

Minutes



OF A MEETING OF THE

Joint Audit and Governance Committee

**HELD ON MONDAY 23 JANUARY 2017 AT 6.30 PM
MEETING ROOM 1, 135 EASTERN AVENUE, MILTON PARK, MILTON,
OX14 4SB**

Present

Members:

South Oxfordshire District Councillors: Charles Bailey, Kevin Bulmer, Dudley Hoddinott, Simon Howell, Chris Palmer, Alan Thompson and John Walsh

Vale of White Horse District Councillors: Dudley Hoddinott, Simon Howell (Chairman) and Chris Palmer

Officers

William Jacobs, Adrianna Partridge and Ron Schrieber

Also present:

Cllr Jane Murphy (SODC), Andrew Brittain (EY), Gary Carey (Five Councils' Partnership Client Team Property Manager) and Simon Hewings (Capita)

32 Apologies

Henry Spencer tendered apologies.

33 Declarations of interest

None.

34 Minutes

RESOLVED: to adopt as a correct record the minutes of the meeting held on 26 September 2016 and agree that the chairman sign them as such.

35 Urgent items

None.

36 Statements, petitions and questions received from members of the public

None.

37 External auditor's annual letters 2015/16

The committee considered the external auditor's annual audit letters for 2015/16 and noted that an unqualified opinion had been issued on both South Oxfordshire and Vale of White Horse District Councils' financial statements.

The reports identified the procurement of the new corporate services contract as a significant risk to both councils. However, the audits did not identify any significant matters in relation to this risk or both councils' overall arrangements and unqualified value for money conclusions had been issued.

In response to a member's question, the committee was informed that the "multiple control failures" for accounts payable, which had been identified by both external and internal audit, were not significant in the context of being able to provide an unqualified financial statement opinion, as assurance was gained through other testing.

RESOLVED: to note the external auditor's annual audit letters for 2015/16.

38 External auditor's report on the certification of claims and returns 2015/16

The committee considered the external auditor's certification of claims and returns annual report for 2015/16 and noted that there had been only minor amendments to the housing benefits subsidy claims and no significant issues.

RESOLVED: to note the external auditor's certification of claims and returns annual report for 2015/16.

39 South Oxfordshire and Vale of White Horse District Councils' Audit Plan 2016/17

The committee considered EY's audit plan 2016/17 which set out how they intended to carry out their responsibilities as the councils' external auditor.

No significant financial statement risks had been identified other than the accepted general risk of fraud in revenue recognition and management override. In addition, the implementation of the corporate services contract and the senior management restructure had been identified as significant value for money risks.

In response to a member's question regarding the auditing of the five councils' partnership, the committee was informed that EY would look at it as part of the overall control environment and internal audit would include it within the 2017/18 audit plan to be submitted to the next meeting.

RESOLVED: to note the Vale of White Horse and South Oxfordshire District Councils' audit plan 2016/17.

40 Appointment of external auditors

The committee considered the head of finance's report regarding the future appointment of external auditors by both councils.

For the audit of the 2018/19 accounts it would be necessary for authorities to either undertake their own procurements or to opt in to the appointed person regime. Opting in meant that authorities confirm that they wish to use auditors who will be appointed to a panel by Public Sector Audit Appointments (PSAA) following a tender process which will be run by the PSAA and was expected to commence in March 2017. By asking authorities to confirm they wish to opt in, the PSAA will be able to assess the demand and tailor their tender process accordingly with the intention of securing economies of scale.

The main advantages of using PSAA were set out in the report. The date by which authorities need to opt in to the appointing person arrangements was 9 March 2017.

RECOMMENDED: to South Oxfordshire and Vale of White Horse Councils to opt in to the appointing person arrangements made by Public Sector Audit Appointments for the appointment of external auditors.

41 Internal audit activity report - third quarter 2016/17

The committee considered the assurance manager's report on internal audit activity during the third quarter 2016/17. This summarised the outcomes of recent audit activity.

Seven audits had been completed during the quarter, three of which had received limited assurance.

Building control 2016/2017

The committee considered the main findings and recommendations of the internal audit report.

In response to members' questions, the committee was advised that:

- With regard to recommendation 2, transparency of building regulation charges, the head of planning reported that customers were charged on an individual basis, calculated on a fixed hourly rate.
- With regard to recommendation 3, personal protective equipment risk assessment, the head of planning accepted the need to demonstrate that a process was in place.
- With regard to recommendation 4, the head of planning accepted the recommendation and stated that it would be implemented.

Facilities Management 2016/2017

The committee considered the main findings and recommendations of the internal audit report and was advised that, since the publication of the report, facilities management had been outsourced to VINCI. Accordingly, recommendations 1 and 2, regarding purchasing policy and invoices respectively were no longer applicable.

Recommendation 3 a) regarding the management of franking machine services, had been resolved and recommendation 3 b) regarding roles and responsibilities, had been partially addressed by the appointment of the five councils' partnership client team property manager.

Cornerstone 2016/2017

The committee considered the main findings and recommendations of the internal audit report.

In response to members' questions, the committee was advised that:

- With regard to recommendation 1, policies and procedures, a council-wide review of business continuity was in progress.
- With regard to recommendation 4, petty cash, random spot checks were carried out at least once a year. The committee requested that officers report back on the frequency of petty cash checks by management.
- With regard to recommendation 5, DBS checks, there were two issues – checks on third parties such as tutors and checks on Cornerstone officers. With regard to the latter, the latest advice from HR, that general staff did not require DBS checks, was contrary to internal audit's view that all Cornerstone officers who have possible interactions with children and/or vulnerable adults should be subject to DBS checks. Following the outsourcing of the councils' HR services to Capita in August 2016, the advice of the new service provider had been requested. Once received it would be reported to the committee. Following further discussion, the committee expressed the view that the HR policy on DBS checks should not be a blanket policy but needed to reflect the actual nature of posts and that staff who have possible interactions with children and/or vulnerable adults should be subject to DBS checks

RESOLVED: to note the internal audit activity report for the third quarter 2016/17.

42 Internal audit management report - third quarter 2016/17

The committee considered the assurance manager's management report on internal audit for the third quarter of 2016/17.

The report highlighted the following issues:

Five councils' partnership (5CP)

Internal audit was now consulting on 5CP activity. A number of operational concerns had been identified as a result of this work. An internal 5CP programme board has been established to ensure strong South Oxfordshire and Vale of White Horse district councils' governance of the partnership. Membership of the programme board includes the chief executive, interim chief operating officer, section 151 officer, monitoring officer, South Oxfordshire/VWHDC 5CP lead councillors, communications and the assurance manager. A 5CP paper with further information would be presented to the next meeting.

The assurance manager reported that the level of 5CP involvement was placing a strain on current internal audit resources. This was currently being reviewed and will be considered as part of the 2017/2018 audit plan process.

In response to a member's question, the head of finance reported that the area of greatest concern was HR.

Emergency planning

The emergency planning resource provided by Oxfordshire County Council will cease at the end of January 2017. The risk and insurance officer will be temporarily covering the emergency planning duties until a successful recruitment process is completed.

RESOLVED: to note the internal audit management report for the third quarter of 2016/17.

43 Treasury management mid-year monitoring 2016/17

The committee considered the head of finance's report that monitored performance of the council's treasury management function for the first half of 2015/16.

The committee was informed that during September 2016, a breach of counterparty limits occurred with Newcastle Building Society. South Oxfordshire District Council invested £2 million with Newcastle Building Society on 1 September 2016. This investment took the council £0.5 million over the agreed limit of £12 million. A temporary authorisation was sought and obtained from the Section 151 officer. The breach will be corrected in April 2017 when £1 million matures and brings the council back within its agreed limits.

A member highlighted the risk to the control environment following the transfer of accountancy staff to Capita in August 2016. The committee was advised that the breach of counterparty limits had occurred as an error made prior to August 2016. In addition, the Section 151 officer was satisfied that there was no current need to review practices following the TUPE transfer of staff to Capita in August 2016, whilst the service was provided on a business as usual basis. However, the current arrangements might change in 2017/18 and, if they did, practices would be reviewed.

RECOMMENDED to Cabinets to recommend Councils to:

- (a) note the treasury management mid-year monitoring report 2016/17;
- (b) record that the committee is satisfied that the treasury management activities are carried out in accordance with the treasury management strategy and policy; and
- (c) request the cabinets to consider the comments of this committee and recommend the Councils to approve the report.

44 South Oxfordshire District Council Treasury management and investment strategy 2017/18 to 2019/20

The committee considered the head of finance's report that set out South Oxfordshire District Council's treasury management and investment strategy for 2017/18 to 2019/20.

The proposed strategy for 2017/18 included the following changes from that approved in 2016:

Table 2 Prudential Indicators

- To raise the authorised limit for external debt to £30 million.
- To raise the operational boundary for external debt to £25 million from £5 million.
- To change the limits on fixed interest rate investments to 100 per cent from £100 million
- To raise the limits on variable interest rate investments to £50 million from £30 million
- To remove the detailed limits on investments to maturity where they are split into bands of one to two years of £70 million, two to five years of £50 million and more than five years of £50 million, retaining the limit on principal sums invested for longer than 364 days to £70 million.

Table 5 Counterparty Limits

- To change the maximum maturity date on investments with institutions with a minimum rating F1+/A+ to 4 years from 3 years
- To change the maximum maturity date on investments with institutions with a minimum rating F1+/AA- to 3 years from 4 years

Annex 2 Liquidity

- To simplify the performance measurement in terms of investment liquidity in Annex 2 paragraphs three and four to focus on maintaining minimum levels of working capital in short term vehicles

These changes were proposed to allow the council to fund future spending in the most financially advantageous way.

RECOMMENDED to Cabinet to recommend Council to:

- (a) approve the treasury management strategy 2017/18 set out in appendix A to the head of finance's report;
- (b) approve the prudential indicators and limits for 2017/18 to 2019/20 as set out in table 2, appendix A to the head of finance's report;
- (c) approve the annual investment strategy 2017/18 set out in appendix A (paragraphs 23 to 66) and the lending criteria detailed in table 5 to the head of finance's report.

45 Vale of White Horse District Council treasury management and investment strategy 2017/18 to 2019/20

The committee considered the head of finance's report that set out Vale of White Horse District Council's treasury management and investment strategy for 2017/18 to 2019/20.

The proposed strategy for 2017/18 included the following changes from that approved in 2016:

Table 2 Prudential Indicators

- To change the limits on fixed interest rates to 100 per cent from £40 million.
- To raise the limits on variable interest rates to £50 million from £30 million.
- To raise the upper limit for principal sums invested for longer than 364 days to £40 million from £30 million.

[Note that the Section 151 officer has already agreed that the limit on fixed interest rates can be increased from £40 million to £43 million in 2016/17. This followed a breach of the existing limit during December 2016.]

Appendix A Minimum Revenue Provision (MRP)

- To approve the change in the MRP policy that states that the council will use the “asset life method” to calculate MRP as a provision for repayment of borrowing if applicable.

Annex 2 Liquidity

- To simplify the performance measurement in terms of investment liquidity in Annex 2 paragraphs three and four to focus on maintaining minimum levels of working capital in short term vehicles

These changes were proposed to allow the council to fund future spending in the most financially advantageous way.

RECOMMENDED to Cabinet to recommend Council to:

- (a) approve the treasury management strategy 2017/18 set out in appendix A to the head of finance’s report;
- (b) approve the prudential indicators and limits for 2017/18 to 2019/20 as set out in table 2, appendix A to the head of finance’s report;
- (c) approve the annual investment strategy 2017/18 set out in appendix A (paragraphs 24 to 63) and the lending criteria detailed in table 5 to the head of finance’s report.

46 Audit and governance work programme

The committee reviewed and noted its work programme which set out matters scheduled for consideration at future meetings.

It was noted that a report on the five councils’ partnership would be submitted to the next meeting.

The meeting closed at 8.00 pm

Chairman

Date