

AUDIT COMMITTEE
18th February, 2015

Present:- Councillor Sangster (in the Chair); Councillors Cowles, Kaye and Sharman.

N28. MINUTES OF THE PREVIOUS MEETING HELD ON 19TH NOVEMBER 2014

The minutes of the previous meeting of the Audit Committee held on 17th September, 2014, were discussed.

Resolved:- That the minutes of the previous meeting be accepted as a correct record.

N29. PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2015/16 TO 2017/18

Consideration was given to a report presented by Derek Gaffney, Chief Accountant, which detailed that, in accordance with the Prudential Code for Capital Finance, the Secretary of State's Guidance on Local Government Investments, the CIPFA Code of Practice for Treasury Management in Local Authorities and with Council policy, the Director of Finance was required, prior to the commencement of each financial year to seek the approval of the Council to the following:-

- The Prudential Indicators and Limits for 2015/16 to 2017/18.
- A Minimum Revenue Provision (MRP) Statement which sets out the Council's policy on Minimum Revenue Provision.
- An Annual Treasury Management Strategy in accordance with the CIPFA Code of Practice on Treasury Management including the Authorised Limit.
- An Investment Strategy in accordance with the Department for Communities and Local Government (CLG) investment guidance.

The Council's investment policy's continuing primary governing principle was the security of its investments, although yield or return on investments was also a consideration.

The Council continued to operate the treasury management guidelines well within the boundaries set by the approved selection criteria so as to minimise the risks inherent in operating a treasury management function during volatile and adverse economic and financial conditions. To this end, the Council has continued to invest any surplus funds primarily with the Bank of England's Debt Management Office.

In addition, investment levels over the last twelve months remain low as market conditions still dictated that it continued to be prudent to defer borrowing plans and to fund on-going capital commitments through the use of the Council's internal cash-backed resources.

Actual returns on investment opportunities remain subdued when compared to previous years but have been effectively and prudently managed by significantly reducing expected capital financing costs by delaying borrowing plans. This enabled the Council to stay within its capital financing budget cash limit and for budget savings to be put forward in support of both the Council's 2014/15 and 2015/16 revenue budget. This was a significant achievement given the difficult economic and financial conditions prevailing throughout the current financial year.

The Council's counterparty list for investments, with whom the Council did business, used the criteria as set out in the report and provided the Council with the opportunity to maximise security of any invested funds by allowing all funds to be placed with the DMO and UK Single Tier and County Councils and reducing the maximum level and time of investments that could be placed with financial institutions that do not meet all the upper limit credit rating criteria.

Further information was provided on the effect on the counterparty list of the transfer to the NatWest Bank following the Co-operative Bank's decision to withdraw from banking services to Local Authorities.

In terms of the Prudential Indicators it was noted that only schemes in the Council's approved capital programme were included in the indicators as listed.

There were four treasury Prudential Indicators, the purpose of which was to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. The indicators submitted for approval were shown in detail as part of the report.

The limits for interest rate exposures were consistent with those approved within the Mid-Year report on the 2014/15 Strategy; the maturity structure detail had been maintained; and the investment limits beyond 364 days have been maintained to reflect the continued investment strategy.

An update was also provided on the current investments of the Council and the how the Treasury Management and Investment Strategy sought to minimise the risks in operating the Treasury Management function during these difficult economic and financial conditions.

Resolved:- That Cabinet be asked to recommend to Council:-

(1) The approval of the Prudential Indicators and limits for 2015/16 to 2017/18 contained in Appendix A to the report.

(2) The approval of the Minimum Revenue Provision Statement contained in Appendix A which sets out the Council's policy on Minimum Revenue Provision.

(3) The approval of the Treasury Management Strategy for 2015/16 to 2017/18 and the Authorised Limit Prudential Indicator (Appendix B).

(4) The approval of the Investment Strategy for 2015/16 to 2017/18 (Appendix B – Section (e) and Annex B1).

N30. EXTERNAL AUDIT PLAN 2014/15

Consideration was given to a report presented by Derek Gaffney, Chief Accountant, and Rashpal Khangura and Debra Chamberlain, KPMG, describing the KPMG External Audit Plan (included as an appendix to the submitted report) which set out the proposed external audit work to be undertaken to form an opinion on the Council's financial statements and to conclude on whether the Council has arrangements in place to secure value for money in the use of its resources.

Section 3 of the External Audit Plan summarised the key stages KPMG would carry out in their audit of the financial statements and Section 4 set out the areas of focus during the audit in forming their opinion on the Financial Statements. The 4 areas to be reviewed were:-

- Child Sexual Exploitation claims
- Accounting for school assets used by Local Authority maintained schools
- Digital Region closure costs
- The Council's new banking arrangements

KPMG's approach to reaching their Value for Money conclusion was set out in Section 5 with the 2 key themes being:-

- The Council's financial resilience to manage effectively its financial risks and opportunities and sustain a stable financial position
- How effectively the Council challenged its arrangements to secure Value for Money and prioritise resources by , for example, improving productivity and efficiency and achieving cost reductions

At the present time, KPMG had yet to complete their initial risk assessment for the Value for Money conclusion as they had not yet concluded their work on the 2013/14 Value for Money conclusion. Their Value for Money audit approach required them to consider findings from other inspectorates and review bodies. The independent inquiry into Child Sexual Exploitation and the Corporate Governance Inspection reports were currently being reviewed to ascertain how they might impact on the Value for Money conclusion for 2013/14. The initial risk assessment for the 2014/15 Value for Money conclusion would then be undertaken.

It was hoped to report the outcome to the next meeting of the Committee.

The 2014/15 audit fee of £186,300 was based on KPMG's assessment of the level of risk. However, changes to the Plan and the fee may be necessary if significant new audit risks emerge or KPMG's expectations were not met.

The Audit Commission had confirmed the re-appointment of KPMG for a further 2 years (2015/16 and 2016/17) which may be extended by a further 3 years to 2020. The DCLG had indicated it would make a decision on whether or not to extend in the Summer of 2015.

Discussion ensued on the future of the Audit Committee and the role of the Commissioners. From KPMG's perspective they would be seeking an understanding of entity level controls in that their audit was based on a Local Authority with Financial Regulations, Standing Orders etc. If that situation changed, there needed to be an understanding of the environment and any risks identified.

Resolved:- (1) That the report be received and its contents noted.

(2) That KPMG's External Audit Plan 2014/15, as now submitted, be approved insofar as the Audit Committee is concerned and the proposed areas for audit, now identified, be noted.

N31. EXTERNAL AUDIT 2013/14 GRANTS LETTER

Consideration was given to a report presented by Derek Gaffney, Chief Accountant, and Rashpal Khangura, KPMG, which advised the Audit Committee of the matters arising from the external audit of the Council's 2013/14 Government grants and returns.

The report provided a summary of KPMG's key findings from the certification work they have carried out in 2013/14.

The main findings were:-

- KPMG were required to audit three claims and returns in 2013/14 with an aggregate value of £102 million and issued a qualification certificate for one return and unqualified certificates for the remaining two grants and returns.

Several issues lead to qualification and amendment of the Housing Benefit subsidy claim mainly attributable to benefit assessor inputting errors. The impact of the subsidy of the majority of the errors, however, was expected to be minimal. The qualification issue related to the claim including payment runs made on 1st, 2nd and 4th April, 2014, and these payments were for periods linking two financial years and should be claimed in the year in which the payment was made, therefore, should have been included in the 2014/15 claim irrespective of the fact the payment made related to 2013/14. KPMG had previously commented that this grant was a

very complex and high value grant (£92 million 2013/14).

- The Council had good arrangements in place to ensure the efficient and effective preparation and submission of claims and returns and which supported the audit process. In particular, working papers were of a good standard and officers responded promptly to audit queries.

These positive findings demonstrated that the Council continued to maintain the high standard achieved in recent years.

The Audit Commission's indicative 2013/14 grant fee for the Council was set at £20,000, however, the actual fee charged varied from the original indicative amount due to changes in the following requirements and resulted in the following budget pressures:-

- The Local Transport Plan – Major Projects Grant was not included in the original indicative figure resulting in an increase of £1k
- The Pooling of Housing Capital Receipts had an increase of £0.5k due to the requirements to undertaken both Part A and Part B testing which was required every three years
- The Housing Benefit subsidy claim included a fee increase of £2.7k due to the requirement to undertake additional testing

Resolved:- (1) That the external auditor's report be noted.

(2) That, whilst the fees increased for carrying out grant certification work due to additional testing requirements, the Council had sustained good performance in both preparing and submitting its 2013/14 grant claims and returns.

N32. REVIEW OF PROGRESS AGAINST THE INTERNAL AUDIT PLAN FOR THE NINE MONTHS ENDING 31ST DECEMBER 2014

Consideration was given to a report presented by Marc Bicknell, Chief Auditor, which provided a summary of Internal Audit work and performance for the nine months ending 31st December 2014.

Progress on the Plan remained slightly below target for a variety of reasons including the loss of one member of staff through Voluntary Severance and another on maternity leave. The extended scope of some pieces of work had had an impact together with examination of issues highlighted within the Jay Report which had included specific work on the Council's Home to School Transport contracts, Risky Business project and the 'Key Players' Group.

By prioritisation of the audit activity, careful management of resources and the utilisation of additional temporary staff, it was the expectation to have a sufficient body of audit evidence to form an opinion on the Council's control environment.

The Corporate Governance Inspection had highlighted a number of fundamental weaknesses in the Council's governance arrangements. These were being assessed from an audit perspective and it should be noted that the likelihood of some of the matters being referenced in the annual audit opinion.

Appendix A of the report submitted showed the audit reports issued during the first nine months of the year. Audit findings in most areas indicated that satisfactory control arrangements were in place and testing confirmed that the controls were operating effectively during the period under review. Notwithstanding this, the work showed that there were opportunities to strengthen arrangements in some of the areas and implementation of Internal Audit's recommendations for improvement would reduce the Council's exposure to risks.

Three areas had required reporting as 'inadequate':-

- CYPS – Contract for School Improvement Activity
- EDS – Highways Final Accounts Arrangements
- EDS – Blue Badge Scheme

Discussion ensued on the report with the following issues raised:-

- The significant upsurge in responsive work since the publication of the Alex Jay and Louise Casey reports. There was a risk that if the Internal Audit Team were constantly diverted onto special investigations and reviews that the 85% audit plan delivery target may not be achieved
- There were currently 7.8 FTE plus a temporary contractor working in Internal Audit. It was the smallest and lowest cost Local Authority Internal Audit function in South Yorkshire and West Yorkshire by a significant margin
- The Casey report made reference to the Audit function
- Ongoing work as a result of the 2 independent inspections including understanding how the Records Management System worked
- Unknown risks that could not be quantified as yet – there would be a complete refresh of the Risk Register
- As part of the Transformation work the Terms of Reference and Constitution of the Audit Committee would be reviewed

Resolved:- (1) That the performance of the Internal Audit Service during the period be noted.

- (2) That the key issues arising from the work done in the period be noted.
- (3) That the likelihood of matters raised in the Corporate Governance Inspection report being referred in the annual audit opinion on the Council's control environment be noted.
- (4) That the Internal Audit Service be congratulated for their work and resilience in dealing with the substantial increased workload.

N33. DATE AND TIME OF NEXT MEETING

Resolved:- That the next meeting of the Audit Committee take place on Wednesday, 11th March, 2015 at 4.00 p.m.