

AUDIT COMMITTEE**21 September 2017 at 7.00 pm**

MEMBERS: Councillor David Hicks (Chair), Councillor Richard Broadbent (Vice-Chair) and Councillors Kevin Burke

ABSENT: Councillor(s) Adrian Davey and Ali Mirhashem

15. WELCOME AND INTRODUCTIONS

Councillor Hicks welcomed all those present.

16. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Ali Mirhashem and Councillor Davey.

17. DECLARATION OF INTERESTS

No declarations of interest were made

18. MINUTES OF THE LAST MEETING

RESOLVED: that the minutes of the meeting held on 29 June 2017 be agreed as a correct record, subject to an amendment to item 6 Internal audit annual report. Paragraph 3 is to be amended toin future years the summary of audits could include information on the impact of the service being delivered.

19. MEMBER DEVELOPMENT

The Chair announced that the item 5 Member Development session on ethical standards will be moved to the next meeting in December.

Margaret Culleton Head of Internal Audit updated the committee that the Member development training requirement survey has been completed by three Members. Based on these responses the future topics to be covered in the member development sessions will include: Governance, the role of the Audit Committee, Strategic Directors, the Monitoring officer, the Chief financial officer and Internal Audit. A session on Understanding Fraud Risk and the annual governance statement is also required. It was suggested that the Governance session is

offered to all Members not just to the Audit committee members. The Strategic Director Resources suggested a general presentation on controls that are exercised and the activities of the Audit Committee where other Councillors are also invited could be arranged.

Members highlighted that for new members of the Audit committee all of the above topics would be welcome and due to the number of topics identified that these could be grouped together over the next meetings. Head of Internal Audit suggested Corporate governance and risk management could be presented together. Councillor Hicks requested that as all Members had not completed the training development survey, despite the deadline having passed, that an email should be drafted for him to send as the Chair to the leader of the groups to ask them to remind Members of the Committee of the need for the survey to be completed, so that final responses can be taken into consideration.

20. TREASURY MANAGEMENT QUARTERLY REPORT

The Treasury Management Report for the quarter to the end June 2017 was presented by Lyndsey Gamble, Head of Financial Strategy and Planning.

In discussion the Head of Financial Strategy and Planning drew the committee's attention to new long term borrowing of £12M to finance an investment portfolio purchase. She confirmed that loans were at rates between 2.46% and 2.47%.

There has been no temporary borrowing and investments have been maintained at circa £30M. Rates on these investments are low. It was highlighted that Santander notice account rate had dropped from June. The committee were advised that once information is received regarding the Municipal Bond agency issuance of a bond, the committee will be updated.

Regarding MiFID II currently Money Market funds would need the Council to opt into professional status. First steps will be completing paperwork for Money Market funds. Indications are that the Council will need to opt up with each counterparty for each product.

The recommendation in the report is to note intention to commence these applications.

It was highlighted that since writing the report the Monetary Policy Committee meeting in September had taken place and indicated there may be potential for interest rate rises from November this year. It was pointed out that Mark Carney had indicated he expects the rises to be limited and gradual.

Councillor Hicks asked about borrowing while rates are still low. Head of Financial Strategy and Planning advised the Treasury team review movement in rates and

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would need to weigh up the cost of borrowing now against a possible future gain if rates do rise.

RESOLVED that :

1. The Treasury Management activity undertaken in the first three months of the year be noted.

2. The Intention to commence applications for elected professional client status with all relevant Institutions, under MiFID II in order to ensure that that the Council can continue to use a range of investment instruments from 3 January 2018, be noted.

21. FRAUD REFERRALS AND INVESTIGATIONS UPDATE

The Fraud Referrals and Investigations update was provided by Kevin Holland, Deputy Head, Fraud & Risk. The report summarises the results of the Council's Counter Fraud investigations work since April 2017. He drew the committee's attention to the types of fraud and advised the referral process is well embedded in Sutton.

He highlighted new areas of fraud in personal budget, and that across the partnership some fraud is seen in this area. It was confirmed that issues that are discovered in other authorities are shared for information and awareness. In respect of work on social housing regarding recovered properties, he would expect recovery rate to be higher and further work is currently being undertaken on this. Members queried details of Housing application fraud. It was confirmed further effort has been targeted on this looking at applications on multiple housing waiting lists. Finally there was a further update on the work in targeting blue badge fraud.

Members queried the number of estimated work days and if the team have sufficient resource. Deputy Head, Fraud & Risk advised that funding has reduced from 2016/17 the reduction is equivalent of .5 FTE officer time. Councillor Hicks asked if the reduction in resource is giving the expected return for the authority. Strategic Director Resources Gerald Almeroth confirmed that due to efficiencies that had been implemented it is believed that amount of work completed is similar to before but with less resource.

Members queried if tenancy fraud is lower in Sutton. Deputy Head, Fraud & Risk confirmed it is not believed instances are less, hence the team working to see if any fraud is undetected. He also confirmed Housing benefit fraud is now passed to Department of Work and Pension (DWP) whilst council tax reduction is still with the authority so there is joint working on this area. Strategic Director Resources advised the committee that there has been a significant drop in prosecutions since DWP took over this work not just in Sutton but Nationally.

RESOLVED that :

1. The Fraud Referrals and Investigations report be noted and commented upon.

22. CORPORATE RISK MANAGEMENT - ANNUAL REVIEW 2016/17

The Corporate Risk Management Annual Review report was presented by Sam Barker, Head of Corporate Commissioning. The report set out the findings and recommendations from the recent advisory report on Risk Management from Internal Audit. The report also provided an update on the Council's risk management Strategy and Guidance which have been updated to reflect the recommendations of the audit.

The Head of Corporate Commissioning highlighted the report and recommendations that officers have been working to implement over the last few months. He updated that the training on risk management will be in place by the end of the year. It was confirmed that the risk register had been revised to make sure all risks have a responsible officer to help track actions plans.

Members asked for clarification on Risk management guidance -in particular regarding the contents of the committee reports where the guidance indicates the inclusion of a detailed section on risk management. Councillor Broadbent asked if the report template should be changed to include a risk management section specifically. Councillor Hicks highlighted the importance of a consistent review of risk. He believes that the risk assessment process for all new projects and reports should follow a set process, for example Councillors should be made aware of the risk of failure causing loss of services and that should be clearly evaluated and be covered specifically. Councillor Burke believed that guidance should be given to officers on what to include within this section of the report.

The Strategic Director Resources asked if it is a recommendation from the Audit committee that the standard report format is reviewed in accordance with the report recommendation. The Audit committee agreed with guidance in the strategy and specifically agreed that a risk section should be included in the report. Head of Corporate Commissioning agreed to look at the committee report template to give consideration to how this should be amended and provide guidance for officers in completing the template fully.

A motion was raised by Councillor Broadbent to confirm that Members support the committee standard template including a section on risk management as set out on page 10 of the Risk Management strategy and guidance. This was seconded by Councillor Burke and agreed.

RESOLVED that :

1. The findings of the Risk Management Review carried out by internal audit and progress against implementing the recommendations be noted.
2. The Updated Risk Management Strategy and Guidance be agreed
3. The Updated Corporate Risk Register be noted.
4. The format of the standard committee report template be revised to include a specific section on risk management and guidance be given to officers on completion of the Risk Management section of the report to ensure consistency,

Members queried risk management scores within the register in particular regarding if the score relates to net or gross risk. A specific query was made regarding the risk on welfare reform. Sam Barker, Head of Corporate Commissioning will look at how this can be presented to make this clearer.

23. STATEMENT OF ACCOUNTS 2016/17

The report was presented by Michael Mackie, Head of Business Data and Reporting. It set out the responsibilities of the Committee in relation to signing off the Statement of Accounts and proposing responses to the matters raised by the External Auditors on the 2016/17 Statement of Accounts.

Regarding the 2017/18 earlier statutory time table, the committee were advised that the draft statement of accounts will need to be ready by 31 May and audited by 31 July 2018. The committee were advised that based on timing of provision of information this year The Head of Business Data and Reporting believes Sutton are in a good position to meet the new time frame next year.

The Head of Business Data provided updated details of errors or misclassifications that had been identified during the audit. One error relating to revaluation of Bandon Hill Woodfield campus of £1.528M that had not been correctly reflected in the accounts and two misclassifications, one relating to Employee Accumulated absences of £3.098m which had now been reclassified as a creditor and the second which was a misclassification of £1.710m in the cashflow statement that was included in provision of services rather than investing and financing activity.

He confirmed that for the pension fund no material issues were identified,

Councillor Broadbent asked about the Council policy on general reserves, he asked when this was agreed as a policy. The Strategic Director Resources advised this was agreed in the formal budget report that goes to full Council each year. The Strategic Director also advised that the level of general fund balances are set out in the forward forecast.

It was confirmed that the Annual governance statement on audit committee terms of reference was started in 2016 and went to the last Council meeting and to Strategy and Resources committee and was agreed in 2017. It was suggested that wording be amended to say completed in 2017 and agreed by full Council.

RESOLVED that :

1. Grant Thornton's Audit Findings Report on the 2016/17 main Sutton Accounts Audit the comments made and the unqualified opinion given, be noted.
2. Grant Thornton's Audit Findings Report on the 2016/17 Pension Fund Audit the comments made and the unqualified opinion given, be noted.
3. The two Letters of Representation to the Auditors, and the responses to the Action Plans set out in the Audit Findings Report, be Agreed.
4. The final 2016/17 Statement of Accounts as amended including the Council's Annual Governance Statement be approved.
5. The unqualified Value for Money conclusion included in the Audit Findings Report be noted.

The Statement of Accounts for 2016/17 and the two letters of representation were signed by the Chair and the Strategic Director Resources. Councillor Broadbent and the Strategic Director Resources thanked all Officers and for such a good outcome.

24. AUDIT FINDINGS REPORT 2016/17

Paul Jacklin, Senior Manager - Grant Thornton, presented the report, which highlighted the key findings arising from the audit. He confirmed that Grant Thornton are in process of completing final closing procedures and outlined the matters outstanding. He confirmed that an unqualified conclusion will be given. He highlighted one internal control issue on debtors and creditors. He advised that the Value for money work highlighted the Council's financial position is challenging and a small gap in medium term plan. It was confirmed however that with the Council remaining committed to transformation and alternative streamlined delivery methods, Grant Thornton are satisfied to give unqualified conclusion. He also confirmed that the Audit fee will be the final fee, there is no over run this year.

In debate Members asked for clarification on the funding arrangement for better care fund - and asked why this is underspent by over £1m . The Strategic Director Resources advised he believes it is to do with level of work on health side which had not yet happened. Members also sought clarification on the Dedicated School Grant and what impact this would have on the general fund if the over spend continues?

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The Strategic Director Resources advised he wrote to Secretary of State on behalf of the Society of London Treasurers, to ask in what circumstance would it impact the general fund.

He advised that a number of Authorities in London have a deficit in their balance sheet largely due to SEN costs. The committee were advised that the DfE are not giving Councils the ability to claw back, to spend on all pupils in the Borough, so there is an intimated expectation that Councils will pick up balance out of general fund. He advised this will be strongly resisted.

25. PENSION FUND AUDIT FINDINGS REPORT 2016/17

Paul Jacklin, Senior Manager - Grant Thornton, presented the report. The report highlights the key findings arising from the audit. He confirmed that Grant Thornton will be giving an unqualified opinion, he advised the audit has gone to plan and there are no over run on fees.

26. AUDIT COMMITTEE WORK PLAN

The Audit committee noted the work plan and suggested the following amendments:

- Member Development session on ethical standards to be in December.
- To move the following work items from September 2018 to July 2018
 - Statement of Accounts 2017/18,
 - 2017/18 Audit Findings Report,
 - 2017/18 Pension Fund Audit Finding Report

Regarding the work item each quarter on the Risk Register being reported to the Audit Committee to review the risks and discuss mitigation. In discussion The Strategic Director Resources advised responsibility to manage risk sits with Strategy and Resources (S&R) committee. He confirmed it is the Audit committee responsibility to ensure there are risk management arrangements in place and that the governance process is followed correctly. The Risk register will still be presented to the Audit committee after it has been seen by S&R. If needed the Audit committee will comment to S&R Committee.

27. ANY URGENT ITEMS BROUGHT FORWARD AT THE DISCRETION OF THE CHAIR

There were no urgent items.

28. DATE OF NEXT MEETING

The date of the next meeting will be 11 January 2018

The meeting ended at 8.43 pm

Chair:

Date: