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AUDIT COMMITTEE

16 MARCH 2017

Present: Councillors Rankin (Chair), Webb (Vice-Chair), Charman, Chowney and Sinden

59. DECLARATIONS OF INTEREST

The following Councillors declared their interests in the minutes indicated: -

Councillor	Minute	Interest
Webb	44. BDO Planning Report to the Audit Committee (Audit for the Year Ended 31 March 2017) - Pension Fund Liability Assumptions	Personal – A member of East Sussex County Council

60. APOLOGIES FOR ABSENCE

None.

61. MINUTES OF THE MEETING HELD ON 25 JANUARY 2017

RESOLVED – (unanimously) that the minutes of the meeting held on 25 January 2017 be approved and signed by the Chair as a true record

62. BDO PLANNING REPORT TO THE AUDIT COMMITTEE (AUDIT FOR THE YEAR ENDED 31 MARCH 2017)

The Chief Auditor introduced his report to the Committee and informed members of BDO's audit plan for the audit of the Council's accounts and Value for Money arrangements. The BDO report highlights the risk-based approach to the audit and the main risks they have identified. It also shows the proposed audit fees. The BDO Audit Plan to the Audit Committee (Audit for the year ending 31 March 2017) was appended to the report.

Leigh Lloyd-Thomas, Engagement Lead, BDO, presented the plan. He explained the threshold and materiality limits for the audit and the risks estimated and advised of the changes to this year's report. He referred to the absence of a museum piece which for the last two years had been on tour to other museums. He said that its existence needed to be verified because of its value.

The Chartered Institute of Public Finance and Accountancy has changed the way that the statutory accounts will now look. BDO will look at related party transactions and assessing our reserves. BDO's Engagement Lead said that the Council has

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significant reserves but we are not receiving enough funding to cover some services and for several years there has been a run on these. There is also committed spend earmarked against reserves. Hastings Borough Council finds a way to use its money wisely, in medium term though; something has to change for the Council's finances to remain sustainable.

Fees are set by external body that BDO is obliged to follow. BDO's Engagement Lead said he will bring a report to the committee in mid-September which will cover all of the conclusions from their audit testing.

Councillor Sinden asked how much the museum piece that was loaned on tour had been valued at. The BDO Engagement Lead confirmed the insurance team's significant valuation of the item. The Assistant Director Financial Services and Revenues added that requisite security measures as advised by our insurer were in place.

Councillor Chowney sought clarification on the red risk highlighted by BDO called management override. The BDO officer explained that towards closure of year end accounts there are necessary adjustments that are proper to be made. However, there is sometimes pressure on management for adjustments to be made that could show the accounts more favourably unless adequate controls are in place. Hence BDO scrutinise all significant adjustments made at year end close down to ensure that the figures and transactions are bonafide.

Councillor Chowney asked if there is anything Hastings Borough Council should be doing that we are not. The BDO Engagement Lead referred to the underlying controls and advised that the quarterly financial report should be in line with expenditure so that the final set stacks up against the quarterly reports. If the final set of accounts look nothing like expectations it will need to be addressed. The Assistant Director Financial Services and Revenues said the revised budget was set in in February and the outcome will be available in July. At that time, any differences will be apparent and there will be a variances statement.

Councillor Webb said if it was consistently wrong there would be a pattern. The Assistant Director Financial Services and Revenues said last year's outturn will give a full list of variances in the July report and comparison to previous years. Cllr Webb then asked if most years were accurate? The Assistant Director Financial Services and Revenues confirmed yes, except for sometimes on the Housing Benefit outturn figure where just a small percentage change from assumption can have a large financial impact.

Councillor Chowney asked the BDO Engagement Lead whether the risks that the Council were having to take on income generation concerned him? The BDO Engagement Lead said that they were careful to recognise the position. Many Councils are now needing a more commercially balanced risk portfolio but where we have a new scheme in place, he would expect us to have taken due diligence. He said that he knew of a Council that was exceptionally aggressively borrowing £300m (taking advantage of the PWLB current low borrowing rate) but also of another Council that had placed £1m with the Churches and Charities Local Authority Property Fund.

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He said BDO look at the approach in relation to each individual Council and not comparing it with what everyone else is doing.

Councillor Rankin asked BDO what revenue reserves we should carry? The BDO Engagement Lead explained that external audit's role is not to act as a Financial Adviser but instead let audit committee members know when the level of reserves being carried is not right. He went on to say that you want a good buffer and could set range more aggressively. You want enough cover so that you never have to liquidate at short notice. He gave some examples of a formulaic approach undertaken by some councils and it was seen that our level of reserves was consistent with those. Councillor Rankin commented that this was encouraging.

The Assistant Director Financial Services and Revenues said we have £7m in general un-earmarked reserves. The Council had set and agreed £1m in the budget in respect of a downturn in income. 5% has been put into a reserve in case of an overrun in capital expenditure giving £2m. In addition to this another £2m has been put into a reserve in case of unforeseen expenditure making a grand total of £5m set aside in earmarked reserves. For reference, £2.2m has been set aside in earmarked reserves for some years but not had to call on it. Next year there is a call of £555,000 from reserves but this is significantly less than the £950,000 that was predicted last year. It is hoped that through the performance, income and efficiency review process and the income generation board will see a process in place to see the sustainability of the Council's budget b 2019/2020

Councillor Rankin asked BDO if the legal claim on pier should be taken into account as it could take out our reserves? The BDO Engagement Lead said the level of uninsured claim is huge but it is not a proven loss. If they increase their claim level, regardless of resources it could wipe out the reserves. All the Council could do in this situation was taken expert legal advice.

The Assistant Director Financial Services and Revenues said that if the level of the Pier legal claim was unfavourable and wiped out the reserve, the Council would use its transitional reserve and have to more rapidly make savings or generate income. We would then bring a report to Cabinet to pay the bill and decide on what actions we need to take. We would be forced into making risky/quicker decisions. The Assistant Director Financial Services and Revenues said he was hopeful the settlement won't be as much as they are seeking. He added that we had employed forensic accountants and that our in-house legal Services team had done well.

Councillor Rankin referred to the land and building valuations, venture into the property market. He stated that if properties are down valued for companies, the loss goes through their profit and loss. He asked whether the same will impinge on our revenue situation? The BDO Engagement Lead Officer confirmed that Cllr Rankin's assertion was correct but explained how for a local authority, the situation is different and doesn't impact on its financial sustainability in the same way.

Councillor Rankin sought clarification on what the materiality limit is. The BDO Engagement Lead explained that this is determined at 2% of gross expenditure. It indicates that if there were errors on the accounts that exceeded this materiality limit, they would not be able to say that the accounts presented a true and fair view. He

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emphasised though that they do look at all the errors smaller than this and highlight them to the audit committee if appropriate.

The Assistant Director Financial Services and Revenues – informed the committee of an emerging development to do with property valuations. Regarding property funds CCLA invested in 18/19, there may be a requirement to revalue in year. At the moment it doesn't go through the revenue accounts but there may be a new accounting standard for it to go through revenue accounts. This uncertainty is in the pipeline and likely to be addressed in the 2018/19 or 2019/20 accounts.

RESOLVED (unanimously) to accept the External Auditor's Audit Plan.

The reason for this decision was:

The Audit Committee, as required by the Constitution, receives and notes the External Auditor's Audit Plan on behalf of the Council.

63. PROPOSED INTERNAL AUDIT PLAN 2017/18

The Chief Auditor introduced his report to formally confirm that the internal audit plan for 2017/18 had been noted by the Audit Committee.

Councillor Sinden queried the progress of the car park machines for operating the new coinage. The Chief Auditor advised that Cale Briparc is managing the work to reconfigure the machines. A number of the machines have already been upgraded and reconfigured. Software will advise when the machines are full. The last two upgrades for 5p and 50p coins were successful and there are no problems.

Councillor Chowney asked what the Euro Grant Audit involved. The Chief Auditor said there were a lot of other grants which were not euro grants as well as CAN and Shine that are. The Assistant Director Financial Services and Revenues added that we make provision in the audit plan for euro grant work which covers its costs. It does impact on audit plan but is helpful to have in house experience.

Councillor Rankin asked how the work on Syrian refugees was shared. He said part of the audit plan involves handling large amounts of cash. Controls are there at the beginning before cash is given to refugees, however we need to see the whole system and test how the cash is spent and not past around other people. To see evidence that the money is spent for the purpose it is intended.

Councillor Charman said people will automatically know what they entitled to – leading to a risk of exploitation. The Assistant Director Financial Services and Revenues said that government has provided guidance on housing and spending. Refugees are entitled to £200 in cash for which they sign for. The audit will see if it achieves its objective of balance of funds and how spent. We will determine terms of reference and overall controls and individual controls for protection of staff. It will be a full and thorough audit as the Syrian refugee scheme will last for next 5 years.

Councillor Chowney stated that the refugees cannot get a bank account because they don't have the credentials. Providing a plastic card to withdraw money is an

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expensive process. I raise this as something you look at. Having raised this with the local MP/Home Secretary, she said she will look into this.

Councillor Webb asked if Hastings were having these discussions with Credit Union. The Assistant Director Financial Services and Revenues said there was an issue regarding the bank account and universal credit bank account holding up all the payments which their total support depends on, which the council support during that period.

Councillor Chowney said he believes the Credit Union is involved in loading up cards. However, they are a volunteer organisation, and so there is only so much they can do.

Councillor Rankin referred to the services which he felt had a reputation and audit risk - drill down at another meeting. He said he was concerned cash was sent out and not reaching its destination, vulnerable people. It is something that needs to be looked in a lot of detail. The Assistant Director Financial Services and Revenues said he would bring a report back to the committee which members could follow up with independent questions. Members said they were interested in having the services here at a separate seminar. The Assistant Director Financial Services and Revenues said he would bring the item forward and join together on the forward plan.

RESOLVED (unanimously) that the report be noted.

The reason for this decision was:

The Annual Audit Letter is for all members and posted to the Council's website. It is of particular interest to those charged with governance.

64. CHIEF AUDITOR'S SUMMARY AUDIT AND RISK REPORT

The Chief Auditor presented his report on the key findings from the payroll audit.

He advised that particular focus was spent on staff mileage claims but there were no concerns to report.

The overall audit assessment was good. The controls were in place and there were no significant audit concerns that needed to be brought to the attention of the committee.

RESOLVED (unanimously) that the Audit Committee accepts the report

The reason for the decision was: To monitor the levels of control within the organisation.

65. NOTIFICATION OF ANY ADDITIONAL URGENT ITEMS (IF ANY)

None.

(The Chair declared the meeting closed at. 6.58 pm)

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