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AUDIT COMMITTEE

21 SEPTEMBER 2017

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

1. APOLOGIES FOR ABSENCE

None.

2. DECLARATIONS OF INTEREST

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

Councillor	Minute	Interest
Chowney	8. Chief Auditors Summary Audit and Risk Report (Housing)	Personal – Property has selective licence
Rankin	8. Chief Auditors Summary Audit and Risk Report (Housing)	Personal – Business interest in town

3&4. FINAL ACCOUNTS 2016/17 AND BDO AUDIT COMPLETION REPORT - AUDIT FOR THE YEAR ENDED 31 MARCH 2017

AGENDA ITEM 3 & 4

Item 3) The Assistant Director, Financial Services and Revenues, presented a report which sought approval of the Audit Committee for the Statement of Accounts 2016/17 on behalf of the Council. Under the Accounts and Audit Regulations 2015, the Audit Committee was required to approve the Statement of Accounts on behalf of the council, prior to publication on the 30 September 2017.

The committee considered the final accounts together with the year-end report for the same period by the council's external Auditors, BDO. Members were given an overview of the audit process which assessed the accuracy of the council's financial statements and the assumptions made as part of the budget setting process.

Item 4) The Assistant Director, Financial Services and Revenues, submitted a report which considered the matters raised by the council's external auditors (BDO) in respect of their governance report. This includes the audit opinion of the Council's 2016/17 accounts, and their value for money assessment of the Council.

BDO had assessed the council's final accounts for 2016/17. The report and recommendations were considered, together with the final accounts for 2016/17.

The Assistant Director, Financial Services and Revenues, introduced 2 representatives from BDO and thanked them for their hard work. They provided the

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audit committee with an overview of their findings and concluded that there were no material mis-statements to be found in the Financial Statements, no unadjusted errors to report and no significant control weaknesses in our financial systems. They anticipated giving an unmodified audit opinion

External audit brought to the attention of the audit committee that they had challenged and accepted the classification in the accounts of the acquisition of Hastings Retail Park (Sedlescombe Road) and that this asset will be used for economic and regeneration purposes.

They concluded that there are no issues with the Annual Governance Statement and that the Medium Term Financial Strategy is underpinned by valid assumptions. The reserves have been carefully managed and they therefore anticipate giving an unmodified opinion on the council's use of resources.

The indicative audit fees as at the audit plan stage haven't changed.

Councillor Rankin thanked them for all their work in preparing the audit.

Councillor Sinden questioned the financial assessment made of the Pensions fund and was informed that as a result of the 3 yearly valuation new contribution rates had started this year. Employer contributions will increase in each of the next two years.

Councillor Davies enquired in to the comment made by external audit that whilst "impairment allowances for receivables have not been mis-stated; they were likely to be on the prudent side". Councillor Chowney also sought clarification about the comment on prudence and as to why the provision rate applied to all overpayments of 65% had been reduced from 70% used in the prior year. External audit confirmed that the council had carried out some analysis in the year which suggested that the collection rates could be around 60%. External audit confirmed they are satisfied with what is shown in the accounts as management have an explanation of why there is a 5% difference.

Councillor Rankin queried the external auditor's report under Key Audit and Accounting Matters, Hastings Retail Park (Sedlescombe Road) where it said "We intend to take a written management representation to confirm that the purchase was made for economic regeneration rather than for the rental stream as an investment". He specifically asked "Why do we put it in Land & Buildings rather than Land"? A discussion was held on the classification in the accounts of this acquisition. Whilst all investment property acquisitions increase economic regeneration to a degree, this site is on one of the main entrance roads to the town making it more accessible, is managed by the Estates team and gives the council flexibility and for these reasons, has been classified in that way. Clearly, if the council borrows to purchase an investment property outside the borough, that is classed as an investment property.

The external auditor explained there was no advantage in the classification but would revise their letter in light of the discussion.

Councillor Rankin raised the weakness regarding retrospective purchase orders detailed in appendix II, recommendations and action plan found in the report. The Chief Auditor said most businesses require a purchase order number before they will

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release goods or provided a service as it forms a guarantee of payment, nonetheless, retrospective purchase orders had happened albeit to a relatively low extent. It is anticipated that raising purchase orders in retrospect will not be possible in the new accounting system but internal audit will be examining this.

Councillor Rankin raised a question on the Priority, Income & Efficiency Review (PIER) process highlighted by External Audit at the end of appendix II, Recommendations and Action Plan of their report. The process was discussed in detail between the Assistant Director, Financial Services & Revenues, External Audit and members. The PIER savings are always carefully assessed and challenged to see how they will be achieved. They are continuously monitored in-depth by officers. The recommendation is considered fair and the outturn variance will be included in year-end outturn report that goes annually to Cabinet.

RESOLVED (unanimously) that

- 1. The draft Statement of Accounts be approved and a copy signed by the Chair of the Audit Committee in accordance with the Accounts & Audit Regulations 2015.**
- 2. That the report and action plan be accepted**

The reason for the decision was: Compliance with statutory requirements and good practice. The Council is accountable for the use of public money and continuously seeks to improve Value for Money.

The Council's external auditors are required to submit a report to the Council's Audit Committee on any matters that are identified during their audit.

5. PSAA APPOINTMENT OF EXTERNAL AUDITOR

The Assistant Director, Financial Services and Revenues submitted his report to the Committee on the appointment of the Council's External Auditors for the next five years from 2018/19.

The report confirmed the Public Sector Audit appointment (PSAA) of Grant Thornton (UK) LLP as the external auditor to Hastings Borough Council for 2018/19. The appointment will commence on 1 April 2018.

The Assistant Director, Financial Services and Revenues advised that BDO would no longer be auditors for the authorities in East Sussex.

RESOLVED (unanimously) that PSAA be advised that this council has no objection to this appointment.

The reason for the decision was: PSAA must under regulation 13 of the Regulations, appoint an auditor to each opted-in authority and consult the authority about the proposed appointment.

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6&7. STRATEGIC RISK REGISTER AND OPERATIONAL RISK REGISTER

AGENDA ITEM 6 & 7

The Chief Auditor presented a report which informed members of the current strategic risks identified for Hastings Borough Council and the measures put in place to avoid or mitigate those risks.

The report gave an overview of the process of reviewing strategic risks and their perceived impact on the council. As a result of the latest review, there were 9 High risks and 7 medium risks

At the last meeting, Councillor Chowney had recommended the format of the risk register be revised to show the steps taken to avoid and mitigate each potential risk separately. The Chief Auditor said an additional column for risk avoidance had been added but population had been sparse. He said it would be necessary to do it again.

Councillor Chowney explained that it was necessary to clarify between 'mitigation and avoidance'. He said it was essential to understand the difference between mitigation and avoidance. Mitigation and avoidance is a mixture, you need both but a lot are avoidances. You need to know when or should a risk be realised and if you don't, you run the risk of greater loss. He said that he was disappointed that the registers did not reflect this. The Chief Auditor said that the risk registers had just been reviewed and so would be revised and brought back again in March 2018.

Councillor Rankin commented on risk 22 in the Strategic Risk Register. The Chief Auditor agreed that this is how the risk stood at this point in time but if it changed to a high/high (high2) it would be brought to the attention of members.

Councillor Rankin commented that it was good to see a comprehensive list of operational risks. However, he was concerned that whilst Development Management was addressing staff shortages, he was surprised to read that "staff appointed have no relevant experience or training in planning". This will be clarified when the operational registers are presented again in March.

RESOLVED (unanimously)

- 1. To acknowledge the risks identified in the report and comment as appropriate.**
- 2. The format of the risk register is updated to include column on risk avoidance.**

The reason for the decision was: As part of the Corporate Risk Management Strategy agreed by Cabinet, the Strategic Risk Register and Operational Risk Register is to be reviewed by the Audit Committee each year.

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8. **CHIEF AUDITORS SUMMARY AUDIT AND RISK REPORT (HOUSING)**

The Chief Auditor presented a report which informed the committee of the key findings from the Selective Licensing and Homelessness audits. The review had found that there were areas that required management attention, particularly around having a robust business plan, effective management information and monitoring of licence fee collection. The key controls in these areas need to be robust to ensure the scheme meets its objectives and results in a minimal financial loss of the Council at the end of its five year period.

The Chief Auditor provided a verbal synopsis of the reports and their recommendations and explained that these are busy, complex areas. He added that the management responses to the accepted recommendations exhibited a high degree of professionalism and had been positive. Members asked questions as they were concerned at some of the recommendations made, for example, property inspections had not been carried out as planned and sanctions for non-compliance had not been effectively enforced etc. Members agreed however, that they should not be surprised that some tasks had dropped off given the increase in workload in housing and that the staff had done well working hard in a challenging situation.

It was agreed there would be a follow up report to assess the extent of implementation of the recommendations.

RESOLVED (unanimously) that the Audit Committee accepts the report

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

9. **ANNUAL TREASURY MANAGEMENT REPORT 2016/17**

The Assistant Director Financial Services and Revenues presented his report on the Annual Treasury Management Report for 2016/17 which provided an opportunity for the Audit Committee to scrutinise the Treasury Management Activities and performance of the last financial year. The council complied fully with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management, by undertaking an annual review report of its treasury management activities.

Treasury management related to the council's investments, cash flow, banking, money market and capital market transactions. The purpose of the strategy was to minimise the risks associated with these activities and optimise performance.

The Assistant Director, Financial Services and Revenues introduced the report that is an outturn report for the last financial year. No action is proposed.

RESOLVED (unanimously) that the Audit Committee consider the report. No recommendations are being made to amend the current Treasury Management Strategy as a result of this particular review.

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The reason for the decision was: To ensure that members are fully aware of the activities undertaken in the last financial year, that Codes of Practice have been complied with and that the Council's strategy has been effective in 2016-17.

Under the Code adopted the Full Council are required to consider the report and any recommendations made.

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

None.

(The Chair declared the meeting closed at 8.05 pm)