimum Revenue provision (MRP) policy statement if factors were to change.

The Head of Corporate resources confirmed that the MRP policy statement and affordability indicators set out a prudent repayment schedule, and could be changed if necessary.

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

RESOLVED

That the Committee recommends to Council:

- i. the proposed Treasury Management Strategy Statement (TMSS) for 2017/18 and the following two years;
- ii. the Annual Investment Strategy (AIS) and the Minimum Revenue Provision Statement (MRP) as contained in Sections 4 and 2.3 respectively of the report;
- iii. the Prudential Indicators contained within this report.

8. THREE YEAR INTERNAL AUDIT PLAN

Gillian Edwards, Audit and Risk Manager, introduced the report. She informed the Committee that the report outlines the assessment of risk undertaken over 220 days. The dissolution of CenSus means that Internal Audit will audit all three fundamental systems on an annual basis, as outlined on page 61.

A Member noted that the need to audit all three fundamental systems from CenSus will reduce the hours available in the contingency, and asked how the total hours are calculated.

The Head of Corporate Resources informed Members that the hours on each system are agreed between the Committee and himself, and all areas are looked at equally. If more hours are needed they can be provided.

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

RESOLVED

That the Committee receive and comment on the report.

9. INTERNAL AUDIT – MONITORING REPORT 28th February 2017

Gillian Edwards, Audit and Risk Manager introduced the report. She advised Members that this is the regular report with six high priority and two medium priority findings

arising from the procurement audit. Findings relate to the contract database being out of date and the lack of use of exemption forms. There is a new team and agreed actions have been put in place.

Regarding Members concerns from the previous Committee, the Audit and Risk Manager advised that the Council is confident the amount of money in the machines is reasonable for them to be self-insured. She confirmed that the Council is confident only legitimate users have access to the Council's main financial systems.

A Member asked whether the officer responsible for updating the contract register has been allocated and that relevant training will be put in place.

The Audit and Risk Manager replied that she is confident the right processes have now been put in place and reassured Members that procurements have been looked at and are all sound, only exemption forms should have been completed.

A Member asked whether the 43 staff members who have joined the Council since November 2016 need training on procurement, and whether it could be possible to undertake an audit of the Council's staff training programmes.

The Head of Corporate Resources advised that there is not an overall training scheme in place, and the Committee can express the view that it wishes training to be audited if it so wishes. Not all new starters need training on procurement.

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

RESOLVED

That the Committee receive the report.

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

None.

Chairman.

Minutes of the Annual meeting of Audit Committee held on 10 May 2017 from 7:17 p.m. to 7:18 p.m.

Present:

John Belsey
Anne Boutrup
Ruth de Mierre

Tony Dorey*
Andrew Lea

Linda Stockwell
Neville Walker

* Absent

1. ELECTION OF CHAIRMAN

Councillor Ruth de Mierre nominated Councillor John Belsey as Chairman of the Committee for the 2017/18 Council year. This was seconded by Councillor Neville Walker and agreed.

RESOLVED

That Councillor John Belsey be elected Chairman of the Committee for the 2017/18 Council year.

2. APPOINTMENT OF VICE-CHAIRMAN

Councillor John Belsey nominated Councillor Ruth de Mierre as Vice-Chairman of the Committee for the 2017/18 Council year.

RESOLVED

That Councillor Ruth de Mierre be appointed Vice-Chairman of the Committee for the 2017/18 Council year.

3. URGENT BUSINESS

None.

Chairman.

6. INTERNAL AUDIT – MONITORING REPORT

REPORT OF: Audit Manager
Contact Officer: Gillian Edwards
Email: gillian.edwards@midsussex.gov.uk Tel: 01444 477241
Wards Affected: All MSDC Wards
Key Decision: No
Report to: Audit Committee
1st August 2017

Purpose of Report

1. The purpose of this report is twofold; to update the Committee on the progress of the 2016/17 and 2017/18 Internal Audit Plans and to report on the progress made in implementing previously agreed recommendations.

Summary

2. The audit plan provides for a mix of coverage of fundamental systems, IT systems and service systems, which had been identified as potential risk areas. Appendix A shows the status and types of recommendations arising from our work and Appendix B summarises the progress to date on the 2016/2017 and 2017/2018 audit plans.

Recommendation

3. The Committee is asked to receive this report.

Progress against the 2016/17 and 2017/18 Internal Audit Plans

4. Since the last report to this Committee (and up to 30th June), we have finalised five audits as follows:
 - Payroll
 - Income Collection
 - Payments
 - Sundry Debtors
 - FMS
5. There are no high priority findings to report from these audits

Progress on implementing agreed actions

6. The following audits were followed up during this period:

Anti-Fraud Work - CenSus

All recommendations implemented

Income Collection

All recommendations implemented

Sundry Debtors

All recommendations implemented

CenSus Council Tax

The Buildings module is now live and it anticipated that over the next 6 weeks, all of the MSDC cards will be transferred onto the system.

7. We have started the Orchards Shopping Centre post purchase audit and the Procurement Function audit for 2017/2018. During the course of the latter review we will follow up actions that were agreed within the last full audit.

Background Papers

- Internal Audit reports relating to 2016/2017 and 2017/2018
- Working papers relating to 2016/2017 and 2017/2018

Internal Audit Plans 2016/2017 and 2017/2018

Progress Report as at 7th July 2017

Audit	Audit Plan Year	Audit Opinion-Assurance	Number of High Priority Findings	Comments
A. Work Completed in the Current Period				
Payroll	2016/17	Substantial		
Income Collection	2016/17	Substantial		
Payments (Creditors)	2016/17	Substantial		
Sundry Debtors	2016/17	Satisfactory		
FMS	2016/17	Substantial		
B. Work In Progress				
The Orchards	2017/18			
Procurement	2017/18			
Follow Ups				

7. INTERNAL AUDIT ANNUAL REPORT 2016/2017

Report from: Audit Manager
Contact Officer: Gillian Edwards
Email: Gillian.edwards@midsussex.gov.uk / gillian.edwards@ Crawley.gov.uk
Tel: (01444) 477241 / 01293 438384
Wards Affected: All
Key Decision No
Date of Meeting 1st August 2017

EXECUTIVE SUMMARY AND RECOMMENDATIONS

1. Purpose of Report.

This is the annual report of the Internal Audit function of Mid Sussex District Council for 2016/2017.

2. Summary

- 2.1 The Internal Audit section completed the programme of audits for the year ended 31st March 2017 in accordance with the UK Public Sector Internal Audit Standards (PSIAS). In carrying out its work, the full cooperation of management and staff was gratefully received throughout the year.
- 2.2 All of the audits within the plan have now been completed and we can report that no high priority findings were identified during the financial year in question.
- 2.3 No significant special investigations were performed during the year.
- 2.4 It is the opinion of Internal Audit that, on the whole, the Council had an adequate, effective and reliable framework of internal control.
- 2.5 We welcome the Audit Committee's role in monitoring the implementation of these recommendations.

3. Recommendation

The Committee is asked to receive the report.

1 Introduction and Background

- 1.1 Internal Audit is a key part of the Council's internal control environment. Central to its role is assessing the adequacy and effectiveness of the systems and controls that have been put in place by management. To this end the work undertaken is designed to:
- inform the members and senior management to what extent they can rely on the internal controls;
 - to make recommendations to enhance controls where weaknesses are identified; and
 - advise individual managers on the reliability of the systems and associated controls for which they are responsible.

1.2 The internal control environment comprises the whole network of systems and controls established to ensure that the Council's objectives are met. It includes financial and other controls and also arrangements for ensuring that the Council is achieving value for money from its activities.

1.3 There have been no restrictions imposed on the scope of the internal audit function.

Specific requirements for Internal Audit

1.4 The Accounts and Audit (England) Regulations 2011 require the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. Proper practices as stated within the Regulations are now defined as the Public Sector Internal Audit Standards (PSIAS). The PSIAS replaced the CIPFA Code of Practice for Internal Audit in Local Government (2006) with effect from 1 April 2013.

1.5 The PSIAS apply to all internal audit service providers, whether in-house, shared services or outsourced. The PSIAS included an updated definition of internal auditing, further emphasising the role of internal audit in reviewing all systems of risk, governance and internal control. The definition also focuses on the role of Internal Audit in assisting the organisation to achieve its objectives.

1.6 The PSIAS require the purpose, authority and responsibility of the internal audit activity to be formally defined in an internal audit charter. Additionally, internal auditors must conform to a Code of Ethics: Integrity; Objectivity; Confidentiality; and Competency. The Code of Ethics includes two components:

- 1) Principles that are relevant to the profession and practice of internal auditing; and
- 2) Rules of Conduct that describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

1.7 The PSIAS are split into two groupings. The 'Attribute' Standards address the characteristics of organisations and parties performing internal audit activities. The 'Performance' Standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated:

Attribute standards

- 1 Purpose, Authority and Responsibility;
- 2 Independence and Objectivity;
- 3 Proficiency and due professional care; and
- 4 Quality assurance and improvement programme.

Performance standards

- 5 Managing the internal audit activity;
- 6 Nature of work;
- 7 Engagement planning;
- 8 Performing the engagement;
- 9 Communicating results;
- 10 Monitoring progress; and
- 11 Communicating the acceptance of risks.

Annual Governance Statement

- 1.8 Regulation 4 of the Accounts and Audit (England) Regulations 2011 requires the Council to carry out an annual review of its systems of internal control, and for a committee of the Council to consider the outcome of the review. This requirement has now been replaced by the Annual Governance Statement (AGS). The Annual Governance Statement was included within the Statement of Accounts for the Year ended 31st March 2017.

This report

- 1.9 This annual report has been produced in accordance with the requirements of the PSIAS. It covers the effectiveness of internal control for the period 1st April 2016 to 31st March 2017.
- 1.10 Whilst the report contributed towards the process outlined above, it should be noted that the Annual Governance Statement can provide only reasonable assurance that, for example: assets are safeguarded; transactions authorised and properly recorded; and that material errors or irregularities are either prevented or would be detected within a timely period.
- 1.11 It should be noted that it is not the responsibility of Internal Audit to operate the system of internal control; rather, this is the responsibility of management. Furthermore, it is management's responsibility to determine whether to accept and implement recommendations made by internal audit or, alternatively, to recognise and accept any risks arising from not taking action.

2. Internal Audit activity during 2016/2017

Significant events during the year

- 2.1 During the financial year under review, there were no significant events to report on during the year.

Factors affecting the extent of our internal audit work

- 2.2 There were no factors which have affected the extent of our internal audit work during the year.

The Audit Plan

- 2.3 The 2016-2017 audit plan was agreed by the Head of Finance and ICT (Council's S151 Officer) and the Audit Committee was asked to receive the report.
- 2.4 The 2016-2017 audit plan was completed in full and included audits of the Council's fundamental systems, operational audits and computer audits, along with ad-hoc reviews.

3. Assurance Statement by the Internal Audit Provider

- 3.1 As the provider of an internal audit service to Mid Sussex District Council I am required by the PSIAS to provide the Council with assurance on the whole system of internal control. In giving my opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the whole system of internal control. In assessing the level of assurance to be given we have taken into account:
- (a) the findings arising from audits undertaken during 2016/2017 and in previous years;
 - (b) the results of management action taken in respect of recommendations made in audits from the current and previous years;
 - (c) whether or not any high or medium recommendations have not been accepted by management, and the consequent risks;
 - (d) the effects of any material changes in the Council's objectives or systems;
 - (e) matters arising from previous reports of the external auditor;
 - (f) whether or not any limitations have been placed on the scope of internal audit;
 - (g) whether or not there have been any resource constraints that may impinge on the Head of Corporate Resources' ability to meet the full audit needs of Mid Sussex District Council; and
 - (h) what proportion of the audit needs has been covered to date.
- 3.2 The matters raised in this report are only those that came to our attention during our internal audit work during the course of the year, and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all improvements that may be required.
- 3.3 This report is prepared by Gillian Edwards, Audit and Risk Manager at Crawley Borough Council, acting as Head of Audit for Mid Sussex District Council as part of a shared service arrangement. Details may be made available to the specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

Overall assurance

- 3.4 In my opinion, for the 12-month period to 31st March 2017, Mid Sussex District Council had an adequate, effective and reliable framework of internal control that provides reasonable assurance regarding the effective and efficient achievement of the Council's objectives.
- 3.5 During this period we raised seven recommendations classed as high priority, six of which arose from the Procurement audit and one from the Anti-Fraud audit. These have been reported to the Audit Committee throughout the year and testing has been undertaken by Internal Audit to confirm that appropriate action has been taken, in a timely manner.

Operational assurance

- 3.6 The internal audit service examined systems operating to achieve the Council's objectives in several areas.
- 3.7 During the conduct of our audit work we have had regard to the following objectives of internal audit:
- (a) to review and appraise the soundness, adequacy and application of the whole system of internal control;
 - (b) to ascertain the extent to which the whole system of internal control ensures compliance with established policies and procedures;
 - (c) to ascertain the extent to which the assets and interests entrusted to or funded by the Council are properly controlled and safeguarded from losses of all kinds;
 - (d) to ascertain that management information is reliable as a basis for the production of financial, statistical and other returns;
 - (e) to ascertain the integrity and reliability of information provided to management including that used in decision making; and
 - (f) to ascertain that systems of control are laid down and operate to achieve the most economic, efficient and effective use of resources.
- 3.8 The level of assurance given by an individual audit is directly related to the significance of the findings and categories given to the resultant recommendations.

4 Policy Context

- 4.1 Receiving this report enables the Committee to perform its duties under the Accounting and Auditing regulations

5. Other Options Considered

- 5.1 None.

6. Financial Implications

- 6.1 This is a report on the activity of Internal Audit in the previous year and as such does not have any financial implications. The budget for Internal Audit relating to work undertaken during 2016/2017 has been discussed previously in the Revenue Budget Management reports for the year.

7 Risk Management Implications

- 7.1 None.

8. REVIEW OF TREASURY MANAGEMENT ACTIVITY 2016/17

REPORT OF: Peter Stuart, Head of Corporate Resources
Email: pamela.coppelman@adur-worthing.gov.uk Tel: 01903 221236

Wards Affected: All

Key Decision No

PURPOSE OF REPORT

1. The report sets out the Council's treasury management activity for the year ended 31 March 2017.

SUMMARY

2. All transactions are in order and the performance of the service has been in keeping with the requirements of the Service Level Agreement (SLA) with our shared services provider.

RECOMMENDATIONS

3. The Committee is requested to note the contents of the report.
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BACKGROUND

4. The Treasury Management function of this Council has been provided by Adur and Worthing Councils as a shared service since October 2010. This has enabled the cost of the service to be reduced whilst giving access to specialist advice and the administration skills of a larger authority. The SLA was extended for a further three years from 18th October 2016.
5. The 2016-17 Treasury Management Annual Report produced by the Group Accountant (Strategic Finance) is attached at Appendix 1. Members should note that this report format and level of detail is similar to that presented to the other authorities in the shared service and whilst it may appear to contain much in the way of industry knowledge, it would reward careful reading by those with an interest.
6. For those Members seeking a summary, paragraph 13.2 sets out the key points:

The actual outturn performance for investment income was lower than the budgeted estimate due to the low Base Rate, which resulted in a decrease in interest rates available in the market. The shared service will continue to monitor the market carefully for the best possible interest rates. All counterparty lending limits approved at the start of the year were met and all Prudential Limits, as revised in November 2016, to enable the purchase of the Orchard Shopping Centre headlease, were adhered to.
7. The Group Accountant would welcome questions and queries from Members using the contact details above.

POLICY CONTEXT

8. The presentation of this report fulfils the requirements under the Council's treasury management policy to produce an annual report by 30 September after the year end. Providing transparency and approval of the strategies contained in this report is an important part of the Council's statutory role. Treasury Management has become increasingly topical given the nature of the world's financial markets in recent years, and Members are expected to have a basic understanding of how the Council uses its reserves and cash flows which are in the stewardship of the Head of Corporate Resources.

OTHER OPTIONS CONSIDERED

9. None – this report is statutorily required.

FINANCIAL IMPLICATIONS

10. This report has no quantifiable financial implications. Interest payable and interest receivable arising from treasury management operations, and annual revenue provisions for repayment of debt, form part of the revenue budget but are not required to support the provision of services.

RISK MANAGEMENT IMPLICATIONS

11. This report has no specific implications for the risk profile of the Authority.

EQUALITY & CUSTOMER SERVICE IMPLICATIONS

12. None

BACKGROUND PAPERS

- Treasury Management Strategy Statement & Annual Investment Strategy 2016/17 to 2018/19 (March 2016), and Review of Treasury Management Activity 1 April – 30 September 2016 (Nov. 2016).
- Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (CIPFA, November 2011).
- The Prudential Code for Capital Finance in Local Authorities (CIPFA, May 2013). Department for Communities & Local Government Investment Guidance (Revised April 2010)
- Capita Asset Services report template (April 2017)

1. SUMMARY

- 1.1 This report summarises the treasury management transactions for the financial year 2016/2017. The presentation of this report fulfils the requirements under the Council's treasury management policy.

2. INTRODUCTION AND BACKGROUND

- 2.1 Treasury management is defined as:

“The management of the local authority's cash flows and investments, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”

- 2.2 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2016/17. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

- 2.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report therefore provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

- 2.4 For 2016/17 the minimum reporting requirements were that the Council should receive the following reports, which incorporate a variety of policies, estimates and actuals:

- The Annual Treasury Management Strategy Statement and Annual Investment Strategy to be approved by full Council in advance of the year (Council – 23 March 2016)
- The mid-year treasury management operations update report (Audit Committee – 16 November 2016)
- An annual review (this report) to be presented to the Audit Committee following the end of the year, describing the activity compared to the strategy.

3. THE ECONOMY AND INTEREST RATES

- 3.1 *The following commentary has been supplied by **Capita Asset Services Ltd**, the professional consultants for the Council's shared treasury management services provider. The context is significant as it describes the backdrop against which treasury management activity has been undertaken during the year.*

- 3.2 The two major landmark events that had a significant influence on financial markets in the 2016-17 financial year were the UK EU referendum on 23 June and the election of President Trump in the USA on 9 November. The first event had an immediate impact in terms of market expectations of when the first increase in Bank Rate would happen, pushing it back from quarter 3 2018 to quarter 4 2019. At its 4 August meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016.

3. THE ECONOMY AND INTEREST RATES

- 3.3 The MPC also warned that it would be considering cutting Bank Rate again towards the end of 2016 in order to support growth. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and also introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks.
- 3.4 In the second half of 2016, the UK economy confounded the Bank's pessimistic forecasts of August. After a disappointing quarter 1 of only +0.2% GDP growth, the three subsequent quarters of 2016 came in at +0.6%, +0.5% and +0.7% to produce an annual growth for 2016 overall, compared to 2015, of no less than 1.8%, which was very nearly the fastest rate of growth of any of the G7 countries. Needless to say, this meant that the MPC did not cut Bank Rate again after August but, since then, inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum.

4. OVERALL TREASURY POSITION AS AT 31 MARCH 2017

- 4.1 The Council's position at the beginning and end of year was as follows:-

	Principal at 31.03.16 £m	Average Rate of Return	Average Life in Years	Principal at 31.03.17 £m	Average Rate of Return	Average Life in Years
<u>Borrowing</u>						
PWLB	(0.936)	4.55%	7	(0.819)	4.55%	6
Other Borrowing	-	n/a	n/a	(22.000)	0.82%	1.75
Finance lease	(0.310)			(0.158)		
TOTAL BORROWING	(1.246)			(22.977)		
CFR	1.283			25.736		
(Over)/under borrowing	0.037			2.759		
<u>Investments:</u>						
Local Authority Property Fund	4.000	4.73%	n/a	6.000	4.30%	n/a
In-house:						
Long Term	3.000	2.30%	2.78	5.000	1.99%	1.47
Short Term	26.300	0.90%	< 1 year	29.620	0.74%	< 1 year
TOTAL INVESTMENTS	33.300			40.620		
NET INVESTMENTS	32.054			17.643		

- 4.2 The Council's debt comprises one loan from the Public Works Loan Board (PWLB), which matures on 1 March 2023 and several loans with other local authorities, totalling £22m, for between 7 months and 5 years, to fund the purchase of the Orchard Shopping Centre head lease. The local authority loans are at rates lower than those available from the PWLB, ranging from 0.35% to 1.1%, and they will be repaid using capital receipts and maturing investments. The finance lease is in respect of capital assets acquired.

5. THE STRATEGY FOR 2016/2017

5.1 The expectation for interest rates within the Treasury Management Strategy for 2016/17 anticipated that Bank Rate would remain at 0.25% throughout the year. Borrowing rates were expected to rise gradually for medium and longer term fixed rate borrowing. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

5.2 Change in Strategy during the year

The Strategy did not anticipate a need to borrow. However the purchase of the Orchard Shopping Centre head lease in November necessitated an increase in the Council's Capital Financing Requirement of £25m. Consequently, the revision of some of the Prudential Indicators, such as the authorised borrowing limit, was approved in November 2016. The borrowing comprised £22m from other Local Authorities and the balance from internal funds. During 2016/17 there was major volatility in PWLB rates with rates falling during quarters 1 and 2 to reach historically very low levels in July and August, before rising significantly during quarter 3, and then partially easing back towards the end of the year. The Council is due to receive significant capital receipts and has considerable short term investments, due to mature within 12 months. Consequently it was decided that it would be cheaper to borrow at short term rates rather than from the PWLB.

6. THE BORROWING REQUIREMENT and DEBT

6.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement

	31 March 2016 Actual	31 March 2017 Budget	31 March 2017 Actual
	£m	£m	£m
CFR (£m)	1.283	1.015	25.736
External Debt	(0.936)	(0.820)	(22.819)
Finance Lease	(0.310)	(0.157)	(0.158)
Total Borrowing	(1.246)	(0.977)	(22.977)
(Over)/under borrowing	0.037	0.038	2.759

6.2 The Table above compares the Gross Debt against the underlying need to borrow (the Capital Financing Requirement, CFR) thereby highlighting any over or under borrowing. This comparison is one of the Prudential Indicators of affordability under the Prudential Code to show that borrowing levels are prudent over the medium term, and sustained for capital investment purposes – i.e that the Council is not borrowing to support revenue expenditure.

6.3 Accordingly, the amount of borrowing should not exceed the CFR for 2016/17 (plus any expected changes to the CFR over 2017/18 and 2018/19) except in the short term. This requirement has been fully met in 2016/17 as the gross debt is below the CFR by £2.759m.

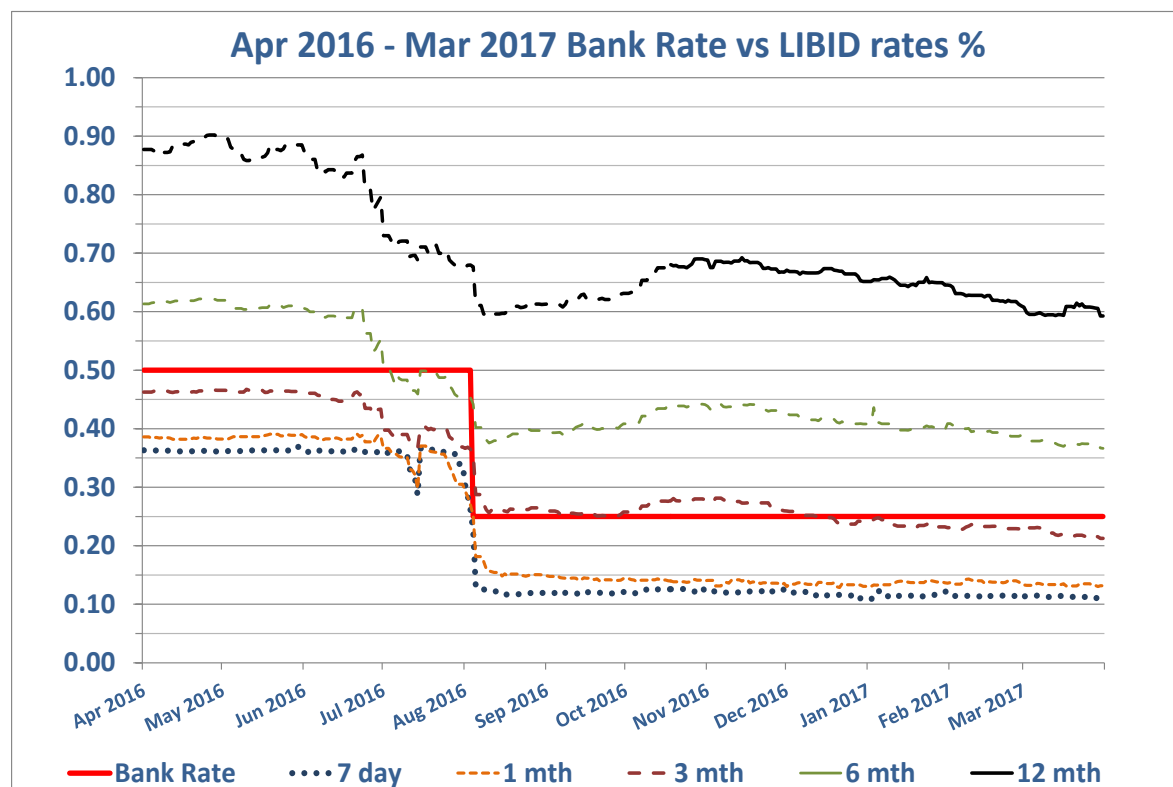
7 BORROWING OUTTURN for 2016/17

The following loans were taken during the year:

Lender	Principal	Type	Interest Rate	Maturity
London Borough of Ealing	£5m	Fixed interest rate	0.38%	14/08/2017
Derbyshire County Council	£5m	Fixed interest rate	0.35%	30/06/2017
London Borough of Croydon	£5m	Fixed interest rate	0.42%	20/11/2017
Cotswold District Council	£2m	Fixed interest rate	1.0%	20/11/2020
Gloucestershire CC	£5m	Stepped interest rate (0.9% to 1.3%)	0.90%	22/11/2021

8 INVESTMENT RATES IN 2016/17

After the EU referendum, Bank Rate was cut from 0.5% to 0.25% on 4 August and remained at that level for the rest of the year. Market expectations as to the timing of the start of monetary tightening started the year at quarter 3 2018, but then moved back to around the end of 2019 in early August before finishing the year back at quarter 3 2018. Deposit rates continued into the start of 2016/17 at previous depressed levels but then fell during the first two quarters and fell even further after the 4 August MPC meeting resulted in a large tranche of cheap financing being made available to the banking sector by the Bank of England. Rates made a weak recovery towards the end of 2016 but then fell to fresh lows in March 2017.



9 INVESTMENT OUTTURN FOR 2016/17

- 9.1 **Investment Policy** – the Council’s investment policy is governed by CLG guidance, which has been implemented in the Annual Investment Strategy approved by the Council on 23 March 2016. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.). The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.
- 9.2 **Investments held by the Council** - the Council maintained an average balance of £39.571m of internally managed funds, which earned an average rate of return of 0.852%. The comparable performance indicator is the average 3 month LIBID rate, which was 0.315%. This compares with a budget assumption of £33.523m investment balances earning an average rate of 0.994%. The Treasury investment returns (excluding returns from the Local Authority Property Fund) included in the reported income of the Council for 2016/17 amount to £337,251, £8,999 below the budgeted investment estimate. This was due to the lower than projected interest rates available for investments. The Weighted Average Rate of Return of the Council’s investments at 31 March 2017, as benchmarked by the Shared Service advisors (Capita) was 0.92%, which compares favourably to the benchmark group of 87 Non-Metropolitan Districts which had a Weighted Average Rate of Return of 0.57%.
- 9.3 **Local Authority Property Fund** – the Council has invested £6m with the Local Authority Property Fund and earned £244,626 in dividend interest in 2016/17.
- 9.4 Investments held at 31 March 2017 (excluding the Local Authority Property Fund):

Counterparty	Issue Date	Maturity Date	Principal	Current Interest Rate	Long Term Rating
Barclays Bank	29.11.16	28.11.17	£1,000,000	0.74%	A
Cambridge Building Society	10.01.17	09.01.17	£2,000,000	0.75%	Not on Credit List
Cambridge Building Society	17.01.17	16.01.18	£1,000,000	0.75%	Not on Credit List
Cheshire West & Chester C’cil	20.12.13	20.12.18	£2,000,000	2.30%	n/a
Lancashire County Council	27.05.16	26.05.17	£2,000,000	0.60%	n/a
Lloyds Bank	04.01.17	03.01.18	£1,000,000	0.90%	A+
Lloyds Bank	10.02.17	09.02.18	£1,000,000	0.90%	A+
Lloyds Bank	21.02.17	20.02.18	£1,000,000	0.90%	A+
London Borough of Islington	31.01.14	31.01.19	£1,000,000	2.30%	n/a
National Counties B’ding Soc.	19.04.16	19.04.18	£2,000,000	1.50%	Not on Credit List
National Counties B’ding Soc.	05.04.16	04.04.17	£1,000,000	1.12%	Not on Credit List
Newcastle Building Society	06.07.16	05.07.17	£3,000,000	1.02%	Not on Credit List
Nottingham Building Society	02.08.16	01.08.17	£1,000,000	0.80%	Baa1
Principality Building Society	27.02.17	26.02.18	£1,000,000	0.75%	BBB+
Principality Building Society	13.03.17	12.03.18	£1,000,000	0.75%	BBB+
Progressive Building Society	07.12.16	06.12.17	£1,000,000	0.75%	Not on Credit List
Progressive Building Society	04.01.17	03.01.18	£1,000,000	0.75%	Not on Credit List
Skipton Building Society	10.03.17	09.03.18	£1,000,000	0.75%	A-
Skipton Building Society	14.03.17	13.03.18	£1,000,000	0.75%	A-
West Bromwich B’ding Soc.	29.06.16	28.06.17	£2,000,000	1.00%	B1
West Bromwich B’ding Soc.	06.07.16	05.07.17	£1,000,000	0.92%	B1
Worthing BC	03.05.16	02.05.17	£2,000,000	0.60%	n/a
Blackrock MMF	n/a	n/a	£195,000	Var.	AAA
Invesco MMF	n/a	n/a	£3,000,000	Var.	AAA
Federated Investors MMF	n/a	n/a	£1,425,000	Var.	AAA
TOTAL			£34,620,000		

10. COMPLIANCE WITH TREASURY MANAGEMENT LIMITS AND PRUDENTIAL INDICATORS

- 10.1 The Council operates to approved Prudential Indicators for treasury management as contained in the Treasury Management Strategy Statement (TMSS). The TMSS for 2016/17 was reported to Council in March 2016. The approved limits exist to regulate short-term borrowing for operational cash flow fluctuations, as well as long-term borrowing for financing capital investments. Additionally, the limits aim to mitigate risk against fluctuations in interest rates.
- 10.2 The Council's treasury management limits and indicators for 2016/17 are compared with the outturn position, and previous year's outturn in Appendix 2. Actual performance was within the limits determined at the start of the year, with the exception of the borrowing for the purchase of the Orchard Shopping Centre head lease, which was approved by the Council in November 2016.

11. MINIMUM REVENUE PROVISIONS (MRP) FOR REPAYMENT OF DEBT

- 11.1 The Council, in accordance with legislation, makes a provision from revenue to enable the repayment of borrowing that has been undertaken to fund the capital programme. This provision is known as the Minimum Revenue Provision (MRP) and is charged to the General Fund Revenue Account each year. MRP is set aside each year at an amount equivalent to the value of debt repaid in the year.
- 11.2 For 2016/17 an amount of £269k has been set aside in the annual accounts as the MRP for repayment of debt.

12. OTHER ISSUES AND MATTERS

Shared Services Arrangements

- 12.1 The Council's treasury management services are provided under a shared services arrangement (SSA) performed by the in-house treasury management team formed out of partnership working between Adur District Council and Worthing Borough Council. The treasury management team is based at Worthing Town Hall, but services all three Councils' treasury management operations from this location utilising similar banking arrangements.
- 12.2 The SSA is provided under a Service Level Agreement that was renewed from 18th October 2016, and which defines the respective roles of the client and provider authorities for a period of three years.

13. CONCLUSION

- 13.1 This report fulfils the requirements under the CIPFA Code of Practice for Treasury Management, as well as the Council's own treasury management practices, to present an annual outturn report on treasury management activity before 30 September 2017.
- 13.2 The actual outturn performance for investment income was lower than the budgeted estimate due to the low Base Rate, which resulted in a decrease in interest rates available in the market. The shared service will continue to monitor the market carefully for the best possible interest rates. All counterparty lending limits approved at the start of the year were met and all Prudential Limits, as revised in November 2016, to enable the purchase of the Orchard Shopping Centre headlease, were adhered to.

COMPLIANCE WITH PRUDENTIAL INDICATORS 2016/17

1. PRUDENTIAL INDICATORS	2015/16 Actual	2016/17 Full year Estimate	2016/17 Actuals
Extract from budget	£'000	£'000	£'000
Capital Expenditure	3,629	2,344	28,631
Ratio of financing costs to net revenue stream	-1.34%	-1.87 %	-1.76%
Borrowing Outstanding			
Brought forward 1 April	1,047	936	936
Carried forward 31 March	936	820	22,819
Net in year borrowing / (repayments)	(111)	(116)	21,883
Capital Financing Requirement at 31 March	1,283	1,015	25,736
Change in Cap. Financing Requirement	(259)	(268)	24,453
Incremental impact of capital investment decisions			
Increase in council tax (band D) per annum	(£0.29)	£0.07	1.20

2. TREASURY MANAGEMENT INDICATORS	2015/16 Actual £'000	2016/17 Original £'000	2016/17 Actual £'000
Authorised Limit for external debt -			
Borrowing	5,000	5,000	30,000
Other long term liabilities	1,000	1,000	1,000
Total Authorised Limit for external debt	6,000	6,000	31,000
Operational Boundary for external debt			
Borrowing	3,000	3,000	28,000
Other long term liabilities	1,000	1,000	1,000
Total Operational Boundary for external debt	4,000	4,000	29,000
	Actuals at 31.03.16	2016/17 Limit	Actuals at 31.03.17
Upper limit for fixed interest rate exposure			
Debt only	100%	100%	100%
Investments only	92%	100%	87%
Upper limit for variable rate exposure			
Debt only	0%	25%	0%
Investments only	8%	100%	13%
Upper limit for total principal sums invested for over 364 days	10%	50%	14%

COMPLIANCE WITH PRUDENTIAL INDICATORS 2016/17

The maturity structure of the debt portfolio was as follows:

	31-Mar-16 actual	2016/17 original limits	2016/17 original limits	2016/17 revised limits	2016/17 revised limits	31-Mar-17 actual
Under 12 months	116,338.4	22%	1,100,000	50%	11,409,744	10,121,692
12 months and within 24 months	121,692.00	22%	1,100,000	40%	9,127,795	5,127,292
24 months and within 5 years	399,718.48	32%	1,600,000	70%	15,973,641	7,418,113
5 years and within 10 years	298,076.38	24%	1,200,000	10%	2,281,949	152,390

The authorised limit - the authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. As explained previously, the purchase of the Orchard Shopping Centre head lease necessitated the amendment of the borrowing limits (from £5m to £30m) and Prudential Indicators in November 2016.

The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

Gross borrowing and the Capital Financing Requirement - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2016/17) plus the estimates of any additional capital financing requirement for the current (2017/18) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2016/17.

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

APPROVED INVESTMENT INSTITUTIONS IN THE 2016/17 TREASURY MANAGEMENT STRATEGY STATEMENT

Specified Investments identified for use by the Council

New specified investments will be made within the following limits:

(a) **Banks (Approved Investment Regulation 2 (b))**

Major U.K. and European Banks and their wholly-owned subsidiaries meeting the Council's approved investment criteria.

	Counterparty	Group	Individual Sum and Maximum Period	
1	HSBC Bank Group:	£5m		
	• HSBC Bank plc		£4m	5 years
2	The Royal Bank of Scotland Group:	£5m		
	• The Royal Bank of Scotland plc		£4m	5 years
	• National Westminster Bank plc		£4m	5 years
	• Ulster Bank Belfast Limited		£1m	1 year
3	Lloyds TSB Group:	£5m		
	• Lloyds TSB Bank plc		£4m	5 years
	• Halifax plc		£4m	5 years
	• Bank of Scotland plc		£4m	5 years
	• HBOS Treasury Services plc		£4m	5 years
4	Barclays Group:	£5m		
	• Barclays Bank plc		£4m	5 years
5	Santander Group:	£5m		
	• Santander UK		£4m	5 years
6	Clydesdale Bank	N/A	£4m	5 years
7	Svenska Handelsbanken AB	N/A	£4m	1 year
8	Close Brothers Ltd	N/A	£4m	5 years

(b) **Building Societies (Approved Investment Regulation 2 (c))****Building Societies (Assets in excess of £1 billion):**

Rank	Counterparty	Individual	
		Sum	Period
1	Nationwide	£4m	3 years
2	Yorkshire	£4m	3 years
3	Coventry	£4m	3 years
4	Skipton	£3m	3 years
5	Leeds	£3m	3 years
6	The Principality	£3m	3 years
7	West Bromwich	£3m	3 years
8	Newcastle	£3m	3 years
9	Nottingham	£3m	3 years
10	Cumberland	£3m	3 years
11	Progressive	£3m	3 years
12	National Counties	£3m	3 years
13	Saffron	£3m	3 years
14	Cambridge	£3m	3 years
15	Monmouthshire	£3m	3 years

(c) **Money Market Funds (Approved Investment Regulation 2(2) and 2(3)(b))**

Counterparty	Sum	For Short Term Operational Cash Flow Purposes
Invesco Aim – Sterling	£3m	
BlackRock Institutional Sterling Liquidity Fund	£3m	
Ignis Sterling Liquidity Fund	£3m	
Goldman Sachs Sterling Liquidity Reserve Fund	£3m	
Henderson Liquid Assets Sterling Fund	£3m	
Fidelity Institutional Cash Fund plc – Sterling	£3m	
Federated Short-Term Sterling Prime Liquidity Fund	£3m	
RBS – Global Treasury Fund - Sterling	£3m	

The limit for investing in any one Money Market Fund is £3 million. Total investments in Money Market Funds shall not exceed the higher of £9m or 25% of the total investment portfolio, for more than one week at any one time.

(d) **Local Authorities (Approved Investment Regulation 2 (i) and Schedule Part II)**

All the following local authorities mentioned in the Regulations

Schedule Part II Ref	Details	Individual	
		Sum	Period
1	<i>County Councils (England and Wales)</i>	£3m	5 years
2	<i>District Councils in England and Wales (including Borough, City, Metropolitan Borough Councils and Unitary Councils)</i>	£3m	5 years
3	<i>London Borough Councils</i>	£3m	5 years
4	<i>The Common Council of the City of London</i>	£3m	5 years
5	<i>The Council of the Isles of Scilly</i>	£3m	5 years
7	<i>Combined police authorities</i>	£3m	5 years
16	<i>Regional, Islands, or District Councils in Scotland</i>	£3m	5 years
17	<i>Joint boards under s.235(1) of LG (Scotland) Act 1973</i>	£3m	5 years
28	<i>District Councils in Northern Ireland</i>	£3m	5 years
29	<i>Police Authorities under s.3 Police Act 1964 as substituted by s.2 Police & Magistrates Courts Act 1994</i>	£3m	5 years

NON-SPECIFIED INVESTMENTS DETERMINED FOR USE BY THE COUNCIL

Having considered the rationale and risk associated with Non-Specified Investments, the following have been determined for the Council's use.

	In-house use	Use by Fund Managers	Maximum Maturity	Maximum % of portfolio or £m	Capital Expenditure?
<ul style="list-style-type: none"> Deposits with banks and building societies Certificates of deposit with banks and building societies 	√		5 years	The higher of £10m or 50% of funds	No
Gilts and Bonds: <ul style="list-style-type: none"> Gilts Bonds issued by multilateral development banks Bonds issued by financial institutions guaranteed by the UK government Sterling denominated bonds by non-UK sovereign governments 	√ √ √ (on advice from treasury advisor)	√ √ √ √	5 years	The higher of £3m or 25% of funds	No
Money Market Funds and Collective Investment Schemes (pooled funds which meet the definition of a collective investment scheme as defined in SI 2004 No. 534 and SI 2007, No. 573), but which are not credit rated.	√ (on advice from treasury advisor)	√	These funds do not have a defined maturity date.	The higher of £9m or 25% of funds	No
Government guaranteed bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies	√ (on advice from treasury advisor)	√	5 years	The higher of £2m or 10% of funds	Subject to test
Property Funds approved by HM Treasury and operated by managers regulated by the Financial Conduct Authority – specifically the Local Authorities' Property Fund	√	√	These funds do not have a defined maturity date.	The higher of £4m or 25% of funds	No
Non-guaranteed bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies	√ (on advice from treasury advisor)	√	5 years	The higher of £2m or 10% of funds	Subject to test
Collective Investment Schemes (pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No. 534 or SI 2007, No. 573.	√ (on advice from treasury advisor)	√	These funds do not have a defined maturity date	The higher of £2m or 20% of funds	Subject to test

9. FINANCIAL STATEMENTS 2016/17

REPORT OF: Head of Corporate Resources
Contact Officer: Peter Stuart
Email: peter.stuart@midsussex.gov.uk Tel: 01444 477315
Wards Affected: All
Key Decision: No
Report to: Audit Committee
1st August 2017

Purpose of Report

1. This report presents the Financial Statements to the Committee for approval.

Summary

2. The Financial Statements have been circulated to all Members of the Committee. Since the audit of the statements has not quite finished, the Committee is asked to agree a delegation to the Chair and Vice Chair to sign the statements alongside the Head of Corporate Resources when the audit has finished, and the Audit Results Report has been published.
 3. Recommendations
 - i) **That the Financial Statements are approved;**
 - ii) **That the Committee delegates to the Chair and Vice Chair that the Statement of Accounts be signed by them , together with the Head of Corporate Resources, on completion of the audit, subject to any amendments raised and agreed within the Audit Results Report**
 - iii) **That the Letter of Representation be approved and the Chairman be authorised to add his signature to that letter.**
-

Background

4. The Financial Statements present a picture of the Council's financial position over the year. This year they have again been prepared in accordance with International Financial Reporting Standards.
5. The statements are appended to this report and have been subject to audit. However the audit has yet to be finalised although this is expected to be on August 4th. Subject to their being only minor amendments arising from the audit, the Committee is asked to delegate to the Chair and Vice Chair the authority to sign the statements together with the Head of Corporate Resources.
6. It is not expected at this stage that there will be any significant amendments to the statements. In the event that the significance of any amendment may be felt to change a user's view of the financial standing of the authority, the accounts would be brought before the Audit Committee again, in September.
7. The Head of Corporate Resources will sign the accounts as presenting a true and fair view of the financial position of the authority and its income and expenditure for the year ended 31st March 2017.
8. The Letter of Representation sets out the Committee's responsibility for approving the statements and their contents and is included as Appendix B.

Policy Context

9. Receiving the report and following the recommendation enables the Council to fulfil its statutory obligations.

Other Options Considered

10. None.

Financial Implications

11. None.

Risk Management Implications

12. None.

Equality and Customer Service Implications

13. This report has no such implications

Other Material Implications

14. None.

Background Papers

None.

Contact:
Peter Stuart 01444 477315
peter.stuart@midsussex.gov.uk

Your Ref:
Our Ref: PS/LM

Date:
2017

Paul King
Director
Ernst & Young LLP
Apex Plaza
Forbury Road
Reading
RG1 1YE

This letter of representations is provided in connection with your audit of the financial statements of *Mid Sussex District Council* ("the Council") for the year ended 31 March 2017. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of *Mid Sussex District Council* as of 31 March 2017 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. We have approved the financial statements.

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, that are free from material misstatement, whether due to fraud or error.
5. We believe that the uncorrected misstatement identified in the prior year rectifies itself during 2016/17 as it related to a provision as at 31 March 2016 and as such no adjustment is required.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by “whistle-blowers”), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

3. We have made available to you all minutes of the meetings of the Council and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 1 August 2017.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

F. Subsequent Events

1. Other than described in the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

Use of the Work of a Specialist

When the Council has used the work of a specialist, we may include the following representation:

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of land and buildings and investment property and in the calculation of the NDR appeals provision and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the applicable financial reporting framework.
2. We confirm that the significant assumptions used in making accounting estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the applicable financial reporting framework.
4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements due to subsequent events.

Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Signed on behalf of Mid Sussex District Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 1 August 2017

Signed:

Name: Peter Stuart

Position: Head of Corporate Resources

Date: 1 August 2017

Name: Councillor Belsey

Position: Chairman, Audit Committee

Date: 1 August 2017

11. COMMITTEE WORK PROGRAMME 2017/18

Date	Agenda Item
1 August 2017	Internal Audit - Monitoring Report Internal Audit Annual Report 2016/17 Review of Treasury Management Activity 2016/17 Financial Statements 2017/18 Audit Results Report 2017/18
26 September 2017 – Possible cancellation pending outcome of Audit at August Meeting	Internal Audit - Monitoring Report External Audit Business Review of Treasury Management Activity
21 November 2017	Internal Audit – Monitoring Report Audit Plan Treasury Management Update Certification Report
27 February 2018	Internal Audit - Monitoring Report External Audit Plan for 2017/18 Audit Treasury Management Update Internal Audit Plan