

AUDIT COMMITTEE

28 September 2017

Attendance:

Councillors:

Cutler (P)

Burns (P)
Huxstep (P)
Prince (P)

Stallard (P)
Thacker
Weir (P)

Others in attendance:

Councillor Horrill – Leader with Portfolio for Housing Services
Councillor Ashton – Portfolio Holder for Finance.

1. **DISCLOSURES OF INTERESTS**

Councillors Huxstep and Stallard both declared a disclosable pecuniary interest in respect of items under consideration which may have a Hampshire County Council involvement due to their roles as County Councillors. However, as there was no material conflict of interest regarding these items, they had a dispensation granted on behalf of the Standards Committee to participate and vote in all matters which might have a County Council involvement.

2. **MINUTES**

RESOLVED:

That the minutes of the previous meeting held on 29 June 2017 be approved and adopted.

3. **GOVERNANCE SUMMARY REPORT – QUARTER 1 (2017/18)**

(Report AUD194 refers)

The Corporate Director (Professional Services) introduced the Report.

Since publication of the Report, it had now been confirmed by the Public Sector Audit Appointments Limited (PSAA) that Ernst & Young LLP would be the Council's auditors for the five years from 2018/19, subject to internal verification by the PSAA.

Mr Pitman from the Southern Internal Audit Partnership was in attendance and presented Appendix 1 – Internal Audit Progress Report August 2017. He reported that it presented a positive situation with no high priority overdue actions.

The Committee welcomed the steps that had been taken by the officers to reduce the number of overdue management actions relating to audit reports.

RESOLVED:

1. That the content of the report and the progress included in each of the appendices be noted.
2. That no issues arising from the information in the report be raised with the Portfolio Holder and no items of significance be drawn to the attention of Cabinet.

4. **TREASURY MANAGEMENT MID-YEAR REVIEW**
(Report AUD197 refers)

The Committee considered Section 13 of the report relating to Markets in Financial Instruments Directive (MiFID II).

The Corporate Director (Professional Services) and Andrew Bouflower (Hampshire County Council's Deputy Investments and borrowing Manager) clarified that the Council was presently classified as professional client status. It was an option under MiFID II that it could be treated as a retail client from January 2018, and this would become the default position unless the Council "opted up" to professional status. A result of being a retail client would be a shift in the Council's Treasury Management Strategy and to remain as a professional client would mean that the Council's risks would remain as at present.

In reply to a question by Councillor Ashton, the Corporate Director (Professional Services) explained that the annual checks to the Audit Committee would continue as the Treasury Management Strategy would be brought to this Committee and Council and in addition CIPFA were considering council investments as part of its general work stream.

In conclusion, the Committee supported the recommendation to Council to remain as a professional client.

The Corporate Director (Professional Services) then introduced the section of the report on the mid-year annual report on Treasury Management. The Committee welcomed the increased yields that were been achieved following the changes to the Treasury Management Strategy to invest in medium and longer term investments.

The Committee proceeded to consider Section 18 of the Report and the proposed changes to the 2017/18 Treasury Management Strategy.

In answer to Members' questions on the changes to the 2017/18 Treasury Management Strategy, the Corporate Director (Professional Services) stated that risks that might result through possible future changes in Finance Services Team staff would be mitigated by the advice and support provided by

the Hampshire County Council's Treasury Management Team and the Council's Treasury Management Advisers - Arlingclose. The Council had also a competent, pro-active Financial Services Team.

The Committee debated the membership of the proposed Treasury Investment Group (TIG) as set out on page 12 of the Report.

Councillor Ashton stated that the establishment of this Group would provide the necessary checks and balances between officers and Members when making investment decisions in accordance with the Treasury Management Strategy.

A number of Members commented that it would be advisable if the Section 151 Officer, who was the final decision maker when making an investment (after exercising due diligence), was not a member of the TIG. Following debate it was agreed that this be recommended to Council.

Further, it was also agreed to recommend to Council that the TIG have additional representation of one further Member from the Administration of the Council who sat on the Audit Committee.

It was recognised that it might not always be possible to consult with all five Members of the TIG when the Council was required to be flexible and agile to make an investment decision, and after further debate it was recommended to Council that at a minimum three members, including the Portfolio Holder for Finance, the Chair of the Audit Committee, the Finance Manager (Capital and Treasury) and one further member from the TIG be consulted with when making an investment decision.

RECOMMENDED:

1. THAT THE POTENTIAL IMPACT ON THE INVESTMENT STRATEGY OF DEFAULTING TO A RETAIL CLIENT WITH EFFECT FROM 3 JANUARY 2018 BE NOTED;

2. THAT COUNCIL AGREES TO THE IMMEDIATE COMMENCEMENT OF APPLICATIONS FOR ELECTED PROFESSIONAL CLIENT STATUS WITH ALL RELEVANT INSTITUTIONS IN ORDER TO ENSURE IT CAN CONTINUE TO IMPLEMENT AN EFFECTIVE INVESTMENT STRATEGY; AND

3. THAT, IN ELECTING FOR PROFESSIONAL CLIENT STATUS, IT ACKNOWLEDGES AND AGREES TO FORGO THE PROTECTIONS AVAILABLE TO RETAIL CLIENTS ATTACHED AT APPENDIX 1 TO THE REPORT; AND THAT IT APPROVES DELEGATED RESPONSIBILITY TO THE SECTION 151 OFFICER FOR THE PURPOSES OF COMPLETING THE APPLICATIONS AND DETERMINING THE BASIS OF THE APPLICATION AS EITHER FULL OR SINGLE SERVICE.

4. THAT SUBJECT TO THE CHANGE TO THE FOLLOWING MEMBERSHIP OF THE TREASURY MANAGEMENT GROUP, THE CHANGES TO THE 2017/18 TREASURY MANAGEMENT STRATEGY, AS DETAILED IN SECTION 18 OF THE REPORT, BE APPROVED.

4.1 THE TREASURY INVESTMENT GROUP (TIG) SHOULD INCLUDE THE FOLLOWING OFFICER AND MEMBER ROLES:

FINANCE MANAGER (CAPITAL AND TREASURY)

PORTFOLIO HOLDER (FINANCE)

ONE OTHER CABINET MEMBER

CHAIR OF THE AUDIT COMMITTEE

ONE OTHER MEMBER FROM THE ADMINISTRATION OF THE COUNCIL FROM THE AUDIT COMMITTEE

SHADOW PORTFOLIO HOLDER

(THE SECTION 151 OFFICER, AS FINAL DECISION MAKER, WOULD NOT BE A MEMBER OF THE TIG).

4.2 THAT AT A MINIMUM THREE MEMBERS, INCLUDING THE PORTFOLIO HOLDER FOR FINANCE, THE CHAIR OF THE AUDIT COMMITTEE, THE FINANCE MANAGER AND ONE FURTHER MEMBER FROM THE TIG, BE CONSULTED WITH WHEN MAKING AN INVESTMENT DECISION.

RESOLVED:

1. That the Treasury Management Mid-Year Monitoring Report for 2017/18 be approved.

5. **AUDIT RESULTS REPORT FOR THE YEAR ENDED 31 MARCH 2017**
(Report AUD195 refers)

Mr Mathers from Ernst and Young was present at the meeting and presented the Report.

With regard to the status of the audit of the City Councils financial statements for the year ended 31 March 2017, as mentioned on page five of Appendix A, Mr Mathers confirmed that all outstanding items of the audit were now complete. In addition, on page six of Appendix A, the period during which local electors were able to inspect the financial statements and raise objection had come to an end (on 21 September 2017) and no objections had been received.

Members of the Committee raised questions in respect of the conclusion in the Audit Results Report that the contract management arrangements remained an area of particular weakness for the Council and also the limited assurance that related to the Council's main Leisure and Environmental Services contracts as stated on page 28 of the Report. The Corporate Director (Professional Services) stated that actions relating to these conclusions were being addressed and would be reported at the next meeting of the Audit Committee. The Council was utilising expertise from Hampshire County Council on strategic procurement and contract management across the Council. Following debate, the Committee supported the submission of a report on contract management arrangements to its next meeting.

Also on page 28 of the Audit Results Report that referred to Ernst & Young's conclusions, members of the Committee explored with the officers actions that were being taken to progress the development of governance arrangements.

The Corporate Director (Professional Services) explained that a cross party governance working group was considering possible amendments to the Council's Constitution to be reported to a future meeting of this Committee.

Certain Members requested that the Audit (Governance) Sub Committee be reconvened as soon as possible to be updated on the progress being made in developing governance arrangements.

At the invitation of the Chairman, Councillor Horrill addressed the meeting and stated that some aspects of the Claer Lloyd-Jones review and the subsequent Peer Review were being progressed by the cross party governance working group (comprising two members of each of the political groups and Legal and Democratic Services officers including an external consultant). The conclusions of this Group would be submitted to the Audit Committee, The Overview and Scrutiny Committee and Council.

In conclusion, following further debate, the Committee agreed that at this stage it was not necessary for the Audit (Governance) Sub-Committee to meet and that a special meeting of the Audit Committee be held to consider the conclusions of the governance working group when its work had been finalised.

RESOLVED:

1. That the Letter of Representation, attached at (Appendix A), be approved.
2. That a special meeting of the Audit Committee be held to consider the conclusions of the cross party governance working group when its work was finalised.

6. **ANNUAL FINANCIAL REPORT 2016/17**
(Report AUD196 refers)

RESOLVED:

1. That the Statement of Accounts 2016/17 as set out in appendix 1 be approved.
2. That the Chairman of this meeting signs the Statement of Responsibilities on page 10 of appendix 1 to certify the accounts and authorise their issue.
3. That the Annual Governance Statement 2016/17 for publication in the Annual Financial Report (pages 68-75 of appendix 1) be reapproved.

The meeting commenced at 6.30pm and concluded at 8.15pm.

Chairman