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Minutes of the meeting of the **Corporate Governance & Audit Committee** held in Committee Room 2, East Pallant House on Thursday 26 July 2018 at 9.30 am

**Members Present:** Mrs P Tull (Chairman), Mrs P Plant (Vice-Chairman), Mr J Brown, Mrs P Hardwick, Mr S Lloyd-Williams, Mr K Martin, Mr S Morley and Mr P Wilding

**Members not present:** Mrs N Graves and Mr F Hobbs

**In attendance by invitation:** Mr J Jones (Ernst & Young LLP)

**Officers present:** Mrs H Belenger (Divisional Manager for Financial Services), Mr S James (Principal Auditor), Mrs K Dower (Principal Planning Officer (Infrastructure Planning)), Miss A Loaring (Partnerships Officer) and Mr J Todd (Corporate Fraud Officer)

## 192 **Chairman's Announcements**

Apologies had been received from Mrs Graves and Mr Hobbs.

## 193 **Approval of Minutes**

### **RESOLVED**

That the minutes of the meeting held on 29 March 2018 were agreed as a correct record.

Matters arising:

Minute 184 – Audit Committee Briefing – EY, fourth bullet point: The issue of an override would be dealt with later in the meeting.

Minute 186 – 2017-18 Accounting Policies, seventh bullet point: Mrs Belenger advised that the request to reinstate the Council Tax leaflet would be passed on to Mrs Dodsworth, Director Residents Services.

## 194 **Late Items**

There were no urgent items.

## 195 **Declarations of Interests**

No declarations of interests were made.

196 **Public Question Time**

No public questions had been received.

197 **Corporate Governance and Audit Committee Work Programme 2018-2019**

The Committee considered the Work Plan for 2018-2019 circulated with the agenda.

The following issues were moved or added to the work programme for 2018-2019:

- Add the Capital Strategy to 10 January 2019 meeting
- Move the Fraud Prevention report from 28 March 2019 to the July meeting
- Add Treasury Management Strategy 2019-2020 to January 2019 meeting

**RESOLVED**

That the Committee's work programme for 2018-2019 be approved.

198 **Audit Fees 2018-2019**

Mr Jones from Ernst & Young LLP (EY) gave an oral report. He referred to the Public Sector Audit Appointments Limited (PSAAL) contract for the certification of housing benefit subsidy claims for which EY had provided a quote for 2018-2019.

Mrs Belenger confirmed that the Council had secured EY to undertake the certification of housing benefit subsidy claims for 2018-2019. The PSAAL new contract for the audit of the Council's final accounts for 2018-2019 was £37,799, which was a reduction in EY's previous fee.

Mr Jones confirmed that EY would prepare an engagement letter setting out their terms, scope and fee.

The Committee requested that in future the fees should be provided in writing as part of the agenda.

**RESOLVED**

That the Ernst and Young LLP Audit and Certification Fees 2018-2019 be noted.

199 **Chichester District Council Audit Results Report for the Year Ended 31 March 2018**

The Committee considered this report circulated with the agenda.

Mr Jones of Ernst & Young LLP (EY) outlined the report and took members through the main sections of the Audit Results report for the year ended 31 March 2018.

With regard to the status of the audit, all sections in the first bullet point on page 18 had now been completed. The remaining bullet points would be completed at the end of the audit process. There remained one unadjusted error under Audit Differences on page 18 relating to the business rates appeal provision for the new

rating listing issued by the Valuation Office that the Council was required to assess the number of expected appeals. However due to the lack of data assumptions must be made, as this was a new list, the Council and EY had undertaken their own assessments which resulted in a difference of £375,000. The Council, due to it being an estimate and not material, had chosen not to adjust their figure. He reported a further adjustment to the accounts of £5.7m to the Council's assets, which took into account the increase in the value of the Council's car parks based on an income approach.

With regard to training material for guiding Corporate Governance and Audit Committees, the Chairman advised that EY intended to provide guidance for members of the Committee to encourage members to challenge the accounts more than some currently did. Mrs Belenger advised that following the District Council elections next year it was intended that the 2019 Member Induction would ensure that the Committee was fully aware of its responsibilities. Mrs Belenger undertook to see if the CIPFA documentation 'Audit Committees, Practical Guidance for Local Authorities and Police 2018' was available for circulating to the Committee.

In response to a question Mr Jones confirmed that a Council has to set a minimum level of reserves but there was no maximum.

Mrs Belenger confirmed that it was for each Council to decide their reserves based on their individual circumstances. This Council's reserves were quite high due to how the Council was treating the New Homes Bonus which the Council had presently decided not to use.

Mr Jones undertook to define the term REFCUS (revenue expenditure funded from capital under statute) PPE (property plant and equipment) in the report.

## **RESOLVED**

That the Annual Results Report for the year ended 31 March 2018 be noted.

## **200 Statement of Accounts for 2017-2018**

The Committee considered this report circulated with the agenda. A revised appendix 2 (Statement of Accounts for 2017-2018) to replace the version circulated with the second agenda supplement was tabled at the meeting.

Mr Catlow presented the report. Mr Cooper was also in attendance.

Mr Catlow outlined the Statement of Accounts for 2017-2018. He referred to the new requirement, from this year, for the completion of the statement of accounts as at 31 May 2018 instead of as at 31 June 2018, which had resulted in their preparation being challenging for officers. The preparation of the statement of accounts had been a collaborative effort with the Council's other services now required to submit their accounts information earlier to meet the new deadline, by the use of service divisional champions. Following the approval of new accounting policies by the Committee as its last meeting, the number of pages produced for the Statement of Accounts had been reduced in order to focus on the important

information and to make it more readable. There had been no unexpected changes in terms of service revenue.

Mr Catlow drew attention to the Balance Sheet. The increase in the amount owed by short term debtors and advised that £600,000 related to an increase in monies owed to the Council from sundry trade debtors and housing benefit overpayments, which officers were aware and internal discussions were ongoing. The amount of money received from CIL was £800,000 and reflected the increase in the number of receipts. The increase in short term creditors related to the increase in short term which had mostly resulted from the operation of the business rates retention system.

A significant change this year related to Community Services as a result of the outsourcing of leisure. Mr Cooper, in response to a member comment made about the £1m difference for Residents Service, added that this had resulted from the housing benefit subsidy claim form adjustments following an audit of the claim forms.

Officers responded to members' questions as follows:

- Human Resources undertook reports on staff numbers, which were in the public domain a part of the transparency agenda.
- A no deal Brexit was not currently part of the business continuity risk as this concerned the Council's own ability to provide its services. The Risk Register was reviewed quarterly by the Strategic Management Team and reported to members twice a year.
- The Council had already taken on board the impact of IFRS 9 and had assessed it against the investments the Council currently had. Comprehensive Income Statement. At 31 March 2018 whatever was left on the Financial Statement Reserve was transferred into the Revenue Account and an adjustment made in subsequent years.
- Mrs Belenger undertook to include a footnote in the report stating that Council Tax figure of £11m related to both the District Council's and parish councils' share.
- It was agreed that the broad spectrum of the number of Council employees, their roles and their costs would in future be added to the narrative.
- Members were provided with an explanation with regard to the decrease in staffing costs and advised that it was for service managers and directors to ensure that they provided the service required for the community.
- With regard to Ernest Young's Chichester District Council Audit Results Report (Agenda item 8):
  - Management Representation Letter - Page 59: Mrs Belenger explained the proposed changes made by officers to the letter that took into account the Council's individual circumstances and the £382,000 not adjusted for Paragraph 5 was amended to read "...because in our view the estimate provided by the Council was formulated using an appropriate methodology and the adjustments suggested by the Auditor would not be material to the Statement of Accounts."
  - Comparative Information - Page 60: Attention was drawn to the amended sentence to read "...to reflect the Councils revised Cabinet member portfolio responsibilities in the current year's financial statements."

## **RESOLVED**

That the audited Statement of Accounts shown in revised appendix 2 for the financial year ended 31 March 2018, note the outturn position and authorise the Letter of Representation to be given to the Council's External Auditor be approved.

### **201 Section 106 and CIL Annual Monitoring Report**

The Committee considered the full Section 106 and Community Infrastructure Levy (CIL) annual monitoring report published in December each year circulated with the agenda.

Mrs Dower and Mr Davies were in attendance for this item.

Mrs Dower introduced this report and advised that officers from West Sussex Council and the South Downs National Park Authority who had been invited to attend the meeting had sent their apologies. Any questions raised by the Committee directed to these officers would be forwarded on for comment.

The Committee would receive a S106 report in October specifically on those agreements approaching or past their target spend date. This is to ensure that funds received were spent in accordance with the agreement and time limits for spending, so that they did not have to be handed back to the developer. There is no expenditure deadline on CIL receipts.

During the discussion comments were made by members and answers provided by officers as follows:

- Members received a report, sent electronically, each March and September reflecting progress of S106 agreements in their ward.
- Officers were asked if they had any concerns that any of the agreements were not making progress or might not meet their target date. Mr Davies confirmed that the spending officers were actively monitoring the monies to ensure they were spent before expiry. That most of the information in this report is as at 31 March 2018 further updates from the spending officers would be included in the September reports to members.
- Mr Davies explained that appendix 1 the unspent contributions coming up to their expiry date was a quarterly report considered by the Senior Management Team who engaged with divisional managers to ensure any issues were followed up with the spending officers. In addition there is an e quarterly officer liaison group meeting where progress is discussed, to focus on those projects nearing their target date.
- An explanation was given concerning the amount of CIL contribution received in relation to expenditure, to date. The CIL spending plan is a five-year rolling programme introduced on 1 February 2016. The apparent spending delay is to allow sufficient funds to accrue to pay for more expensive infrastructure projects in the spending plan With regard to the A27 contributions, a new Transport assessment was currently being undertaken to support the Local Plan review and officers would be engaging with Highways England in due course..

- The CIL charging schedule would be reviewed as part of the Council's Local Plan Review. The South Downs National Park, has its own CIL in place, and their charges are higher because land and property values in the Chichester part of the National Park are higher than the rest of the district. With regard to Wakeford's Field and concern that the community provision may be lost, Mr Davies undertook to speak to Mrs Golding, Principal Solicitor, and Mrs Archer, Enforcement Manager, to get a progress update, as they were liaising with the administrator following the financial failure of the developer.
- Approved schemes were listed in the capital programme. It was agreed that a link should be provided in the report to provide a cross reference to the CIL Spending Plan to assist the reader.
- A parish council could change their projects at any time but they must advise the Council to ensure the new proposals meet the CIL spend regulations for parishes.
- Mr Oakley was invited to address the Committee and was provided with answers concerning the vulnerability of projects due to the possibility of having to hand back Section 106 monies, an update on the CIL trajectory in the IBP and renegotiations on existing Section 106 agreements. With regard to the former Shiphams Factory site Section 106 contributions and the decision made by Cabinet concerning the Priory Park Masterplan, Mr Davies undertook to ask the spending officer for an update on the total contributions of £40,291.61 remaining.

## **RESOLVED**

- 1) That the income and expenditure between 1 April 2017 and 31 March 2018 in respect of S106 contributions from CIL be noted;
- 2) That the information on S106 agreements within two years of the expenditure target date as set out in appendix 1 be noted;
- 3) That the details of non-fictional S106 obligations set out in appendix 2 be noted; and
- 4) That the monitoring information required by the CIL regulations as set out in appendix 6 be noted.

## **202 Partnerships Report 2018**

The Committee considered this report circulated with the agenda.

Miss Loaring presented the report. She referred to the template that had been updated following the request of the Committee to consider governance arrangements and the exposure of the partnership to risks and their mitigation and also the updated guidance. Not all risk assessments had been completed by the partnerships and some had not got an exit strategy.

On page 233, Budget: reduction in future income, Miss Loaring undertook to find out if the result score should be amended from '6' or to a '3'.

With regard to the number of different matrix used, it was suggested that all returns should use the Council's 4x4 risk matrix as this was clearer. Mrs Belenger undertook to liaise with Miss Loaring to require that all returns used this matrix in future.

With regard to the Safety Advisory Group, Mrs Belenger undertook to ask the Communications, Licensing and Events Divisional Manager about the representation on SAG.

The absence of the identification of partners for each of the partnerships was referred to. Miss Loaring advised that this could be reinstated and undertook to change the guidance to add a request for each of the partnerships membership list and then add to the report a general summary for each. Each of the partnerships targets were measured from their business plans and considered by the Overview and Scrutiny Committee. With regard to the Solent Recreation Mitigation Partnership, Mrs Belenger advised that the Planning Policy Manager would need to set out how they address the gap. Miss Loaring added that the Partnership may need to review it as no independent review had been done.

The Chairman commented on the improved layout.

#### **RESOLVED**

- 1) That the Annual Partnerships report is noted;
- 2) That it is recommended that the partnerships annual report is an appropriate mechanism for ensuring our strategic partnerships have appropriate governance measures in place and should continue reporting to Corporate Governance and Audit Committee on an annual basis and that the specific issues raised by the Committee are pursued by officers separately;
- 3) That the updated Partnerships Guidance 2018 be approved by the Committee; and
- 4) That officers involved with the partnerships complete/update risk assessments looking at financial/reputational and exit strategy risks.

#### **203 2017-2018 Annual Governance Statement and Corporate Governance Report**

The Committee considered this report circulated with the agenda.

Mr James outlined this report.

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

- Section D: Concern was raised about the lack of interventions included in this section. Mrs Belenger advised that reference to the Programme Boards, SLT meetings and Pentana should be included. She undertook to include reference to these interventions in the 2017-2018 Annual Governance Statement in consultation with the Chairman, the Cabinet Member for Corporate Services and the Chief Executive.
- Section F: Concern was raised that there was not enough reference to the actual scrutiny processes. Mrs Belenger undertook to provide the necessary information in future statements.
- Section G: Line 8 - Delete the sentence 'During 2018/2019 the Council will...'

#### **RESOLVED**

That the draft Annual Report on Corporate Governance at appendix 1 subject to the amendments requested which the Committee gives delegated authority to the Chairman to sign on behalf of the Committee, the Annual Governance Statement 2017-2018 (appendix 2), and Internal Audit and Corporate Counter Fraud Annual Report 2017-2018 (appendix 3), and to recommend these to the Council for approval.

#### 204 **Fraud Prevention Report 2017-2018**

The Committee considered this report circulated with the agenda.

Mr Todd outlined this report, which demonstrated the work undertaken by the Fraud Team.

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

- A question was asked as to whether or not the Council's Whistle Blowing Policy was working. Mrs Belenger advised that the Policy was published on the website to make public were made aware of it.
- Mrs Belenger advised that if any additional resources to support the Fraud Team work would require the business case to be assessed. The overtime carried out by the assistant fraud post was currently being funded by an approved carry forward arising from staff savings in 2017-18 for the Audit Team.
- Mr Todd confirmed that the money owed to the Council through overpayments was clawed back.

The Chairman thanked Mr Todd for his ongoing work.

#### **RESOLVED**

- 1) That the Committee is requested to consider this report and the corporate approach to fighting fraud to ensure they fulfil their stewardship role and protect the public purse; and
- 2) The Committee notes that the Council will actively pursue potential frauds identified through ongoing investigations by the Corporate Counter Fraud Team (CCFT).

#### 205 **Public Sector Internal Audit Standard (PSIAS) - Peer Review**

The Committee considered the report circulated with the agenda that provided the Committee with details of the outcome of the external peer review on compliance with the Public Sector Internal Audit Standards (PSIAS).

Mr James introduced this report and explained that the Public Sector Internal Audit Standards required the assessment to be carried out at least every five years. He pointed out that the Council was required to undertake its own internal assessment yearly. This Council was currently undertaking Lewes District Council's peer review.

Mr Davies outlined his findings of this Council's first peer review. He reported that it would not be difficult for the Council to make the necessary changes to become fully compliant.

Mrs Belenger informed the Committee that officers would consider how to make the peer Council's peer review fully compliant.

## **RESOLVED**

That the Chichester District Council peer review be noted.

### **206 Audit Reports, Progress Report - Audit Plan**

The Committee considered the report circulated with the agenda.

Mr James introduced the audit reports on Gifts, Hospitality and Staff Loans, and Key Financial Systems 2017/2018. He referred to the Key Financial Systems 2017/2018 audit and the one High priority action in respect of Housing Benefits concerning accuracy checks, which he advised would be assessed further once the electronic system had been implemented.

Mrs Belenger added that with regard to the certification work, the Housing Benefit Team had been restricted and new procedures had been brought in that should improve accuracy in the future. She confirmed that this year the Council incurred financial penalty as it breached the allowance for errors. However in the previous financial year it had worked in the Council's favour and had received an extra £200,000.

With regard to the Audit Plan, Mr James updated the Committee on the Audit Plan progress. With regard to the Debt recovery audit, final tests would not be completed until the following week, as a bug had been found in the system.

## **RESOLVED**

- 1) That the Gifts, Hospitality and Staff Loans, and the Key financial Systems 2017-2018 audits be noted; and
- 2) That progress against the 2018-2019 audit plan be noted.

### **207 2017-18 Treasury Management Out-turn**

The Committee considered this report, which provided details of the Council's Treasury Management Outturn position for 2017-2018 concerning the treasury management activity and performance, circulated with the agenda.

Mr Catlow presented the report. He highlighted the key risks and advised that that the Council's performance was with other councils. He invited the Committee to provide any comments before recommending to Cabinet for approval.

He referred to the current difficult investment environment and the risks in terms of banking. However, with regard to local authority investments these were still classed as low risk. To address this risk Council was continuing to seek

opportunities to invest long term. With regard to the Council's Treasury Management returns they had slowed slightly over the final quarter. The Council had expected the Bank of England's Monetary Policy Committee to increase interest rates in May 2018 but this did not happen. However the next expected date for an increase in interest rates was 2 August 2018. In the meantime officers were keeping the Council's investments to a duration of between 3-6 months and would review its position if interest rates were not increased. With regard to IFRS9, he advised that the Ministry of Housing, Communities and Local Government had today issued a consultation on mitigating the impact of fair value movements on pooled investment funds on local authority budget setting. The consultation appeared to offer a three year strategy override for movements of fair value until 1 April 2021.

Officers answered members questions concerning staffing, the Council's process for deciding which investments to make and the Council's large amount of treasury investments.

**RECOMMENDED**

That the 2017-2018 Treasury Management outturn Report be recommended to Cabinet.

208 **Appointment to the Strategic Risk Group**

**RESOLVED**

That Mrs Tull, Mrs Hardwick and Mr Lloyd-Williams be appointed to the Strategic Risk Group for 2018-2019.

The meeting ended at 3.40 pm

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CHAIRMAN

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Date: