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AUDIT & GOVERNANCE COMMITTEE

30 July 2019 at 6.00 pm

Present: Councillors Erskine (Chairman), Haywood (Vice-Chairman), Bennett, Brooks, Chapman, Clayden, Dendle, Tilbrook

[Note: Councillor Brooks was absent from Minute 72 to Minute 77 (part)]

Apologies: Councillors Bicknell, Madeley who is being substituted by Councillor Chapman and Thurston.

143. DECLARATIONS OF INTEREST

There were no declarations of interest made.

144. MINUTES

The Minutes of the Special meeting held on 2 July 2019 were approved by the Committee as a correct record and signed by the Chairman.

145. RESPONSE TO ERNST & YOUNG ON ANNUAL ASSURANCE LETTER REGARDING GOVERNANCE ARRANGEMENTS

The Internal Audit Manager introduce this item and the Committee received and noted the letter of assurance regarding Governance arrangements.

146. ERNST & YOUNG ANNUAL AUDIT FEE LETTER 2019/20

Jason Jones from Ernst & Young presented the Ernst & Young, Annual Fee letter and provided the Committee with an overview of its contents.

Key points highlighted were:

- Referring to the Housing Benefit subsidy it was advised that Ernst & Young had been appointed to complete the audit for this, which is now handled under a separate contract from the annual Accounts work
- Additional work had been completed on asset valuations, including involvement of EY's valuations specialists
- Additional work had been undertaken on the valuation of the net pension liability, including the involvement of Ernst & Young's pensions specialist

Following some further discussion, the Committee noted the content of the Annual Audit Fee letter.

147. ERNST & YOUNG AUDIT RESULTS REPORT

Jason Jones from Ernst & Young presented the report to the Committee providing detail of its contents.

The Key points highlighted were:

- Risk of fraud in revenue recognition, capitalising revenue expenditure, it was explained that an opportunity had been identified to capitalise expenditure under the accounting framework, by it being removed from the general fund. That could result in funding expenditure, that should be properly defined as revenue, through inappropriate sources such as capital receipts, capital grants or borrowing. It was advised that the audit confirmed there had not been any inappropriate capitalisation of revenue expenditure.
- Misstatements due to fraud or error, it was confirmed that E&Y had not identified any material weaknesses in controls or evidence of material management override. No instances of inappropriate judgements being applied or of any management bias were identified and that there were not any transactions during the audit which appeared unusual or outside the Council's normal course of business.
- Valuation of land and buildings, it was confirmed that this was a significant amount that was subject to a large number of estimation techniques.
- Pension liability evaluation, accounting for this scheme involves significant estimation and judgement, therefore management engaged an actuary to undertake the calculations. As a result of a recent Court judgement affecting pensions, one adjustment was made that effected the pension fund liability, the effect of which increased past service cost and gross liability. The Council contacted the actuary for an updated IAS 19 report and have amended the accounts. Work on this area is substantially complete.
- HRA Depreciation, 2017/18 was the first year that Authorities with HRA housing stock needed to account for depreciation using proper accounting practices, E&Y engaged with management early in the process and no issues were found.
- Accounting standards, to be implemented from 1 April 2020, this was deferred by CIPFA. The Council did not have significant operating contracts and therefore E&Y do not believe this will have an impact on the Council in the future.
- Audit report, it was E&Y's opinion that the financial statements gave a fair view of the Council and it was confirmed that no matters were due to be presented as an exception.
- Audit differences, it was confirmed that there had been one misclassification identified between two different accounts, the amounts had been manually captured incorrectly in the Collection Fund, however the net effect was zero; and it was confirmed that at the time of writing the report there were no uncorrected misstatements.

- Value for money risks, one significant risk had been identified in October 2018 in relation to the lack of financial reserves, given the financial pressures in the public sector there is an increased focus and wider public interest in the financial resilience of the Local Government. However, it was confirmed that 2019/20 budget was balanced.

Jason was asked if any risks been identified in terms of I.T infrastructure being vulnerable to cyber-attacks. He confirmed there nothing had been identified at this moment in time, but that this was more a matter for Internal Audit.

Councillor Chapman stated that although the 2019/20 budget is balanced beyond that period the plan identifies the need to use reserves and although the Council stays above its general fund balance until 2022/23. He believes that Arun needs to watch this carefully, as it would take a long time to recover from any financial deficit.

The Committee expressed their thanks to Ernst & Young, for all their hard work. Jason gave his thanks to the teams at Arun he had worked with in getting these items ready to be reported on, on time.

The Committee noted the report.

148. STATEMENT OF ACCOUNTS 2018/19

The Financial Services Manager advised the Committee that there were no uncorrected misstatements and very little in terms of other issues (mainly presentational typos) which was good news for the Council and this Committee.

The significant issue around HRA depreciation had been resolved and Arun now had a depreciation methodology that was acceptable to both the Council and the External Auditors. This was quite a significant piece of work as was not always easy to find auditable historic information on component assets like the age of boilers and pipes.

Turning to the Statements of Accounts it was explained that these were very different to the outturn report which although was in the same format as the approved budget and would be considered at the Cabinet meeting on 2 September, the difference was that the Statement of Accounts was prepared using proper or generally accepted accounting practice underpinned by International Financial Reporting Standards (IRFS), which was more relevant to commercial entities.

The Financial Services Manager advised that it was important to note that, as a Local Authority, certain accounting adjustments required under IFRS – mainly depreciation and valuation adjustments were not allowed to be funded from Council Tax or Rents by statute. These types of adjustment therefore had to be reversed in the Movement in Reserves Statement (MiRS). She confirmed that these adjustments effectively had zero effect.

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The Committee was informed that the Expenditure and Funding Analysis was not a core statement, but it provided a link between what was chargeable to the Tax and Rent payer in the outturn report and the net expenditure in the Comprehensive Income and Expenditure Statement.

Explaining the first of the core statements [Comprehensive Income and Expenditure Statement] that showed the accounting cost in the year providing services rather than the costs that can be funded from taxation or rent.

In relation to the Movement in Reserves Statement (MiRS) she advised that it showed changes in the Council's reserves for the year, and essentially reconciled the Comprehensive Income and Expenditure Statement with those items that may not fall to be charged, to the General Fund under statute and those which do fall to be met from the General Fund were also under statute. It was here that the large movements relating to property revaluations are disclosed.

Showing where the valuation/accounting adjustments that were mentioned earlier were essentially reversed out. Most importantly it showed the level of usable Reserves and Unusable Reserves at 31st March 2019.

It was made clear that usable reserves could be used for service provision or the reduction in tax, whereas unusable reserves could not. That was because unusable reserves rise, due to things like the valuation adjustment and these would not be realisable until that asset was sold.

The usable reserves could be seen in the General Fund balance. Arun started the year with £9.344M and applied £2.268m ending with a General Fund balance of £7.076m at 31st March 2019.

Stating that the Council requires a reasonable level of balances for unexpected events or emergencies. It also acts as a cushion for un-even or unpredicted cash flows to avoid unnecessary temporary borrowing. Crucially the General Fund balance added resilience to the Council's expenditure on services as government funding levels continue to drop.

The funding of Local Government was undergoing significant change and the outcome of the Spending Review (SR19) would result in significant further cuts in District Council funding. Further information on this subject would be available in the Financial Prospects Report which would be considered at the Cabinet meeting on 2 September 2019.

It was confirmed that the MiRS also showed the level of Earmarked Reserves which were held for known or predicted liabilities. The balance at 31 March was £15.394 million these included a revenue reserve for projects that had to be completed like the Wave, significant sums received from partners to provide projects, services, and things like the pensions reserve.

Explaining the Capital Receipts Reserve £2.791 million related to one for one receipts that must be used for the provision of social housing under the agreement with the Government.

The Balance Sheet showed a Net worth of £256 million which was balanced by usable and unusable reserves. It was dominated by Property Plant and Equipment (PPE), that in turn was dominated by Council Dwellings of £216 million.

It should be noted that the £223 million that was shown in the unusable reserves was mainly due to valuation adjustments which meant they could not be used to fund service provision.

In discussing the information provided by the Financial Services Manager Councillor Brooks asked some questions in relation to Car Parks and it was agreed that a written response to his queries would be provided upon investigation.

Councillor Tilbrook asked what the impact would be if there was a snap election or if any other election event was called soon. It was advised that if any such election was called then this would be refunded by the Government.

The Committee

RESOLVED - That

- 1) note the findings of the Ernst & Young Audit Results Report;
- 2) approve the Letter of Representation on behalf of the Council and
- 3) approve the Statement of Accounts for the financial year ended 31 March 2019 which will be signed by the Chairman of the Committee.

149. ANNUAL GOVERNANCE STATEMENT 2018/19 AND LOCAL CODE OF CORPORATE GOVERNANCE 2019/20

The Committee received details of the Annual Governance Statement from the Internal Audit Manager. He explained that the statement was based upon **CIPFA** best practice to ensure that it was able to meet the requirements of the regulations.

He referred Members of the Committee back to an earlier question that had been asked regarding the Council's IT infrastructure and its ability to be protected in the event of a cyberattack, he confirmed that page 216 of the statement provided an overview of the work that had been and was ongoing in terms of the Council's IT and Business transformation.

After some discussion Members asked about the Council's business continuity plans and wanted to know if the Internal Audit Manager was satisfied with how prepared the Council was in the event of a cyberattack. It was confirmed to the Committee that

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business continuity plans were still being reviewed and updated by the appropriate area, but that it was an item on the Council's Strategic Risk Register that would be brought to the Committee in November 2019.

The Committee

RESOLVED - That

- 1) the minor change to the local Code of Corporate Governance be endorsed; and;
- 2) the Council's Annual Governance Statement for 2018/19 be approved.

The Committee also requested that a formal officer update on Business Continuity Planning be provided in November as well as the Strategic Risk Register.

150. TREASURY MANAGEMENT ANNUAL REPORT 2018/19

The Senior Accountant introduced her report and a detailed overview. The key points she highlighted were:

- HRA borrowing – 53m current borrowing. 17.7m had already been repaid and £17.7m due to be repaid within 3 years.
- In terms of investments, the Council had invested £5 million with the Churches, Charities and Local Authorities (CCLA) property fund – we are achieving approx. a 4.2% return on this investment.
- The CCLA property fund had a diverse property investment portfolio, none of which were in shopping centres due to the current climate.
- SLY - Security (first and foremost), Liquidity and Yield (return on investments).
- The Council receives 3 reports a year – this was the annual report for 2018/19
- Drawing the Committee's attention to part 4.0 [The Council's Overall Borrowing Need] she confirmed that the Council no longer had an overdraft facility as the increased banking costs made it very expensive and rather than incurring costs for the facility, Arun now maintained an approximate £200k balance in the account (daily) to cover any potential cash flow needed.

The Committee

RECOMMEND TO FULL COUNCIL - That

- (1) the actual prudential and treasury indicators for 2018/19 contained in the report be approved;
- (2) the treasury management report for 2018/19 be noted; and;
- (3) the treasury activity during 2018/19, which has generated interest receipts of £754,000 (1.25%). Budget £480,000 (1.14%) be noted.

151. COUNTER-FRAUD REPORT 2018/19

The Internal Audit Manager introduced his report and gave an overview of the contents. He explained that a report had been taken to the Overview Select Committee in December 2018 that highlighted the extraordinary work that had been completed by Arun's Housing Fraud Investigator in stopping fraudulent activity taking place in Council owned properties.

He then confirmed to the Committee that 77 accounts had, had the Council Tax Single Person Discount, removed in 2018 which resulted in re-billing of approximately £66k.

The Committee

RESOLVED - That

- (2) the Counter Fraud Report be noted; and;
- (3) the Counter-Fraud work performed by the Council in 2018/19 be endorsed.

152. INTERNAL AUDIT ANNUAL REPORT & OPINION 2018/19

The Internal Audit Manager presented his report to the Committee and provided an overview of its contents. He highlighted that it was a requirement that Internal Audit was subject to an external assessment. It was advised that the Head of Business Services at Wealden District Council would be completing this review for Arun and a report would be brought before the Committee in November 2019.

The Committee

RESOLVED - That

- (1) the report the Internal Audit Annual Report & Opinion 2018/19 be noted; and;
- (2) the work carried out by Internal Audit in 2018/19 be endorsed.

153. PROGRESS AGAINST THE AUDIT PLAN

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The Committee received and noted the Progress Report Against the Annual Audit Plan as had been approved by the Committee prior to the start of the financial year.

The Internal Audit Manager explained that key control checks were completed on the main financial systems annually. In response to Member questions he also advised of the main areas of work that had been conducted or were under way this year.

Councillor Chapman raised the point that it was vital to keep the Council's own internal audit team resourced in house and to not be reliant on a third party to complete the work required.

154. WORK PLAN REVIEW 2019/20

The Internal Audit Manager presented to the Committee its updated work programme for 2019/20. The Group Head of Corporate Support confirmed that Treasury Management Training for Members would be held on 21 November 2019.

The Committee

RESOLVED

That its Work Programme 2019/20 be approved.

(The meeting concluded at 19:16pm)