Elmbridge Borough Council  

Audit and Standards Committee  

Report of a meeting held on 25 July 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  

6/18 Declarations of Interest  

There were no declarations of interest.  

7/18 Minutes of the meetings of the Committee held on 16 May and 30 May 2018  

The Minutes of the meetings of the Committee held on 16 May and 30 May 2018 were agreed as correct records and signed by the Chairman.  

Matters of Report  

8/18 Audit Findings  

(Link to Council Priorities: All)  

The Committee received and considered Grant Thornton’s Audit Findings for 2017/18 which also included the Value for Money opinion.  

The Committee welcomed Mr. Ade Oyerinde, Audit 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.
Mr. Oyerinde took the opportunity to highlight the significant audit risks that had been identified in the Audit Plan which included the ‘revenue cycle including fraudulent transactions’ and ‘management override of controls’. It was noted that these two audit risks were not unique to Elmbridge and therefore would be included in all other organisations’ audit findings.

He further advised that the audit had identified that the total asset value of two investment properties had been materially understated in the Statement of Accounts by £2.5 million when compared to the valuation provided by the external valuers at 31 March 2018. Whilst the increase in value would have no impact on the general fund balance, the Statement of Accounts had been amended to reflect the increase in valuation between the date of purchase and the 31 March 2018. For completeness, Mr. Oyerinde tabled an updated Appendix B of the audit findings report which included the specific details of the audit adjustments.

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 in all significant respects to ensure it delivered value for money in its use of resources for the year ending 31 March 2018.

During consideration of the report, one Member sought clarification regarding the revaluation of assets. Mr. Oyerinde advised that a cyclical approach was taken in respect of land and buildings and for investment properties, an annual revaluation at the year end was required.

RESOLVED that the Audit Findings for 2017/18 be received and noted.

9/18  Letter of Representation: External Audit

(Link to Council Priorities: All)

The Committee considered a draft Letter of Representation for the financial year 1 April 2017 to 31 March 2018, 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 2018.

The Head of Finance advised the Committee that a further amendment had been made to the Letter of Representation and this was tabled at the meeting. Accordingly, it was proposed that the second paragraph of (xi) in the Letter be deleted, and a new paragraph (xii) be inserted as follows:

‘xii. We have considered the unadjusted misstatement schedule included in your Audit Findings Report and attached (appendix B page 18). We
These Minutes should be referred to in conjunction with the Minutes of the subsequent meeting of the Council, where they are presented; and for completeness to the next relevant meeting when the Minutes are adopted.

The Committee supported this amendment and

RESOLVED that, subject to the amendment detailed above, the Letter of Representation be formally acknowledged.

10/18 Statement of Accounts 2017/18

(Link to Council Priorities: All)

The Committee considered the Statement of Accounts for the year ended 31 March 2018. The Accounts and Audit Regulations 2003, as amended by the Accounts and Audit Regulations 2015, required each authority to approve their accounts for 2017/18 by the end of July 2018.

The Head of Finance reported that, subject to a number of final clarifications on the Statement of Accounts 2017/18, the Council’s External Auditors, Grant Thornton, would be issuing an unqualified opinion. He reminded the Committee that when the draft Statement of Accounts had been considered in May 2018, two significant matters (Community Infrastructure Levy and Provisions) had been highlighted. In this regard, he was pleased to report that there had been no challenge from Grant Thornton on these two matters.

With regard to the significant audit risk that had been highlighted in the audit findings in respect of the understating of the two investment properties by £2.5 million, the Head of Finance reported that as soon as this had been identified by Grant Thornton, the Statement of Accounts had been amended to reflect the increase in valuation.

During consideration of the Statement of Accounts 2017/18 and specifically the budget and actual expenditure for 2017/18, the Claygate Parish Councillor Co-Opted Member queried why the Planning Committee portfolio had had a significant overspend of £584,000. The Head of Finance advised that this overspend was due to the application of the Community Infrastructure Levy. In this regard, the receipt of Community Infrastructure Levy payments was accounted for as income received per year. However, when the monies were spent, this was classified as an earmarked revenue reserve. The Head of Finance reminded Members that this issue had been highlighted to the Committee in May 2018.

With regard to Property, Plant and Equipment and specifically depreciation, the Claygate Parish Councillor Co-Opted Member asked why the majority of the Council's Halls remaining useful lives had been significantly reduced, resulting in an increase to the amount the halls were depreciated by in the accounts. The Head of Finance advised that when the Council’s assets were revalued, in addition to the value, the remaining useful life of the asset was also updated based on recommendations from the external valuers.
The Committee thanked the Finance Team for their hard work and professionalism in producing the financial statements. Grant Thornton was also thanked for undertaking the audit and for the continued good working relationship with the Finance Team. It was also acknowledged that due to the change in Regulations whereby the accounts had to be published by 31 July each year, it would be more common that final clarifications were required right up until the deadline.

RESOLVED that the audited Statement of Accounts for the year ended 31 March 2018 be approved.

11/18 Treasury Management 2018/19

(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 2017/18 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 6 July 2018 was also reported and Members noted that all of the limits and targets were within the parameters set by the Council. Officers continued to explore other options to increase the yield on money market investments while preserving the money invested, however many of the Council’s approved counterparties had access to cheap funds from the Bank of England’s Funding for Lending Scheme until January 2018, an impact of this being that interest rates available to the Council continued to remain low.

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 2018/19 to the end of June 2018 being £12,000 above the profiled budget.

During consideration of the report, whilst noting that the Council had £47 million in short-term deposits, one Member asked whether there was a plan or strategy in place for utilising this money. The Corporate Group Accountant advised that when money was available for investment, the interest rates being offered at that time were taken into account alongside cashflow needs in the future and where appropriate, advice was taken in respect of future interest rate movements. The Head of Finance further commented that the current advice from the Council’s Treasury advisors Link Asset Services was to continue to invest in the short-term.

One Member queried whether there were any capacity issues in placing investments. The Head of Finance commented that this was constantly reviewed and the opportunity to expand and / or change the approved
institutions on the Counterparty List could be considered in February 2019 if required.

A discussion also took place regarding the lending of large sums of money to other local authorities, for example, the London Borough of Croydon and Rugby Borough Council. Whilst the Counterparty List had always included local authorities, these counterparties were now more active in the market and were offering good rates of interest in comparison with the rest of the market. The Head of Finance advised that local authorities had an assessed ‘A’ credit rating and were a secure investment, this rate being higher than the banks as they effectively were lending to the Government.

RESOLVED that

(a) the Treasury Management Activity Report for 2017/18, be noted; and
(b) the investment position as at 6 July 2018, be noted.

12/18 Internal Audit Annual Report 2017/18

(Link to Council Priorities: PC8)

The Committee considered the Internal Audit Service Annual Report for the financial year 2017/18.

Members were provided with a summary of work undertaken by the Internal Audit Service during 2017/18 together with the Head of Internal Audit’s Opinion Statement for the year ended 31 March 2018 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 in respect of the Safeguarding 2016/17 audit review, the Independent Member commented that given this audit review had received a ‘Major Improvement Needed’ assurance opinion, he had thought a copy of the audit report would have been circulated to the Committee. The Head of Internal Audit reminded Members that a summary of the findings had been previously reported to the Committee.

In respect of the Community Infrastructure Levy (CIL) audit review, the Independent Member queried whether there had been any control issues found in respect of allocating grants to Surrey County Council who in turn passed the monies to a third party. The Head of Internal Audit advised that separate audit reviews had been undertaken at both Elmbridge and Surrey County Council and he was happy with the controls for both authorities. The Independent Member further queried whether the performance of CIL was checked and
whether this included that the funded project had been delivered adequately. The Head of Internal Audit commented that that element was not included within the audit review. However, he agreed that this could be considered as part of any future audits.

Given that Internal Audit undertook the auditing of the accounts for a number of Trust Funds, the Independent Member asked whether the Trust’s complied with the Fourth Anti-Money Laundering Directive. Whilst noting that this Directive had not been considered when the Mayor of Elmbridge’s Trust Fund accounts for 2017/18 had been audited, the Head of Internal Audit commented that it was unlikely that there had been any transactions for this Fund over €10,000 and therefore compliance with this Directive had not been required.

During the discussion, one Member asked whether, as part of the audit reviews, there was any opportunity to suggest improvements to processes. The Head of Internal Audit commented that performance improvements were factored in and the audit review work undertaken was primarily to drive performance and improvement.

A further discussion took place regarding those audit reviews which had received a ‘Major Improvement Needed’ assurance opinion and a request to circulate the relevant audit report to the Committee. Whilst acknowledging this request, the Head of Internal Audit agreed to consider the reporting structure of audit reviews going forward.

The Claygate Parish Councillor Co-Opted Member also took the opportunity to thank the Council and specifically the Internal Audit Manager for undertaking the audit review again for Claygate Parish Council.

RESOLVED that

(a) the summary of Internal Audit work for the financial year 2017/18, be received and noted; and

(b) the Head of Internal Audit's Opinion Statement be endorsed.

The meeting commenced at 7.02 pm and concluded at 7.46 pm

A. Coomes
Chairman
Democratic Services Officer

Mrs. T. Hulse  Principal Committee and Member Services Officer

Other Officers in attendance

Mrs. S. Selvanathan  Strategic Director and Deputy Chief Executive
A. Cooper  Head of Finance
A. Harrison  Head of Legal Services
S. White  Head of Internal Audit
Mrs. A. Gale  Corporate Group Accountant
Mrs. S. Bushby  Internal Audit Manager

Others in attendance

A. Oyerinde  Audit Manager, Grant Thornton