

WAVERLEY BOROUGH COUNCIL

MINUTES OF THE AUDIT COMMITTEE - 17 NOVEMBER 2015

SUBMITTED TO THE COUNCIL MEETING – 15 DECEMBER 2015

(To be read in conjunction with the Agenda for the Meeting)

Present

Cllr Jim Edwards (Chairman)
Cllr John Gray (Vice Chairman)
Cllr Andrew Bolton

Cllr Jenny Else
Cllr Stephen Hill
Cllr Richard Seaborne

Apologies

Cllr Ged Hall

Also Present

Cllr Wyatt Ramsdale and Cllr John Fraser were in attendance to speak on Agenda item 11. Iain Murray (Grant Thornton- External Auditors), Phil Triggs (Surrey Pension Fund) and Surrey County Councillor Denise Le Gal (Chairman of Surrey Pension Fund Committee)

24. MINUTES (Agenda item 1.)

The Committee confirmed and agreed the signing of the Minutes of the meeting held on 15 September 2015.

25. APOLOGIES FOR ABSENCE (Agenda item 2.)

Apologies for absence were received from Councillor Ged Hall.

26. DISCLOSURE OF INTERESTS (Agenda item 3.)

There were no disclosures of interests presented.

27. QUESTIONS BY MEMBERS OF THE PUBLIC (Agenda item 4.)

In accordance with Procedure Rule 10, the Committee received the following question from Mr Alexander of Hambledon:-

“Mr Chairman,

I would like to ask the following question which relates to the fraud in April and May 2015 where Waverley paid over £200,000 to a fraudster, instead of the contractor Mears. Which Councillors (please name) knew that the fraud had taken place ?”.

In response, the Chairman stated that:-

“The following Councillors were informed and that included all members of the Executive and Audit Committee at the time. These were:-

Cllr. Brian Adams
Cllr. Carole King
Cllr. Robert Knowles (Leader of the Council)
Cllr. Tom Martin
Cllr. Donal O`Neill
Cllr. Julia Potts (Deputy Leader of the Council)
Cllr. Stefan Reynolds
Cllr. Adam Taylor-Smith
Cllr. Simon Thornton
Cllr. Keith Webster
Cllr. Richard Gates (Chairman of the Audit Committee at the time)
Cllr. Tony Gordon-Smith
Cllr. Stephen Hill
Cllr. Peter Isherwood
Cllr. Jennifer O`Grady
Cllr. Wyatt Ramsdale
Cllr. Stewart Stennett
Cllr. Jenny Else
Cllr. Mike Band”.

PART I - RECOMMENDATIONS TO THE COUNCIL

There are no matters for consideration under this category.

PART II - MATTERS OF REPORT

The background papers relating to the following items are as set out in the reports included in the original agenda papers.

28. PENSIONS PRESENTATION FROM SURREY COUNTY COUNCIL (Agenda item 5.)

Phil Triggs, Surrey Pension Fund at Surrey County Council, gave a presentation for Members of the Actuarial Valuation of the fund which would be revalued in 2016.

The LGPS Deficit in 2013 stood at £47bn but with the inclusion of CPI +3% this reduced to £27bn. The options for reducing this deficit included increased contributions, improved investment returns and strategic management of liabilities.

The revaluation in March 2016 would take into account 5 key assumptions:

1. Discount Rate

- Reflects how the value of money decreases over time.
- Based on the CPI base rate (which had stood at 0.5% for 81 consecutive months) plus 3%.
- The higher the discount rate, the lower the valuation of the scheme's liabilities.

2. Longevity

- Increased life expectancy meant that pensions would be drawn for longer.
- A single year added to life expectancy resulted in a 3% reduction in funding level.

3. Inflation

- Index linking of pensions to inflation would be unlikely to help reduce the pension fund liability in the current environment of -0.1% inflation.

4. Earnings/salary growth

5. Investment Strategy

In reaching the valuation, two calculations would be made. A valuation conducted by the pension fund Actuary and another based on the standardised assumptions specified by the Scheme Advisory Board. These would then be compared to create a final valuation. The 2013 calculation carried out by the Actuary of the Surrey fund came out at 72.3%, more pessimistic than the 79.3% figure coming from a valuation based on the standardised CPI+3% discount rate. It was commented that this reflected the prudence of the Surrey fund.

Other factors impacting the fund included the quality of data used in calculations; the stability and affordability of contributions; monetary based deficit payments; early retirement, ill health, significant salary increases and employer risk.

On closing the presentation, Members were invited to ask questions. Key concerns included the Chancellor's (RH George Osborne MP) plans to reduce the number of LGPS schemes by requiring them to merge leaving between 5 and 10 schemes nationally holding around £30bn each.

Phil Triggs explained that the Surrey scheme had already begun scoping possible mergers to pool assets and had held preliminary conversations with both the Cumbria and East Riding LGPS schemes. These had similar good governance arrangements and were seen as suitable potential partners. A further 9 funds had been approached.

Councillor Denise Le-Gal, speaking as the Chairman of the Surrey County Council Pension Fund Committee, also explained that these early discussions reflected a desire on Surrey's part to determine their own destiny. The Chancellor had stated that schemes that failed to pool resources could be forced to do so via back ended legislation. A combined Surrey/Cumbria/East Riding scheme would be valued at around £25bn.

Members also asked about the ability of the scheme to be pro-active in managing future strains on the fund. Phil Triggs replied that the adaption of investment strategies, together with the smoothing out of contributions to allow for peaks and troughs in conditions were key to cushioning the fund from such strains.

It was agreed that a graph would be sent to members of the Committee sharing Surrey's current position.

29. ANNUAL AUDIT LETTER FROM GRANT THORNTON FOR 2014/15 (Agenda item 6.)

Iain Murray, from the external auditor Grant Thornton, briefly summarised the Annual Audit Letter for 2014/15.

There had been no new messages to relay since the last meeting and the key issues and recommendations had remained the same. However, Mr Murray updated Key Issue no. 3 and confirmed its status was a medium priority item.

Members asked for clarification of the term `best consideration` as used in the recommendation for key issue no.3. Iain Murray advised that the term referred to the appointment of an independent property company to produce a report that considered how to obtain the best value from the disposal of authority land in landowner mode. Their specialist view would take more than just money into account and act as a crucial piece of evidence to support any subsequent decision made by the Council.

The Committee also asked Iain Murray to define the use of the term `significant recommendations` in relation to the key issues. It was explained that the procedure for weighting recommendations was prescribed by the Audit Commission. The measurement took into account such matters as strategic planning, budgeting, assessment of risk and arrangements to achieve economy and efficiency.

RESOLVED that the Annual Audit Letter for 2014/15 from Grant Thornton be approved.

30. EXTERNAL AUDIT PROGRESS REPORT (Agenda item 7.)

Iain Murray provided the Committee with a verbal update on the progress of the External Audit Report.

Current work included the certifying of housing benefits claims and auditing the two charities of which the Council was a trustee. It was expected that the Report would be completed and that the Audit Plan would be brought to the next meeting of the Committee in March.

Members were also updated on the Local Audit & Accountability Act. This new legislation would require authorities to procure their own external auditor and had been due to take effect from 2017/18. A 1 year extension on current providers had subsequently been introduced meaning that Grant Thornton would remain as the Council's external auditor until 2018. A new procurement procedure would need to be arranged by the end of 2017 to ensure cover from the 2018/19 financial year.

After the update, Members expressed concern regarding Trust accounts. There was some confusion around whether the signing off of accounts by the Committee for 2014/15 at the last meeting had included the Trust accounts.

Officers explained that it was not within the terms of reference of the Audit Committee to provide an audit function on the Trust accounts. These were separate

from the Waverley accounts and were considered by the full Council sitting as Trustees.

Members felt that there was a role for the Audit Committee in the pre-scrutiny of these accounts and officers advised that a request could be made to the Trusts to ask this and it was agreed to do so at the next meeting of the full Council in December.

31. PROGRESS ON THE IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS (Agenda item 8.)

The Committee was briefed on the current progress on the implementation of the internal audit recommendations.

Members requested that officers reviewed the presentation format of the information and suggested use of colours/coding to ensure that members can see the current status of actions at a glance. An idea to use a black coloured spot to identify overdue items might be useful.

Members also asked that the cause of an issue be included on the report in the form of a couple of words such as `staffing` or `legal delays` for example. It was felt that the current format presented effects but not causes and that it was important to understand the cause before agreeing to requests to change implementation dates.

Officers responded that they were happy to make any presentational changes requested to help Members with their work and would look at adding causes to the reports where changes in implementation dates was being requested.

Members requested that further information regarding recommendation ref. IA16/05/001 be provided to the Committee from the Head of Housing and Borough Solicitor.

With regard to IA15/28/001 it was agreed that the Chairman of the Committee be advised when the action had been completed given the need to move from 16% to 100% by 30 November 2015.

RESOLVED that, having considered the information in Annexe 1 and identified the action it wished to be taken, the proposed changes in implementation dates in Annexe 2 be approved.

32. PROGRESS ON THE INTERNAL AUDIT PLAN FOR 2015/16 (Agenda item 9.)

An updated Annexe 1 was tabled. Officers summarised the progress on the Internal Audit Plan for 2015/16 which included the use of contingency for three new reviews on Section 106 agreements, payroll & return to work policies, and revenue premises visits which would be added to the Audit Plan.

Following the verbal summary, Members commented that the format of the plan would benefit from having information presented in groups relating to specific

Heads of Service and Executive portfolio holders to help Members better analyse the data and develop constructive responses.

Officers explained that some issues fell into the remit of more than one Head of Service/ Executive Portfolio Holders. However, these could be placed at the bottom of the plan with grouped items above and that this format could be introduced for the next meeting.

RESOLVED that it was agreed that the progress for the Internal Audit Plan 2015/16 (Annexe 1) be noted and the inclusion of the new reviews be endorsed.

33. EXCLUSION OF PRESS AND PUBLIC (Agenda item 10.)

Pursuant to Procedure Rule 20 and in accordance with Section 100A(4) of the Local Government Act 1972, the Committee RESOLVED that the press and public be excluded from the meeting during consideration of the following item on the grounds that it was likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public had been present during the item, there would have been disclosure to them of exempt information (as defined by Section 1001 of the Act) of the description specified in the appropriate paragraph(s) of the revised Part 1 of Schedule 12A to the Local Government Act 1972 as noted below:

3. Information relating to the business affairs of any particular person (including the authority holding that information).

34. INTERNAL AUDIT INVESTIGATION (Agenda item 11.)

Officers provided the Committee with a verbal update regarding the Internal Audit Investigation as set out in the (Exempt) Annexe to these Minutes.

The meeting commenced at 7.00 pm and concluded at 9.03 pm

Chairman