
30 August 2019

Dear Councillor,

A meeting of **AUDIT COMMITTEE** will be held in the **COUNCIL CHAMBER** at these offices on **TUESDAY, 10TH SEPTEMBER, 2019 at 7.00 pm** when your attendance is requested.

Yours sincerely,
KATHRYN HALL
Chief Executive

A G E N D A

	Pages
1. To receive apologies for absence.	
2. To receive Declarations of Interest from Members in respect of any matter on the Agenda.	
3. To confirm the Minutes of the meeting held on 22 July 2019.	3 - 6
4. To consider any items that the Chairman agrees to take as urgent business.	
5. Treasury Strategy Update	7 - 12
6. Internal Audit - Monitoring Report 31 August 2019.	13 - 16
7. Committee Work Programme	17 - 18
8. Questions pursuant to Council Procedure Rule 10.2 due notice of which has been given.	

To: **Members of Audit Committee:** Councillors M Pulfer (Chair), R Cromie (Vice-Chair), A Boutrup, P Budgen, M Cornish, S Hicks and L Stockwell

**Minutes of a meeting of Audit Committee
held on Monday, 22nd July, 2019
from 7.00 pm - 7.47 pm**

Present: M Pulfer (Chair)
R Cromie (Vice-Chair)

P Budgen

M Cornish

S Hicks

Absent: Councillors A Boutrup and L Stockwell

Also Present:

1. TO RECEIVE APOLOGIES FOR ABSENCE.

Apologies were received from Councillors Boutrup and Stockwell.

2. TO RECEIVE DECLARATIONS OF INTEREST FROM MEMBERS IN RESPECT OF ANY MATTER ON THE AGENDA.

None.

3. TO CONFIRM THE MINUTES OF THE MEETING HELD ON 25 FEBRUARY AND THE ANNUAL MEETING HELD ON 22 MAY 2019.

The Minutes of the meeting of the Committee held on 25 February and the Annual meeting held on 22 May 2019 were agreed as correct records and signed by the Chairman after Gillian Edwards, Internal Auditor and Risk Manager agreed to provide a verbal update on the backdating of Council Tax benefits.

4. TO CONSIDER ANY ITEMS THAT THE CHAIRMAN AGREES TO TAKE AS URGENT BUSINESS.

None.

5. INTERNAL AUDIT ANNUAL REPORT 2018/2019.

Gillian Edwards, Audit and Risk Manager, introduced herself and her role as internal auditor for MSDC. The four levels of assurance range from the best level of 'substantial' to 'limited'. The officer highlighted three high priority findings and that actions to address these weaknesses were agreed and have been implemented by Management. She noted that the audit results provided a reasonable assurance. She stated that she has been involved in an investigation for an incident of fraud, but could not comment as it was subject to a police investigation.

In response to a member's question Peter Stuart, Head of Corporate Resources informed the Committee that the Council now has one bank account. The Chairman confirmed that due to an ongoing investigation no further comments could be made

and a report would be presented to the Committee at a later date.

As there were no further questions the Chairman took Members to the recommendation in the report which was unanimously approved.

RESOLVED

The Committee received and noted the report.

6. INTERNAL AUDIT - MONITORING REPORT 30 JUNE 2019.

Gillian Edwards, Audit and Risk Manager, introduced the report. The officer confirmed the work completed since the previous report and stated there were no new high priority findings.

For the follow up audits previous recommendations had been implemented and two were outstanding for Payroll. She confirmed that the Business Unit Leader is in discussion with XCD (the payroll software provider) to develop a report and audit trail for any changes made to the salaries or benefits of the Payroll Officer or Manager. Peter Stuart, Head of Corporate Resources advised that while not many local authorities use XCD, a cloud based payroll and HR system, that the underlying database was Salesforce which was a standard product. He noted that it should be easy to configure to the Council's needs. The outstanding issues had low risks and should be resolved very quickly. The Audit and Risk Manager stated that the implementations of the outstanding findings for Housing Benefits were still in progress due to the recent reorganisation of the department and she will report back on these at the next meeting.

In response to a Member's questions the officer updated the Committee on backdating of Council Tax benefits. She confirmed that procedures have been properly followed to get the correct outcome and this audit provided a positive assurance level.

As there were no further questions the Chairman took Members to the recommendation in the report which was unanimously approved.

RESOLVED

The Committee received and noted the report.

7. AUDIT RESULTS REPORT 2018/19.

Tom Wilkins, Manager for Ernst and Young, presented the report. He outlined the role of the auditors and noted the statutory deadline of 31 July 2019 for the report. They did not expect any issues and had no significant unusual activities to report.

He highlighted some adjustments to the financial statements as Hurst Farm had not yet been sold and confirmed that the valuation was within the range of bids received. The Council has updated their figures to account for the impact of a recent ruling on the public pension scheme. He confirmed that they had checked that prior to making investments the Council had received proper due diligence and advice, and the Council had followed that advice.

Peter Stuart, Head of Corporate Resources noted that increased severance costs had been incurred due to the cessation of the Revenues and Benefits Partnership,

CenSus, with Adur and Horsham Councils as some staff had exercised their right to take voluntary redundancy. He confirmed the report stated figures equating to the equivalent number of full time staff.

The Chairman thanked Ernst and Young for providing the detailed report and greatly hoped that the final report would be produced by 31 July 2019.

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

RESOLVED

The Committee received and noted the report.

8. FINANCIAL STATEMENTS 2018/19.

Peter Stuart, Head of Corporate Resources introduced the report and noted that the financial statements were subject to the receipt of the annual audit report. He asked the Committee to approve delegated authority for the Chairman and the Head of Corporate Resources to sign them off if there were no significant changes in the completed report.

He asked the Committee to confirm that they had read and understood the letter of representation signed by the previous chairman, Councillor Belsey. A Member asked for clarification on the points listed in the letter of representation and the officer advised he would circulate the questions that relate to the answers in the letter to assist the Committee,

As there were no further questions the Chairman asked the Committee to receive the report subject to minor amendments and this was unanimously received.

RESOLVED

- i) That the Chairman be delegated to sign the Financial Statements subject only to minor amendments.

9. REVIEW OF TREASURY MANAGEMENT ACTIVITY 2018/19.

Peter Stuart, Head of Corporate Resources advised that this is end of year report and all transactions were in order with no transactions outside the current policy. He noted that the new Committee may have different investment principles and suggested bringing forward a review of the current principles at the next meeting to see if any changes were required.

Members discussed the issue of over borrowing and the sale of the investment property of Hurst Farm. The Head of Corporate Resources confirmed that the loan was still outstanding against the purchase of The Orchards and that the sale of Hurst Farm is expected to provide receipts of approximately £27 million.

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

RESOLVED

The Committee noted the contents of the report.

10. COMMITTEE WORK PROGRAMME.

Peter Stuart, Head of Corporate Resources introduced the Work Programme. Members were asked to note the report and a Review of the Statement on Investment Principles was added to the agenda for 10 September 2019. This was unanimously agreed by the Committee.

RESOLVED

That the Committee Work Programme for 2019/20 be noted accordingly.

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

None.

The meeting finished at 7.47 pm

Chairman

TREASURY STRATEGY UPDATE

REPORT OF: Head of Corporate Resources
Contact Officer: Peter Stuart
Email: pamela.coppelman@adur-worthing.gov.uk Tel: 01903 221236
Wards Affected: All
Key Decision: No
Report to: Audit Committee
10th September 2019

PURPOSE OF REPORT

1. The report updates Members on the Council's treasury investment strategy.

SUMMARY

2. The full strategy is set out in the Treasury Management Strategy Statement & Annual Investment Strategy 2019/20 to 2021/22 (approved by Council on the 27th March 2019). This report sets out the key principles which are used to minimise the risk to the Council's investments.

RECOMMENDATIONS

3. The Committee is requested to note the contents of the report and advise Council on any proposed changes.
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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 providing resilience through a larger team. The full details of the treasury strategy and prudential indicators are submitted to the Audit Committee and the Council for approval prior to the start of the financial year. Weekly reports and investment recommendations are sent to the Head of Corporate Resources and annual and half year reports compare the forecast performance with the actual.
5. The shared service receives real time information from the treasury advisors, Link Asset Services, regarding changes to counterparty ratings and receives daily, weekly and monthly economic updates, including interest forecasts, as well as regular training seminars. The service also uses a specialist cash flow system, Logotech, which produces cash flow forecasts and related reports as well as monitoring the adherence to counterparty investment limits and providing a clear audit trail.
6. The previous Council was content with the risk appetite proposed by the previous Audit Committee. In fact, this appetite has been consistent for many years and for many previous Councils at Mid Sussex. Members are invited to consider their stance and to consider their appetite for risk as outlined within the appendix to this report.
7. To assist with this, the Group Accountant would welcome questions and queries from Members using the contact details above.

POLICY CONTEXT

8. 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 was requested by Members.

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 Council.

EQUALITY & CUSTOMER SERVICE IMPLICATIONS

12. None

BACKGROUND PAPERS

- Treasury Management Strategy Statement & Annual Investment Strategy 2019/20 to 2021/22 (Council on 27th March 2019)
- The CIPFA code of Practice on Treasury Management (the Code)
- CIPFA Treasury Management Guidance Notes
- MHCLG's Guidance on Local Government Investments

1. SUMMARY

- 1.1 This report summarises the Council's treasury investment strategy. It does not cover the Council's borrowing strategy, the Capital Financing Requirement and the Minimum Revenue Provision policy, all of which are detailed in the Treasury Management Strategy Statement (TMSS).

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 regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. It is therefore important that members approve the management of risk contained in the treasury strategy.

- 2.3 This report does **not** include non-treasury investments – the shared service manages only fixed term and money market investments. The Council is able to invest in non-treasury assets such as:

- property within the district (eg the Orchard Shopping Centre), which may offer both rental income and economic regeneration benefits through the support of local businesses and control over key sites
- property outside the district for rental income
- investment in energy assets, such as the construction of solar farms
- loans to third parties

- 2.4 To maximise income during this period of low interest rates on bank accounts, the Council has placed £6m in the Local Authorities' Property Fund. As its name suggests, the Fund is aimed at local authorities and is considered to be a suitable investment – it has been achieving income returns in excess of 4% per year. The shared service does **not** make decisions about investment in the Fund.

3. TRAINING

- 3.1 Training has been provided to members by Link Asset Services and Link is willing to offer additional training at a cost. Link offers regular seminars in London and the shared service is entitled to free places, which are open to officers or Members of Mid Sussex District Council by arrangement. Officers at Adur and Worthing would also be willing to discuss or demonstrate the treasury operations.
- 3.2 CIPFA also offers training courses – for example a Treasury Management and Capital Conference in London on the 6th November, which is free to public sector delegates and is aimed at, amongst others, Members with treasury or capital responsibilities. However they usually charge for courses.

4. TREASURY INVESTMENTS

- 4.1 Following the guidance from CIPFA and the MHCLG, the Council's investment priorities are:
- Security
 - Liquidity, then

- Yield

4.2 Security of the Council's capital is the most important element of the investment strategy and the shared service has adopted a prudent approach to managing risk using a variety of controls:

- Counterparties such as banks must hold a **minimum credit rating** (banks - A minus, money market funds - AAA) or, in the case of building societies, have assets in excess of £1 billion. However, other information is also considered in addition to ratings.
- The Council may invest with other local authorities, although some care is taken that the counterparty will be able to repay on the due date (there is no expectation that a local authority will be unable to meet its debts).
- The Council maintains lists of **Specified Investments** and **Non-Specified Investments**, including lists of suitable counterparties and the treasury advisors, Link, send real time updates for any changes in rating.
- **Lending limits** are set for each counterparty.
- **Investment durations** are set for each counterparty.
- A maximum of 50% of funds is invested for **more than 365 days**.
- Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**. The UK is excluded from this limit because it will be necessary to invest in UK banks and other institutions even if the sovereign rating is cut.
- The shared service takes note of the minimum credit ratings and maximum investment durations suggested by Link, but the Head of Corporate Resources, under delegated powers, undertakes the most appropriate investments in keeping with the investment objectives, income and risk management requirements, and Prudential Indicators. For example, Link does not suggest investments in many building societies, but, in order to achieve a higher rate of return, the Council places investments with building societies holding assets in excess of £1 billion.

Full details can be found in the Treasury Management Strategy Statement.

4.3 Liquidity is the second priority – through careful cash flow forecasting using information provided by the Council, the shared service makes recommendations as to when funds are available for investment. This ensures that the Council has sufficient funds for day to day expenditure and other commitments. If necessary, due to unexpected changes such as a property purchase, the shared service arranges short term borrowing to cover any shortfall either from the other local authorities within the shared service, or from neighbouring authorities e.g. West Sussex County Council.

4.4 The shared service also pursues value for money in treasury management and monitors the yield from investment income against appropriate benchmarks supplied by Link for investment performance. Daily reconciliations are performed to maximise the balance that can be placed in the money market funds overnight and weekly strategy reviews consider the cash flow forecast to determine when longer term deposits can be placed. There is a limit on the maximum investment in money market funds, to ensure that the Council's cash achieves the highest possible rates through longer term investments.

- 4.5 Link Asset Services and investment brokers provide regular interest rates and forecasts and these are used in determining the timing and duration of investments. For example, if rates are falling, investments are placed promptly and fixed for a reasonable duration. However a decision may be delayed if it is felt that rates may rise in the immediate future.
- 4.6 A monthly investment report is prepared showing the historic risk of default of each of the Council's investments and the total average risk of default:

Investments held at 31 July 2019

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Handelsbanken Plc	10,000	0.50%		Call0	AA-	0.000%
MMF CCLA	1,710,000	0.73%		MMF	AAA	0.000%
MMF Federated Investors (UK)	2,485,000	0.74%		MMF	AAA	0.000%
MMF Invesco	10,000	0.72%		MMF	AAA	0.000%
MMF BlackRock	10,000	0.74%		MMF	AAA	0.000%
Goldman Sachs International Bank	10,000	0.72%		MMF	A	0.000%
Nottingham Building Society	2,000,000	0.95%	05/09/2017	05/09/2019	BBB+	0.015%
Progressive Building Society	2,000,000	1.05%	27/09/2018	27/09/2019	Not Rated	
Newcastle Building Society	1,000,000	1.15%	07/11/2018	07/11/2019	Not Rated	
Saffron Building Society	2,000,000	1.25%	15/03/2019	16/03/2020	Not Rated	
Close Brothers Ltd	2,000,000	1.25%	29/03/2019	30/03/2020	A	0.035%
National Counties Building Society	2,000,000	1.26%	11/04/2019	14/04/2020	Not Rated	
Newcastle Building Society	1,000,000	1.25%	17/04/2019	17/04/2020	Not Rated	
Lloyds Bank Plc (RFB)	1,000,000	1.25%	10/05/2019	11/05/2020	A+	0.041%
National Counties Building Society	1,000,000	1.26%	16/05/2019	18/05/2020	Not Rated	
Newcastle Building Society	1,000,000	1.30%	23/05/2019	22/05/2020	Not Rated	
Saffron Building Society	1,000,000	1.25%	30/05/2019	29/05/2020	Not Rated	
Lloyds Bank Plc (RFB)	1,000,000	1.25%	05/06/2019	05/06/2020	A+	0.045%
Nottingham Building Society	1,000,000	1.15%	13/06/2019	12/06/2020	BBB+	0.133%
Cambridge Building Society	2,000,000	1.25%	26/06/2019	25/06/2020	Not Rated	
Lloyds Bank Plc (RFB)	1,000,000	1.25%	27/06/2019	29/06/2020	A+	0.048%
Cambridge Building Society	1,000,000	1.20%	10/07/2019	10/07/2020	Not Rated	
Borrower - Funds	Principal (£)	Interest Rate	Start Date	Maturity Date		
Local Authorities Property Fund	6,000,000	4.00%	30/07/2015	30/07/2020		
Total Investments	£32,235,000	1.66%				
Total Investments - excluding Funds	£26,235,000	1.12%				0.014%
Total Investments - Funds Only	£6,000,000	4.00%				

5. THE COUNCIL'S ATTITUDE TO RISK

- 5.1 The Council is prudent with its investments and applies the guidance from CIPFA, the MHCLG and advice from Link Asset Services. The view is expressed, often by companies offering more risky investments, that Councils who do not achieve at least the same rate as inflation on their portfolios are effectively losing money. However, given the relatively low returns on most acceptable investments, the risk of loss of capital should carry more weight than potentially receiving an extra percentage or two, as emphasised by the "Security, Liquidity, Yield" policy.
- 5.2 Due to the size of its portfolio, which is significantly larger than the other Councils in the shared service, Mid Sussex District Council feels confident in investing in a larger number of building societies, in order to secure a higher rate of return. The £6m investment in the Local Authorities' Property Fund also gives a considerable boost to the total return on the portfolio – there is exposure to fluctuation in the value of the units in the fund, but this is considered to be a long term investment and the risk is balanced by the rental income streams received by the fund.
- 5.3 The Treasury Management Strategy Statement lists a large number of potential investments

which the Council may use. At the “no risk” end, there is the Debt Management Account Deposit Facility, which gives a direct claim on the government, but offers very low rates, so should only be used if confidence is lost in other institutions. The Council may also use less “vanilla” investments such as bonds, which carry greater risk.

INTERNAL AUDIT – MONITORING REPORT 31st August 2019

REPORT OF: Audit and Risk 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
10th September 2019

Purpose of Report

1. The purpose of this report is twofold; to update the Committee on the progress of the 2018/2019 and 2019/2020 Internal Audit Plans and to report on the progress made in implementing previously agreed recommendations.

Recommendation

2. The Committee is asked to receive this report.

Background

3. Work Completed

Since the last report, as at 31st August 2019, the following reviews have been completed.

Audit Title	Audit Opinion
Temporary Accommodation	Substantial Assurance
Housing Allocations	Substantial Assurance

4. Work in Progress

The reviews in progress and other work that we have undertaken in the period are shown at Appendix A.

5. High priority findings in this period

We did not identify any high priority findings in this period.

6. Follow Up Audits:

We have undertaken these follow ups since the last Audit Committee.

Payroll – issued 3rd December 2018

High Priority findings – 2 –
Medium Priority findings – 5

The high priority findings that we identified related to the following:

- There is not a separate audit trail for when the Payroll Manager and the Payroll Officer makes a change to their salaries or benefits which under the XCD system are referred to as the Rewards. We were advised that there is an “unwritten rule”

that neither of these employees can change their Rewards in the XCD system. However there is a risk that such changes could be made without any Management approval. Action has therefore been agreed, whereby the BUL HR, Training and Payroll would work with XCD to create a report that would run whenever there are any changes to the Rewards module for the two staff responsible for Payroll data input and checking - *implementation date - 28th February 2019*

Status of agreed action – implemented

- It was also agreed that the BUL HR, Training and Payroll would work with XCD to create a report that would run whenever there are any changes to the Rewards module for the two staff responsible for Payroll data input and checking - *implementation date - 28th February 2019*

Status of agreed action – implemented

Housing Benefits – 31st January 2019

High Priority findings – 1 –previously implemented

Medium priority findings – 3 with 1 previously implemented

High Priority Finding 1

The medium priority findings that we identified related to the following:

- Procedure notes for the Housing Benefits section have not been updated to reflect the new structure and processes that are not in place – *agreed implementation date – ongoing. Whilst a date for completion had not been set, this is an ongoing piece of work. The update as at 20th August 2019 is that the Housing Benefits section have mapped the processes but the procedures for the Housing Benefit section are still work in progress. The Housing Benefits section hope to complete this work by 31st December 2019.*

Status of agreed action – Outstanding

- Whilst a review is currently being undertaken to confirm that access to the Housing Benefit system is appropriately restricted, this is not yet complete. The *agreed implementation date was 18th March 2019. The update as at 20th August 2019 is that this remains work in progress. The Housing Benefits section have removed Housing Needs access to Academy and are continuing to review all other access restricting it where appropriate. The Housing Benefit section hope to complete this work by 31st December 2019.*

Status of agreed action – Outstanding

7. Work in Progress

The reviews in progress and other work that has been undertaken in the period are shown at Appendix A.

All work has been planned and allocated to Audit staff and we are confident that the audit plan will be substantially complete by 31st March 2020.

8. High priority findings in this period

There were no high priority findings issued in this period.

Background Papers

- Internal Audit reports relating to 2018/2019 and 2019/2020

- Working papers relating to 2018/2019 and 2019/2020

Internal Audit Plans 2018/2019 and 2019/2020

Progress Report as at 30th June 2019

Audit	Audit Plan Year	Audit Opinion-Assurance	Number of High Priority Findings	Comments
A. Work Completed in the Current Period				
Temporary Accommodation	2019/20	Substantial		
Housing Allocations	2019/20	Substantial		
B. Work In Progress				
HR Review	2018/19			
Procurement Quick Review	2018/19			
Commercial Properties	2019/20			
Follow Ups				
Payroll	2018/19		2	All agreed actions implemented
Housing Benefits	2018/19		1	All agreed actions implemented

COMMITTEE WORK PROGRAMME 2019/20

REPORT OF: Tom Clark, Head of Regulatory Services
Contact Officer: Alison Hammond, Member Services Officer
Email: alison.hammond@midsussex.gov.uk Tel: 01444 477227
Wards Affected: All
Key Decision: No

Purpose of Report

1. For the Audit Committee to note its Work Programme for 2019/20.

Summary

2. Members are asked to note the attached Work Programme. The Work Programme will be reviewed as the final piece of business at each meeting, enabling additional business to be agreed as required.

Recommendations

3. **The Committee are recommended to note the Committee's Work Programme as set out at paragraph 5 of this report.**
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Background

4. It is usual for Committees to agree their Work Programme at the first meeting of a new Council year and review it at each subsequent meeting to allow for the scrutiny of emerging issues during the year.

The Work Programme

5. The Committee's Work Programme for 2019/20 is set out below:

Meeting date	Item
12 November 2019	Review of Treasury Management Strategy Grants Certification Internal Audit – Monitoring Report. Committee Work Programme
3 March 2020	Audit Planning Report Treasury Management Strategy Internal Audit Monitoring Report Committee Work Programme

Policy Context

6. The Work Programme should ideally reflect the key priorities of the Council, as defined in the Corporate Plan and Budget.

Financial Implications

7. None.

Risk Management Implications

8. None.

Background Papers

None.