

AUDIT & GOVERNANCE COMMITTEE

29 September 2016 at 9.30 am

Present: - Councillors Clayden, (Chairman), Mrs Oakley, (Vice-Chairman), Brooks, Edwards, Mrs Maconachie, Mrs Porter, Miss Rhodes and Wheal.

227. WELCOME

The Chairman welcomed the Audit Manager from Ernst & Young and Officers from the Internal Audit and Finance teams to the meeting.

228. APOLOGIES FOR ABSENCE

Apologies for absence had been received from Councillors L Brown and D Maconachie.

229. DECLARATIONS OF INTEREST

The Monitoring Officer has advised Members of interim arrangements to follow when making declarations of interest. They have been advised that for the reasons explained below, they should make their declarations on the same basis as the former Code of Conduct using the descriptions of Personal and Prejudicial Interests.

Reasons

- The Council has adopted the Government's example for a new local code of conduct, but new policies and procedures relating to the new local code are yet to be considered and adopted.
- Members have not yet been trained on the provisions on the new local code of conduct.
- The definition of Pecuniary Interests is narrower than the definition of Prejudicial Interests, so by declaring a matter as a Prejudicial Interest, that will cover the requirement to declare a Pecuniary Interest in the same matter.

Where a member declares a “Prejudicial Interest”, this will, in the interests of clarity for the public, be recorded in the minutes as a Prejudicial and Pecuniary Interest.

There were no Declarations of Interest made.

230. MINUTES

The Minutes of the meeting of the Committee held on 30 June 2016 were approved by the Committee as a correct record and were signed by the Chairman.

231. ERNST & YOUNG – AUDIT RESULTS REPORT

The Committee received Ernst & Young’s Audit Results report for the year ended 31 March 2016, which had been circulated separately to the agenda.

Before presenting the report, the Audit Manager outlined that he wished to have recorded his thanks to the Council’s Audit and finance teams for their assistance in this work.

The Audit Manager confirmed that the National Audit Offices (NAO) Code of Audit Practice (the Code) required the Council’s external auditors to report to ‘those charged with governance’ on the work that had been undertaken to discharge their statutory responsibilities, together with any governance issues identified. This report summarised the findings from the 2015/2016 audit and that it included the messages arising from Ernst & Young’s audit of the Council’s financial statements and the result of the work they had undertaken to assess the Council’s arrangements to secure value for money in its use of resources.

The Audit Manager reported that following completion of the work outlined in their Audit Plan, it was proposed that an unqualified opinion on the Council’s financial statements would be issued. The report set out the main findings relating to the areas of risk and it reported on any exception on the governance statement or other information included.

The significant findings for the audit of the Council’s financial statements related to the areas that had been listed in Ernst & Young’s Audit Plan and as reported to the previous meeting of the Committee. The Audit Manager reported that this year’s audit had not identified any major risk in respect of management override.

Ernst & Young was pleased to be able to report that there were no significant deficiencies in internal control that needed to be brought to the Committee's attention. Looking at the summary of uncorrected audit differences relating to Property Plant and Equipment, there was just one adjustment that had not been corrected by management. As part of their substantive testing it had been identified that depreciation had been incorrectly included on revalued assets in the year. This understated the value of the assets in the Balance Sheet and overstated the charge to the Comprehensive Income and Expenditure Statement (CIES).

Looking at the section headed Economy, Efficiency and Effectiveness, it was explained to the Committee that this covered how the Council had ensured proper arrangements for securing financial resilience and whether the Council was prioritising its resources within tighter budgets. This included looking ahead to the medium term. The results had been set out within the report showing that the overall conclusion findings did not preclude Ernst & Young from issuing an unqualified conclusion.

The final section of the report detailed independence and audit fees and the Audit Manager confirmed that Ernst & Young did not need to make any changes to those advised in its Audit Plan dated June 2016. The audit fee for 2015/2016 was in line with the agreed fee as no variations had been needed to be made to the report.

The Committee was asked to note the report and it was confirmed that this would occur as part of the next agenda item.

232. ANNUAL STATEMENT OF ACCOUNTS - 2015/2016 AND LETTER OF REPRESENTATION

The Committee received a report from the Council's Financial Services Manager providing information about the audit of the Council's 2015/2016 Statement of Accounts, this report had been circulated separately to the agenda.

The Financial Services Manager then introduced the Annual Statement of Accounts for 2015/2016 and informed the Committee that in line with the previous agenda item (the Audit Results report) which the Committee had just considered, it was good news in that no material changes had been required. It was also confirmed that there had been no changes to the Accounting Policies applied to the Statement of Accounts approved by the Committee at its meeting held on 30 June 2016. Therefore, the final audited accounts, together with the Letter of Representation could be signed by the Chairman of the Committee and published by the required deadline of 30 September 2016.

In presenting the Annual Statement of Accounts, the Committee’s attention was drawn to the change from the previous year’s Accounts relating to the introduction of the narrative report which replaced the explanatory forward. Although the Statements were concerned with 2015/2016, the explanatory forward took a wider approach and included comments on the Council’s Use of Resources; as well as providing financial information and took into account information on the Corporate Plan Performance Indicators in assessing performance against strategic objectives. More information on this could be found in the Value for Money section of the Audit Results report.

Members were advised that the Outturn Report together with the Financial Prospects Report and the Capital Prioritisation report would be submitted to Cabinet on 17 October 2016.

Picking up from the issues raised in the Audit Results report, the Financial Services Manager referred Members to the identified audit difference relating to the reclassification of short-term debtors of £187k from Customers and Clients to other Local Authorities which had been adjusted resulting in a change to Note 17 on page 50 of the Financial Statements. It was pointed out that no change to the overall total and balance sheet had been made. This was just a minor change that needed to be brought to Members’ attention.

The effects of the unadjusted audit difference relating to Property Plant and Equipment (Other Land and Buildings) of £732k, raised by the Audit Manager, when presenting the Audit Results report was outlined. It was explained that this was not material to that class of asset (£52m) and to the Financial Statements and so it had been decided that the cost of adjustment would therefore outweigh any benefit.

The Committee was reminded that it was also being asked to approve the Letter of Representation on behalf of the Council which had been attached to the covering report as Appendix 1. If approved, the Chairman of the Committee would also be asked to sign this document.

Having received the Financial Statements, a question was asked about the valuation of the Council’s housing stock and in view of ongoing increases in house prices and as the Council had not undertaken a valuation of its stock for some time. Concern was also expressed over the condition that some properties were in when handed back to the Council as these often required a complete rebuild and refurbish. It was explained that the method of valuing the Council’s stock was undertaken on a beacon basis – that they were

valued on a social housing use basis and not valued commercially. In such instances, the Council had to work to Government guidelines using a Government valuing formula.

The Committee then

RESOLVED – That

- (1) The findings of Ernst & Young in their Audit Results report (the previous agenda item) be noted;
- (2) The Letter of Representation on behalf of the Council be approved and signed by the Chairman of the Committee; and
- (3) The Statement of Accounts for the financial year ended 31 March 2016, which will also be signed by the Chairman of the Committee, be approved.

233. TREASURY MANAGEMENT – QUARTER 1 REPORT – 2016/2017

The Senior Accountant/Treasury & Investment Officer presented the Quarter 1 Treasury Management Report for 2016/2017 to the Committee for it to scrutinise prior to making the proposed recommendations to Full Council.

The Committee’s attention was drawn to Section 3 of the report (Interest Rate Forecast) where the Council’s Treasury Advisor, Capita Asset Services, had provided its most recent forecasting estimating that the bank rate would be reduced further in December 2016.

Looking at the Annual Investment Strategy this showed that investment performance for the quarter ended 30 June 2016 illustrated that interest earned had been £182,990 showing a performance of 1.19% against a budget for the year of 1.10%.

In receiving the report, the Committee was keen to know when the Housing Revenue Account (HRA) Business Plan would be submitted for consideration. The Head of Finance and Property explained that an exact date was difficult to confirm as information was still awaited from Central Government making it very difficult to compile any form of Business Plan.

Having congratulated staff in achieving such good returns on its investments, the Committee

RECOMMEND TO FULL COUNCIL – That

- (1) the treasury management report for 2016/2017 be noted;
- (2) the actual prudential and treasury indicators for 2016/17 contained in the report be approved;
- (3) the treasury activity for the quarter ended 30 June 2016, generating interest receipts of £182,990 (1.19%) against a budget for the year of £560,000 (1.10%) be noted; and
- (4) interest receipts generated to the end of August 2016 of £306,570 (1.18%) be noted.

234. INFORMATION/ADVISORY DOCUMENTS RECEIVED

The Committee received the information/advisory documents received, as attached to the agenda.

In noting the documents, the Committee commented on the successes achieved by the Housing Fraud Investigator and that based on the results that this post was delivering, it was hoped that this temporary post could be extended and measures put into place to look at making the position permanent.

235. CHANGES TO ARRANGEMENTS FOR APPOINTMENT OF EXTERNAL AUDITORS

(Prior to the commencement of this item, the Audit Manager from Ernst & Young left the meeting for this item).

The Committee received a report from the Chief Internal Auditor which presented options for the future arrangements for the appointment of external auditors in accordance with the relevant legislation and so that a decision could be made by Full Council in line with the timetable in place for this appointment.

The Chief Internal Auditor updated the Committee and stated that it had now been confirmed that PSAA Ltd had been appointed as the sector led body for Option 3. All of the three options outlined in the report were then explained to the Committee as it would need to recommend the way forward for the Council.

Following a brief discussion, the Committee agreed that Option 3 was the best way forward for the Council and so,

The Committee

RECOMMEND TO FULL COUNCIL – That

(1) Option 3, to opt-into a sector led body, is the preferred option for the future arrangements for the appointment of external auditors; and

(2) approval be given for responsible Officers to progress the appropriate arrangements in line with the content of the report.

236. UPDATES TO THE INTERNAL AUDIT CHARTER

The Committee received a report from the Chief Internal Auditor requiring it to note and endorse required updates to the Internal Audit Charter.

The Internal Audit Charter had last been updated in 2013 to reflect the publication by CIPFA of the Public Sector Internal Audit Standards (PSIAS).

These standards were based upon the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) which had been updated in 2015 to include a mission statement and a set of core principles for the profession, these had since been included in a revised version of the PSIAS.

The Internal Audit Charter had therefore been updated to reflect these changes and the Committee was reminded that as a result of the Council’s Vision 2020 work, the internal audit service was being considered as a potential shared service in the future and that should this change take place then there would inevitably be a further requirements for a major review and updated of the Charter to reflect any future combined service.

The Committee

RESOLVED

That the updates highlighted in grey within the Internal Audit Charter be approved.

237. PROGRESS AGAINST THE AUDIT PLAN

The Committee received a report from the Chief Internal Auditor which monitored the delivery of progress made against the annual Audit Plan which had been approved by the Committee in February 2016. A supplementary status report was also provided on a number of project areas and on areas that Internal Audit kept under review.

The Chief Internal Auditor outlined that as a result of the progress of the Council's 2020 Vision, resources had currently been diverted away from some of the audits being progressed. Work was being undertaken in respect of a number of Vision initiatives, including consideration of the Internal Audit service as a potential shared service in the future.

In discussing the report, a question was asked about RE10 (Estate Management and Concessions) in terms of future working arrangements. The Head of Finance and Property outlined that an in-house surveyor had now been appointed which was the first step in place in progressing this work.

The Committee then noted the report.

238. REVISED INTERNAL AUDIT PLAN 2016/2017

The Committee received a report from the Chief Internal Auditor which reminded Members that each year, the Internal Audit service was required to develop an annual audit plan for the following financial year, which would then be agreed by the Committee. The initial Plan for 2016/2017 had been presented to the Committee in February 2016 and Members at that time had been advised that a further report would be brought before them later in the year should there be a requirement for significant change to be made to the Plan.

Since February 2016 changes had occurred that needed to be reported in terms of presenting a revised Internal Audit Plan for 2016/2017.

Firstly, there had been a further reduction in the current resource of the section to 2.4 full time equivalents (FTE). This meant that a revised Plan based on the resource now available for the rest of year had been prepared.

As referred to as part of previous items for this meeting, priority work was now in respect of the proposals for shared services and work being undertaken as part of the 2020 Vision. The decision in terms of the outcomes of these proposals would not be made by Cabinet until February 2017 once the business cases were completed. As the Council's shared services/Vision work would continue in 2017/18, the Chief Internal Auditor advised that a new plan with a different methodology would need to be presented to the Committee in February 2017.

This led to a discussion on the 2020 Vision and the shared services projects taking place with the Committee feeling that under its terms of reference it should be it who should scrutinise what would be happening with shared services and especially the Internal Audit service.

Having received confirmation from the Chief Internal Auditor as to what had been agreed by Full Council and Cabinet to date in terms of the Council's 2020 Vision work, which was that Cabinet had already approved the development of full detailed business cases and implementation plans for all the next stages of the six service proposals and would receive future reports on the development of these, the Committee still held the view that it should be involved in this work.

The Committee was advised that the Overview Select Committee had been confirmed as a consultee and would receive regular updates, when required, on the progress being made with the 2020 Vision work. The next update being made to the Overview Select Committee would be on 22 November 2016. Despite this, the Audit & Governance Committee still held the view that it should be included in this work and that a joint meeting of the Audit & Governance and Overview Select Committees should be held to discuss the proposals as they moved forward and to allow both Committees to review the business cases.

Following further discussion, the Chairman agreed that he would liaise with the Chairman of the Overview Select Committee and the Cabinet Member for Corporate Governance on this matter and to progress how the Audit & Governance Committee could become involved in discussions.

The Committee then noted the contents of the report.

(The meeting concluded at 11.43 am.)