

AUDIT COMMITTEE

Minutes of the Meeting held on 6 December 2016 at 2.00 pm in the Council Chamber, Williton

Present

Councillor R Lillis.....Chairman
Councillor T Venner.....Vice Chairman

Councillor A Behan
Councillor R Woods
Councillor R Thomas

Members In Attendance

Councillor M Chilcott

Officers In Attendance

Assistant Director – Resources (P Fitzgerald)
Assistant Director – Corporate Services (P Carter)
Revenues and Benefits Service Manager (H Tiso)
Democratic Services Officer (M Prouse)
Democratic Services Officer (C Rendell)

Also In Attendance

Peter Barber, Associate Director, Grant Thornton
Rebecca Usher, Manager, Grant Thornton
Alastair Woodland, Associate Director, South West Audit Partnership (SWAP)

A.28 Apology for Absence

An apology was received from Councillor Thwaites

A.29 Minutes

(Minutes of the Meeting of the Audit Committee held on 19 September 2016, circulated with the Agenda.)

RESOLVED that the Minutes of the Audit Committee held on 19 September 2016 be confirmed as a correct record.

A.30 Declarations of Interest

Name	Minute No.	Member of	Personal or Prejudicial	Action Taken
Cllr R Thomas	All	Minehead	Personal	Spoke and voted
Cllr T Venner	All	Minehead & SCC	Personal	Spoke and voted

A.31 Public Participation

No members of the public had requested to speak on any item on the Agenda.

A.32 Audit Committee Action Plan

There were three recorded actions from the meeting on 19 September 2016. These actions related to sending a reminder out to all Elected Members about the publishing of the 2016/2017 draft unaudited accounts and the availability of the unaudited accounts. Also to be provided with a greater level of explanation of the terminology provided and the provision of a glossary of terms and more details from the External Auditors Report included with the covering report produced by the responsible council office. The action status of these was now complete.

There was one outstanding action from the meeting on 19 September 2016, which was that Officers were requested to look into Members having access to the staff intranet site where the Council's policies and procedures lay and to be linked into Officer's calendars through Member Email. These were to be considered as part of the wider ICT Strategy but would ultimately require financial resources to be assigned.

RESOLVED that the recorded actions that had been completed be noted.

A.33 Audit Committee Forward Plan

(Copy of the Audit Committee Forward Plan circulated with the Agenda).

RESOLVED that the Audit Committee Forward Plan be noted.

A.34 Grant Thornton External Audit – Annual Audit Letter 2015/2016

(Report No. WSC 138/16, circulated with the Agenda)

This was a report provided for Members by the external auditors, Grant Thornton. Specifically the report provided a summary of the key findings arising from the work that they had carried out at WSC for the year ended 31 March 2016.

The Auditor from Grant Thornton introduced the newly appointed Manager, Rebecca Usher, who introduced herself to the Committee and gave some background on her professional history.

The Auditor from Grant Thornton then gave a brief overview of the letter which was a summary of the findings from the external audit work carried out in 2015/2016. The letter confirmed that:-

- The Auditors had issued an unqualified opinion in respect of the accounts for 2015/2016;
- A qualified opinion in respect of the Value for Money (VFM) conclusion in view of the financial challenges facing the Council; and
- The fees charged for 2015/2016 were £42,525 for the statutory audit.

The Auditor stated that whilst the VFM conclusion was satisfactory overall, there were exceptions around ensuring financial sustainability which had been a longstanding issue. Grant Thornton was conscious that there had been further developments with the VFM conclusion in relation to further progress in working closer with Taunton Deane Borough Council. The Audit Letter had been published externally and aimed at communicating to the wider stakeholder group.

Cllr Chilcott stated that it was positive to see there was an 'unqualified opinion' on WSC finances, given the stresses and strains of recent times. A lot of time and effort went into the Council's financial work and it was good to see it recognised.

RESOLVED that the report be noted.

A.35 Grant Thornton Audit – Progress Report and Update

(Report No. WSC 139/16, circulated with the Agenda).

This short covering report provided the Committee with a progress update regarding the work of the external auditors, Grant Thornton, together with information relating to emerging issues which might be relevant to the Council.

The Associate Director for Grant Thornton outlined the report and commented on the position against the current years Audit Plan. The 2015/2016 responsibilities had now been completed – and Grant Thornton were about to commence the 2016/2017 Audit work.

The Auditor's work was necessarily retrospective, so did not commence work on the Audit Plan until the financial year had nearly finished. One thing the Associate Director did bring to the Committees attention was the appointment of the Auditor Appointments going forward.

RESOLVED that the update report be noted.

A. 36 Grant Thornton Certification Report

(Report No. WSC 140/16, circulated with the Agenda).

The purpose of the letter was to provide the Audit Committee with a summary of the outcome of any certification work in the last financial year. The letter was introduced by the Associate Director who stated that this letter summarised the outcome of the certification work undertaken by Grant Thornton in 2015/2016.

The Auditor stated that there was only one certification claim at WSC, however it was still a large and important one to certify and confirm in terms of expenditure.

The Auditor confirmed that with this particular claim, any error or uncertainties must be passed onto the Department of Work and Pensions, regardless of monetary amount. Some of the claims were very complex and required a lot of work from officers and the Auditors, so it was pleasing to see that Grant Thornton had not had to issue a qualification letter for this year.

The Auditor did state that an adjustment had been issued, but it was a small one relative to the size of the whole piece. The Auditor felt this Letter sent a positive message on the arrangements that the Council had in place for producing an accurate and complete claim.

The Assistant Director placed on record his thanks to the Council's Audit Team and the Grant Thornton Team for their support in concluding the Audit.

RESOLVED that the Certification Letter be noted.

A.37 SWAP Internal Audit – Progress Update 2015/2016

(Report No. WSC 141/16, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with an update on the Internal Audit Plan 2016-2017 progress and bring to their attention any significant findings identified through the work of the South West Audit Partnership (SWAP).

The Associate Director for SWAP introduced the report and notified Members that three Partial Assurance Audits had been identified around Homelessness, Licensing, and User and Access Management. Further information regarding each of these audits was provided. It was stressed that these had been assessed at service level, not corporate, and only the Homelessness Partial Assurance Opinion was seen as corporately significant.

Members were also informed that there had been one change to the Audit Plan. The work on the health of the organisation had been removed and replaced with work on the Building Control Partnership.

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

- With regard to looking at the costs of the Licensing Service against the fees being charged, this was already being addressed. The point was made however that how much was charged did not bear any relation to how much work had to be done on certain licenses.
- The challenge with fees and charges was that, with some licences the Council could only cover its costs. However, it was possible that some licensing fees needed to be adjusted to take account of factors, such as inflation, which had occurred since the last review had taken place,
- Who had taken the decision to remove the health of the organisation audit which would have looked at Governance, Fraud and Corruption?
- The Section 151 Officer had authorised the change to the Audit Plan to see whether the newly formed Building Control Partnership was working effectively and if they had the necessary controls in place to deliver what it should be

delivering.

- With regard to the Homelessness Audit, what action was in place to correct the issues raised and how would it be reported back?
- The Assistant Director from SWAP stated that all past assurance audits were followed up, with Members given a six monthly update on internal audit recommendations that were outstanding and overdue. This would be followed up, but not necessarily at the next Audit Meeting.
- Councillors raised issues around IT access procedures which seemed overly restrictive and prohibitive.

RESOLVED that the Committee noted the progress made in the delivery of the 2016/2017 Internal Audit Plan and noted the significant findings.

A.38 Six Month Review of Treasury Management Activity

(Report No. WSC 142/16, circulated with the Agenda).

The purpose of the report was to provide the Committee with an update on the Treasury Management activity of the Council for the first six months of 2016/2017. It also focused on a review of the Council's borrowing and investment activities.

The Associate Director for Resources introduced the report, which stated that Full Council had previously approved the Treasury Management Strategy Statement, Minimum Revenue Policy and Annual Investment Strategy for 2016/2017 in line with the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

The Council was required to receive and approve, as a minimum, three main reports each year, which incorporated a variety of policies, estimates and actuals. These reports were required to be adequately scrutinised by Committee before being recommended to the Council.

This role was currently undertaken at West Somerset Council by the Audit Committee, but an option to change this to the Scrutiny Committee had been proposed to bring the report in line with other performance reports brought before Members. This was considered but not supported.

In terms of the Treasury Management position, the AD - Resources stated that the security of public funds was the paramount consideration. This would ensure the prioritisation and protection of public funds from higher risk investments and arrangements.

Members were informed that there had been significant turbulence in the markets over the Brexit vote details of which was set out in the report. Members were also informed that as the budget for investment income was low, the Council did not have many investment opportunities.

In terms of borrowing, the Council's cash flow position was such that no external borrowing was going to be necessary, though there was a figure that was covered by 'internal borrowing.' Overall, it was felt that the Council was safeguarding funds

in the right way and was going to be compliant within the parameters set.

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

- Members were re-assured that currently the forecast was that the Council would not have to borrow for this year.
- It was noted that the Council could invest with the Treasury, and had done so, through a branch of Government such as the Debt Management Office, where the money was very securely guaranteed, but the returns were low.
- The Hinkley Funds arising from the Section 106 Agreement was an example of this, which was held with the Debt Management Office as part of a low risk approach.
- Councillors raised some queries around the Business Rates Re-valuation which had recently come to light, specifically around the Hinkley Point site.
- This would not come in effect until next April and would not affect the current year's activity.
- In terms of the Financial Audit, the Committee would not see this until September 2018. If it was still unresolved at the end of the next Financial Year, the Council would justify holding a provision in the accounts to deal with the risk of an appeal.
- When it came to Treasury Management, the figures in this report needed to be taken with caution as so much of it was Hinkley Money that was in fact ring-fenced.
- Councillors asked for further background information as to how this report fitted in with the Medium Term Financial Plan?
- Members were informed that this report formed part of a trinity with the Revenue Budget Reports and Capital Budget Reports.
- The Treasury or Cash position, was separate however, and could not be used to fix Budget problems.

RESOLVED that the Audit Committee noted the Treasury Management position as at 6 December 2016.

A.39 Appointment of External Auditors for 2018/2019

(Report No. WSC 143/16, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with an introduction and explanation of the background to the letter received from the Public Sector Auditor Appointments (PSAA) regarding the national scheme for appointing external auditors for 2018/2019. Details were provided in the report with the various options open to the Council for appointing the external auditors from 2018/2019 onwards.

The Local Audit and Accountability Act 2014 had abolished the Audit Commission and required West Somerset Council to appoint its own external auditors. The current audit function was provided by Grant Thornton under contract from Central Government. The current external audit work currently cost the Council in the region of £50,000 per annum.

By 31 December 2017 the Council was required to have arrangements in place for its external audit provision for the 2018/2019 financial year. These changes had no

impact on the internal audit arrangements of the Council which would continue to be provided by the South West Audit Partnership (SWAP).

The costs of WSC undertaking its own procurement exercise could be disproportionate and were unlikely to result in the procurement of a contract with a lower price than a sector led exercise. Whilst a detailed analysis of the various options has not been undertaken, it was clear that the scheme proposed by PSAA offered distinct benefits in terms of simplicity, cost, resources and time over procuring and managing a contract locally.

The recommended option to Members was to join a 'sector led body' arrangement where specified appointing person status had been achieved under regulations. This option was the only one that also negated the requirement for the Council to set up an Auditor Panel.

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

- Councillors wished to know more about the Auditor's plan for the next five years and whether there could be an increase in the costs charged year on year?
- Under the PSAA Scheme, after the procurement process was finalised, the Auditors would advise the Council of potential costs and the detail.
- Officers admitted that there had not yet been a lot of detail as to how this would work, and for that reason no assumptions were yet being made around potential cost reductions.
- A five year contract was felt to offer a degree of stability for all parties.
- Councillors wished to know whether the PSAA relied on existing companies or was setting up its own.
- Members were reassured that PSAA was a 'middleman', and would not create their own Audit Company.
- Councillors were informed that the same recommendation was going to the equivalent of the Taunton Deane Audit Committee.
- Some Members cautioned on this proposal, with size not felt to be in and of itself a benefit whilst others were of the view that West Somerset did not have the expertise to procure as an individual authority, whereas the PSAA did.
- The PSAA was already procuring external audit work for the Government so was not an unknown.
- The Council was not guaranteed to be able to choose its Auditor as whichever route the Authority took, a procurement exercise would have to be undertaken.
- The PSAA offered a quality of service and Value for Money.

RESOLVED that the Audit Committee endorse the recommendation to Council on 14 December 2016 for West Somerset Council to opt in to the PSAA Scheme for procuring an external auditor for 2018/2019 and beyond.

A.40 Update on Corporate Anti-Fraud Partnership

(Report No. WSC 144/16, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with an update on the Council's existing arrangements with the South West Counter Fraud

Partnership. The Committee was requested to give consideration on future arrangements for Corporate Counter Fraud activities.

The Revenue and Benefits Manager introduced the report with some background and stated that by May 2015, work had progressed in the formation of a Corporate Anti-Fraud service, with SWAP managing and operating a full counter-fraud function for the partner authorities.

These staff had been brought together within the South West Counter Fraud Partnership (SWCFP) that had been operational since 1 July 2015. The ambition was that over time, SWCFP would be effectively self-financing due to the additional income gathered as a result of anti-fraud activities and measures. The business case submitted to Government suggested that savings in the region of £88,000 could be identified across the three Councils, however the ambition was based on increased savings being delivered. There was no budgetary provision for funding the SWCFP, or any Corporate Anti-Fraud function, from 1 April 2017 onwards.

There had been just two fraud referrals for West Somerset Council, with both cases being investigated and closed with no fraud proven.

Data matching undertaken by SWCFP for potential fraud of Single Person Discount has identified 29 instances where further work needed to be undertaken to establish the validity of the award.

SWCFP have reported the following financial savings that had been achieved for the three Councils as a result of investigations up to 30 September 2016:-

	£
West Somerset Council	0
Taunton Deane Borough Council	2,888
South Somerset District Council	1,006

West Somerset Council was faced with significant and increased financial challenges for the foreseeable future. Therefore it was vital that the Council considered options from 1 April 2017 that were affordable and that did not add to budget pressures. Members would need to determine its investment in counter-fraud arrangements against other priorities in this context.

The Council needed to decide to:-

- a) continue with the current arrangements with the SWCFP and if so, agree an appropriate budget for such activities; or
- b) cease Corporate Counter Fraud activities other than those embedded in existing core service financial and operational controls, and accept both the potential financial and reputational risk in not having an effective Anti-Fraud function; or
- c) consider provision of an alternative counter-fraud function that was largely self-funding from 1 April 2017.

Members were also briefed on the outcomes from the last National Fraud Initiative (NFI) work undertaken by this Council. 'NFI 2014' covered the period 2014 to 2016. The requirement to participate in the NFI process was mandatory.

The main NFI 2014 site contained 35 reports relevant for this Council, of which eight

were identified as high priority “key reports”. This covered areas such as housing benefit, payroll, creditors, licensing, etc. The reports matched a range of data sets and highlighted potential anomalies for investigation. Investigating the matches could be resource intensive, therefore the Council adopted a prioritisation approach where a sample of matches were tested, and if this highlighted risks or issues with a set of matches then further testing was undertaken.

The following table summarised the outcome for this Council:-

Total Matches Identified	621
Of which, Total Recommended Matches for review	112
Total Matches Processed (reviewed)	284
Number of frauds	0
Number of errors	0
Outcome of NFI investigation in fraud losses	£0

The table showed that of the 284 matches reviewed no fraud cases were identified.

In addition to the main NFI site there was the Flexible Matching Service NFI site, which contained two reports providing matches between Council Tax and Electoral Register data sets and Council Tax rising 18s information.

Total Matches Identified	3,411
Total Matches Processed / In Progress	269
Number of frauds	0
Number of errors	0
Outcome of NFI investigation in fraud losses	£0

The above information indicated that the overall level of losses identified was very low. This was reassuring as it indicated the core business controls in operation were effective in preventing fraud and error.

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

- It was recognised that it would be unlikely that the West Somerset area had no fraud.
- The initial targets set by the SWCFP had been believed to be realistic, as other Local Authorities who put resources in this area were able to make savings of, in one example £200,000.
- Councillors queried as to whether this move to working self-sufficiently would hinder the cross-county approach to tackling fraud which had been beneficial in the instances of data-matching individuals across authorities.
- It was explained that through the National Fraud Initiative with certain data there was already data matching capability across all Local Authorities in the country.
- There was scope with a suggested approach to also look at Credit Reference Agency Data which would enable access to a much greater data set if any agreement was pursued with investigation service agencies.
- It was explained that the provider would charge 33% of actual income and penalties due to the Council as a result of investigative activity. Any fees charged would reflect the fact West Somerset only received a percentage based on its precepting share.

- Councillors queried that if most of the gains from this will be for Somerset County Council would they contribute to the scheme?
- Officers stated this was unlikely as they already make a significant contribution to WSC for additional staffing to increase the Council Tax Base.
- Queries around the exact percentages a company could receive or whether they would take an ongoing fee from detected fraud were premature. This approach had been looked into as other Local Authorities had adopted it but had not been fully scoped.
- Councillors were keen to ensure these investigative companies did not try to demand too large a sum of potential recovery money or hypothetical savings that were calculated based on detecting before the fraud had run to its full course.
- Councillors suggested that percentages could be on delivery of funds, or part-payment, with some on identification and then another amount upon recovery.
- It was confirmed there were no funds in the budget for next year for this project as yet.
- The three colleagues currently in the SWAP team would migrate back into the internal Audit functions when this proposed change took place, with their skills and knowledge retained.
- Members were thanked for the helpful steer they had provided in discussion and their desire to do something that protected the public purse.
- Fraud should never be tolerated as it affected the ability to deliver services.

RESOLVED that the Audit Committee:-

1. Noted the information provided within the report.
2. Supported a proposal to pursue proposal C and establish an alternative Corporate Counter Fraud function that was largely self-funding from 1 April 2017.

The meeting closed at 4.20 pm.