

AUDIT COMMITTEE

Minutes of a meeting of the Audit Committee held on Tuesday, 29 January 2019 at 6.00pm in Meeting Room G3-G4, Addenbrooke House, Ironmasters Way, Telford

PRESENT: Councillors R J Sloan (Chair), I T W Fletcher, K S Sahota C F Smith, W L Tomlinson and D G Wright

IN ATTENDANCE: K Clarke (Assistant Director: Finance & Human Resources), P Harris (Finance Manager), E Rushton (Group Accountant), R Montgomery (Audit & Governance Team Leader), T Drummond (Principal Auditor), J Power (Organisational Delivery & Development Manager) and J Clarke (Democratic & Scrutiny Officer).

ALSO IN ATTENDANCE:

P Katrak and N Hodges (Arlingclose) and R Percival (from Grant Thornton, External Auditors)

The Chair welcomed Members to the meeting and that he was standing down as a Councillor at the end of this municipal year. He thanked the staff for all of their support during his time on the Committee and to Members of the Committee who had worked to challenge in a non-political way and he wished this to continued going forward.

AUC 28 APOLOGIES FOR ABSENCE

A D McClements

AUC 29 DECLARATIONS OF INTEREST

None.

AUC 30 MINUTES

RESOLVED – that the minutes of the meeting of the Audit Committee held on 2 October 2018 be confirmed and signed by the Chairman.

AUC 31 TREASURY MANAGEMENT UPDATE

P Katrak from Arlingclose gave a presentation and update on Treasury Management which covered the following treasury management, Statutory Guidance – CIPFA, Members' roles and responsibilities, treasury management strategy, treasury risk management, debt portfolio, estimated borrowing requirement and investments, debt strategy, affordability, use of resources and strategy for security.

It was important to bear in mind that when dealing with cash flow peaks and troughs that there was always some risk and these risks needed to be identified and

managed as far as possible whilst recognising that treasury management activities would always include an element of risk. Risk was not always negative it could also produce opportunities. Any borrowing needed to be affordable and sustainable and investments as secure as possible, accessible and any risks also identified as far as possible although it was important not to lose sight of proportionality. Borrowing could not be undertaken purely to profit and needed to be monitored and controlled. There was shortly to be an update to the The Markets in Financial Instruments Directive II (MiFID II) which may reduce the minimum investment balance requirement. Growth was being affected by the uncertain route to Brexit and the 10 year forecast was that gilt yield borrowing would be 1¼% and would remain in a low for longer environment.

**AUC 32 2019/20 TREASURY STRATEGY AND TREASURY STRATEGY
UPDATE REPORT**

The Corporate & Capital Finance Manager presented a report on the 2019/20 Treasury Strategy and gave an update on the Treasury Strategy which would go before Cabinet and Council.

The strategy during 2018/19 had been to limit investments which reduced the Council's exposure to risk and to take advantage of low interest rates for borrowing which had generated surplus treasury management returns of £13.8m over the medium term. On 31 December 2018 the treasury portfolio showed overall net indebtedness as £244.287m. The borrowing strategy for 2018/19 was to take advantage of the short-term borrowing rates before gradually lengthening maturities and the Council had begun to lock-in where opportunities arose within the borrowing costs built in to the budget strategy. Regular advice was sought from Arlingclose in order to comply with Performance Indicators and investments sought to bring the maximum benefit whilst providing security of the sum invested. The MiFID II legislation was due to be updated and the necessary work would be undertaken to adjust the strategy. The Strategy complied with the standards outlined within the Budget Strategy.

The Strategy may need to be updated prior to this going before Cabinet and Council and Members of the Committee would be contacted if any changes were necessary.

During the debate, some Members asked about the changes to the MiFID II. P Katrak explained to Members that the minimum £10m borrowing required to be a "professional client" was likely to be reduced quite significantly in order to give more flexibility as the current figure was quite high and challenging. Other Members asked what additional interest and costs would be incurred if the external borrowing increased and if this would affect Council Tax and when the borrowing for Housing Investment Programme – ie Nuplace would be repaid and why there was a reduction in investments from £31.3m to £20m in 2019. The Finance Manager and Assistant Director explained that with regards to Council Tax there would be an incremental impact across the bands of new approvals and this applied to the debt and a range of costs and that this would also depend on the return generated by the debt. The business case for Nuplace was 30yrs and during this time the housing assets were expected to appreciate in value. With regard to the borrowing it was felt that due to the current rates that it was not prudent due to the potential counter-party risk or economic

to invest money and that the reduction in investments from a temporarily high level of £31.3m which had been reached as an opportunity to lock in to a long-term fixed rate loan had been taken resulting in a temporarily high level of investments pending the repayment of temporary loans. Some Members asked if there was clarification on what Local Authorities could invest in and where and if there were any sanctions. The Assistant Director confirmed that the Government were concerned that some Local Authorities were borrowing to invest outside their area but that this Council had not done that. R Percival confirmed that there were a new Investment Code which balanced the risk and reward of public money in order to keep risks low. The Code did not prevent out of area investment but clarified the area in order to manage the risk down and to prevent borrowing to on-lend, which had resurfaced in some areas. Sanctions were S114 Notices and the use of statutory powers where necessary.

RESOLVED – that:

- a) the Treasury Management activities for the first half of the year be noted;**
- b) the Treasury Management Policy Statement be noted;**
- c) Cabinet and Full Council approve the Treasury Strategy, including the Annual Investment Strategy for 2019/20 together with the associated Treasury Prudential Indicators and the Minimum Revenue Provision Statement applicable from 2019/20 onwards.**

AUC 33 AUDIT PROGRESS REPORT AND SECTOR UPDATE AND INFORMING THE AUDIT RISK ASSESSMENT

R Percival, Grant Thornton, presented the report on the audit and sector update. The Audit plan was in the process of being drafted. The external auditors felt that the financial statement was acceptable but that the Value for Money Statement (VFM) needed further work due to them being new Auditors and it was a complex plan. It was hoped that this would be brought to the next Audit Committee. There were four key risks; fraud and prevention research, management and delivery of contracts, Pension Liability and valuation of property and equipment. Three key points to consider whilst assessing VFM were to undertake informed decisions, ensure sustainability and working with partners. Areas to focus on were to establish a sound financial footing along with developing plans going forward. External Audit would bring back the interim findings before Committee. Final accounts were all in progress.

R Percival also updated Members on informing the audit risk assessment. As part of the risk assessment procedures the External Auditors were tasked with gaining an understanding of the management processes with regard to fraud, laws and regulations, going concern, related parties and accounting estimates. This was undertaken via a questionnaire to management. There were no issues found with any of the responses and they were all in line with what was expected. Some Members asked how the financial assumptions had been derived and if there was a breakdown of the £117m savings from over the last 10 years. The Assistant Director confirmed that they were currently preparing an analysis of the savings, but that the figures would have gone to Cabinet and Full Council during service and financial planning.

RESOLVED – that the report be noted.

AUC 34 EXTERNAL AUDIT GRANTS REPORT 2017/18

Members received a report for information only from KPMG the Council's former external auditors.

RESOLVED – that the report be noted.

AUC 35 2018-19 INTERNAL AUDIT UPDATE REPORT

The Principal Auditor presented a progress update on work undertaken by Internal Audit between 8 September 2018 and 4 January 2019 with the key focus being on the completion of the audit plan which included the fundamental systems audits. There were twelve reports issued during this period with two rated amber (Direct Payments Children and My Options Young Peoples Services income) and three rated red (Southall School, Sir Alexander Fleming Primary and Direct Payments Adults). A follow up visit would be undertaken to Southall School in February 2019 and a follow up on Direct Payments Adults and Children would be undertaken in March. My Options had now moved from Amber to yellow since writing the report. Some Members were pleased that Alexander Fleming School had moved from red to green and felt that they had just needed a bit of direction but remained concerned regarding the Direct Payments and suggested that the follow up was brought forward to February so that progress could be reported to committee members before the next meeting. Members felt that it was positive to see people taking the audit process seriously but also raised concerns regarding direct payments and asked if an extra meeting could be arranged to report on the progress of Direct Payments. The Chair explained that due to the pre-election period beginning on the 26 March that it would not be possible to organise a meeting prior to the elections in May 2019. It was agreed that once the direct payments follow is complete an update would be emailed to members with a formal update being brought to the next audit committee meeting in Summer/Autumn 2019.

The Audit & Governance Team Leader reported that at this meeting the Members were asked to consider the Internal Audit Charter, but that the recommendation to approve the charter was missing from the report. He asked that Members, if minded, approve the following recommendation:

“that the 2019/20 Internal Audit Charter be approved”.

It was confirmed that the audit & Governance Team Leader remained the Chief Auditor and together with his Team he supported the whole Council to deliver economic, efficient and effective services and to meet the Accounts and Audit Regulations 2015. This involved meeting plans and objectives and managing risk and had unfettered access to External Audit, the Audit Committee Members and the Managing Director.

RESOLVED – that:

- a) the report be noted; and**

b) the 2019/20 Internal Audit Charter be approved.

AUC 36 UPDATED POSITION OF THE AGS ACTION PLAN 2017/18

The Organisational Delivery & Development Manager presented the updated position of the AGS Action plan for 2017/18. The Action Plan accompanied the annual accounts and helped to drive development and to identify and manage new risks. The next step was to refresh the 2018/19 AGS.

RESOLVED – that the AGS Action Plan be noted.

The meeting ended at 7.47pm

Chairman:

Date: