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Elmbridge Borough Council

Audit and Standards Committee

Report of a meeting held on 21 November 2018

Members of the Committee:

- * A. Coomes (Chairman)
- * O.T. Chappell (Vice-Chairman)

*	*
N. Haig-Brown A.H. Kopitko	D.J. Lewis S.J. Selleck

Co-Opted Members:

- * Mr. S. Hassel, Independent Member
- * Mr. C. Johnson, Independent Member
- * Claygate Parish Councillor M. Sugden

(* Denotes attendance)

Also present:

Mrs. R. Mitchell

13/18 Declarations of Interest

There were no declarations of interest.

14/18 Minutes of the meeting of the Committee held on 25 July 2018

The Minutes of the meeting of the Committee held on 25 July 2018 were agreed as a correct record and signed by the Chairman.

15/18 Opening Remarks

The Committee welcomed Sarah Ironmonger, Engagement Lead, Grant Thornton and Amber Banister, Engagement Manager, Grant Thornton to the meeting.

Ms. Ironmonger took the opportunity to advise the Committee that Mr. Ade Oyerinde had been promoted to Senior Manager at Grant Thornton earlier in the year and that he was now responsible for other clients.

As a result of this, Ms. Ironmonger introduced Ms. Banister to the Committee and it was noted that the audit work going forward for the Council would now be undertaken by Ms. Banister and her team.

The Committee placed on record its thanks to Mr. Oyerinde for all his work and professionalism in respect of the audit work undertaken for the Council and wished him well for the future.

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Recommendation to Council on 5 December 2018

16/18 Risk Management Strategy

(Link to Council Priorities: All)

The Committee was provided with details of the Council's Risk Management Strategy that provided a structured and coherent approach to identifying, assessing, controlling and financing risk.

Members noted that, having reviewed the Strategy that had been considered by the Committee in September 2017 and subsequently approved by Council in September 2017, it still remained unchanged and fit for purpose.

It was further noted that a series of risk management initiatives were being developed and progressed with a view to enhancing current procedures and practices, the details of which were outlined in the report.

During consideration of the Risk Management Strategy and specifically the development of a series of risk management initiatives, the Claygate Parish Councillor Co-Opted Member queried what the financial risk was in respect of the Tree Risk Management programme and the incursion of the Oak Processionary Moths. The Head of Finance advised that it was not exclusively a financial risk to the authority and risks associated with reputation and health & safety should also be considered with this particular initiative.

With regard to the Grey Fleet data capture and insurance review, whilst referring to a previous employer in the private sector, one Member asked whether the Council had a similar approach with regard to users of the Grey Fleet not using mobile phones whilst driving. The Head of Finance advised that all legal obligations would need to be met and that included not only mobile phones but also smoking. Policies were in place in this regard and for those members of staff who were out on Council business undertaking site visits etc., business car insurance cover was required. He further confirmed that this also applied to Members of the Council. Given that this was not necessarily widely known by Members, the Head of Finance agreed to include this requirement in the guidance provided to Members at the beginning of each Municipal Year.

Recommended: that the Risk Management Strategy, as attached at Appendix A to these minutes, be approved.

Matters of Report

17/18 Annual Audit Letter

(Link to Council Priorities: All)

The Committee received and considered Grant Thornton's Annual Audit Letter.

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The Committee had previously considered Grant Thornton's Audit Findings at its meeting on 25 July 2018. In accordance with the established timetable, Grant Thornton had now issued its Annual Audit Letter that provided a summary of Grant Thornton's work at the Council as part of the 2017/18 audit plan.

Members noted that the key messages contained in the letter included:

- (i) Grant Thornton had issued an unqualified opinion on the Council's financial statement for 2017/18 and its value for money arrangements; and
- (ii) the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Ms. Ironmonger reported that work in respect of the Housing Benefit Grant Certification was ongoing and it was envisaged that Grant Thornton would be in a position to complete the certification by the deadline of the end of November 2018. She advised the Committee that one or two errors had been identified and therefore extended testing was being undertaken in this regard. Once the work had been completed, an update would be provided to the Committee in March 2019. Ms. Ironmonger provided some context to this issue that out of the seven other authorities that she would be signing off on Housing Benefit claims, there had been only one where no issues had been identified. Accordingly, it was fairly standard to find issues when extended testing was undertaken.

During consideration of the report, one of the Independent Members queried the level of fees which he considered had increased disproportionately and asked whether this increase was due to the additional work being undertaken. Ms. Ironmonger advised that the planned fees for the year were in line with the scale fee set by the Public Sector Audit Appointments (PSAA).

In answer to a question as to whether the significant audit risk 'management override of controls' had been provided as part of the audit regulatory framework or whether it was an Elmbridge specific risk, Ms. Ironmonger advised that the audit regulation had two presumed risks for any audit. One was the risk of revenue recognition and the other was the management override of controls. Therefore, she commented that it had been included within the report because it was a standard risk that was assumed to exist for every audit and accordingly work had been undertaken in this regard.

Resolved that Grant Thornton's Annual Audit Letter be received and noted.

18/18 Grant Thornton's Audit Fee 2018/19

(Link to Council Priorities: All)

The Committee received a copy of Grant Thornton's Annual Audit Fee letter for 2018/19.

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The Committee was advised that the proposed audit fees for 2018/19 were approximately 23% less than the fee applicable for 2017/18 and in this regard the Council's scale fee for 2018/19 had been set at £40,000. Members noted that the reason for this decrease in audit fees was because the housing benefit grant certification now fell outside the Public Sector Audit Appointments (PSAA) Contract and Councils were therefore expected to make their own arrangements.

As outlined in the report, following a procurement process, the Council had appointed Grant Thornton for this work and the indicative grant certification fee would be approximately £18,000.

Accordingly, the Committee noted that the total fee would be approximately £58,000 which could be met from the existing budget.

RESOLVED that the Annual Audit Fee for 2018/19 be received and noted.

19/18 Treasury Management 2018/19

(Link to Council Priorities: All)

The Committee received an update in respect of the investment position of the Authority as at 2 November 2018 and approval was sought in respect of revised security benchmarks. A report on the mid-year activity, as required under the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice, was also provided.

Members were pleased to note that all of the limits and targets were within the parameters set by the Council. Officers continued to explore options to increase the yield on investments while preserving the money invested.

Members were also informed that new default rates had now been published. Given the timing of the publication of these indicators, the Committee noted that it would be difficult to use the information effectively across a full financial year and therefore in order to ensure monitoring took place against the new benchmarks in a constructive way, it was suggested that the new benchmarks be set for a calendar year. A table showing comparison of the performance against the current benchmark; the actual percentage against the new default rates; and the proposed limits for 2018, was set out in the report. Currently the Maximum Expected Value of the Historic Risk of Default was 0.25% (Actual at 2 November 2018 was 0.11%). However, based on the new indices, this would have been 0.10%. In light of the new figures, the Committee supported the Maximum Expected Value being maintained at the level of 0.25%.

A lengthy discussion took place regarding the average level of treasury management investments held each month against profile and clarification was provided by the Head of Finance and the Corporate Group Accountant as to why the investments had peaked in January. This had been due to the majority of Council Tax and Business Rates cash flows having been received between April and January, and because the payments to the major preceptors (Surrey

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County Council, the Police, and the Government) had occurred evenly throughout the whole year. The Head of Finance agreed to refine the wording within the report to clarify the position.

With regard to the various core investments that were due to mature by the end of January 2019, the Claygate Parish Councillor Co-Opted Member asked what the plan was for these funds. The Head of Finance advised that whilst officers would continue to look at the markets, regular meetings would be held on the Council's approach based on market intelligence, and advice would be sought from the Council's advisors as to whether the Council should be investing short-term or long-term. He further advised that at the current time, it was likely that short-term investments would be the way forward unless an opportunity became apparent. He reminded the Committee that the most important consideration for the Council should be security followed by liquidity and yield.

Whilst noting that the Council had short-term core investments of approximately £80 million, one Member queried why the Council continued to borrow funds from the Public Works Loan Board. The Head of Finance advised that recently he had been looking at 50-year money which, taking into account the discount, had a fixed interest rate of approximately 2.7%. In this regard, depending on the investment opportunity, there were advantages of taking the lower rates of borrowing.

A discussion also took place regarding concerns that had been raised by the Chartered Institute of Public Finance and Accountancy (CIPFA) in respect of property acquisition borrowing. The Committee was advised that the Council had a robust strategy in place and officers were confident that the Council complied with the CIPFA guidance in this regard.

With regard to the Fair Funding Review, whilst noting that the Council's Medium Term Financial Strategy had identified a £3 million funding gap, one of the Independent Members asked whether the Fair Funding Review would help or worsen the situation. The Strategic Director and Deputy Chief Executive advised that the £3 million funding gap had been identified for 2020/21 and this figure had been based on the assumption that the Council would receive no funding from Government. She further commented that it was likely that those authorities that were responsible for demand-led services such as Social Care, would benefit the most out of this Review.

Resolved that

- (a) the investment position at 2 November 2018 and the mid-year Treasury Management Activity Report for 2018/19 be noted; and
- (b) the revised security benchmark criteria, as detailed in paragraph 12 of the report, be approved with effect from 1 January 2019.

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20/18 Internal Audit & Counter Fraud Progress Report

(Link to Council Priorities: PC8)

The Committee considered a summary of Internal Audit's work for the period 1 April to 2 November 2018.

The Head of Internal Audit took the opportunity to provide an update on the work undertaken by the Team during the period and reminded the Committee that from 1 April 2018, the Internal Audit and Counter Fraud functions had been combined and assimilated into one team. The Committee noted that the Counter Fraud officers would be taking on a wider remit to prevent and detect fraud in addition to their role with regard to fraud investigations.

The Committee noted that the progress report had been refreshed and now included the Counter Fraud and Investigation activities.

The Head of Audit provided a brief update regarding the National Fraud Initiative and it was noted that datasets had been submitted to the Cabinet Office in October 2018. It was anticipated that the results from this exercise would be released to the Council for investigation in late January 2019.

With regard to Internal Audit performance, the Head of Internal Audit advised that in addition to the annual assessment of internal audit effectiveness against Public Sector Internal Audit Standards (PSIAS), the performance of the service had been monitored against a set of agreed key performance indicators, the details of which were outlined in the report. Given that the PSIAS required an external assessment to be conducted every five years, the Head of Internal Audit updated that following the external assessment undertaken in 2018, it had found that the Internal Audit Service at Elmbridge substantially confirmed to the PSIAS requirements which was pleasing given the size of the Team at Elmbridge. Whilst the assessment had highlighted a small number of areas where improvements could be made, the Head of Internal Audit advised that these actions had been considered and incorporated into an action plan where appropriate. The Head of Internal Audit was pleased to update that the assessment had also identified several areas of good practice.

During consideration of the report and specifically the investigation into Housing Tenancy and Council Tax Fraud, one of the Independent Members queried whether PA Housing contributed to the cost of undertaking this fraud work. The Head of Internal Audit confirmed that the two organisations worked in partnership and whilst PA Housing did not currently contribute financially to the fraud work undertaken, a more formalised working arrangement was being considered. However, the Council was given nomination rights for those properties that were recovered which was a benefit to the Council in that it could assist with reducing the temporary housing bill.

In answer to a question regarding internal fraud and the process undertaken in this regard, the Head of Internal Audit advised that the Council had a Confidential Reporting Policy which set out the whistleblowing guidelines which

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were based on best practice. A referral in box was also in place for whistleblowing which was monitored regularly, and any instances of whistleblowing were reported to the Committee. The Head of Internal Audit confirmed that to date, no whistleblowing cases had been reported.

One Member asked whether the public could report any allegations of fraud through the Council's website. The Head of Internal Audit commented that information in this regard was available on the website and all allegations were treated as confidential. As some of the Committee had been unable to find information regarding whistleblowing on the Council's website, the Head of Internal Audit agreed to look at this and refine the search facility as appropriate.

One Member sought clarification as to how the list of planned audits was established and whether they were carried out by a dedicated Internal Audit team or whether there was the opportunity of using other staff to assist. The Head of Internal Audit provided the Committee with the details of the resources available in respect of Internal Audit which included not only himself (40 days a year) and the Internal Audit Manager at Elmbridge but also an additional 60 days a year that were bought from Surrey County Council. With regard to the list of planned audits, the Head of Internal Audit advised that this list was developed following discussions with Heads of Service, consideration of the Risk Registers and in the light of any emerging national trends. Benchmarking with the other Surrey Districts and Boroughs was also undertaken. In respect of using other staff to assist with audits, the Head of Internal Audit explained that in order to maintain the professional independence there was a need to ensure that the Internal Audit staff were independent from the areas that they were auditing and furthermore audits were required to be undertaken by qualified auditors in line with the professional standards.

Resolved that the Internal Audit and Counter Fraud Progress Report for the period 1 April to 2 November 2018 be received and noted.

21/18 Information Item

(a) Audit Progress Report and Sector Update

The Committee received Grant Thornton's Audit Progress report for the Audit of the 2018/19 Statement of Accounts together with a Sector Update.

Members noted that Grant Thornton had commenced planning processes for the 2018/19 financial year audit and early substantive testing would begin in early 2019.

With regard to the Sector update, which provided a summary of emerging national issues and developments for the Public Sector as a whole, the Committee was advised that there were two that directly impacted the Council, specifically:

- the Consultation on Financial Resilience Index; and
- the impact of the Fair Funding Review.

