

Minutes of the meeting of the
GOVERNANCE COMMITTEE held
in the Fire and Rescue Service
Headquarters, Barmston Mere on
MONDAY 27 MARCH 2017 at 10.30
am.

Present:

Mr G. N. Cook in the Chair.

Councillors Burdis, Dodds, Kilgour and Maughan and also Ms Goodwill and Mr Knowles.

In Attendance:

Gavin Barker (Mazars)

Apologies for Absence:

There were no apologies for absence.

Declarations of Interest

There were no declarations of interest.

Minutes

12. RESOLVED that the minutes of the meeting of the Governance Committee held on 26 September, 2016 be confirmed and signed as a correct record.

The Strategic Finance Manager reminded the Committee that the Authority had opted to submit the accounts for audit at the earlier date of 31 July 2017 (as opposed to 30 September 2017). An additional meeting would therefore take place on Monday 31 July following the meeting to be held on Monday 26 June, to formally approve the audited accounts.

Internal Audit Plan for 2017/2018

The Head of Internal Audit submitted a report to consider and comment on the proposed Internal Audit Plan for 2017/18.

Tracy Davis (Assistant Head of Assurance – Sunderland City Council) referred Members to Appendix 1 of the report which detailed all of the key risk areas and those audits that contributed towards the opinion on each area.

Members noted that the following audits were planned for 2017/2018:-

Human Resource Management (10 days)

ICT (15 days)

Financial Management (15 days)

Performance Management (15 days)

Partnership Working (15 days)

Project Management (10 days)

An update in relation to these would be given at the September meeting of the Committee.

Councillor Burdis questioned the Residual Risk for information governance of 25% and was advised that some outstanding issues remained from the previous audit and an audit/follow up was currently on-going.

The Key Performance Indicators which would be used to measure the performance of the service throughout the year were shown at Appendix 2.

Tracy advised Members that one target had been increased from 85% to 82% (Percentage of audits completed by the target date, from scoping meeting to issue draft report).

13. RESOLVED that the Internal Audit Plan be noted and endorsed.

Treasury Management Policy and Strategy 2017/2018, including Prudential 'Treasury Management' Indicators for 2017/2018 to 2019/2020

The Strategic Finance Manager submitted a report to inform the Authority on the Treasury Management Policy and Strategy (including both borrowing and investment strategies) proposed for 2017/2018 and to note the Prudential 'Treasury Management' Indicators for 2017/2018 to 2019/2020 and to provide comments to the Authority on the proposed policy and indicators, where appropriate.

Members were referred to the Treasury Management Policy Statement and the Treasury Management Strategy detailed at appendices 1 and 2 of the report, respectively. This comprised the Authority's strategy for borrowing and the Authority's policies for managing its investments and giving priority to the security and liquidity of those investments (Appendix 3).

The Strategic Finance Manager advised Members that there were no major changes being proposed to the overall Treasury Management Strategy in 2017/2018 which maintained the prudent approach adopted by the Authority in previous years.

The strategy was subject to regular review and the Authority's performance for 2016/2017 showed that the current rate of borrowing at 3.33% was low in comparison with other local authorities whilst the current rate earned on investments at 0.41% was higher than the benchmark figure of 0.23%. Market conditions were also under constant review so that the Authority could take a view on the optimum time to carry out further borrowing or debt rescheduling.

Members were advised that the Authorised Limit for External Debt for 2017/18 totalled £48.859m with an Operational Boundary Limit of £43.858m. This would be closely monitored, and any issues would be reported to the committee, and in turn, the Authority.

The Strategic Finance Manager referred the Committee to Appendix 2 of the report and explained that the Authority had an agreed Borrowing and Investment Strategy, the high level policies which were as follows:

The basis of the agreed Borrowing Strategy was to:

- continuously monitor prevailing interest rates and forecasts;
- secure long-term funds to meet the Authority's future borrowing requirement when market conditions were considered favourable;
- use a benchmark financing rate of 3.50% for long term borrowing (i.e. all borrowing for a period of one year or more);
- take advantage of debt rescheduling opportunities, as appropriate

The basis of the agreed Investment Strategy was to:

- prioritise its investments by recognising three important concepts which were followed before any investment was made, these in order of importance, were: the security of its capital, then the liquidity of its investments and then to achieve the optimum yield on its investments commensurate with the appropriate levels of security and liquidity;
- place funds in accordance with the Authority's agreed and detailed Lending List and Criteria, which were subject to regular review;
- limit the amount of funds placed with individual and grouped financial institutions in accordance with the Lending List and detailed criteria which is not only regularly reviewed but is also formally reported to members on a quarterly basis.

Members were then advised that where necessary, reserves were used to reduce the need to borrow and the use of assets was also maximised to keep debt charge cost to minimum.

The Strategic Finance Manager went on to say that interest rates of 0.25% had been in place since July 2016 which was a reaction by the Bank of England to the Brexit vote when the rate was reduced from 0.50%. This means that interest rates have remained at 0.50% or lower for the last 10 years. It was anticipated by economists and advisors that the Base Rate would increase to 0.50% in 2019 based on current market intelligence, a view shared by officers.

In response to a question from Councillor Dodds regarding the terms and conditions of lending, the Strategic Finance Manager explained that the market was monitored on a daily basis and interest rates were constantly tracked to ensure that the most favourable rates were obtained.

14. RESOLVED that:

- (i) The Annual Treasury Management Policy and Strategy (including specifically the Annual Borrowing and Investment Strategies) for 2017/2018 be noted and endorsed; and
- (ii) The Prudential 'Treasury Management' Indicators for 2017/2018 to 2019/2020 be noted and endorsed.

Audit Strategy Memorandum 2016/2017

The Strategic Finance Manager submitted a report detailing the external auditors Audit Plan which notified the Authority of the work that they were proposing to undertake in respect of the audit of the financial statements and the value for money conclusion for the financial year 2016/17.

Members were advised that Mazars were to hold their audit fees at £30,636 which was in accordance with the scale fees guidance provided by Public Sector Audit Appointments Ltd (PSAA).

Gavin reminded the Committee that audit work was planned to be completed by 31 July, ahead of the statutory deadline which was 30 September 2017.

Mazars had identified the following areas on which they would carry out specific audit procedures to mitigate the risks of material misstatements in the Authority's financial statements:

- Management override of controls; and
- Valuation of the defined benefit pension scheme.

At the planning stage of the audit Mazars had set materiality for the financial statements as a whole at £731,000. In reporting the results of their work, they did not

report identified misstatements below a trivial level. This level had been set at £22,000.

With regards to the Value for Money Conclusion, no significant risks had been identified and in addition, no actual, potential or perceived threats to independence had been identified at this stage of the audit.

Gavin went on explain that in previous years, they had sought to rely on assurances provided by the auditor of the Tyne and Wear Pension Fund (Ernst & Young) in relation to the Authority's pension disclosures. Whilst Mazars would be seeking to reduce the need for such assurances, they would be seeking assurances this year in relation to data used in the recent triennial revaluation of the fund.

On behalf of the committee, the Chairman congratulated both the Authority and the external Auditors' for the work which had been undertaken to date.

15. RESOLVED that the contents of the report be noted.

Audit Progress Report – March 2017

The Strategic Finance Manager submitted a report to enable the Committee to consider and comment upon the external auditors' regular Audit Progress Report covering the period up to March 2017.

Gavin Barker presented the report and in doing so, explained that the report set out the main risks identified by the auditor for both the Authority's Statement of Accounts Opinion and the Value for Money Conclusion for 2016/2017.

The report also provided updates on:

- Bringing forward the accounts and audit timetable for the 2016/2017 financial years ahead of the statutory requirement. This meant that the accounts subject to audit would be completed by 31st May and the external audited accounts would be available by 31 July 2017;
- It was pleasing to note that there were no significant deficiencies in internal control at this stage and that early audit work had already been undertaken to help achieve the earlier closedown;
- The Authority sent two members of staff to the Final accounts workshop event and feedback shows that they found it very useful; and
- The North-East Governance Forum had met in February 2017 covering the areas: developing an integrated assurance framework and alternative commercial and service delivery models. The next meeting was scheduled to take place in October/November 2017.

Gavin advised the Committee that there were no proposed changes to the overall work programme for 2017/18, therefore PSAA Ltd proposed that scale fees were set at the same level as the fees applicable for 2016/2017.

Members were reminded that from 2018/19 onwards, authorities would be required to appoint their own auditor. A collective procurement option was available via PSAA Ltd who published their procurement strategy on 21 December 2016 as well as details of which bodies had signed-up to date.

On March 2017, PSAA Ltd published an updated list of authorities that had signed-up for the national collective procurement and that 97% of fire and rescue authorities had signed-up to this, including Tyne and Wear Fire and Rescue Authority.

16. RESOLVED that the contents of the report be noted.

(Signed) G. N. COOK
Chairman