

CORPORATE GOVERNANCE COMMITTEE

FRIDAY, 27 JULY 2018 - 10.30 AM



PRESENT: Councillor J Clark (Chairman), Councillor F Newell (Vice-Chairman), Councillor G Booth, Councillor R Butcher and Councillor W Sutton

APOLOGIES: Councillor D Hodgson, Councillor P Murphy and Councillor M Tanfield

OFFICERS IN ATTENDANCE: Peter Carpenter (Interim Section 151 Officer), Mark Saunders (Chief Accountant), Kathy Woodward (Internal Audit Manager), Neil Krajewski (Deputy Chief Accountant), Carol Pilson (Corporate Director and Monitoring Officer), Izzi Hurst and Linda Albon (Member Services & Governance)

ALSO IN ATTENDANCE: Neil Harris, Flo Barrett and Amalia Valdez Herrera from Ernst & Young

The Chairman felt it important to note that the members who had sent their apologies were absent because the meeting had been rescheduled from the original date. Peter Carpenter explained the meeting was rescheduled to allow completion of the audit and to provide a full, rather than draft, set of accounts.

CGC/12 PREVIOUS MINUTES.

The minutes of the meeting of 19 June 2018 were approved and signed.

CGC/13 APPOINTED AUDITOR (EY) - AUDIT RESULTS REPORT (ISA260) 2017/18

Members considered the Audit Results Report (ISA260) presented by Neil Harris from Ernst & Young (EY), the Council's External Auditor. Neil introduced the Committee to Amalia Valdez Herrera, Flo Barrett's Senior Auditor, both of whom were instrumental in the audit. He was pleased to report the external audit testing has now been concluded. This is the first year of a new statutory timetable for accounts, with draft accounts needing to be prepared by 31 May and approval of the accounts by 31 July, putting increased pressure on all concerned. The Council responded extremely well to the challenge and as a result Neil was pleased to confirm the Council's financial statements represent a true and fair view of the Council's finances as at 31 March 2018. He concluded the Council has secured proper arrangements for economy, efficiency and effectiveness in the use of its resources, which is EY's value for money conclusion. The results reflect very well on the Council and its secure financial position.

It was further noted that the Expenditure Funding Analysis, Whole of Government Accounts and IAS19 Procedures had been concluded since the time of the draft report. However, there were two significant amendments made to the financial statements, one being an adjustment to the valuation of the Council's leisure centres as all-weather pitches at two leisure centres had been erroneously included in the original valuation the Council obtained. The required changes have been reflected in the accounts for approval at this meeting. The second adjustment made was to the Pension Liability valuation. This is not specific to Fenland but happening across a number of county pension funds across the country. EY are seeing a difference in fund valuation between the

schedule of results included in the draft accounts and the valuation of the fund as included in the County Council Pension Fund accounts as at 31 March. A rerun of the IAS19 was requested which had been responded to very quickly in order to provide an updated estimate at 31 March. In conclusion there were no significant findings or deficiencies in terms of control. Neil suggested that more information could be provided on analytics at a future committee as EY are investing heavily in technology to drive more efficient and effective audit.

Members asked questions, made comments and received responses as follows:

- Councillor Booth asked if there would be any impact on the leisure centres tender process in respect of the revaluation. Mark Saunders advised that the tender process was about management and not the value of the asset.
- Councillor Sutton expressed concern that the pension deficit is now £66m having been told a year ago there was a deficit of £36m. Peter Carpenter explained they are the most regulated audited part of the accounts, with actuaries taking about seven years to be trained and accredited; also looking at the adjustments, counties and districts will be more in line next year so this will not happen. In terms of the valuation of a pension fund, there are two parts to it. All pension funds up to 2014, apart from two, are currently in deficit. There are long term recovery plans to break even across the country. Therefore the valuation changes yearly, but the main valuations take place every three years. The next one will be in 2019, when the rate will be set for the next three years in terms of payments, lump sums and contributions; we are currently paying about 17.5% as a contribution of pay plus a lump sum of £800,000 a year. However, this shows how pension funds fluctuate. Also, people are living longer and pension funds, are generally made up of 70-80% equities and 20% hedge against equities, and equities have increased massively in the last year. The pension fund itself has gone up another 2.5% from April to June but could go down just as easily, so the skill of the pension fund professional is to ensure they keep hold of those gains.
- Councillor Clark asked, in terms of value for money, given what is occurring at the County Council with the FACT payments can the Council be sure that the amount of money it gives to FACT is spent correctly. Neil advised that the audit includes testing income received and checking that grant conditions are met and he has no concerns with this council. Councillor Clark asked could we be satisfied then that the £50,000 we give to FACT is used correctly. Neil advised that from EY's point of view they could be satisfied that the revenue and expenditure was recognised appropriately in the Council's accounts as expenditure. It was a matter for the County Council's auditors to form a view on whether County Council's money is used appropriately. At this point, Councillor Butcher declared an interest as he is a FACT board member and advised the £50,000 grant pays for free bus fares. Councillor Booth stated this payment was capped a few years ago but wanted to be sure that, given this amount is near the materiality threshold, there have been no other payments to FACT that this committee needs to be aware of. Carol Pilson addressed Councillor Clark's concerns and confirmed that the matter with FACT had been followed closely because of the Council's interactions with FACT. A member of FACT with a bus pass could use their bus pass for free on these routes, the fare being paid 50% by us and 50% by the County Council. She stated we are currently reviewing the PKF report which is going to the audit committee at County Council next week, from which we will see if there are any implications for FDC. A briefing can be provided to Councillor Clark once that analysis has been completed. Councillor Booth reiterated that we need reassurance that we have not had any figures misrepresented so that we are paying out money that we should not be paying. Carol Pilson stated we can take some assurance that FACT also go through their own external audit processes; they submit quarterly facts and figures and we have a service manager who assesses this information to see whether there are any issues to raise or notable discrepancies. Councillor Booth asked if EY are happy that our procedures are robust enough to pick up any discrepancies and Neil confirmed that he had no concerns.
- Peter Carpenter asked what EY's view was on the other councils they manage. Neil stated that most councils will hit the target of end July but due to the complexity of some valuations or

resource issues causing pressure, they have had to prioritise appropriately to ensure that as many clients are concluded before end July where it is within their control to do so.

- Councillor Sutton asked how EY could assure the committee that nothing is missed. Neil explained that EY undertakes a risk assessment of each client to ensure appropriate phasing of prioritisation, and additional quality review control procedures are put in place for some of their bigger clients. In the context of Fenland, both Flo and Amalia do not just work on this audit, but have other engagements so there are a number of experienced audit managers behind the scenes providing coaching and support where appropriate. Flo advised that Mark Saunder's team were very good in helping identify areas that could be brought forward for early testing which has allowed more time and resources to focus on risk areas, thus ensuring we are still getting a high quality audit in the short amount of time we have left due to the deadlines.
- Councillor Sutton asked if the competence of the finance team had helped with the audit. Both Neil and Flo confirmed that the quality of the finance team had helped the audit run smoothly and thanked Mark Saunders and his team for doing a fantastic job and for all the help they had given this year.
- Councillors Sutton and Clark asked Peter Carpenter how confident was he in the processes and the work done before his interim appointment. Peter explained that, having been satisfied his appointment was not as a result of financial irregularities, he felt comfortable having looked at the accounts, MTFs, monitoring and the view of the auditors.
- Councillor Booth mentioned that the BBC had reported all four of the big audit firms needed to "up their game" and asked if EY had made any changes to their approach. Neil stated that for the last few years EY have had an audit quality investment programme responding to regulator feedback. The regulator has commented positively about EY's culture. Quality remains the highest priority for the firm and they are putting a lot of work into building trust in the corporate and public sector.
- Councillor Clark asked if it was correct that EY's fees are reducing next year. Neil confirmed this was the case. A scale of fees is set that affect the outcome of contract tendering so, having been appointed as the Council's auditors for the next five years, part of that contract award is a reduction in the scale. This does not mean a reduction on the amount of work undertaken or the quality of it. However, it may lead to further debate if work arises that represents a change in scope agreed.
- Councillor Booth asked why the grant income was stated as being £36m but the figures added together only come to £31m. Neil explained that it was the way of describing key items and Flo confirmed that the remaining £5.6m is made up of a lot of small grants.

The Corporate Governance Committee agreed to note the contents of the Audit Results report.

Councillor Booth declared a non-pecuniary interest insofar as investments are held with building societies by virtue of being employed with Yorkshire Building Society.

CGC/14 STATEMENT OF ACCOUNTS 2017/18

Members considered the Statement of Accounts for 2017/18 presented by Peter Carpenter.

As an attachment to the accounts, an update had also been circulated by Mark Saunders showing the differences between the draft and final versions of the accounts. Peter Carpenter stated that it was important to note that there was no difference in terms of the level of the General Fund and what was reported at year end.

Members asked questions, made comments and received responses as follows:

- At the request of Councillor Clark, Mark Saunders went through the attachment, advising that the items were mostly technical accounting issues which had no impact on the Council's use of

reserves. Councillor Sutton thanked Mark for the update and said it was very useful.

- Councillor Sutton commented that there were some issues with the narrative report, namely under the heading 'A growing population' he said it was not strictly correct as the Local Plan and Economic Development Strategy, had not been decided yet. Councillor Booth advised that there is an economic development strategy but it needs to be updated, and that is why it is going back to Overview & Scrutiny. Councillor Sutton suggested therefore that this be reworded. He also stated that under Governance, the number of councillors representing each political party was incorrect and thus the map and, although this did not affect the overall figures, nevertheless he felt it was important to point these out.
- Councillor Sutton asked for the current position with the figure of £0.693m under Provisions and Contingencies. Mark Saunders advised there needs to be further analysis of business rates but has not got an up to date figure.
- Councillor Sutton stated he was surprised to see a lower figure for Garden Waste receipts in advance as he believed there had been a bigger uptake this year than last year. Mark Saunders advised that the figure did not reflect any income received since 31st March. There would have to be a look at how many subscribers had carried on from last year, bearing in mind many people leave it until the last minute. Councillor Booth agreed with Councillor Sutton's point that they were led to believe that more people had taken up an earlier subscription this year compared to last year. Consequently, Councillor Clark requested an update on those figures.
- Councillor Sutton asked if the remuneration to the Returning Officer and the elections team is reflected in the figures or covered separately. Mark Saunders advised that this is a separate figure and not a direct cost to this Council unless they involve district elections. Carol Pilson confirmed that the work done for all other elections are at no cost to us, the work is recharged to, say, the parish council or central government in the case of a parliamentary election and the figures are audited by the Electoral Claims Unit. Mark Saunders confirmed that the accounts show the gross cost of the elections and include any money recovered via recharges.
- Councillor Butcher asked how the market undertaking figure was made up under Trading Operations. Mark Saunders explained this included all the costs to provide the service, namely officer time, business rates, support services and administration etc. The level of income received from markets is falling every year. Councillor Booth stated that effectively the Council is losing £80,000 and as the costs are increasing as revenue decreases it is time to look at this. Effectively we are subsidising these businesses and we cannot justify these costs to the public. Councillor Clark asked for guidance on how it could best be addressed; Carol Pilson advised a response could be taken to the Chairman re markets. Councillor Sutton stated his concern also with the costs regarding the port, and factory and office units. Councillor Booth did state though that with the port authority, he has brought this up in the past and was advised that this is the way the accounts are presented. Mark Saunders explained that as a statutory harbour authority operating an open port, we do have to provide this service regardless of the number of ships that visit the port and so the costs are not proportionate. A response on all three items including current expenditure, how they occur and plans to reduce the amount. Councillor Booth added a point needed to be made around subsidisation as there are rules around anti-competitive grants and we need to have appropriate safeguards in that area.
- Councillor Booth asked for details of an unspent amount of £12,000 for community projects and how that could be accessible for members to help their communities. Mark Saunders stated this was an amount left over from the original Leader's Discretionary Fund and was made up of small grants for community groups up to £500. Councillor Clark advised that in the past, an application form can be completed from the Council's website, considered by the Portfolio Holder and then forwarded to Cabinet for a decision.
- Councillor Booth asked about savings from the CSR, some £970,000 and ahead of expectations. He asked if the Council is being realistic when setting those budgets and expectations, and are we cutting back services to areas more than necessary. Councillor Clark thought this a fair point and will look for guidance on how to take that forward. Mark Saunders added that there are still some significant areas within those projects that have yet to be

realised, one being the leisure contract, and the relocation of the two one stop shops in Wisbech and March, and so there are still some big risks in terms of achieving those savings.

The Corporate Governance Committee agreed to approve the final Statement of Accounts for 2017/18 subject to the observations made.

Councillor Booth declared a non-pecuniary interest insofar as investments are held with building societies by virtue of being employed with Yorkshire Building Society.

CGC/15 FENLAND DISTRICT COUNCIL - LETTER OF REPRESENTATION

Members considered the Letter of Representation presented by Peter Carpenter who assured he is content that we have discharged our responsibilities for monitoring and reviewing the delivery of income and expenditure in the right way throughout the financial year.

The Corporate Governance Committee agreed to approve the format and content of the Letter of Representation provided to the independent external auditor (EY) at the conclusion of the audit of the 2017/18 Statement of Accounts. The Letter of Representation was duly signed.

CGC/16 ITEMS OF TOPICAL INTEREST

Although there were no items of topical interest, a few extra comments and suggestions were made at this point.

- Councillor Sutton mentioned that at the last committee he had suggested it may be beneficial to have a session with a pension actuary to help further understand the Council's pension deficit. Peter Carpenter agreed that this would be relevant, as they will also be able to discuss trends and fluctuations. Councillor Clark asked that this be arranged.
- Councillor Booth asked what progress had been made since Councillor Sutton requested at the last meeting for consideration to be given to combining both the Corporate Governance and Conduct Committees. Carol Pilson stated that this Council has constituted two committees with separate terms of reference; it would be a member decision to decide to change arrangements. Carol suggested that Councillor Clark could discuss the matter with Councillor Hoy in the first instance as the chairmen of the two committees. Councillor Sutton advised some authorities do have a sub-committee as governance is all about conduct. There is also a potential saving regarding members allowances. Councillor Booth felt that this should be a decision of the members as both chairmen could have opposing views which would lead to an impasse. Councillor Clark advised that he would go away and consider this. Councillor Newell stated that she felt conduct and audit were different and just because it works in other places does not mean to say it would work here.
- Councillor Clark concluded by thanking everyone on behalf of the Committee for their help, he reiterated that we have confidence in the EY team, and he also thanked Mark's team for their guidance.