

AUDIT AND STANDARDS COMMITTEE

31 July 2019

Minutes of the Audit and Standards Committee meeting held at the Council Chamber, Town Hall, Bexhill-on-Sea on Wednesday 31 July 2019 at 6.34pm.

Committee Members present: Councillors K.D. Dixon (Chairman), J. Barnes, Mrs M.L. Barnes, A.K. Jeeawon, Rev H.J. Norton and H.L. Timpe.

Other Members present: Councillors P.C. Courtel and D.B. Oliver.

Advisory Officers in attendance: Executive Director, Assistant Director Resources, Corporate Transformation Finance Manager and Democratic Services Officer.

Also Present: Trevor Greenlee, Grant Thornton.

AS19/12. **MINUTES**

The Chairman was authorised to sign the Minutes of the meeting of the Audit and Standards Committee held on 24 June 2019 as a correct record of the proceedings.

AS19/13. **APOLOGIES FOR ABSENCE**

Apologies for absence had been received from Councillors L.M. Langlands, Mrs E.M. Kirby-Green and Malcolm Johnston, Executive Director.

PART A – STANDARDS REPORTS – NONE

PART II – DECISIONS TAKEN UNDER DELEGATED POWERS

PART B – AUDIT REPORTS

AS19/14. **REPORT OF THE EXTERNAL AUDITORS - GRANT THORNTON. ANNUAL GOVERNANCE REPORT 2018/19 (DRAFT)**

The Chairman welcomed Trevor Greenlee from Grant Thornton to the meeting, who proceeded to summarise the External Auditors' Audit Completion Report for the year ended 31 March 2019.

Grant Thornton had been unable to conclude the audit due to resource constraints. In line with the Accounts and Audit Regulations, the following notice had been placed on the website with the latest accounts:

“As at 31 July our auditor, Grant Thornton, has been unable to conclude the audit. This is due to resource constraints resulting from a

peak period of work during June and July when all local government accounts are audited. Grant Thornton has confirmed that it takes full responsibility for this. The Council is continuing to work closely with the audit team as they complete their work. In line with the Accounts and Audit Regulations 2015, the Council has published a set of draft accounts. The Council will publish a final set of accounts as soon as the audit is concluded and the Audit Report issued.”

Members raised concerns that the Council’s legal obligation to publish the 2018/19 Statement of Accounts by 31 July 2019 had not been met and it was agreed that a letter be submitted to the relevant regulatory body by the Chairman of the Audit and Standards Committee and the Assistant Director Resources.

Audit Scope and Objectives

Grant Thornton had substantially completed their audit procedures in accordance with the planned scope and objectives, subject to the completion of outstanding work as detailed in the report.

At the time there were no issues or errors to report. The accounts and working papers were of a high standard. The migration of the enterprise resource planning system was successful even though in Grant Thornton’s experience this area was of high risk. There were no unadjusted errors.

Adjustments to the accounts

When the IAS 19 report on pensions was commissioned, the actuaries were only able to provide an estimate of the asset values as at the 31 March 2019 of £91.9m. At that time a report was also commissioned showing the actual values of the assets which was made available late June after the statutory deadline for publishing the accounts. The report showed the actual asset values were £89.1m. As the difference was £3m and was a material difference, the accounts were adjusted.

Judgement on a recent legal challenge by the Government against a ruling by the Court of Appeal in December 2018 that provisions in some public sector pension schemes were discriminatory on the basis of age (the ‘McCloud’ judgement), was likely to give rise to additional pension scheme liabilities for the Council. After the draft accounts had been published, the McCloud judgement was decided in court and the contingent liability that the Council had made at 31 May became a provision and the accounts were adjusted appropriately.

There were no unadjusted misstatements to report. A few presentational changes had been made to the financial statements as a result of the audit.

No additional significant audit risks were identified during the course of the audit and Grant Thornton concluded that the continued use of the going concern concept to prepare the financial statements remained appropriate.

Key Audit and Accounting Matters

The Council reported a surplus of £631,000 for the general fund in 2018/19 and had total useable (cash-backed) reserves of £22,137,000 as at 31 March 2019. Grant Thornton were satisfied that the Council had a comprehensive medium term planning framework.

Audit Opinion

Grant Thornton anticipated issuing an unqualified audit opinion on the financial statements for the year ended 31 March 2018 subject to the completion of outstanding work. Grant Thornton had no exceptions to report in relation to the consistency of the Annual Governance Statement with the financial statements to their knowledge.

Once completed, the External Auditors' Audit Completion Report would be circulated to all Committee Members.

RESOLVED: That:

- 1) the report be noted; and
- 2) concerns about the incomplete audit be raised with the appropriate regulatory body by the Chairman and Assistant Director Resources.

AS19/15. **STATEMENT OF ACCOUNTS 2018/19**

In accordance with the Accounts and Audit Regulations 2003, the Council's accounts were required to be approved by the Council, or its delegated Committee, each year. The report of the Executive Directors discussed the main issues affecting the Council's Statement of Accounts and provided a full commentary on the core financial statements. A draft copy of the full Statement of Accounts had been circulated to Members by email on 29 July 2019 and made available in hard copy format at the meeting. A final Statement of Accounts was to be circulated to all Committee Members once the audit had been completed.

At the time of writing the report, the Council's external auditors, Grant Thornton, had largely completed their work on the accounts for 2018/19. Grant Thornton's report was discussed earlier in the meeting. The published accounts included a Narrative Report and the Annual Governance Statement approved by the Committee at its meeting on 25 March (Minute AS18/38 refers). The Code of Practice had required no major changes in the presentation of the accounts; however, the Council restructured its departments in 2018/19 so the presentation of the accounts for 2017/18 has been re-stated for comparative purposes.

The Corporate Transformation Finance Manager led Members through the Statement of Accounts and drew out the salient points.

Rother District Council published the accounts on time to a high standard and the pension adjustment made was a recommendation of management not external audit.

It was noted that overall, the balance sheet showed that the financial position of the Authority remained sound with an adequate amount of reserves in place to meet short term needs. The Pensions Fund liability of £25m was a long term financial assessment of a possible shortfall based on its current performance and therefore no immediate action was required. The net worth of the Council had increased by £2.4m and the useable cash resources of the Council had increased by £1.620m.

The Movement in Reserves statement showed the movement in the year on the different reserves held by the authority (analysed into 'useable' and 'unusable'). The surplus of £0.735m on the provision of services line showed the true economic cost of providing the authority's services.

On behalf of the Committee, the Chairman thanked the Corporate Transformation Finance Manager and her team for their sound financial management of the Council, and Trevor Greenlee and the team of auditors from Grant Thornton for their work on the Council's accounts.

RESOLVED: That:

- 1) the Chairman be authorised to approve the Council's 2018/19 Statement of Accounts and sign the letter of acceptance;
- 2) the Chairman be granted delegated authority, in consultation with the Assistant Director Resources, to re-sign the accounts if any subsequent amendments were required, when the audit was completed; and
- 3) the Chairman to call an extra-ordinary meeting of the Committee if required after finalisation of the accounts.

AS19/16. **TREASURY MANAGEMENT REPORT - QUARTER 1**

Cabinet had approved the Council's 2019/20 Investment Strategy in February of this year; this required regular reports to be presented to the Audit and Standards Committee on the Council's treasury management activities. Investment activity was also reported to Members through the monthly Members' Bulletin. In managing its treasury management activities, the Council followed the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

The report provided an update on a number of areas as follows:

- The Council's treasury advisors, Link Asset Services, had provided their view on the current economic climate and their

outlook for the remainder of 2019/20, which was appended to the report.

- The Council made its own investments through the use of call and deposit accounts with major financial UK institutions. The Council had also invested £5 million in the Churches, Charities, Local Authorities' (CCLA) Property Investment Fund. A further £3 million was invested in the HERMES Property Investment Fund.
- The Council held £25,366,860 of investments at 31 May 2019. The total income from investments was estimated at £85,270 compared to a profiled budget of £85,000; the average rate of return was 1.67%.
- During 2018/19, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.
- The Council's treasury management debt and investment position was organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives were well established both through Member reporting, detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices.
- The Council had invested in regeneration of Rother through its Property Investment Strategy and the expected income from these non-Treasury Investments was provided within the report.
- Current property investments provided a net rental income of £970,000 per annum, a net income of £1,331,308 to date.

The Council's current treasury management and investment strategies remained robust in managing the Council's cash funds. The economic outlook remained difficult for a net investor such as the Council and supported the Council's financial strategy to reduce reliance on investment returns.

RESOLVED: That the report be noted.

AS19/17. **WORK PROGRAMME**

Consideration was given to the Work Programme which contained details of the reports to be considered by the Audit and Standards Committee for the remainder of the 2019/20 municipal year.

RESOLVED: That the Work Programme at Appendix A be approved.

CHAIRMAN

The meeting closed at 7.53 pm

AUDIT AND STANDARDS COMMITTEE

WORK PROGRAMME 2019 - 2020	
DATE OF COMMITTEE	SUBJECT
Monday 23 September 2019	<p>Part A – Standards Reports (none scheduled)</p> <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> • Internal Audit Report to 30 June 2019 • Revised Anti-Fraud and Corruption Framework • Treasury Management Report • UK Exit from the European Union (BREXIT) • Revised Procurement Strategy • Unit 4 Systems Administration
Monday 9 December 2019	<p>Part A – Standards Reports</p> <ul style="list-style-type: none"> • Code of Conduct Complaints Monitoring • Local Government Ombudsman Complaints Monitoring and Annual Review 2018-2019 • Review of Local Government Ethical Standards – Assessment of the Council's Best Practice <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> • BDO – Annual Audit Letter 2018-19 • Internal Audit Report to 30 September 2019 • Annual Risk Management Update • Treasury Management Update Report
Monday 23 March 2020	<p>Part A – Standards Reports (none scheduled)</p> <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> • Grant Thornton – Grant Claim Certification for the year ended 31 March 2019 • Grant Thornton – Audit Plan 2019-20 • Internal Audit Report to 31 December 2019 • Internal Audit Plan 2020-21 • Review of Internal Audit 2019-20 • Treasury Management Report
ITEMS FOR CONSIDERATION	
Whistleblowing report	

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