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Elmbridge Borough Council

Audit and Standards Committee

Report of a meeting held on 29 July 2019

Members of the Committee:

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

T. Catton	*	D.J. Lewis
N. Haig-Brown	*	Mrs. R. Mitchell

Co-Opted Members:

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

(* Denotes attendance)

Also present:

C.R. Sadler

8/19 Declarations of Interest

There were no declarations of interest.

9/19 Minutes of the meetings of the Committee held on 15 May and 29 May 2019

The Minutes of the meetings of the Committee held on 15 May and 29 May 2019 were agreed as correct records and signed by the Chairman.

Matters of Report

10/19 Audit Findings

(Link to Council Priorities: All)

The Committee received and considered Grant Thornton's Audit Findings for 2018/19 which also included the Value for Money opinion.

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

Members were pleased to note that subject to the satisfactory completion of the outstanding audit work, Grant Thornton would be providing an unqualified opinion on the financial statements.

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Ms. Banister took the opportunity to highlight the audit risks that had been identified in the Audit Plan which included the following:

- improper revenue recognition;
- management override of controls;
- valuation of land and buildings; and
- valuation of pension fund net liability.

Ms. Banister discussed with the Committee a number of items in relation to the Council's liability to the pension fund administered by Surrey County Council that had been identified during the audit. In this regard, an update was provided in respect of the McCloud Judgement and the possible impact of the High Court ruling on the Guaranteed Minimum Pension (GMP), the details of which were outlined in the report. As a result of these issues, the actuary had also updated the pension information relating to the asset returns. The updated information included the actual investment returns at 31 March 2019 instead of the indexed returns used in the original information supplied to the Council by the County Council.

The Committee noted that the total cost of the McCloud Judgement, the GMP and the Asset Return adjustments was £1.7 million and whilst this amount was below materiality level, it had now been included in the Council's accounts. The Committee acknowledged that there still remained an uncertainty about the remediation for the McCloud and responsibility for GMP which it was hoped would be resolved by 31 March 2020 at which point the accounts would reflect the final decision.

With regard to Value for Money, Members noted that Grant Thornton had confirmed that the Council continued to deliver good financial outcomes and had established adequate arrangements for financial planning, governance and control. Accordingly, the overall Value for Money opinion concluded that the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019. As part of the Value for Money opinion, the Committee noted that Grant Thornton had also concluded that although adequate arrangements were in place to support the Council's medium-term financial position, External Audit would continue to review any reliance placed on the continued use of reserves for on-going expenditure. As part of this, the Council's approach to setting fees and charges and Council Tax increases would continue to be reviewed by Grant Thornton.

During consideration of the report, a discussion took place regarding the pension liability and how the total cost of £1.7 million should be reflected within the accounts. Given that the ruling on the McCloud Judgement and the GMP came through at the end of June 2019, Ms. Ironmonger advised that this took away any legal recourse to that liability and therefore that liability was deemed to have existed. With regard to the Local Government Pension Scheme, the Committee noted that the Council had obtained an updated actuarial report following the closing of the accounts which had resulted in non-material amendments being made to the pensions disclosures. The Head of Finance also took the opportunity to provide clarification in this regard and it was noted

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that this matter was a sector-wide issue and the adjustments within the pension fund would have no effect on the Council Taxpayer.

Resolved that the Audit Findings for 2018/19 be received and noted.

11/19 Letter of Representation: External Audit

(Link to Council Priorities: All)

The Committee considered a draft Letter of Representation for the financial year 1 April 2018 to 31 March 2019, which would be submitted to the Council's External Auditor.

Whilst this was a standard document, it provided assurance to Grant Thornton that the Council had complied with all the specific Regulations when completing its financial statements for the year ended 31 March 2019.

Resolved that the Letter of Representation, as set out at Appendix A to the report, be formally acknowledged.

12/19 Statement of Accounts 2018/19

(Link to Council Priorities: All)

The Committee considered the Statement of Accounts for the year ended 31 March 2019. The Accounts and Audit Regulations 2003, as amended by the Accounts and Audit Regulations 2015, required each authority to approve its accounts for 2018/19 by the end of July 2019.

The Head of Finance reported that apart from the two significant matters in respect of Community Infrastructure Levy and Provisions that had been highlighted to the Committee in May 2019, no other significant matters had been identified except in relation to the Pensions, the details of which had been included as part of the Audit Findings report (Minute No. 10/19 refers).

On consideration of the Statement of Accounts, whilst noting that there had been a £460,000 overspend as well as an increase in reserves of £592,000, one Member queried how the reserves had increased given the overspend on the budget for 2018/19. The Head of Finance provided detailed clarification in this regard and it was noted that the overspend of £460,000 had been funded by using the Business Rates Surplus for 2018/19. He also reported that the General Fund Reserve level remained at £4 million which was considered to be sufficiently robust to be able to finance unforeseen one-off events.

A lengthy discussion on property valuations also took place and concern was expressed regarding the depreciation levels and in particular the change to useful life in years. Whilst acknowledging that the Council's property, plant and equipment was revalued every five years as part of a rolling programme, the Head of Finance reported that professional Valuers were engaged and furthermore, Grant Thornton had also considered the useful lives and

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depreciation rates as part of the audit work. Given the significant change in useful life for the Intergenerational Centre in Thames Ditton (decreased from 45 years to 7 years) and the Children's Centre in Weybridge (decreased from 35 years to 7 years), the Committee queried what had changed since the last valuation for the useful life of these assets to have decreased so significantly. Although the values involved were not material, the Strategic Director and Deputy Chief Executive commented that this was mainly due to the age of these particular assets and the Council's Capital Strategy included information in this regard and the requirement for major investment.

Resolved that the audited Statement of Accounts for the year ended 31 March 2019 be approved.

13/19 Treasury Management 2019/20

(Link to Council Priorities: All)

The Committee was provided with a report that set out the activities and results of the treasury management function for 2018/19 in accordance with the Council's Treasury Management Strategy and in compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA's) Code of Practice for Treasury Management in Public Services and the Investment Guidelines for England issued by the Department of Communities and Local Government.

The investment position of the Authority as at 30 June 2019 was also reported and Members noted that all of the limits and targets were within the parameters set by the Council with the exception of the 5-year Security Benchmark, which was higher than the maximum expected value due to the £150,000 loan that had been made to EBC Homes Ltd. The Committee was pleased to note that Officers continued to explore other options to increase the yield on investments while preserving capital value.

Members noted that careful and effective management of the Council's investments combined with placing funds at higher rates than anticipated had resulted in investment returns for 2019/20 to the end of June 2019 being £21,000 better than the profiled budget.

On consideration of the report, whilst noting that a number of the other Surrey authorities had invested in alternative investment vehicles, one of the Independent Members sought clarification as to the definition of this approach to investments. The Corporate Group Accountant advised that the alternative investment vehicles included pooled property funds and Housing Associations which could provide higher investment returns. However, Elmbridge did not have the authority to use these alternative investment vehicles. In this regard, one Member queried whether authority should be sought for the Council to invest in these alternative investment vehicles given the possibility of increasing the investment return going forward. The Head of Finance reported that these methods had been considered in the past. However, there was a risk involved in using these particular methods and the approach taken by the Council had always been in the order of security, liquidity and yield.

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Resolved that

- (a) the Treasury Management Activity Report for 2018/19, be noted; and
- (b) the investment position as at 30 June 2019, be noted.

14/19 Internal Audit Annual Report 2018/19

The Committee considered the Internal Audit Service Annual Report for the financial year 2018/19.

Members were provided with a summary of work undertaken by the Internal Audit Service during 2018/19 together with the Head of Internal Audit's Opinion Statement for the year ended 31 March 2019 to support the Annual Governance Statement.

The Head of Internal Audit was pleased to report that the Council's internal control environment was adequate & effective, and the service was operating independently. In addition, all the audit reviews, both planned and unplanned, had been reported to the Committee and all management actions identified were being implemented.

During consideration of the report and specifically the summary of completed audits, one Member was concerned at the audit review in respect of the Waste Management Contract which had resulted in an assurance opinion of 'Major Improvement Needed'. The Head of Internal Audit provided an update in this regard and reported that an audit had been undertaken of the Elmbridge element of the Joint Waste Collection Contract only and that actions to improve the financial and budgetary control had been recommended and agreed. A follow-up audit would also be undertaken in 6 months' time.

One of the Independent Members also took the opportunity to highlight some recent Chartered Institute of Public Finance and Accountancy (CIPFA) guidance which referred to more detailed audit reports being provided to Audit Committees. Whilst not having seen the recent CIPFA guidance in this regard, the Head of Internal Audit commented that a summary and overview of the assurance opinion was provided to the Committee and in his opinion, this was sufficient for the purposes of the role of the Committee. All audit reviews were considered by the Council's Council Management Board and where actions were recommended these were implemented promptly. Should actions not be implemented, these would be reported to the Committee in the normal way. The Head of Internal Audit did agree to consider alternative ways of reporting this information and would speak to neighbouring authorities to establish how this information was reported to their Audit Committees.

Resolved that

- (a) the summary of Internal Audit work for the financial year 2018/19, be received and noted; and

