

COTSWOLD DISTRICT COUNCIL

AUDIT COMMITTEE

16<sup>th</sup> APRIL 2019

Present:

Councillor LR Wilkins - Chairman  
Councillors -  
T Cheung RW Dutton  
A Doherty R Theodoulou

AUD.42 SUBSTITUTION ARRANGEMENTS

No substitute arrangements had been put in place.

AUD.43 DECLARATIONS OF INTEREST

There were no declarations of interest under the Code of Conduct for Members or Section 106 of the Local Government Finance Act 1992.

There were no declarations of interest under the Code of Conduct for Officers.

AUD.44 MINUTES

**RESOLVED that, subject to the deletion of the words ‘third party company employees’ and its substitution by the word ‘consultants’ in the third line of Minute No. AUD.36(v), the Minutes of the Meeting of the Committee held on 29<sup>th</sup> January 2019, be approved as a correct record.**

**Record of Voting - for 5, against 0, abstention 0, absent 0.**

AUD.45 CHAIRMAN’S ANNOUNCEMENTS

The Chairman thanked Members for their contributions to the work of the Committee, as this was the final meeting before the local elections on 2<sup>nd</sup> May 2019.

AUD.46 PUBLIC QUESTIONS

No public questions had been received.

AUD.47 MEMBER QUESTIONS

A question had been submitted by Councillor Dutton.

Question:-

'Given the amount that the Council has now invested in 'pooled funds', with the corresponding exposure to market risk, should there not be a formal bi-annual meeting chaired by the responsible Cabinet Member to review the portfolio and, if appropriate, to change the 'Investment Brief' given to the Council's advisers in the light of the then current market conditions; investment performance; and any change in the Council's appetite for risk? At the present time the view can be taken that there is a disproportionate emphasis on obtaining running yield when the emphasis should be more on maximising total return, commensurate with risk (i.e. running yield plus/minus capital gain/loss realised or unrealised). It is also noted that some of the funds are disproportionately invested in overseas fixed interest securities which some may not consider appropriate destinations for UK local authority funds'?

Answer by Councillor Wilkins:-

The Terms of Reference of the Audit Committee includes responsibility for oversight of the Council's Treasury Management Strategy and implementation of that Strategy. The Audit Committee comments upon the draft Treasury Management Strategy for the forthcoming year before it is approved by full Council in February each year. In addition, the Audit Committee receives a mid-year and a year-end Treasury Management performance report which includes details of pooled funds held during the financial year.

With regard to the current portfolio of pooled investment funds, the Council's treasury advisors, Arlingclose, attended a meeting with the Audit Committee in January 2018 where the diversification of £10 million for cash investments into pooled funds was approved. The Committee was consulted on the range of pooled funds selected for subsequent investment. The pooled fund investments are long-term investments which aim to achieve a sustainable revenue return for the Council whilst maintaining capital value over the longer term (accepting that the value of investments can go down as well as up over the short term).

The use of the Audit Committee to oversee Treasury Management investments provides access to a range of experience and views which is not possible with the suggested bi-annual meeting with the Cabinet Member.

Supplementary question from Councillor Dutton:-

In light of the response, it was disappointing that there was no update on the agenda for the meeting today. Information on the market value of funds can be ascertained on a daily basis. He suggested that once the new council is in place, closer monitoring should take place and a biannual meeting with the Cabinet Member, Chairman of Audit Committee and Chief Finance Officer could take place to monitor the funds.

Answer from Chief Finance Officer:-

Formal reports are presented to Audit Committee and Full Council relating to funds and Strategy, at relevant times during the year when details are available. Papers for this meeting needed to be dispatched one week after the end of the

financial year; it was not possible to present Members with the information at this meeting. Arlingclose advise the Council on investments and Officers always consult with Members.

AUD.48 GRANT THORNTON REPORTS

Ms M Burge, Engagement Manager of Grant Thornton, was present for this item.

Committee received updates on progress on the external auditor's work programme, fees for 2019/20 audit work.

Officers explained that interim visits relating to the financial statements audit, had recently finished and discussions with Officers had taken place, there were no issues to bring to the attention of Committee at this stage, although Members should be aware of the pension liability for Officers transferred into Publica. Work is continuing on monitoring contract arrangements with Publica.

During the course of debate the following points were made:

- (i) It was explained that the effectiveness of the Audit Committee is assessed on criteria from CIPFA's good practice for Audit Committees. The Council's internal auditors, SWAP, carry out this work. The Head of Paid Service will report to Full Council on the work carried out by Overview and Scrutiny and Audit Committees.
- (ii) Concern was expressed relating to governance and transparency arrangements with UBICO, which it was considered could be improved. Council Officers meet with senior Officers of UBICO in order to monitor the contract. Members considered that there are opportunities for the delivery of services across the county and West Oxfordshire, as other councils had joined the partnership and organisation of rounds could be wider than just the Cotswolds. As this is a cost sharing company the costs incurred are passed onto the Councils, the risk of this should be reported to Committee. The Chief Finance Officer explained that concern over the governance arrangements with UBICO could be included in the Annual Governance Statement under 'Significant Governance Issues during 2018/19'.
- (iii) Negotiations on the lease with UBICO for the new fleet of vehicles is in progress.
- (iv) Chief Finance Officers across Gloucestershire are in contact in relation to the Local Government Pension scheme. Actuaries evaluate the scheme to ensure sustainability. The pension scheme is closed for new employees of Publica. The Council's pension fund evaluation is pooled to include former Cotswold District Council employees that transferred to Publica in November 2017 and the Council's retained Officers.

**RESOLVED that the report and comments made be noted.**

**Record of Voting - for 5, against 0, abstentions 0, absent 0.**

AUD.49 GRANT THORNTON ASSURANCE

Ms M Burge, Engagement Manager of Grant Thornton, was present for this item.

The Committee were invited to discuss the response to a letter from the Council's external auditors (Grant Thornton) regarding how the Committee gains assurance on matters such as fraud, breaches of internal control and compliance with laws and regulations.

Ms Burge explained that the letter provides assurances around the management processes of the Council.

During debate the following points were made:-

- (i) Risk assessments carried out in relation to cyber fraud by South West Audit Partnership (SWAP) on behalf of the Council and Publica would be fed back to Grant Thornton. The Counter Fraud unit works on behalf of the Councils in the partnership and would investigate issues when necessary. Concern was expressed in relation to insurance for cyber fraud, it was explained that provision is made for this but would not necessarily cover losses such as blackmailing.
- (ii) There were some concerns relating to conflict of interest between Publica and the Council. Officers explained that Publica colleagues deliver the services to partner Councils and both work together to deliver, any issues would be reported back to Members when necessary.

**RESOLVED that the response to the letter from Grant Thornton is signed by the Chair of Committee.**

**Record of Voting - for 5, against 0, abstentions 0, absent 0.**

AUD.50 CORPORATE RISK REGISTER UPDATES

The Committee received an update on the changes to the Council's corporate risk register at the end of December 2018.

During debate concerns were raised in relation to:-

- (i) contractors not meeting their obligations under the contract and Members requested that a risk be added in relation to UBICO and the cost and performance of delivering the service. Officers explained that they regularly met with UBICO management team working with them to improve the service, taking customer feedback into account. Members are able to set the specifications on which they consider the waste contract should be delivered and UBICO would answer to the Council if the service was not delivered satisfactorily.
- (ii) The risk of statutory Officers being absent when decisions needed to be taken. Officers explained that there are deputies who would be able to take decisions when necessary.

**RESOLVED that:-**

- (a) updates to the Council's corporate risk register be noted;**
- (b) a risk is added to the register in relation to management and performance of UBICO.**

**Record of Voting – for 5, against 0, abstentions 0, absent 0.**

AUD.51 COUNTER FRAUD UNIT REPORT

Committee received a report which provided assurance over the counter fraud activities of the Council.

The Counter Fraud Manager confirmed that the report provided an update in relation to work conducted within the last six months. The work plan for 2019/2020 is focussed on bribery and corruption and the team will also be working with Procurement. Work with Internal Audit relating to gifts and hospitality will be finalised this year. Fraud Awareness Sessions were underway for new staff and additional training for all enforcement staff in criminal investigative practices had been completed.

During debate the following points were raised:-

- (i) Policy revision and drafting was still underway in relation to directed surveillance, the acquisition of communications data and the use of social media as an intelligence tool.
- (ii) The Counter Fraud Unit investigate alleged offences for social housing providers under the Prevention of Social Housing Fraud Act 2013. The prosecutor under the Act must be a Local Authority which may prosecute for dwellings not within its area. Members were concerned in relation to the risk to the Council when prosecuting outside of the district and returning housing stock to Housing Associations nationally, which did not necessarily mean that tenants in the Cotswolds would benefit.

Members requested that Officers undertake a period of pilot work and report back to Committee in six months with more detail together with the financial implications to the Council.

**RESOLVED that:-**

- (a) the report and comments made be noted;**
- (b) the proposal for the Council to provide legal support and carry out advocacy services for prosecutions under the Prevention of Social Housing Fraud Act 2013 to Counter Fraud Unit clients, is presented to Cabinet with the above comments from Committee to aid deliberations and decision.**

**Record of Voting – for 5, against 0, abstentions 0, absent 0.**

AUD.52 INTERNAL AUDIT MONITORING REPORT

Members received a summary of the activity undertaken by Internal Audit since the last Committee. Officers explained that this was a standard update.

During debate Members raised the following points:-

- (i) Committee wanted assurance that the draft S106 report would be reported to this Committee and Overview and Scrutiny.
- (ii) Concern was expressed that ICT systems are not robust and fit for purpose. Committee requested that an item be added to the work

programme, a report be presented to the next meeting and a staff member from ICT be invited to talk to Committee.

- (iii) There were queries over the instructions given to Arlingclose in relation to the pooled funds. Officers explained that when buying funds Committee is always engaged in the process.
- (iv) Discussion took place on pooled cars and whether electric cars could be used. A small number of pooled vehicles are managed and insured by Publica for staff visits. Officers explained that part of the car parking project was to investigate the use of charging points and where to locate these. Officers would investigate whether pooled cars could be electric in the future, being aware that the electricity used to charge them was 'green electricity' and not coal fired. Members considered that this issue was a discussion for Cabinet.

**RESOLVED that the report and comments made be noted.**

**Record of Voting – for 5, against 0, abstentions 0, absent 0.**

AUD.53 DRAFT ANNUAL GOVERNANCE STATEMENT 2018/2019

Committee were presented with the draft Annual Governance Statement for 2018/2019 for consideration and comment.

Officers explained that this forms part of the Statement of Accounts and could include areas for improvement, the internal audit opinion and UBICO governance arrangements. The Local Code of Corporate Governance for 2018/19 does reflect current arrangements; the previous year included the introduction of Publica. A report would be presented to the next meeting of Committee on the internal audit opinion of the reasonable assurance level.

Members requested that an action point 5 in relation to UBICO governance be added to Section 5 – Significant Governance issues during 2018/19.

**RESOLVED that:-**

- (a) the comments received be noted;**
- (b) the Local Code of Corporate Governance is approved for 2018/19.**

**Record of Voting – for 5, against 0, abstentions 0, absent 0.**

AUD.54 PROPOSED 2019/20 INTERNAL AUDIT PLAN AND INTERNAL AUDIT CHARTER

Committee received the proposed Internal Audit Plan and Internal Audit Charter. Officers explained that this was an opportunity to highlight any areas Committee considered should be covered.

During debate Members highlighted the following areas:-

- (i) ICT systems and infrastructure need to be robust and fit for purpose. An ICT officer would be invited to Committee.

- (ii) UBICO business plan and the process of scrutiny. The plan should be presented to Overview and Scrutiny Committee and Cabinet. Officers explained that Audit Committee could take assurance that the plan had been scrutinised with reports back to this Committee on the material changes.
- (iii) Members wished to invite UBICO senior management team to Committee, to discuss direction of travel.
- (iv) Investment in the retail sector is too heavily weighted and concerns were raised over the scale of investment in retail properties.
- (v) Concerns were expressed on treasury management and whether the exposure is being managed adequately with internal controls in place.
- (vi) Targets for affordable housing should be reported to Overview and Scrutiny and Cabinet.

**RESOLVED that the comments be noted and the proposed 2019/20 Internal Audit Annual Plan and the Internal Audit Charter be approved.**

**Record of Voting – for 5, against 0, abstentions 0, absent 0.**

AUD.53 OTHER BUSINESS

There was no other business that was urgent.

The Meeting commenced at 10.00 a.m. and closed at 12:05 p.m.

Chairman

(END)