

Minutes of a meeting of the **Corporate Governance and Audit Committee** held in Committee Room 1, East Pallant House, 1 East Pallant, Chichester on Thursday 20 March 2014 at 09.30am.

Members (10)

Mrs P M Tull (Chairman)
Mr A J French (Vice-Chairman)

Mrs C M M Apel
Mr T Dignum
Mr B Finch

Mrs P Hardwick
Mr G McAra

Present (7)

Apologies for absence:

Mr M Bell
Mr G Hicks
Mr R Marshall

Officers Present for all agenda items

Mrs B Jones, Principal Scrutiny Officer
Mr J Ward, District Treasurer

Officers Present for Specific Items Only

Mrs H Belenger, Accountancy Services Manager
Mr D Cooper, Group Accountant
Mrs C Dring, Benefits Manager
Mr S James, Principal Auditor
Mr P Legood, Valuation & Estates Manager
Mr W Townsend, Health & Safety Manager

Chichester District Council Members present as observers or contributors

Mr J Connor
Mrs C Purnell

Invited Representatives Present for Agenda Item 10

Mr Simon Mathers, Audit Manager, Ernst & Young LLP (EY)

169. Minutes

The Chairman advised that there was a follow up to minutes 163 as part of the agenda for this meeting.

Mrs Hardwick requested an amendment to minute 164, fifth paragraph, to read 'She also provided revised wording to paragraph 5 Credit Outlook *in relation to the new banking bail-in arrangements*'. The Accountancy Services Manager advised that the strategy would be amended to reflect that building society protection still exists under these arrangements. If legislation changed then it would take six months to put into effect and there would be an opportunity to buy ourselves out of any arrangement.

RESOLVED

That the Minutes of the meeting held on 23 January 2014 be signed as a correct record, subject to the above amendment.

170. Urgent Items

There were no urgent items for consideration at this meeting.

171. Declarations of Interest

There were no declarations of interest.

172. Public Question Time

No public questions had been submitted.

173. Late items

The Chairman reminded members of the additional Ernst & Young reports circulated to the committee and requested that these items be taken next on the agenda to which the committee agreed.

174 Ernst & Young LLP reports

The Chairman welcomed Simon Mathers, the new Audit Manager for the Council from EY. He gave a brief introduction of his new role and presented the papers circulated, namely the 2013/14 audit progress report, the 2012/13 Housing and Council Tax Subsidy Benefit certification fee, and the EY Local Government Audit Committee briefing. The following questions were raised by the committee:

- Confirmation was sought as to whether the internal audit team feel the processes in place in working with the EY team of external auditors is satisfactory? *The District Treasurer advised that the EY audit team and the internal audit team were working together and he would be able to assess whether the extra work being asked of the IA team had had an effect on the team following the audit in September.*
- The mention of Disabled Facilities Grant (DFG) administration in the EY Local Government Audit Committee briefing – will this be passed on to the council by West Sussex County Council (WSCC)? *The council's share will be passported back to us to deliver DFG, but it is uncertain what will happen beyond 2016.*
- Query re 50% business rates which local authorities receive mentioned in the briefing? *We notionally receive 50% but it is then dispersed so in effect we only*

receive 15% of business rates back. There are risks to the council regarding backdated appeals. The council has an existing model for establishing an estimate for the accounts which is adequate at present.

Mr Mathers confirmed that the audit scale fee of £2,991 in respect of the Housing and Council Tax Subsidy Benefit claim had been approved by the Audit Commission. This was below the £3,000 approximate fee originally notified to the committee.

RESOLVED

That the Ernst & Young LLP 2013/14 audit progress report and the 2012/13 Housing and Council Tax Subsidy Benefit certification fee be noted.

175 Accounting Policies

The committee considered the agenda report (copy attached to the official minutes). The Group Accountant presented the report giving details of the amendments required to accounting policies in advance of the preparation of accounts for 2013/14. The Group Accountant and Accountancy Services Manager answered members' questions as follows.

- Business rates and the lack of reference to the point discussed earlier in this meeting. *We may need to disclose this as part of the statement.*
- Materiality on soft loans. *This is not the same as the auditors are talking about; the council has a much lower figure with a similar threshold to capital loans.*
- Interested in threshold. *The materiality level has to take account of the interest foregone. The accounts may need to be adjusted. It was agreed that the threshold should be disclosed.*
- Will we be required to make adjustments in the budget on post-employment benefits? If the fund is reduced then there will potentially be losses. *WSCC carries out a review every three years; the next valuation is in two years' time. This will only be applicable to those on the defined contribution scheme.*
- Don't understand what effect the changes in benefits will have on the pension fund. If there is a radical effect do we do something? *May see higher charge through the Income & Expenditure account. There is no effect on the bottom line.*

Mrs Hardwick made some suggestions for amendment of a presentational and grammatical nature to Appendix 1 which the Accountancy Services Manager agreed to put into place.

RESOLVED

That the amendments to the Accounting Policies shown at Appendix 1 to the report be formally adopted for the financial year ended 31 March 2014 subject to the further suggested amendments mentioned above.

176 Audit Reports, Audit Plan and Audit Plan Progress

The committee considered the agenda report and two audit reports, Housing Benefits and Estates, which had been emailed to members (copy attached to the

official minutes). The Principal Auditor took the committee through the various reports in order during which the following discussion took place.

Housing Benefits Audit

Four recommendations (three medium priority and one low priority) had been agreed by management. Mr Dignum suggested that the committee should be satisfied with the low/medium level recommendations taking into account the large sum of housing benefits processed, the volume of applications and sometimes very difficult customers which the manager and her staff are dealing with. Mrs Apel noted the number of people assisted with housing and council tax benefit enquiries in 2013/14 and asked whether the figure for the previous year was available. The Benefits Manager undertook to respond to Mrs Apel with these figures.

Estates Audit

There were five recommendations in this report (four medium and one high priority). In view of the findings relating to the high priority recommendation a further audit report on 1 The Ridgeway was being prepared and would be brought to this committee in June. Mr Dignum advised that the income for the Estates section was roughly £1.6m and this year the debt recovery element should be tightened up. The Valuation & Estates Manager advised that it was crucial that an effective debt recovery regime was in place, however it had to be accepted that tenants would sometimes go into liquidation or become insolvent and debts would occur. However steps are being taken to make sure processes are effective. The committee made the following comments:

- Are start-ups an element of high risk for the council, with excessive numbers of write offs? What are the criteria for risk taking? *The future report is centred on this question.* We look to arrange tenancies to mitigate losses.
- Do you do benchmarking/research regarding the types of questions which should be asked of new tenants? *The Executive Director and the Valuation & Estates Manager belong to an Estates Surveyors group which meets on a quarterly basis and compares performance indicators and other information.*
- What have we had to write off? What is a reasonable rate of arrears? *The arrears run at 2%. The Valuation & Estates Manager undertook to advise the committee with regard to the sum we have required to write off.* Mr Finch advised that if 2% is average then the council should be satisfied with 2%. Mrs Hardwick needed to understand the risks involved and the credit worthiness of tenants and suggested there should be a reporting system which flags up an orange light earlier on. The Valuation & Estates Manager advised that the property portfolio was very varied, with large businesses and smaller shops and that the small businesses and voluntary organisations needed a lot of management.
- Mr McAra suggested that the wider priority of the council is to provide employment and this must be borne in mind in selecting tenants.
- Mrs Hardwick advised that the recommendations built into the commentary in this report was useful and suggested the format be used for all future audit reports.

Audit Plan and Audit Plan Progress

The Principal Auditor advised that his team was being asked by EY to carry out extra internal audit work and the council was keen to avoid additional external audit charges. This extra work related to additional testing on Key Financial Controls, which had been carried out by EY last year. An element of contingency had been included in the 2014/15 budget to allow for work to be undertaken on Housing

Benefit Subsidy. It is yet to be confirmed whether Internal Audit will be required to do this work. Full training will be required to undertake this extra work. The District Treasurer advised that quality control was with the housing benefits team, required for independent testing. The demise of the Audit Commission and appointment of EY without local authority involvement in agreeing the work programme had caused some confusion however there would be negotiation with EY regarding work planning going forward.

The Principal Auditor had recently recruited a Part-Time Auditor and had had authority to recruit a Senior Auditor to cover vacant posts.

Members were concerned that not all services were included on the audit plan, particularly Member Services. The Principal Auditor advised that elements of the service's work were audited as part of the members' allowances, reprographics and payroll audits. This was considered a low risk service so it was not included. Mrs Hardwick suggested that all services appear on the audit plan. The District Treasurer agreed that this would be carried out when developing the audit plan next year.

The committee also requested that the 2014-2017 Three Year Audit Plan be developed with columns reflecting the risk element, the value, and the complexity of the systems involved in the audit, which would provide the committee with more information regarding the service. The Principal Auditor agreed that this report would be brought back to the June committee for review.

The audits started in the current year's plan will be rolled over to the new financial year.

RESOLVED

- 1) That the audit reports on Housing Benefits and Estates be noted.
- 2) That the audit plan progress for 2013/14 be noted.
- 3) That the Audit Plan 2014/15 and the Three Year Plan 2014-2017 be noted, subject to a further report with the Three Year Audit Plan developed as suggested above being presented to the next committee meeting on 26 June 2014 for review.

177 Business Continuity Management

The committee considered the agenda report (copy attached to the official minutes). The Health & Safety Manager answered questions:

- Do we use cloud based services for storage and backup of the council's documents? *IT has looked at these and there are concerns with security. We currently undertake a daily backup of documents on site and a weekly backup off site, stored at HSBC. Two years ago a feasibility report had been carried out and the IT Panel had concluded that it was too costly to go with WSCC as our backup partner.*
- Mrs Purnell reminded the committee of the Code of Connection (CoCo) regulations which the council was bound to follow.

- Mr Dignum was of the view that backup should be daily and off site. When would this be reviewed again? *The Business Continuity Policy is being reviewed by the Strategic Risk Group (SRG) on 16 June 2014. The District Treasurer suggested that an update on the regular operational backup be included with this report to the SRG and that the Assistant Director of Facilities Management, Property & Customer Services be requested to attend that meeting and the next meeting of this committee in June to provide an update.*

RESOLVED

- 1) That the Business Continuity Management position statement be noted.
- 2) That the next meeting of this committee in June 2014 receive a verbal update with regard to data backup issues, a security examination of cloud services and the feasibility of more regular backup of the council's data.
- 3) That a Business Continuity Management update report be presented to the September 2014 meeting of this committee.

178 Corporate Governance & Audit Committee work programme 2014/15

The committee considered the agenda report (copy attached to the official minutes). Mrs Jones presented the report, asking members to reconsider the principles agreed by the committee at its meeting in March 2012 in relation to how future reports should be dealt with, and drew members' attention to some of the more routine reports and how these should be dealt with in future.

Members accepted that the Knowledge Hub (Members' Bulletin Board) was not being used effectively to share information and requested that the practice of uploading documents for the committee to view be stopped. The committee agreed that audit scopes and reports should be emailed out to all members of the committee as soon as these are produced, and that audit reports be included on the next available committee agenda to ensure transparency in enabling all members to see these.

Mr Finch suggested that it was important that the committee consider corporate complaints on an annual basis and that this report be added to the work programme.

The Business Routeing Panel had met the day before this meeting and had suggested a couple of further reports be routed through this committee – Community Infrastructure Levy implementation progress reports in June and November 2014.

RESOLVED

- 1) That the committee's 2014/15 work programme be agreed subject to the addition of the further reports suggested above.
- 2) That audit scopes and audit reports be emailed to all members of the committee as soon as they are available, and that audit reports be included in the next available committee agenda.

- 3) That the Knowledge Hub no longer be used to share the committee's reports for comment by members.

(Note: The meeting closed at 11.35am)

(Chairman)

Date: _____