

REPORT OF AUDIT COMMITTEE

(Meeting held on 27 January 2017)

1. TREASURY MANAGEMENT STRATEGY REPORT 2017/18 TO 2019/20 (Minute No 35)

The Committee has considered the Council's prudential indicators for 2017/18 to 2019/20 that relate to the treasury management function and sets out the expected treasury operations for that period. (A related report, detailing the prudential indicators for 2017/18 to 2019/20 for capital expenditure was considered by the Cabinet on 1 February 2017 and details appear elsewhere on the Council agenda).

The Prudential Code for Capital Finance in Local Authorities (The Code) was introduced with effect from 1 April 2004. The Code gives the Council greater freedom for future capital investment plans but requires it to set and monitor prudential indicators to ensure that its plans are affordable and sustainable.

The Treasury Management Strategy Statement sets out how the Council's treasury service will support the Council's financial decisions taken over the 3 year period from 2017/18 to 2019/20. The day to day treasury management function and the limitations on activity through treasury indicators are also set out in the statement.

The Investment Strategy has regard to the Department for Communities and Local Government's (DCLG) guidance on local government investments and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross-Sectoral Guidance Notices, requiring the Council to invest its funds prudently, and to have regard to the security and liquidity of investments before seeking the highest rate of return or yield. The Investment Strategy sets out the Council's criteria for choosing investment counter-parties and limiting exposure to the risk of loss.

There are a number of target indicators but the indicator that must not be breached is the Authorised Limit for External Debt. This is the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term.

The report has been prepared prior to the finalisation of the Capital Programme for 2017/18 and subsequent years. Therefore the target indicators may be subject to minor variation. Should any increase result in the likelihood of the approved Authorised Limit for External Debt being breached this will be reported to the Cabinet in February 2017. Other indicators are targets only and minor adjustments will not be reported.

The Committee supported the proposed introduction of a larger investment limit (up to £20m) applicable, but not limited, to pooled property and equity fund investments, in order to improve the flexibility of the investment portfolio, and better utilise the forecast underlying cash balance available for long-term investment.

The above policies and parameters provide an approved framework within which officers undertake the day to day capital and treasury activities. The Investment Strategy will take effect on 20 February 2017, subject to approval of this report by the Council.

RECOMMENDED:

That the Treasury Management Strategy 2017/18 to 2019/20, and the Treasury Prudential Indicators contained within Annex A to this report be approved with effect from 20 February 2017.

2. FUTURE EXTERNAL AUDIT APPOINTMENT (Minute No 40)

The Committee has considered options for external audit provision from April 2018. The Council's current external auditors (Ernst and Young) are working on a contract originally let by the Audit Commission. The contract was novated to Public Sector Audit Appointments (PSAA), a body established by the Local Government Association following closure of the Audit Commission. The current contract covers audits up to and including the year 2017/18.

The Local Audit and Accountability Act 2014 established arrangements for the appointment of external auditors and the setting of audit fees for all local government in England. In October 2015, these transitional arrangements were extended to include the 2017/18 financial year. In July 2016, the PSAA body were specified as an 'appointing person' and as such can enter into a number of contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's auditor. Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in to such arrangements must be made by the Council.

After consideration of the options, the Committee favours the arrangement offered by PSAA. The Committee noted the content of an appended letter from the PSAA, setting out the benefits of the Scheme and the timetable for the new arrangements. The PSAA has demonstrated its capability in terms of auditor appointment, contract management, and monitoring audit quality.

Over recent years authorities have benefitted from a significantly reduced fees compared with 2012. This has been the result of a combination of factors including new contracts negotiated nationally with audit firms and savings from the closure of the Audit Commission. The Council's indicative external fees for 2016/17 are £59,735.

The benefits of the recommended arrangement include suitably qualified staff from firms having a national presence, monitoring of contract delivery and compliance, and economies of scale. The proposed fees for the subsequent years cannot be known until the procurement process has been completed, as the costs will depend on the proposals from the audit firms. There is a risk that the current external fees levels could increase when the contract ends in 2018. Until a procurement exercise is completed it is not possible to state what, if any, additional budget may be required for audit fees for 2018/19. Opting in to a national scheme provides maximum opportunity to ensure fees are as low as possible, whilst ensuring the quality of audit is maintained by entering in to a large scale collective procurement arrangement.

The Committee considered that the other options (a joint, or independent, auditor panel) were unwieldy, more resource intensive and more costly. Accordingly, in view of the benefits of the PSAA scheme, the Committee recommends this option as being the most efficient, prudent, and effective from the Governance standpoint.

RECOMMENDED:

That the Council accepts the Public Sector Audit Appointments' (PSAA) invitation to "opt in" to the sector-led option for the appointment of external auditors for 5 years commencing 1 April 2018.

**CLLR A O'SULLIVAN
CHAIRMAN**

Attachments: Annex A