

Corporate Governance Committee – 21 June 2016

Present: Councillor Mrs Adkins, Mrs Blatchford, Coles, Hall, Horsley, Hunt, Ryan, Miss Smith, Mrs Tucker and Ms Webber.

Officers: Jo Nacey (Senior Accountant and Deputy s151 Officer), Paul Harding (Corporate Strategy and Performance Manager) and Emma Hill (Democratic Services Officer)

Also Present: Kevin Henderson – Audit Manager, Grant Thornton
Alastair Woodland – Audit Manager, South West Audit Partnership (SWAP)

(The meeting commenced at 6.15 pm)

15. Appointment of Chairman

Resolved that Councillor Sully be appointed Chairman of the Corporate Governance Committee for the remainder of the Municipal Year.

16. Appointment of Vice-Chairman

Resolved that Councillor Mrs Blatchford be appointed Vice-Chairman of the Community Scrutiny Committee for the remainder of the Municipal Year.

17. Apologies/Substitution

Apologies: Councillors Booth, Cavill, Govier, and Sully.
Substitution: Councillor Coles for Councillor Booth.

18. Minutes

The Minutes of the Meeting of the Corporate Governance Committee held on 21 March 2016 were taken as read and were signed.

19. Declaration of Interests

Councillor Coles declared a personal interest as a Member of Somerset County Council. Councillor Hall declared a personal interest as a Director of Southwest One.

20. Grant Thornton External Audit – Audit Fees

Members considered the letter previously circulated, concerning the details of the fee forecast for external audit services in 2016/17.

Each year the external auditors, Grant Thornton, provide details of the forecast fees to be charged for the main audit and the grant certification work relating to the current year.

The attached letter provided details of the fees and the schedule of payments. Grant Thornton had also provided an outline audit timetable to show the phasing of their work. Any additional audit work, outside of the planned audit and grant certification work will be billed separately and will be an addition to the fee quoted.

The total indicative audit fee was £58,422. This amount was split between the fee for the main audit of £50,629 (which was the same as last year) and the grant certification work of £7,793 (which represented a reduction of £3,172 from the previous year).

During the discussion of this item the following points were made:-

- Members asked if there were any potential reserve days for Officers to request Auditors to review anything that the Council felt needed or required auditing, and were informed that the External Auditors had a prescribed number of reviews and areas to look at and any additional reviews requested would attract an additional fee.
- In response to a question asking how the reduction in fees came about, the Committee were informed that the fee level was set by Public Sector Audit Appointments (PSAA) and they were based on work completed two years previously. For example, the fees for 2017-18 were based on the work completed in 2015-16. This was due to the auditing process and reporting requirements. So this meant that the fees altered year on year depending on the work completed in that year.
- In response to a question regarding how often the tendering process was completed, the Committee were informed that the Council had not taken part in the tendering process as yet. The Audit Commission had completed a tendering process four years ago, which resulted subsequently in the reduction in fees. There would be a new tendering process sometime during 2017.

Resolved that the report be noted.

21. Grant Thornton External Audit – Audit Update

Members considered the report previously circulated, providing a regular update report for Members by our external auditors, Grant Thornton. Specifically the report provided an update in relation to their work for the 2015/16 financial year and also provided an update in relation to emerging national issues.

The report updated Members on the status, progress and completed work in relation to the auditor's planned schedule of work, year ending 31 March 2016. The Auditors had completed risk assessments in the prescribed audit work areas. If any risks came out of the assessment process, the Auditor's would look into those risks and the area in further detail.

In addition, this report updated Members on any national headlines and issues that might have an impact upon the Council.

During the discussion of this item the following points were made:-

- The Committee asked if the Auditors would be reporting back to the Committee concerning the Councils' transformation process in September, and were

informed that they would be reporting on the updated Value for Money positions for both Councils following the transformation project.

- Members suggested that Grant Thornton may wish to provide an External Audit perspective on the Councils' Transformation Business Case.
- Members were informed that the External Auditors' role for the Council was to complete audit reviews on the Accounts at the end of the financial year and give a Value for Money position for the Council.

Resolved that the update provided be noted.

22. SWAP Internal Audit – Internal Audit Plan 2015/16 Outturn

Members considered the report previously circulated, concerning the work of the Council's Internal Audit Service and provided details of any new significant weaknesses identified during internal audit work completed since the last report to the committee in March 2016 as well as a schedule of audits completed during the period, detailing their respective assurance opinion rating, the number of recommendations and the respective priority rankings.

A copy of the Internal Audit Progress Report for 2015/16 was attached as an appendix with the covering report.

The 2015-16 Annual Audit Plan was intended to provide independent and objective assurance on TDBC's Internal Control Environment and this work would support the Annual Governance Statement.

During the discussion of this item the following points were made:-

- In response to a question requesting an explanation of the term 'Non-Opinion' and why the Auditors would not have an opinion, the Committee were informed that this status was given to non-planned audits. This meant Service Managers had requested audits to be completed by SWAP auditors, which had been requested in addition to the planned schedule of audit.
- Concerns were raised about the large number of recommendations connected to the audit on Housing Service voids and the Committee were informed that this had been a planned audit and service review, which would be subject to a follow up review during 2016/17.
- In response to a question enquiring if the Internal Audit service would be able to complete an audit review of the Councils' Transformation Business Case and provide an opinion on the proposals, the Committee were informed that the Auditors had scheduled an audit of the transformation project and business case and also that Members could request this audit be brought forward in the schedule of planned works to meet the July timescale to provide Members with an opinion.
- Members were informed by Officers that the Transformation Business Case would be subjected to an independent review and assurance review completed by the Local Government Association (LGA) next week and Members would be provided with the outcome report of the LGA's review.
- In response to a question asking why the audit of the responsive maintenance been dropped from the planned audits, the Committee were informed that this had moved to the planned audit for 2016/17 as SWAP needed to prioritise the remaining audits for 2015/16.

Resolved to note the progress made in delivery of the 2015/16 internal audit plan and significant findings since the previous update in March 2016.

23. SWAP Internal Audit – Internal Audit Annual Opinion

Members considered the report previously concerning the Internal Audit Opinion for 2015/16. The key messages were:-

- For the 2015-16 audit plan for the Council contained a total of 29 reviews to be delivered.
- Some reviews from planned audit were 'exchanged' or 'removed' as the need to respond to new and emerging risks were identified.
- The majority audits had been completed to report stage. There were remaining six reviews currently being drafted and these reviews would remain a priority for completion.
- 16 of 29 reviews in 2015-16 returned opinions with five (31%) received Partial Assurance, six (38%) reviews received a Substantial Assurance and five (31%) reviews received Reasonable Assurance.
- Generally the Council risks were well managed but some areas required the introduction or improvement of internal controls to ensure the achievement of objectives.
- The Auditors' reviewed the last four years and the percentage of reviews that had returned a Partial Assurance Opinion within the annual plan had slowly been increasing.
- SWAP were looking to introduce a new protocol on 'Delivering Effective Internal Audit' that placed obligations on both SWAP and management at the Council to ensure audits were progressed as expediently as possible.
- The auditor confirmed that they had not found any areas of concern and that they were confident that the processes in place were adequate to support SWAP's annual report and financial statements.

A copy of the Internal Audit Opinion was attached as an appendix with the covering report.

Resolved that the Annual Opinion on the effectiveness of the internal control environment in the delivery of TDBC objectives be noted.

24. Review of Effectiveness of Internal Audit

Members considered the report previously circulated, which set out to inform the Corporate Governance Committee of the recent review of the effectiveness of the delivery of Internal Audit through SWAP (South West Audit Partnership) during 2015/16.

The Councils' review of Internal Audit had been carried out by the Director of Operations (the Council's S151 Officer) and the findings had been reported as part of the overall evaluation and would also provide supporting evidence for the Annual Governance Statement.

Included within the report was a table of information detailing some of the overall performance of the service during the year compared to the previous three years.

For example the percentage of Audits and Reviews completed within a year compared to the plan in 2012/13 – 87%, 2013/14 – 89%, 2014/15 – 75% and 2015/16 – 62% (end of March).

In February of this year, the Council took part in a survey undertaken on behalf of SWAP to collect feedback on SWAP's performance. This was a useful exercise and the Council received a follow-up call to discuss our responses. TDBC gave a fair assessment of some of the issues the authority had experienced and also fed back on the areas e.g. communication that SWAP do well.

Contained within the officers' report were the details of agreed Action Plan for the remaining planned Audits and the status of those audits as well as an update against them, which have yet to be completed from 2015/16 and progress from the planned audits from 2016/17.

During the discussion of this item the following points were made:-

- Members asked how many planned audits had been scheduled and how many had been completed within the year, and informed that the auditors had completed 29 of the 40 scheduled audits.
- Concerns were raised that there always appeared to be a number of planned audits rolling over to the next year.
- Members suggested that the Council and Auditors needed to create a proper action plan to address the backlog of audits to prevent the need to roll over scheduled audits to following year. In response to this Officers provided their opinion to the Committee that SWAP could look at buying or employing temporary auditors to complete the backlog, while continuing to complete planned audits for 2016/17.
- Members discussed the resilience of the Internal Auditors to enable them to keep to the planned audits each year.
- In response to a question as to how was the audit completion of TDBC and WSC when compared to other districts, the Committee were informed that the performance of Auditors for TDBC and WSC was poor in comparison to other district authorities and other local authorities were getting 95% completion of audits.
- In response to a question asking if there was any financial penalties that could be imposed on the Internal Auditors for failure to complete planned audits within the year, the Committee were informed that the Council could indeed impose financial penalties but Senior Management wanted them to keep to yearly agreed and planned audits as well as improving of their completion rate of audits within in year.
- Concerns were raised that in comparison with previous years' performance figures the performance appeared to be getting worse and not improving.
- In response to a question asking what was being done by the SWAP Board about the drop in performance in terms of audit completion targets and who was holding SWAP to account for their actions, the Committee were informed that the Board had acknowledged the issues and had not made any excuses to the Council and as resolution to the issues, they had promised extra resources to clear the backlog of audits from the previous year.
- Members were informed that Officers had regular review meetings with SWAP Audit Manager to highlight any issues. The Council needed to reinforce to

SWAP that the Council had paid for a service and they needed to employ additional support to complete this within the allotted timescale.

- In response to a question asking how SWAP were going to clear the backlog from 2015/16 and keep on schedule with the planned audits for 2016/17, the Committee were informed that the Council had highlighted to SWAP that not only did they to clear the backlog but keep on schedule with the Audit Plan for 2016/17. SWAP had informed the Council that the scheduled audits work was currently split between clearing the backlog and scheduled audits for 2016/17. Officers had highlighted and prioritised the high risk areas were the audits needed to be completed as priority.
- In response to a question about what was the alternative for the Council instead of SWAP for Internal Audit services, the Committee were informed that the Council were on a rolling contract with SWAP, which we were signed into until 2017/18. If the Council went out to tender for new Internal Audit Services and the Council might be able to contract a company who would achieve a higher percentage of completion but the cost difference might result in a reduced service (meaning less audits per quarter due to cost) in comparison.
- Members raised their concerns to Officers about further expansion for SWAP if they were unable to meet the agreed terms of the contract with the Council.
- Members asked the Democratic Services Officer and Senior Accountant to enquire if Cllr Stock-Williams had stood down as representative for the Council on the SWAP Board during her mayoral year.
- Members requested that Officers send a letter to Chief Executive Gerry Cox from Deputy S151 Officer and Chairman of Corporate Governance requesting his presence at the Committee's next meeting in September.
- Officers informed Members that other Local Authorities were currently getting what they had agreed contractually with SWAP but TDBC and WSC were not. SWAP had also recently taken on work for two Local Police Authorities.
- Discussion took place about the Committee's concerns over the clearing of the backlog of audits as well as SWAP keeping of track with the planned audits for 2016/17 and what the Council would do if they continued to roll over audits into the next year.

Resolved that:-

1. The findings of the review of the effectiveness of internal audit for 2015/16 be noted.
2. The Deputy S151 Officer to contact the Chief Executive Gerry Cox of SWAP via letter and voice their concerns and request his presence to the Committee's next meeting on 19 September 2016.

25. Draft Annual Governance Statement

Members considered the report previously circulated, concerning the Councils' review of effectiveness of its systems of internal control and governance arrangements and to produce an Annual Governance Statement (AGS) on behalf of the Leader of the Council and the Chief Executive, providing an assessment of these arrangements.

The Council had a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in, which its functions were exercised, having regard to a combination of economy, efficiency and effectiveness. In

discharging this overall responsibility, the Council was responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and the management of risk.

The Council had approved and adopted a Code of Corporate Governance, which was consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) Framework "Delivering Good Governance in Local Government".

The Annual Governance Statement explained how the Council had complied with the code and also meet the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2011 in relation to the requirement to prepare an annual governance statement which must accompany the Statement of Accounts.

The Corporate Governance Officers Group had led the 2015/16 review of the governance framework. The group included the Monitoring Officer (Assistant Chief Executive), the deputy s151 Officer the internal Audit Manager, the Assistant Director Corporate Services and the Corporate Strategy & Performance Manager

The conclusion from this review was that overall, the council's governance framework is reasonable and fit for purpose. This was further endorsed by the Group Auditor's annual opinion report 2015/16, which offered 'reasonable assurance' in respect of the areas reviewed during the year.

The AGS described how the council complied with each of the six core principles of the Code of Corporate Governance, and additionally identifies governance issues identified and the steps to be taken during to address these matters

A copy of the draft Annual Governance Statement was attached as an appendix with the covering report.

During the discussion of this item the following points were made:-

- Members were informed that the issues with Internal Audit Service were not about the quality of their work but about the quantity of the audits completed within the planned audit year.
- Members raised concerns about the public using the website to locate information as well as Members using it. Members were informed that these concerns had been raised by others and this had been take on board and the updating of the Council's website was an essential part of the next phase of the Council's transformation project.
- In response to a question asking what was the 'W Drive' and could Members have access to this, the Committee were informed that this network drive that been set up in the early stages of the transformation to allow TDBC and WSC staff to share and have access to information. Things had progressed on from this and now staff had access to the joint 'One Team' intranet to share information and policies.

Resolved that:-

1. The Officer's report be noted.
2. The Leader of the Council and the Chief Executive be recommended to adopt the draft Annual Governance Statement.

26. **Corporate Governance Committee Forward Plan**

Submitted for information the proposed Forward Plan of the Corporate Governance Committee.

Resolved that the changes to the Corporate Governance Committee Forward Plan be noted.

(The meeting ended at 7.53pm).