

**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
HELD ON 5 JUNE 2019 FROM 7.00 PM TO 8.40 PM**

Committee Members Present

Councillors: Chris Smith (Chairman), Dianne King (Vice-Chairman), Rachel Burgess, Maria Gee, Angus Ross, Daniel Sargeant and Imogen Shepherd-DuBey

Also Present

Helen Thompson, Ernst and Young
Malcolm Haines, Ernst and Young
Martin Jones, Specialist Finance
Andrew Moulton, Assistant Director, Governance
Mark Thompson, Specialist Finance
Neil Carr, Democratic and Electoral Services Specialist

5. APOLOGIES

There were no apologies for absence.

6. MINUTES OF PREVIOUS MEETINGS

The Minutes of the meeting of the Committee held on 6 February 2019 and the Minutes of the Extraordinary meeting of the Committee held on 22 May 2019 were confirmed as a correct record and signed by the Chairman.

Angus Ross pointed out that the Minutes of the 6 February meeting included a request that the new Chief Executive be invited to this meeting. Andrew Moulton (Assistant Director, Governance) explained that the Chief Executive had requested a refresh of the Corporate Risk Register and that, following that work, she would be attending the September meeting of the Committee.

7. DECLARATION OF INTEREST

There were no declarations of interest submitted.

8. PUBLIC QUESTION TIME

There were no Public questions.

9. MEMBER QUESTION TIME

There were no Member questions.

10. EXTERNAL AUDIT PROGRESS REPORT

The Committee received the External Audit Progress Report, submitted by Helen Thompson and Malcolm Haines from Ernst and Young.

During the discussion of this item the following points were made

- Group Accounts Assessment - why were none of the subsidiaries assessed under full scope procedures? It was confirmed that the Council-owned companies both individually and collectively did not meet the threshold for a full assessment, i.e. over 15% of the group or over 15% of the Council's total expenditure. However, some review work was carried out (qualitative and quantitative) and no risks had been

identified. The auditors carried out their own assessments, independent of any management views expressed by the Council.

- Pension Liability – it was confirmed that the Local Government Pension Scheme faced a number of ongoing challenges, for example in relation to the implications of the McCloud judgement which related to contingent liabilities.
- PFI Liability Accounting – it was confirmed that the re3 Waste PFI was based on a long term contract. As time progressed the assumptions underpinning the PFI accounting model were adjusted. However, this did not have a significant effect upon the financing of the project.
- Informed Decision Making – an additional significant Value for Money risk had been identified relating to significant changes within the Council's top management team and political leadership (including the Executive Member for Finance).

RESOLVED: That the External Audit Progress Report be noted.

11. EXTERNAL AUDIT FEE 2019-20

The Committee considered the External Audit Fee proposals for 2019-20.

The report set out the range of activities to be covered in 2019/20, including audit of the financial statements and value for money conclusions. Any additional work would be negotiated separately and agreed with the Council in advance.

The Audit Plan was expected to be issued in January 2020. The Audit Plan would communicate any significant financial statement and Value for Money risks identified and the planned audit procedures necessary to respond to those risks.

RESOLVED: That the External Audit Fee letter for 2019-20 be noted.

12. HOUSING RENT ARREARS

The Committee considered the internal controls in place to manage Housing Rent arrears efficiently and effectively.

The report stated that, at the previous meeting, the Chairman had asked for further information on progress relating to two independent reports on rent arrears management, together with updated financial information on the collection of housing rents.

The report indicated that good progress had been made in relation to 42 of the 62 actions. The remaining recommendations were being implemented in 2019/20 as scheduled.

During the discussion of this item the following point was made:

In relation to Table 2 – Arrears Reduction and Arrears % Annual Debt for HRA Properties – Members requested more detailed information on the specific items which made up the overall totals shown in the table.

RESOLVED: That the update report be noted.

13. INTERNAL AUDIT OF COUNCIL TAX REDUCTION SCHEME

The Committee considered the outcome of the internal audit of the Council Tax Reduction Scheme (CTRS).

The report stated that, following initial consideration of changes to the CTRS in January 2019, the Chairman had requested an Internal Audit review of the governance arrangements and processes for setting the CTRS for 2019/20.

Overall, the audit found that effective processes were in place for setting and improving the CTRS. However, controls that should have ensured the successful delivery of the scheme were impacted by a number of factors including instability in leadership with key Member and Officer posts being vacant, the major restructuring programme ongoing at that time and ineffective Member oversight and decision making. A number of areas were highlighted in order to strengthen controls and oversight of the process.

Based upon the review of controls in place relating to CTRS the report stated that the Audit opinion was that the controls were “substantially complete and effective” (the second highest of the four Audit opinions).

During the discussion of this item the following points were made:

- Members felt that a more accurate Audit opinion should have been that the “range of Risk Mitigation Controls was incomplete and risks were not effectively mitigated”.
- Would future Member oversight include a standing item on the Community and Corporate Overview and Scrutiny Committee? It was confirmed that the CTRS Audit Plan would be submitted to the Audit Committee and, at that point, the Committee could discuss the appropriate Member oversight arrangements.

RESOLVED That:

- 1) the Internal Audit of the Council Tax Reduction Scheme be noted;
- 2) a further update be submitted to the Committee at its meeting on 24 July 2019.

14. ANNUAL REPORT 2018/19 - SHARED AUDIT & INVESTIGATION SERVICES

The Committee considered the Annual Report 2018-19 for the Shared and Audit and Investigation Services.

The report met the annual reporting requirements set out in the Accounts and Audit Regulations 2015 to include an opinion on the overall adequacy and effectiveness of the Council’s system of internal control.

RESOLVED: That the 2018-19 Shared Audit and Investigation Service Annual Report be noted.

15. TREASURY MANAGEMENT OUTTURN 2018-19

The Committee considered the Treasury Management Outturn Report 2018-19.

During the discussion of this item the following points were made:

- What was the definition of Minimum Revenue Provision (MRP) Borrowing? It was confirmed that MRP was general borrowing which could be allocated to any scheme, as necessary.
- In order to assist Members, could future reports be printed in colour?
- Could a more detailed explanation be provided to explain the different figures for Internal Borrowing set out on Page 64 of the report?

- Prudential Indicators – was the Council close to the boundary on any of its prudential indicators.
- Average interest rate – could further clarification be provided on the rationale for the average interest rate for borrowing.
- Housing Revenue Fund Loan Portfolio – could further information be provided on the dates when loans were taken out?
- Loans to subsidiaries – could further detail be provided on the make-up of loans to subsidiary organisations.
- Councillor Smith commented that Optalis was able to deliver key services more efficiently than the Council, so it was more than a Profit & Loss issue.
- Could more detail be provided about the accounts of the Council's subsidiary companies?
- General Fund Loan Portfolio – provide more detail on Appendix C including the start date for loans.

RESOLVED That:

- 1) the Treasury Management Outturn report for 2018/19 be noted;
- 2) the actual 2018/19 prudential indicators within the report be noted;
- 3) the report be recommended to Council for approval.

16. CORPORATE RISK REGISTER

The Assistant Director, Governance provided an update on the Corporate Risk Register.

During this discussion of this item the following points were made:

- The Corporate Risk Register was being refreshed and the results would be reported to the Committee's meeting on 24 July 2019;
- Sarah Hollamby, Director of Customer and Locality Services, would attend the July 24 meeting to discuss risks within her service areas;
- Susan Parsonage, Chief Executive, would attend the September 2019 meeting to discuss corporate risks;
- The September meeting would also be used for a Member training session on risk management.

RESOLVED: That the update on the Corporate Risk Register be noted.

17. UPDATE ON INTERNATIONAL FINANCIAL REPORTING STANDARDS 9, 15 AND 16

Members were updated on International Financial Reporting Standards (IFRS) 9, 15 and 16 and their adoption into the Council's accounting policies. The standards related to:

- IFRS 9 – Financial Instruments;
- IFRS 15 – Revenue from contracts with customers;
- IFRS 16 – Leases.

During the discussion of this item the following points were made:

- IFRS 9 – the main changes related to the classification of financial instruments and impairments of financial assets;
- IFRS 15 – the major revenue sources affected included fees and charges, rents, car parking and charges to third parties in relation to adult social care;
- IFRS 16 – the standard would impact on any Council with material operating leases;
- Implementation of IFRS 16 had been deferred until 1 April 2020;

RESOLVED: That the report be noted.

18. CERTIFICATION OF CLAIMS AND RETURNS - CLAIMS AND RETURNS ORGANISED BY LOCAL AUTHORITIES

The Committee received the Certification of Claims and Returns – Claims and Returns Organised by Local Authorities report.

During the discussion of this item the following points were made:

- Councils had a statutory duty to make arrangements for certain grant claims and Government returns to be audited.
- The three audits set out in the report did not identify any significant issues.

RESOLVED: That the Audit Certification Reports 2017/18 for the Teachers' Pension Return; the Pooling of Housing Capital Receipts Return, and the Review of Sub Contracting Arrangements for the Skills Funding Agency (SFA) be noted.

19. UPDATE ON CHANGES TO ACCOUNTING POLICIES

The Committee considered a report which set out proposed changes to accounting policies for inclusion in the Statement of Accounts for the year ended 31 March 2019.

During the discussion of this item the following points were made:

- What was the definition of "Investment Property"? It was confirmed that investment properties were used solely to earn rentals and/or capital appreciation.
- The definition of investment property was not met if property was used to facilitate service delivery, production of goods or was held for sale.
- Potential investment properties that were also acquired for economic development and regeneration were treated as operational land and buildings.
- Councillor Smith confirmed that the classifications relating to investment properties would be reviewed at the end of the Regeneration programme.

RESOLVED: That the revised Statement of Accounting Policies, as per Appendix 1, be approved for inclusion in the Statement of Accounts for the year ended 31 March 2019.

20. FORWARD PROGRAMME 2019-2020

The Committee considered the forward programme for 2019-2020.

During the discussion of this item the following points were made:

- Equality Act Training – add item to the 24 July meeting.
- Data Protection Breaches – add item to 24 July meeting.
- Council Tax Reduction Scheme – add update item to 24 July meeting.
- Capital Outturn Reports – Chairman to discuss with Officers.

- Returns from large Capital schemes – Chairman to discuss with Councillor Ross.
- Policy for Approving Non-Audit Work – add item to 25 September meeting (circulate National Audit Office guidance).
- Annual Audit Letter – add item to 6 November meeting.
- Draft WBC Accounts – to be circulated to Members in advance of the next meeting of the Committee.

RESOLVED: That the forward programme be amended as agreed at the meeting.