Minutes

OF A MEETING OF THE

Audit and Corporate Governance Committee

HELD AT 6.00 PM ON TUESDAY 28 JANUARY 2014

COUNCIL CHAMBER, COUNCIL OFFICES, CROWMARSH GIFFORD

Present:

Mr Philip Cross, Mr David Bretherton, Ms Kristina Crabbe, Mrs Margaret Davies, Mr Neville F Harris and Mr Paul Harrison

Apologies:

Mr Michael Welply tendered apologies.

Officers:

Mr Steve Bishop, Mrs Kathy Fiander, Mr William Jacobs, Mr Craig Pullen, Mr Bob Watson

Also present:

Mr Adam Swain, Audit Manager, Ernst & Young
Mr Mick West, Director, Ernst & Young

Mr D Dodds, Cabinet member for finance

Before dealing with any business on the agenda, the committee asked for its good wishes for a very speedy recovery to be sent to Mr Mike Welply, Chairman of the committee.

20 Minutes of the previous meeting

RESOLVED: to approve the minutes of the meeting held on 26 September 2013 as a correct record and to agree that the Chairman sign them as such.

21 Declaration of disclosable pecuniary interest

None.

22 Treasury management 2013/14 mid-year monitoring report

The committee considered the report of the Head of Finance that fulfilled the legislative requirement to ensure the adequate monitoring of the treasury management activities and also fulfilled the requirement to report the prudential indicators to council mid year. The report provided details of the treasury activities for the first six months of 2013/14 and an update on current economic conditions with a view to the remainder of the year.

Mr B Watson, Accountancy Manager (Technical), drew attention to the key points in the report, which included the following:

- The council had received over £2 million in respect of its claim for £2.6 million against the failed Icelandic bank Kaupthing Singer & Friedlander. The council had "preferred creditor status" and he expected the council to receive in the region of another £125,000.
- Total investment income was forecast to be around £2.1 million against a budget of £1.9 million. The main reason for the increase was that officers had achieved better returns by placing longer-term cash deposits.
- The council had no need to borrow during the first six months of 2013/14.
- The council had entered into a seven year deal with another local authority, which was an investment outside the terms of the treasury management strategy but was permissible under the council's constitution with the permission of the Section 151 Officer/ Head of Finance.

In response to questions, Mr Watson clarified the following:

- CCLA was the Churches, Charities and Local Authorities property portfolio that the council bought into and which paid slightly below six per cent per annum.
- The council would hope to catch a rising market if advisors' predictions of increasing interest rates arose.
- The advantage of entering into a seven-year rather than a five-year deal with Kingston upon Hull City Council was the investment income to be gained over the additional period. It also ensured that the council had a more balanced portfolio spread of investments.
- Whilst the UK was experiencing sustained growth, this was not being priced into the interest rates being offered by the markets. The *funding for lending scheme* has been withdrawn but this had not yet seen an increase in the rates offered by institutions. Officers expected to see no change in the base rate of half a per cent until 2015.
- In spite of the Royal Bank of Scotland's announcements of large losses, Mr Watson was fairly comfortable with investments with the bank as the taxpayer owned 80 per cent of it and therefore had Government support. He further reported that the council had a dearth of counterparties so the council increased its holdings with government-backed institutions such as Lloyds Banking Group and the Royal Bank of Scotland, which were paying better rates than e.g. Barclays.
- The lower interest rates in the table in appendix B related to short-term investments. In future the table would include a column detailing the duration of the investment.

RESOLVED:

1. to note the treasury management mid-year monitoring report 2013/14;

2. that the committee was satisfied that the treasury activities were carried out in accordance with the treasury management strategy and policy with the exception of the investment made outside the treasury management strategy referred to in paragraph 20 on page 8 but noted the reasons for the change.

23 Treasury management strategy 2014/15

The committee considered the report of the Head of Finance that asked the committee to scrutinise the treasury management strategy and policy and if required to make recommendations for change to Cabinet.

Mr B Watson, Accountancy Manager (Technical) reported that there was no major change in this strategy from that present last year. He also stated that over the medium-term, although interest rates were expected to increase the council's cash balances were expected to diminish and consequently forecasted investment income earned would reduce.

Appendix A showed investment and borrowing limits that Cabinet and Council would be asked to approve in February. He referred to the statement in the strategy that confirmed that the council would not borrow more than, or in advance of, its needs in order to profit from the investment of the extra sums borrowed. As at 31 December the council's budgeted investment return of £1.9 million was now expected to be £2.1 million.

Mr Watson explained that counterparty limits existed because the different institutions (counterparties) that the council invested with had different risk ratings depending on a variety of factors (e.g. their asset base or government support) so limits for investment amount and duration would be set for each institution or type of institution depending upon these factors.

Whilst the rate of unemployment had recently dropped thus indicating a possible rise in interest rates as originally mooted by the Bank of England, Mr Watson did not think it was necessary to indicate an increase in interest rates in this strategy as the council's advisors had not indicated the need to and the Governor of the Bank of England continued to emphasise only the possibility of an interest rate increase.

In response to questions, S Bishop, Strategic Director, and Mr Watson confirmed the following:

The loan to SOHA would take place on 1 March 2014 but was not part of the treasury function. However, the treasury management strategy did refer to possible loans to housing associations: these could be capital or treasury. The loan to SOHA was designed to stimulate social housing in the district. Ultimately the loan was made at a sub-market rate because rates changed over the duration of the negotiations with the benefit of an improved housing objective. Whilst sub-market, the rate was still in excess of the current average rate on treasury investments.

In response to a question, Mr W Jacobs, Head of Finance, advised that average level of investment income would decrease as capital projects were realised and the level of capital receipts diminished.

In hearing concern expressed about the increasing reliance on Capita for services e.g. Capita Asset Services as referred to in the strategy, Mr Watson advised that they provided information and guidance on this and other accounting matters but the ultimate decision to invest remained with the council.

RESOLVED: not to make any recommendations to Cabinet to amend the strategy.

24 Internal audit activity report

The committee considered the report of the Interim Audit Manager that summarised the outcomes of recent internal audit activity. On this occasion, of the ten audit reports and five follow-up reports, there were none before the committee, each having satisfactory or full assurance.

Mr C Pullen, Interim Audit Manager, highlighted that the report showed a decrease in systemic control weaknesses and these were largely on key financial systems. In terms of non-financial weaknesses where the audit area may not be subject to audit for four or five years Mr Pullen expected to review the outstanding recommendations in all these areas. He hoped to present the report to the next committee showing a further reduction in systemic weaknesses.

As the audit reports on health and safety and brown bins were not before the committee for consideration, Mr Pullen would ask one of the internal auditors to contact Mr Harris to discuss them.

The committee noted the report, which continued to show an increase in performance.

25 Internal audit management report

Mr C Pullen, Interim Audit Manager, presented the report that indicated a 77 per cent chargeable rate for audit activity for Quarter 3. The appointment of a temporary auditor had worked well but he was currently recruiting a permanent auditor and would involve Mrs Partridge, the substantive Audit Manager, in the recruitment process.

Priorities for the remainder of the quarter included recruitment and completion of the audit plan 2014/15, which the committee would see in March. The audit of temporary accommodation had been deferred to 2014/15 owing to staff shortages and sickness within the housing team. As a result of this deferral, auditors would be allocated alternative work. A period of two weeks was requested between the draft and final audit report but in terms of the business continuity report this period had been exceeded owing to a transfer of responsibilities to another team.

The committee noted the report.

26 External auditor's annual audit letter 2012/13

Mr A Swain, Audit Manager, Ernst & Young, presented the annual audit letter. He drew the committee's attention to each of the headings in the key findings on pages 74 and 75 of the committee papers, which stated that:

- on 27 September Ernst & Young issued an unqualified audit report and an unqualified value for money conclusion;
- Ernst & Young's report to the National Audit Office did not identify any areas for concern;
- no areas of concern were identified in the Annual Governance Statement;
- Ernst & Young had not identified any significant deficiencies in internal control.

In response to a question, Mr Swain confirmed that the risk of loss of data by Ernst & Young was minimal owing to the constant back-up of systems.

The committee noted the report.

27 External auditor's report on the certification of claims and returns 2012/13

Mr A Swain, Audit Manager, Ernst & Young, reported the outcome of certification work as stated on pages 81 and 82 of the committee papers. In summary, Ernst & Young had not issued qualification letters in relation to the *housing and council tax benefits subsidy claim* and the *national non-domestic rates return.*

Mr Swain clarified that the stated 2012/13 certification fee of £15,650 would reduce by £250 to £15,400 because Ernst & Young did not need to certify one claim.

Mr S Bishop, Strategic Director, stated that the report was good news, highlighting the first unqualified benefits subsidy claim in several years indicating an improvement in processes.

The committee noted the report and thanked officers for their work that resulted in the good report.

The meeting closed at 6.50 pm

Chairman Date