



Minutes of the meeting of the **Corporate Governance & Audit Committee** held in Committee Room 2, East Pallant House on Thursday 25 January 2018 at 9.30 am

Members Present: Mrs P Tull (Chairman), Mr J Brown, Mrs P Hardwick, Mr F Hobbs, Mr S Morley and Mr P Wilding

Members not present: Mr G Barrett, Mr T Dempster, Mrs N Graves and Mr G Hicks

In attendance by invitation: Mr M Young (Ernst & Young LLP)

Officers present: Mrs H Belenger (Accountancy Services Manager), Mr N Bennett (Legal and Democratic Services Manager), Mr M Catlow (Group Accountant (Technical and Exchequer)), Mr S James (Principal Auditor), Mrs B Jones (Principal Scrutiny Officer) and Mrs S Peyman (Sport and Leisure Development Manager)

167 **Chairman's Announcements**

The Chairman welcomed all to the committee. She drew members' attention to the death of Mr Paul Jarvis who had been a valued member of this committee for a number of years.

Apologies had been received from Mr G Barrett, Mrs N Graves and Mr G Hicks.

168 **Approval of Minutes**

The minutes of the last meeting held on 23 November 2017 were considered and the following amendment was agreed:

Minute 165 – Internal Audit – 2017-18 Audit Plan Progress, page 9, first para: ~~Mrs Hardwick~~ **The committee** referred members to page 9 of the minutes, second bullet point, where the committee had requested a more comprehensive explanation of delayed audits to be provided in the audit plan progress report to allow the committee to fully understand the reasons and to be able to debate the issues and raise concerns. **It was agreed that** the explanation needed to confirm that authority had been given by Mr Ward that he had deemed the audit not able to be audited at that time. If the scope of the audit was not relevant to the current situation then it should be stated. Mrs Belenger undertook to liaise with Mr James as to how to present that information in order to allay the concerns of the committee.

RESOLVED

That the minutes of the last meeting held on 23 November 2017 be agreed as a correct record subject to the above amendments.

Matters arising:

Minute 161 – Financial Strategy and Plan 2018-19, page 3, third para:

The Chairman referred members to the amendment to these recommendations made at Council on 23 January 2018 in relation to the minimum level of reserves held. Also due to the introduction of the new IFRS9 accounting standard for 2018-19 accounts which applied to certain types of investment an adjustment had been made to provide for a £565,000 charge to revenue in respect of this in 2018-19.

169 Urgent items

There were no urgent items for consideration at this meeting.

170 Declarations of Interest

No interests were declared at this meeting.

171 Public Question Time

No public questions had been received.

172 Certification of claims and returns annual report 2016-17

The committee considered the report attached to the agenda. Mr M Young of Ernst & Young LLP presented the report, advising that this was his last presentation to the committee and that Mr J Jones would be replacing him as the council's Audit Manager.

Mr Young drew members' attention to the certification procedures for the Housing Benefits subsidy claim set down by the Department for Works & Pensions (DWP). There was no stated materiality meaning that every error identified from the sample had to be reported. The council paid housing benefit to claimants and claimed a subsidy back from the Government. A number of errors had been established. The first case in the report was the highest monetary value and had resulted from a misclassification on the claim form to the DWP. The DWP allowed an error threshold which, if it was exceeded, would result in the subsidy reverting to 0%. The council was in discussion with the DWP to query this matter and an answer was due shortly.

The indicative fee for 2016-17 had been increased as a result of the additional work done on the housing benefit certification. The auditors were obliged to agree any variations to the fee with the council and with Public Sector Auditor Appointments Limited (PSAA). The same level of error as that experienced two years previously was assumed in setting the fee and related to performing certain procedures. If further errors were found which required testing then the cost for this work would be passed on to the local authority.

From 2018-19 the council had the right to appoint its own reporting accountant. Ernst & Young LLP was in discussion with the council on preparing a tender for that work. The summary of recommendations, agreed action and comment from the council referred to refresher training on housing benefit claims and to a focus on error reduction.

The committee made the following comments and received answers to questions as follows:

- The council receives subsidy payments monthly.
- The level of error was higher this year than had been experienced in previous years and higher relative to other local authority claims.
- The value of errors which impacted claimants was mostly between £1 and £5 and the committee should take comfort from these low value errors.
- The Revenues and Benefits service was going through a major service review and there may be temporary staff in place. A revised structure would come into force in April 2018 and staff would work towards improving the error ratio.
- There was no carry over to the next year. The DWP could decide to adjust the council's subsidy and then a closure letter would be issued.
- The total value of the error was roughly £190,000 which was about 0.5% of the total value of the claim of £35m. There was concern that any further investigation would not reduce the adjustment to the subsidy claim. Discussions were ongoing between EY, DWP and the council to decide whether we would wish to challenge the qualification.

Mr Young wished to record his thanks to the council officers for their assistance to him whilst carrying out his audit work.

RESOLVED

That the Certification of Claims and Returns Annual Report 2016-17 be noted.

173 Treasury Management Strategy, Policy and Prudential Indicators 2018-2019

The committee considered the report attached to the agenda. Mr Catlow presented the report.

Mr Catlow reminded members of the workshop held with Arlingclose in December and gave the committee a brief description of the treasury management (TM) areas where the council's risk had increased. Page 30 of the report described the council's risk appetite and the strategy, practices and procedures all related back to that risk. He took members through the key amendments which had been made to the 2018-19 Strategy and TM practices.

The committee made the following comments and received answers to questions as follows:

- The glossary was well received and found to be very useful.
- Clarification that the floating £5m would only be invested if we had a statutory override that would not reflect on the fair value balance. *This was not being recommended at present but it was allowed for within the next 12 months*

pending the outcome as to whether the Ministry of Housing, Communities and Local Government (MHCLG) would be overriding the accounting requirement in the code.

- Discrepancy between figure in the table and later on page 31 – it should read £61.6m in penultimate paragraph.
- Concern at the circular manner between the risk appetite and the council's investment objective and the lack of guidance for the team in practice. *Tables 5, 6 and 7 contain the detail on limits that is used operationally and which transposes to the TM software.*
- Queried the move to using banks with strong A- credit ratings (from the weaker BBB+ rating) and whether the strategy should provide leeway to invest in something prudent with a bank rated BBB+ or potentially be faced with the need to seek authority from the committee to review the strategy in that event in future. *If banking credit rates fell again we would have headroom in money market funds but would need to convene the committee to review the strategy in any event. Since 2008 we had had a changed environment in terms of bail-in arrangements. There was flexibility to go elsewhere if a major crisis occurred. Using other local authorities or central government via the Debt Management Office was the general direction of travel.*
- The chart at page 31 showed an investment return of 1.67% with local authority pooled funds achieving 4.88%. Queried whether we had a target for external pooled funds and whether we could target a return closer to inflation? *We had a target of 0.54% for our overall return on internal investments which related to the top half of that table. The committee had previously requested that officers think about how we report in terms of performance of these funds. Some progress has been made. We did not have a specific target for external pooled funds. But if they fell significantly we would look to put the investment elsewhere.*
- Queried the benchmarking which took place with other local authorities? *The workshop held with our TM advisors Arlingclose in December 2017 had a chart which showed that over the last two years the council had moved from mid-way on the table to one of the top performers. It is a challenge for local authorities to achieve a real rate of return because of the priority for security. The real rates of return were on investments with risk attached.*

A full discussion was held on the IFRS9 financial standard and the risk this placed on the council. It was considered that perhaps it had been introduced due to the need for Government to keep an eye on the poorer performing councils which, with no reserves and huge capital losses, were below the Government's radar at present and which could go into receivership. This council was performing better than others and the risks to the council had not changed therefore it was felt that we should be more open about having a large reserve and deal with the change transparently in the financial model and accounts.

We should not assume the override would happen but start working on what mechanism we would use to handle the fair value undulations. The mitigation on page 53 of the report to the risk of a fall in the fair value of external pooled funds is the nub of how this should be dealt with.

Mrs Belenger explained that perversely the IFRS9 standard might push councils to stop investing in those pooled property funds where the risk is spread evenly and to

start investing directly in property e.g. the Spelthorne investment which could be seen as a higher risk. The council's property fund was a long term investment to ride out the capital change and the Council was benefitting from an income stream. The Brexit vote resulted in a downturn in the economy. Officers were doing everything to manage those risks and hopefully going forward we would still have adequate balances to override any losses in fair value, however we may not undertake any new investments affected by IFRS 9 in the near future.

RECOMMENDED TO CABINET

That the Treasury Management Policy Statement, the Treasury Management Strategy Statement, the Investment Strategy and relevant Prudential Indicators for 2018-19 be recommended to Council for approval.

174 Budget Review 2017

Mrs Tull provided an oral report on the deliberations of the Budget Task and Finish Group which had met on 12 December 2017.

A response was awaited from Mr Frost on whether the council would be required to buy in the relevant expertise to compensate for the loss of the Historic Building Advisor post. [Post meeting note: The restructure of the Conservation and Design team involves the net loss of roughly half a post when adjustments to the team's duties are taken into account, including the cessation of the CDC Historic Buildings Adviser providing historic building advice to Arun DC. The team retains 3fte's which is considered adequate for the service area. It was not anticipated that there would be a need to buy in historic buildings advice services other than exceptionally, when any decisions would be made on a case by case basis.]

Mrs Tull advised that members of the group had been satisfied with the explanations on the projected variances in the 2018-19 Budget. The Budget Spending Plans report was being considered by Cabinet in February and Council in early March.

RESOLVED

That the oral report on the Budget Task and Finish Group be noted.

175 General Data Protection Regulations (GDPR)

The committee considered the report attached to the agenda. Mr N Bennett presented the report.

The committee made the following comments and received answers to questions as follows:

- Training for members – The ICO would be providing guidance for elected members on processing data. Members were currently registered individually with the ICO. The next Members' Bulletin provided a steer on GDPR for members. An online training module would be offered to members once this had been updated based on the ICO guidance. In May training would be available for members before the Council meeting.

- The ICO would audit the council on its implementation of the regulations; it would either be every second year like Ofsted, or if there were breaches it would be ad-hoc.
- The council had been considering GDPR for 18 months whereas a lot of other organisations had come to it late. We would have a set of rules and records fit for purpose and managers who were confident that they could use data properly and were reducing their records in an informed way. Processes would be reviewed annually.
- The key issue was not in deleting data; it was not allowing data to go somewhere it shouldn't. A policy was required and should include how the council would go about disclosure to the ICO if we had an incident. *13 policies were in place that deal with information law in some way e.g. CCTV. The idea was to produce a simplified set of policies. Any mistakes made were learning opportunities and it was vital that we faced these honestly. There was an ICO telephone line to discuss possible breaches and it was useful to talk it through with them before formal reporting. Deletion of data was being considered by reviewing the council's retention policies.*
- Queried whether insurance was possible to cover us for incidents of loss? *The council cannot insure against its own criminal action; this was similar to health and safety laws. Public indemnity insurance was in place.*
- Control was back with the individual. A standard form of words needed to be developed for every document. Officers were regularly sent a list of issues to be resolved and an example of words to use specifically for their own service. Revenues & Benefits and Housing has been completed. All managers had had advice on 'consent' and 'public duty exemption to consent'.
- These regulations would still be in place if Brexit went ahead next year. It applied to all businesses that process data in the UK regardless of where they were based.
- The rules applied to anyone who dealt with data. Members would be classed as data controllers if they had information on residents.
- Queried whether there was there a blanket approach to policies which covered everyone? *Whilst there were some fundamentals, there were others which were quite different. Whoever was dealing with data was expected to deal with it in a secure way. The more sensitive the information was e.g. sexuality, political parties etc. the more care was needed.*
- Queried the accountability and governance arrangements which required to be put in place? Was the council signing up to a code of conduct? *A requirement was that a suitably qualified Data Protection Officer (DPO) be appointed. Mr Bennett had had the required training and now awaited confirmation that he has achieved the qualification. As well as being the council's Monitoring Officer he would also be the council's Data Protection Officer. The committee needed to assure itself that he was suitably qualified to ensure that the council's data was properly governed. In some areas local authorities had banded together to appoint a joint DPO.*
- Queried whether we needed to be setting standards for parish councils? *Parish councils would need to put their own procedures in place. It was suggested that GDPR be included on the agenda for the next All Parishes Meeting.*

RESOLVED

That the work being undertaken to ensure that the authority was compliant with the provisions of the General Data Protection Regulations by 25 May 2018 be noted.

176 Internal Audit - Audit Plan Progress

The committee considered the report attached to the agenda. Mr S James presented the report. Mrs Peyman was also present to take any questions on the Contract Management audit.

Mr James advised that the two audit reports on Contract Management and Income Management were included in the report as well as the 2017-18 Audit Plan progress report. He also advised members that, following the previous agenda item, an audit of GDPR would take place next year once arrangements had been fully embedded. An audit of car parks income would be carried out again in April 2018.

The Chairman drew the committee's attention to paragraph 4.1 in the report regarding the Museum and Tourist Information Centre audits carried out over the last six years. Following the concern expressed at the last few meetings regarding the deferral of this audit, she advised that the fact that the Museum had been audited a number of times over the years should give the committee confidence as well as the fact that issues were often audited holistically in some other way as well. Mr James confirmed that this audit would be carried out within the period of quarter four (ends 31 March 2018).

The committee was concerned that the shape of the Audit Plan had not changed as had been requested at previous meetings. The last column in the progress report should be in bullet form and provide progress information including any deferrals or delays, giving details of who authorised the deferral. Mrs Belenger undertook to consider a different way to present the Audit Plan in order to provide the committee with the relevant information.

RESOLVED

- 1) That the two audit reports on Income Management and Contract Management be noted.
- 2) That progress against the 2017-18 Audit Plan be noted.

The meeting ended at 12.15 pm

CHAIRMAN

Date: