

**26 JULY 2019**

**NEW FOREST DISTRICT COUNCIL**

**AUDIT COMMITTEE**

Minutes of a meeting of the Audit Committee held in Committee Room 1, Appletree Court, Lyndhurst on Friday, 26 July 2019

- \* Cllr Alan O'Sullivan (Chairman)
- \* Cllr Emma Lane (Vice-Chairman)

**Councillors:**

- \* Alan Alvey
- \* Hilary Brand
- \* Mahmoud Kangarani

**Councillors:**

- \* Martyn Levitt
- Ann Sevier
- \* John Ward

\*Present

**In attendance:**

K Suter, Ernst & Young LLP, External Auditors

**Officers Attending:**

Alan Bethune, Lisa Conway and Andy Rogers

**16 MINUTES**

**RESOLVED:**

That the minutes of the meeting held on 31 May be signed by the Chairman as a correct record.

**17 DECLARATIONS OF INTEREST**

No declarations of interest were made by any members in connection with any agenda item.

**18 PUBLIC PARTICIPATION**

No issues were raised during the public participation period.

**19 AUDIT RESULTS REPORT 2018/19**

The Committee received the report from the external auditor for 2018/19.

Subject to concluding the outstanding matters listed in the report, the external auditor expected to issue an unqualified audit opinion on the Council's financial

statements and there were no matters to report on the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources.

In summarising his report, Mr Suter reported that no material weaknesses had been identified in controls or evidence of material management override. There were no instances of inappropriate judgements identified or any other transactions identified which appeared unusual or outside the Council's normal course of business. There were no matters to report on the Council's arrangements to secure economy efficiency and effectiveness in our use of resources. He drew attention to the main issues that had recently been resolved after detailed discussion with the Council.

The external auditor had identified the need for a post balance sheet event adjustment relating to the authority's gross pension liability valuation figure. This was a national issue resulting from legal judgements regarding the transitional arrangement introduced from 2015, where changes to the public sector pension schemes had been found to be age discriminatory. This had now been amended by the Council in its final accounts so that £3 million additional liability was added to the Council's balance sheet.

An additional issue had arisen from new accounting standards applicable in 2018/19 which meant that financial assets should be classified and measured in a different way. There had been a difference of advice on how accounts were stated, between Ernst and Young as external auditors, and Arlingclose, the Council's Treasury Management advisors. This meant that the classification of investments in the sum of £13.735 million had to be amended by the Council in its financial statements. Subject to this, this issue had been resolved. Officers advised that a 5 year statutory override was in place to mitigate the effects of the revised accounting treatment, which would otherwise see non-crystallised gains and losses on these investment types being reflected through the Council's surplus/deficit on the provision of services. This override could be extended and the Council's investment activities could look very different in 5 years' time. Members were keen that this matter should be kept under review.

Members queried the risk management measures in respect of Council investments. In response, members were reminded of the strict code that the Council follows in its investment portfolio, as outlined in the Treasury Management Strategy. The external auditor felt that the Council had good reserves and had not over-borrowed.

Reference was made to the external auditor's £42,000 fee for the year ended 31 March 2019 and it was queried whether this fee could be reduced by improved work on the part of NFDC. In reply, the external auditor explained that fees were set by an external body and can vary if the scope of the audit changes. However, he commented that the fees charged to NFDC were comparatively low for an organisation of its size, which was in some part due to the positive collaboration and assistance provided by NFDC finance officers. He pointed out that the fee for this financial year was significantly lower than fees charged some years ago. However he pointed out that, nationally the level of regulation was increasing disproportionately, and this might point to increased fees in future years.

**RESOLVED:**

That the external auditor's audit results report for 2018/19 be noted.

**20 ANNUAL GOVERNANCE STATEMENT 2018/19**

The Committee considered the Annual Governance Statement for 2018/19.

It was reported that no changes had been made to the draft report presented to the Committee at the end of May this year.

Members asked a number of questions to which answers were given. Reference was made to the £3 million held in reserves in the General Fund and members asked whether this figure was debated. In answer, it was explained that this figure was regularly reported to this Committee, but had not generally been debated.

A member queried whether the Council used the Investors in People accreditation, and officers undertook to provide this information in due course.

It was confirmed that a report on measures to counter cyber risks would be brought to the October Committee meeting.

Members asked various questions concerning the Council's performance measurement arrangements, in particular reference to continuous improvement, and officers undertook to discuss this with those members outside of the meeting.

Members also queried the breadth and scope of customer satisfaction surveys undertaken by the Council, and it was confirmed that these were regularly undertaken by the Customer facing services of the Council, in particular the leisure function. Members were informed that much of the information requested was available through the performance outturn report submitted to the Cabinet in July.

**RESOLVED:**

That the Annual Governance Statement for 2018/19 be agreed.

**21 ANNUAL FINANCIAL REPORT 2018/19**

The Committee considered the annual financial report for 2018/19.

The Committee noted that at 31 March 2019, the Council had net assets of £280 million, the majority of this being in the portfolio of Council dwellings.

Usable reserves totalled £55 million, an increase of £1.6 million from 2017/18. Net savings, efficiencies and improved income in services in the year were £1.136 million, a one off business rates refund of £720,000 was received and interest earnings were £246,000 ahead of the original target.

Overall the net savings enabled a transfer into the capital programme reserve of £901,000 (a difference of £1.605 million from the £704,000 originally anticipated to be utilised from the capital reserve). Council tax collection had been higher than expected. In 2020, it was anticipated that NFDC would have its own employee contributions in relation to the pension liability.

The Statement of Accounts comprised the following statements:

- Comprehensive Income and Expenditure Statement (including the Expenditure and Funding Analysis)

- Movement in Reserves Statement
- Balance Sheet
- Cash Flow Statement
- Housing Revenue Account (HRA) Income and Expenditure Statement
- Collection Fund

Overall the Responsible Financial Officer felt the Statement of Accounts reflected a solid financial footing and he paid tribute to his team in producing the document given the challenging timescales involved.

**RESOLVED:**

That the annual financial report for 2018/19 be approved.

**22 BAD DEBT PROVISION (VERBAL UPDATE)**

The Committee received a brief update on the Council's bad debt provision as requested at the last meeting.

It was explained that the Council had provided a provision to manage potential arrears in respect of Council Tax and National Non-Domestic Rate collection. The liability stages (bill, reminder, final notice) were explained, together with the related provisions set aside. Whilst there were standard procedures for dealing with debt recovery, the Council took account of individual personal circumstances.

A new manager had recently taken over the team dealing with the Council's Transactional Finance and would review the levels of provision in the areas covered by this team, which included Accounts Receivable.

**23 AUDIT COMMITTEE WORK PLAN**

The Committee considered its work plan for the ensuing year. It was agreed that the bad debt/write offs update would be brought to the March 2020 meeting rather than October 2019, and the AGS Action Plan update would be brought to the March 2020 meeting.

CHAIRMAN