

Minutes of a Meeting of the Audit Committee held on 2 August 2017 from 7.00 p.m. to 8.50 p.m.

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

Anne Boutrup Tony Dorey*	Andrew Lea Linda Stockwell	Neville Walker*
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* Absent.

Also in Attendance: Paul King, Ernst and Young
Hannah Lill, Ernst and Young
Kevin Pullen, Internal Auditor, Crawley Borough Council
Peter Stuart, Head of Corporate Resources and Section 151 Officer
Cathy Craigen, Business Unit Leader for Finance
Tom Clark, Head of Regulatory Services

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

Councillor Bradbury was in attendance as a substitute for Councillor Dorey.

2. APOLOGIES FOR ABSENCE

Apologies were received from Councillors Dorey and Walker.

3. DECLARATIONS OF INTEREST

Councillors Bradbury and Lea both declared themselves as serving Members of West Sussex County Council.

4. MINUTES

A Member noted that in the minutes of the 15 March 2017 meeting, it was requested that Members be informed of what percentage of total claims is tested on in relation to Housing Benefit Certification. The Member asked whether there was now an answer to this.

Paul King, from Ernst and Young informed Members that in the year up to March 2016, MSDC has 5,459 claimants, in which 40 cases are initially tested (0.73% of the total), if errors are found, testing is undertaken on a further 6 batches of 30 cases, which means a total of 280 out of 5459 cases are tested on (5.4% of the total). He explained that the number of cases tested is pre-determined by the DWP, and at least 20 of each claim type has to be tested.

The Minutes of the meeting of the Committee held on 15 March 2017 and 10 May 2017 were then agreed as correct record and signed by the Chairman.

5. URGENT BUSINESS

None.

6. INTERNAL AUDIT – MONITORING REPORT

Kevin Pullen, Internal Auditor, introduced the report. He summarised that five audits are now completed with no high priority findings. All recommendations have been implemented. The work has started on the Procurement audit and further work on the Council Tax (CenSus) is being undertaken. These will be completed and reported on in time for the next committee meeting.

A Member asked why the outcome for Sundry Debtors is listed only as 'satisfactory'. The Internal Auditor explained that there were 4 minor findings in the recovery of debt, which when aggregated, drops the assurance level to satisfactory.

A Member sought an explanation as to what the CenSus Council Tax 'buildings module' entails. The Internal Auditor replied that an answer will be provided at the next committee meeting.

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. INTERNAL AUDIT ANNUAL REPORT 2016/2017

Kevin Pullen, Internal Auditor, introduced the report. The report summarises the work performed by internal audit over the year and offers and opinion on the control environment. There are no major findings and adequate and effective controls in place.

A Member asked whether the wording of 'adequate' means there are instances in which the Council could perform better. The Internal Auditor replied that it is simply the terminology used and does not indicate improvements need to be made.

A Member asked whether there is a specific risk management function that can be applied to the internal audit process.

Peter Stuart, Head of Corporate Resources, replied that risk monitoring is an integral part of the audit process, and the internal audit gives opinion on the risk management framework, even if there is not an overt risk management function. The operational risk of the Council is delegated to Heads of Service and their respective Business Unit Leaders.

The Chairman confirmed that Ernst and Young also considers risk in the external audit process.

The Member asked whether risk management can be embedded, and whether the remit of the audit committee can be extended to consider it in future.

The Chairman replied that items on the work programme can be considered on a case-by-case basis and an overall risk management item may be considered.

The Internal Auditor explained that the internal audit plan is risk based, and when in the planning stage, the audit looks at the objectives of a system and gives assurance on the risk involved. The recommendations include risk as a matter of course.

The Chairman moved on to discuss the objectiveness and independence of the audit

process stating that it could be seen by the public that the Council is 'marking its own homework'.

The Internal Auditor reassured Members that Internal Audit is completely independent, as the audit is not involved in any operational part of the Council and the day-to-day running of systems. In theory, if the audit were not to take place, the Council would continue to operate seamlessly. Furthermore, there are peer groups of auditors in Sussex which benchmark audits against neighbouring Councils for comparison.

A Member reiterated that there have been many positive outcomes of previous audits, identifying needs such as the removal of staff leaver system accounts, which have identified a specific risk and been dealt with by staff. The Member referenced paragraph 3.2 of the report which states that the audit is not necessarily a comprehensive statement of all the weaknesses that exist, and queried how comprehensive the audit actually is.

The Internal Auditor explained that when planning the audit the audit identifies risks that could be damaging to the Council, the audit then takes a test sample, if an error is reported then the auditors will continue testing until the cause of the issue is found. It is not possible to test 100% of Council systems, although some large sample sizes can be achieved with certain electronic software.

The Member agreed that many of the Council systems are tested, and asked how many years go by until they are retested again in a subsequent audit. The Internal Auditor explained that if a system has a clean bill of health they are often taken off the audit for a three year period, so in summary, most systems are retested every three to four years.

Paul King, from Ernst and Young, informed Members that the remit of audit committees vary with each Local Authority, and some Councils do include a strategic risk register as part of the remit of the audit committee.

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.

8. REVIEW OF TREASURY MANAGEMENT ACTIVITY 2017/17

Peter Stuart, Head of Corporate Resources, introduced the report, he outlined that the report is similar to previous years, with the addition of the purchase of the Orchards shopping centre. He advised Members that all transactions were kept within the authorised limits set by Council.

In response to a Member question about the influencing factors of the Minimum Revenue Provisions, the head of Corporate Resources advised Members that a glossary of terms is outlined in page 84 of the statement of accounts. The MRP is set at the start of the year and outlines the debt repaid over a chosen amount of years.

Tom Clark, Head of Regulatory Services notified the Committee that on page 22 of the report, the maturity date of the first Cambridge Building Society loan should be 09.01.18, not 09.01.17.

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. FINANCIAL STATEMENTS 2016/17

Peter Stuart, Head of Corporate Resources introduced the report. He informed Members that the audit of the financial statements will be finished on Friday 4 August. The recommendations in the report ask the Committee to authorise the Chairman and Vice-Chairman of the Committee to sign the Statement of Accounts with any non-significant amendments authorised by them. He informed Members that there is a slight change to the letter of representation which now has a non-material difference of £75,000.

The Chairman assured Members that any changes will be circulated to the Committee. He noted that the report outlines an increase of reserves of approximately £15 million, partly due to the uplift in the value of the Orchards, which was purchased at £24 million and is now valued at £30 million. Furthermore, the NDR provision is increasing to £2.6m from £1.7m the previous year.

The Head of Corporate Resources explained that the increase in value of the Orchards reflects the marriage value of the freehold and leasehold interests. He informed Members that the value is not a sale value, and is a fair value based on the yield. He informed the Committee that NDR valuation is a developing industry with successful appeal against the valuation of doctors surgeries taken place – which affects the whole market.

In response to a Member query regarding the complexity of the sources of income, the Head of Corporate Resources informed Members that page 27 outlines the sources of income and costs are sometimes recharged to other services. He informed Members that a more concise narrative detailing the costs can be provided to Members in future.

The Vice-Chairman sought assurance that the audit will be completed in time next year. The Head of Corporate Resources replied that the statutory deadline for the audit to be completed is the 31 July which will be in place next year, and must be kept to.

A Member raised concern with the increase in the number of write offs outlined in page 72 of the statement of accounts. The Head of Corporate resources reassured Members that operationally there has been an increase in write-offs, but previously these may have been alternatively classified as bad debt, essentially meaning there has been a development in the progress of the debt.

A Member noted that the surplus is more than covered by income which will result in no further demand on taxpayers in future years.

A Member referenced page 22 of the statement of accounts and sought clarification as to why the other services expenses has dropped by approximately £12 million. The Head of Corporate Resources replied that a written answer will be provided to Members of the Committee.

A further Member noted that the table on page 22 that the total expenditure of the council has gone down by £10 million, which represents a huge surplus for the Council. The Head of Corporate Resources explained to Members that the figures on page 22 tie in to the figures on page 14 and 40, and further explanation is set out in note 1 and note 2 of the accounts.

Members agreed that the presentation of the accounts is complicated and could be presented in a clearer way. A Member suggested that the £12 million surplus should be listed as separate capital movements to the Council's day-to-day expenditure.

Another Member agreed that it is not a fact the Council has spent £12 million less, but represents movements in the fair value of Council investments as laid out in note 10, and it is important that it is presented to the public in this way.

Hannah Lill, from Ernst and Young informed Members that the notes contained in the Statement of Accounts are new but the specific wording is up to the Council.

A Member suggested that the language should be changed so that ordinary income and expenditure should be separate to other provisions, and the table in the statement of accounts should be digestible for members of the public. Another Member noted the difference in valuations of the Orchards and Pension provisions and suggested that this should be explained as the root cause of the outlined £12 million surplus.

The Head of Corporate Resources agreed that accounts are increasingly difficult to digest for Members of the public, and the statement of accounts represents a labyrinth document, it would be better for Members of the public to use the outturn report for an accessible overview.

Paul King agreed that the display of the results is complicated, and it must be noted that much of the income outlined on page 14 is in unreasonable reserves and cannot be spent, and the surplus is not a real surplus which can be spent.

The Head of Corporate Resources advised the Committee that the recommendation ii) needs to be changed from delegates to authorised.

As there were no further questions the Chairman took Members to the recommendations in the report, with the amendment from delegates to authorised and were agreed unanimously.

RESOLVED

- i) That the Financial Statements are approved;
- ii) That the Committee authorises 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.

10. FINANCIAL STATEMENTS 2016/17

Hannah Lill, from Ernst and Young, introduced the report. The annual audit is not yet complete and further progress has been made since the writing of the report. The audit has not identified any issues with the control environment the Council has in place. The fee will remain the same, and there have been no new findings which may increase the fee.

A Member referenced the 2019/20 Accounting Code of practice and its implementation and asked whether the Council will be ready for this. The Head of Corporate Resources replied that the changes are not due for another two years and there is sufficient time to formulate the Council's approach.

The Chairman asked how the Council's investment strategy has affected findings of the audit.

Paul King replied that other Councils take different approaches to investment and may take on more risk and interest, and some Councils may not choose to invest. Councils choose their own risks and the adult will always look at the extent the Local Authority has considered the risks, and won't instruct them to secure extra revenue, and cannot second guess authority decisions.

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.

11. COMMITTEE WORK PROGRAMME 2017/18.

The Chairman proposed that as the Audit will soon be completed, there is no need for the meeting scheduled for the 26 September to go ahead, and proposed it be cancelled, which was agreed unanimously.

RESOLVED

That the Committee Work Programme for 2017/18 be noted and the meeting scheduled for 26 September 2017 be cancelled.

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

None.

Chairman.