

AUDIT & GOVERNANCE COMMITTEE

MINUTES of the meeting held on Wednesday, 13 January 2016 commencing at 2.00 pm and finishing at 4.10 pm.

Present:

Voting Members: Councillor David Wilmshurst – in the Chair
Councillor Sandy Lovatt (Deputy Chairman)
Councillor David Bartholomew
Councillor Yvonne Constance OBE
Councillor Jenny Hannaby
Councillor Nick Hards
Councillor Roz Smith
Councillor Charles Mathew (in place of Councillor Tim Hallchurch)

Non-voting Members: Dr Geoff Jones

By Invitation: Paul King and Alan Witty (Ernst & Young)

Officers:

Whole of meeting Ian Dyson, Chief Internal Auditor, Nick Graham, Monitoring Officer, Lorna Baxter, Chief Finance Officer and Deborah Miller, Principal Committee Officer.

Part of meeting

Agenda Item	Officer Attending
6	Sarah Cox, Audit Manager
7&8	Glenn Watson, Principal Governance Officer

The Committee considered the matters, reports and recommendations contained or referred to in the agenda for the meeting, and decided as set out below. Except as insofar as otherwise specified, the reasons for the decisions are contained in the agenda and reports, copies of which are attached to the signed Minutes.

1/16 **APOLOGIES FOR ABSENCE AND TEMPORARY APPOINTMENTS** (Agenda No. 1)

The Committee received the following apologies for absence and temporary appointments:

Apology	Temporary Appointment
Councillor Tim Hallchurch	Councillor Charles Mathew
Councillor John Tanner	

2/16 MINUTES

(Agenda No. 3)

The Minutes of the Meeting held on 18 November 2016 were approved and signed, subject to changing 'Heathcote' to 'Heathcoat' in the last paragraph of Minute 71/15.

Matters Arising

Minute 72/15 – Update of Hampshire Partnership

Councillor Bartholomew asked if an update on duplicate payments and Aged Debtors could be prepared for the next meeting.

3/16 TREASURY MANAGEMENT STRATEGY

(Agenda No. 5)

The Committee had before them a report (AG5) which presented the annual Treasury Management Strategy Statement and Annual Investment Strategy for 2016/17 in compliance with the CIPFA Code of Practice. The report set out the borrowing and investment strategies for 2016/17 and relevant background information.

Lorna Baxter, Chief Finance Officer, in introducing the report, confirmed that much of content of the existing strategy had not changed and that therefore her focus today would be on the areas that had changed.

She referred to paragraphs 34 and 35 (p19) which set out updated base rate and in-house return forecasts. The forecast average in-house rate of return for 2016-17 was 0.85%, increasing over the medium-term to 1.65% in 2019/20.

She went on to explain that the reducing in-house premium over base rate in future years reflected reducing cash balances. This would result in a reduction to the proportion of cash available for long term investment at higher rates, subsequently reducing the overall premium achievable.

In terms of the borrowing strategy, Mrs Baxter explained that it retained the option to fund new or replacement borrowing through internal borrowing. It was proposed that the percentage of the debt portfolio which could be funded through internal borrowing be reduced from 25% to 15%. This was due to the estimated reduction in cash balances over the medium term. (less cash available for internal borrowing).

On the investment strategy (p24 / para 69), no new instruments for 2016/17 were proposed.

Moving on to the Prudential Indicators in Annex 1 (p31). The first 6 of these weren't included at the time of the report, as they were dependent on updates to the 2016

capital programme. Full indicators would be included when the report was considered by Council in February.

Section 11 (page 32) set out a proposal to change how fixed and variable rate exposure indicators were calculated from 2016/17 onwards. The proposal was to move from the existing percentage limits, based on exposure as a proportion of net debt, to an upper cash limit. The proposed change was intended to provide more clarity in the way the indicator is presented, in addition to preventing the distortions experienced when using the previous percentage limit.

Section 12 of the report set out a proposal to reduce the upper limit on principle sums invested for longer than 364 days in 2016/17, reducing further in subsequent years. This reflected the forecast reduction in cash balances over the period, which would reduce the availability of cash for long term investment.

Members of the Committee then went on to ask a number of detailed questions in relation to the strategy, and in particular the following:

Do you think that reverse purchase agreements are a good thing?

Reverse repurchase agreements are potentially a good option. Arlingclose are securing legal opinions with banks and the clearing house Clearstream. This needs to be resolved before they become a viable option.

Deposits with National Banks with government guarantees – do we regard them as a safe place to deposit money?

The government guarantees are no longer in place and the banks would therefore be subject to the same criteria as all other banks.

Arlingclose forecasting potential increase – is that calendar or fiscal?

Calendar.

Why the prudential indicator xii, the upper limit to principal sums invested longer than 364 days is an absolute cash value, as opposed to a percentage?

A cash figure is more straight forward for the Treasury Management team to monitor when making decisions on investments in excess of 364 days. The team can directly compare the total of investments over 364 days with the cash limit, as opposed to having to calculate the investments as a percentage of a total cash portfolio, which can change significantly on a daily basis. Subsequently it reduces the risk of a breach through error, particularly in a situation when investment decisions are time-pressured.

When an investment over 364 days is placed, the exact total cash portfolio at future dates within the duration of the investment are not known. The total cash portfolio is forecast, but this is subject to change on a daily basis. By setting an indicator which measures investments over 364 days as a percentage of the total cash portfolio, the Treasury Management team would need to take in to account the forecast total cash

portfolio on all future dates (within the investment duration) to ascertain if a breach is likely to occur. This forecast cash portfolio is subject to continual change, particularly in periods in excess of 1 year. Therefore cash flow forecasts are not certain enough to eliminate breaches of a percentage limit on future dates.

In relation to the Prudential Indicator ix, upper limit of net debt. What does the 70% figure refer to?

This percentage is calculated as:

$$\frac{\text{Net Debt}}{\text{Gross Debt}}$$

Net Debt = Gross Debt - Investments

RESOLVED: to note the report.

4/16 INTERNAL AUDIT PLAN UPDATE AND PROGRESS REPORT

(Agenda No. 6)

The Committee had before them a report which presented the Internal Audit progress report for 2015/16, including resources, completed and planned audits and the updated plans for all the assurance based activity covering Internal Audit, Counter-Fraud, Compliance Audits, and Assurance Mapping.

Mr Dyson, in introducing the report explained that they had successfully recruited to three new posts within the Internal Audit and Business Assurance structure. A Compliance Officer was appointed in November and was able to immediately take up the position. Two Trainee Auditors had also been appointed, who were due to start in the middle of January 2016. They would be working across both the Internal Audit and Compliance functions.

The vacancies resulting from the restructuring had generated an underspend within the Internal Audit budget that was to be used in Q4 for buying in external resource to support the delivery of the audit plan; however in light of the Council's current financial position it had been reviewed whether this spend was essential. Mr Dyson explained that he believed that the current revised work plans being presented with this report would provide him with sufficient "evidence" that he can provide the Committee assurance with an informed opinion on the system of internal control.

The impact had inevitably resulted in reducing the number of audits in the plan for 15/16, but he was prioritising the material financial systems and processes; however it was anticipated that the complexity and degree of testing would result in the planned activity continuing into Q1 of 2016/17. Given the scope of change within the financial systems following the transition to Hampshire IBC, the audit methodology was being reviewed and would be dependent on the outcome of the ongoing assessment of the design of controls including management oversight. It was expected that work would have been concluded by now, but there had been some slippage.

The resources for compliance activity to properly commence in Q4 had been confirmed following the recent appointments. A plan had been developed, for this year based on the available days, however the priority for the areas subject to compliance reviews had been developed in consultation with the Finance Leadership Team. The plan is attached as Appendix 4.

With reference to Counter-Fraud, Mr Dyson informed the Committee that the agreement with Oxford City to provide counter-fraud support had been signed and was now operational with the team providing support for both reactive fraud work and also the pro-active fraud work. The Counter Fraud Plan was attached as Appendix 3 to this report.

For the remainder of 15/16 the strategy was to develop the individual functions within the Business Assurance Team and the Internal Audit Team. From 2016/17 there would be an integrated approach to the planning of each activity linked to the key risks. The intention was that future updates and progress reports to the Committee would extend across the assurance functions under the direction of the Chief Internal Auditor, and therefore would include summaries from counter-fraud and compliance reviews in addition to the usual internal audit updates.

He went on to confirm that there had been 6 audits concluded since the last update (provided to the September); summaries of findings and current status of management actions were detailed in Appendix 2 to the report.

With reference to the Blue Badge Proactive Exercise, members welcomed the pro-active anti-fraud exercise against blue badge misuse, but questioned how this would now be taken forward as 5% of badges were checked and only 10 badges were retained and why officers were only considering action against them and finally what the financial implications would be of the scheme?

Mr Dyson reported that officers were only considering action as it had been found that in most cases the offence had mainly been forgetting to update badges on time. The cost of running the project also needed to be taken into account.

In response to members' queries over the number of actions not yet implemented in the report, Mr Dyson explained that management had put in the dates of when they were going to complete actions. What the report was reflecting, was that whilst there had been 29 actions identified, 26 were not yet due.

Members further expressed concern over the general level of coverage. In Environment & Economy only 1 Audit had been carried out and the rest had been abandoned and removed. They questioned whether the Chief Internal Auditor considered there to be enough coverage?

Mr Dyson explained that whilst he would like to provide more coverage, it had been necessary to concentrate on financial systems, contracts and supported transport.

Members of the Committee pointed to the high volumes of problems around the externalisation. Mr Dyson confirmed that they were looking at the impact of the Council processes right up until the go-live date, together with the business readiness element.

RESOLVED: to note the report.

5/16 REPORT FROM THE COUNCILLOR PROFILE WORKING GROUP

(Agenda No. 7)

In December 2014, the Council had received a report from the Independent Remuneration Panel on councillors' allowances. During the debate on that item, Council had endorsed the Panel's view that overcoming obstacles to wider democratic representation required solutions other than simply revised allowances.

Council therefore had asked this Committee to develop potential actions that this Council could take that might encourage a wider demographic representation from the May 2017 elections onwards. The Committee established a cross-party Councillor Profile Working Group comprising Councillors Hards, Bartholomew and Constance to consider overcoming the obstacles and the potential options which may encourage greater diversity of representation.

The Committee had before them a report (AG7) which set out the Group's findings and recommendations, with the aim of achieving a greater diversity of representation.

Members of the Committee welcomed the group's findings and in particular their findings in relation to Monday morning meetings and the start time of meetings. Councillor Bartholomew explained that the group had felt that these adjustments meant that the role of Councillor would now be more achievable to people in business, employment, those with caring responsibilities or with young families.

Members of the working group paid tribute to Andrea Newman who had supported them throughout the process.

Some members of the Committee felt that the report had not addressed all the issues and needed a more technical look at the issue.

RESOLVED: (on a motion by Councillor Hards, seconded by Councillor Bartholomew and carried by 5 votes to 1, with 2 abstentions) to approve the recommendations set out in paragraph 17 of the report.

6/16 CONSTITUTION REVIEW

(Agenda No. 8)

On 8 December 2015, Full Council had considered a report from the Monitoring Officer on changes already made, or proposed to be made, to the Constitution. In recent years, such a report has been made to Council on an annual basis.

In the event, Council had deferred consideration of the potential further changes to enable this Committee to give a view in principle on them. The changes that were necessary following previous decisions had of course already been made at the request of Council under the Monitoring Officer's delegated powers.

The Committee has before them a report which asked members to note the changes that the Monitoring Officer had already made to the Constitution to implement

previous decisions taken by this Council and to review the governance benefits of the proposed changes to two sections of the Constitution so that the Monitoring Officer could determine if and how to take this forward with Full Council.

The Committee welcomed the proposed wording set out in paragraph 15 of the report in relation to the treatment of Motions.

The Committee held a discussion around the Protocol on Member-Officer Relations and in particular around the use of Social Media. Members felt that the example used of “for instance, it is not generally appropriate for officers and councillors to request or accept each other as ‘friends’ on social media such as Facebook”. Members felt that this example was not appropriate and that what was in the Constitution currently was sufficient.

RESOLVED: to

- (a) note that changes have been made to the Constitution to give effect to the Council’s previous decisions on:
 - (i) senior management structures (Council Minute Reference 56/15; and
 - (ii) senior officer dismissal procedures (Council Minute Reference 43/15);
- (b) comment to Council on the proposed changes outlined in paragraphs 12 and 15 of this report.

7/16 REPORT FROM THE AUDIT WORKING GROUP

(Agenda No. 9)

The Committee had before them the report of the Audit Working Group. Ian Dyson, Chief Internal Auditor reported that there had been one meeting of the Audit Working Group since the last Committee meeting. The Group had looked at the Environment & Economy Annual Risk Management Review and the Risk Management Update and that there had been no material issues arising from either item.

RESOLVED: to note the report.

8/16 AUDIT & GOVERNANCE COMMITTEE WORK PROGRAMME

(Agenda No. 10)

The Committee had before them a copy of the Annual Work Programme for the Committee (AG10).

RESOLVED: to agree the Work Programme, subject to the following additions:

February

Ernst & Young Audit Plans and Sector Briefing
Annual Governance Statement 2014/15 – Action Plan Progress (Quarter 3)

April

Ernst & Young External Audit Grant Claims Report
Annual Governance Statement 2014/15 – Action Plan Progress (Quarter 4)

.....

9 November 2016

Annual Governance Statement 2015/16 – Action Plan Progress (Quarter 2)

..... in the Chair

Date of signing

2016