

AUDIT COMMITTEE

Minutes of the Meeting held on 20 March 2017 at 2.00 pm in the Council Chamber, Williton

Present

Councillor R Lillis.....Chairman
Councillor T Venner.....Vice Chairman
Councillor N Thwaites
Councillor R Woods

Members In Attendance

Councillor M Chilcott

Officers In Attendance

Assistant Director – Corporate Services (P Carter)
Corporate Strategy and Performance Officer (R Doyle)
Assistant Director – Resources (P Fitzgerald)
Revenues and Benefits Service Manager (H Tiso)
Democratic Services Officer (C Rendell)

Also In Attendance

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

A.41 Apologies for Absence

Apologies were received from Councillors A Behan and R Thomas

A.42 Minutes

(Minutes of the Meeting of the Audit Committee held on 6 December 2016, circulated with the Agenda)

RESOLVED that the Minutes of the Audit Committee held on 6 December 2016, be confirmed as a correct record.

A.43 Declarations of Interest

Name	Minute No.	Member of	Personal or Prejudicial	Action Taken
Cllr N Thwaites	All	Dulverton Town Council	Personal	Spoke and voted
Cllr T Venner	All	Minehead & SCC	Personal	Spoke and voted

A.44 Public Participation

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

A.45 Audit Committee Action Plan

There were no recorded actions from the last meeting on 6 December 2016.

RESOLVED that the report be noted.

A.46 Audit Committee Forward Plan

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

The Manager from Grant Thornton requested that the Audit Findings report and the Final Accounts (Annual Government Statement) were added to the Forward Plan for the meeting to be held on 18 September 2017.

The Vice Chairman requested that a separate update on the Transformation Project was added to the Forward Plan.

RESOLVED that the Audit Committee Forward Plan, with the requested amendments be noted.

A.47 Grant Thornton External Audit – Audit Update

(Report No. WSC 30/17, circulated with the Agenda).

This was a regular update report for Members by the external auditors, Grant Thornton. Specifically the report provided an update in relation to their work for the 2016/2017 financial year and also provided an update in relation to emerging national issues.

The Audit Manager for Grant Thornton outlined the external auditor's progress as at 31 March 2017. The auditors listed their key outputs and had issued their fees letter in April 2016. The Audit Plan for 2016/2017 had been included in their report. This demonstrated the planning they had undertaken and interim work carried out before providing a more detailed plan as to how they would discharge their responsibilities.

The final accounts audit would be undertaken in June 2017. There were no significant issues found when the interim works were carried out. Once the draft accounts were received, works would be carried out in parallel with Taunton Deane Borough Council (TDBC) to audit both sets of accounts.

The Audit Manager highlighted the three sub criteria for the Value for Money conclusion:-

- Informed decision making;
- Sustainable resource deployment; and
- Working with partners and other third parties.

Reported that the Chartered Institute of Public Finance and Accountancy (CIPFA) had changed its Code of Practice. The main change which affected the Council was to the Income and Expenditure accounts. Historically these had been broken down into defined headings. These had now been re-categorised to align with the internal financial reporting. Work was being carried out with the Finance Department to ensure the changes were implemented effectively.

The Audit Manager for Grant Thornton introduced a new report called The Income Spectrum. The report helped local authorities to achieve revenue and strategic objectives through vibrant economies and creating additional sources of income. The report looked at more innovative ways of raising additional income. The report would be circulated to all Members.

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

- Concern was raised about the change to the CIPFA Code of Practice and the removal of the earmarked reserves columns.
This concern had been raised at other Audit Committees. The earmarked reserves were not disappearing, it was the way they were categorised within the primary statement. The Council would continue to have earmarked reserves and another category for the general reserves.
- A query was raised about whether apprenticeships were available at the Council?
These were widely available at Deane DLO due to the type of work carried out. However, there were other departments that offered apprenticeships. HR had updated managers on this subject recently.

RESOLVED that the Auditor's update report be noted.

A.48 Grant Thornton External Audit – Audit Plan

(Report No. WSC 31/17, circulated with the Agenda).

The purpose of the report was to update members on the External Audit Plan 2016-2017 by the external auditors, Grant Thornton. The report summarised their approach to the audit programme, work completed, work to follow and the auditors view on risk.

The Audit Manager for Grant Thornton updated the Committee on the key developments, challenges and financial reporting changes on the Audit Plan.

The key developments included work on the new Council and the financial position and the main challenge was the Medium Term Financial Plan (MTFP). Financial reporting changes identified were the CIPFA Code of Practice and the early closedown.

The Audit Manager reminded the Committee they used the concept of materiality when they planned and performed an audit. The financial statements materiality was based on a proportion of the gross expenditure of the Council. The overall materiality was determined at £425,000, which was 1.8% of gross revenue expenditure.

The significant risks identified were:-

- The revenue cycle included fraudulent transactions;
- Management override of controls;
- Going Concern;
- Valuation of property, plant and equipment; and
- Valuation of pension fund net liability.

During the discussion of this item the following point was made:-

- A query was raised whether any of the community shortfall included any business rates.
The five year plan did not include any extra income from the increased Business Rates or from the new power plant. The effects on the MTFP were being checked.

RESOLVED that the Auditor's update report be noted.

A.49 SWAP Internal Audit – Progress Report 2016/2017

(Report No. WSC 32/17, circulated with the Agenda).

The purpose of the report was to update Members on the Internal Audit Plan 2016/2017 progress and bring to their attention any significant findings identified through the work.

The Associate Director for SWAP presented the report and informed the Committee on the changes to the Audit Plan that had occurred since the last update in December 2016.

These were:-

- The time allocated to the Transformation Programme Audit had been deferred to the 2017/2018 plan. This was an additional 10 days for 2017/2018 to accommodate the current position of the Transformation Programme and where and when Audit's time would be most effectively used.
- With the return of ICT services in December 2016 from Southwest One, the ICT back up routine audit had been exchanged with a review on ICT desktop support. This was to review how the ICT help desk arrangements were working as a single service to both Taunton Deane Borough Council (TDBC) and West Somerset Council (WSC).

Within the summary of the Audit Findings, Licensing and ICT were highlighted as partial under the control assurance definitions and the Healthy Organisation had been dropped and replaced by the Building Control Partnership (BCP).

The Somerset BCP was a partnership between the four Somerset District Councils and commenced operations in April 2016.

Concerns had been raised on the performance of the partnership and SWAP had been asked to undertake a 'health check' audit on the BCP. Fee income for both WSC and TDBC was significantly under budget and other issues had been noted, such as unanswered telephones; unbanked cheques; completion certificates not issued and invoices not raised.

Several factors that had been identified which were likely to have contributed to the shortfall in income were:-

- No administrative support for extended periods;
- A reduction in application numbers;
- Not all invoices were raised for all applications;
- Unrealistic budgets set for some income expectations.

Additional issues highlighted were:-

- Lack of a single ICT system and failure of the on-line application system in June 2016;
- HR issues impacting on handover and staff resources from April 2016;
- No monitoring or reporting of application numbers; and
- Weak system for receiving payments.

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

- A query was raised about what work was planned for the partial audits for Licensing and ICT.
This would be followed up next year and was due to the fees that needed to be reviewed and ICT access control.
- Concerns were raised about the issues with the BCP and the Committee requested a written update on the situation from the Assistant Director -Operational Delivery.

RESOLVED that the progress made in delivery of the 2016/2017 internal audit plan and significant findings be noted.

A.50 SWAP Internal Audit – Audit Plan 2017/2018 and Audit Charter

(Report No. WSC 33/17, circulated with the Agenda).

The purpose of the report was to inform the Audit Committee of the proposed work to be undertaken by SWAP during 2017/2018 and to seek approval of the Internal Audit Charter which set out the nature, role, responsibility, status and authority of internal auditing within WSC.

The Associate Director for SWAP explained the role of Audit using the three lines of defence model. Management were included in the model and their roles were to manage effective systems of governance, risk management and internal controls. These were used to establish the following:-

- Safeguarding the Council's resources and prevent fraud;
- Ensuring the completeness and reliability of records;
- Monitoring adherence to laws, regulations, policies and procedures;
- Promoting operational efficiency and demonstrating the achievement of value for money; and
- Managing risk.

The Audit Plan was broken down across various audit categories.

Key Control Audits. Focused primarily on key risks which related to the Council's major financial systems.

Governance, Fraud and Corruption Audits. Focused on the key risks which related to cross cutting areas that were controlled and/or impacted at a corporate rather than service level.

IT Audits. Provided the Authority with assurance with regard to their compliance with industry best practice.

Operational Audits. Detailed evaluation of service or functions control environment.

Follow Up Audits. Where an audit had received a partial or no assurance level, SWAP were required to carry out a follow up review to provide assurance that identified weaknesses had been addressed and risks mitigated.

Non-Opinion Reviews. Undertaken at the specific request of management where they might have some concerns or were looking for advice on a particular subject matter.

During the discussion of this item the following point was made:-

- Concern was raised about whether the amount of days allocated to the BCP Audit would be sufficient?
SWAP were using time allocated from all the four partners to carry out the audit, so it might not seem like enough time but it would only be used for the WSC section of the partnership and not the whole BCP.

RESOLVED that the 2017/2018 Internal Audit Plan and Internal Audit Charter be noted and approved

A.51 Corporate Risk Management Update

(Report No. WSC 34/17, circulated with the Agenda).

The purpose of the report was to update the Audit Committee on the corporate risks which were managed by the Joint Management Team (JMT).

The Corporate Risk Register was a 'live' document which highlighted the key corporate risks that the Council faced. The register was a joint one between TDBC and WSC and was formally reviewed by JMT on a regular basis as part of the Corporate Performance Review.

These regular reviews ensured that new strategic-level risks could be recognised; continued risks could be re-assessed and risks which were no longer considered important could be removed.

Risks which were managed at a corporate level were those which had a significant risk to the delivery of a corporate priority or which were cross-cutting risks that did not naturally sit with a single department or team.

There were currently 15 strategic risks identified and approved by JMT. 11 joint risks, 1 WSC risk and 3 TDBC specific risks.

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

- Concern was raised on how the MTFP would be impacted by the Business Rates revaluation.
Unfortunately the MTFP would be impacted by Business Rates due to the new power station and the amount of risk and volatility.
- A suggestion was made to loan income raised by the increased Business Rates to create revenue. It was understood that the Council had to be prudent but did not have to be totally risk adverse.

RESOLVED that the current position in relation to the identification and tracking of corporate risk be noted.

A.52 Corporate Governance Action Plan Update

(Report No. WSC 35/17, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with an update on the progress made against the Annual Governance Statement Action Plan.

The Corporate Strategy and Performance Officer informed the Committee that there were three actions on the Plan. These were for:-

- A corporate process for reviewing and documenting decisions regarding the prioritisation of the internal audit recommendations to be introduced;
- A self-assessment of the effectiveness of the Audit Committee, based upon the CIPFA guidance 2013, to be introduced; and
- A review of the decision-making processes within the Council to ensure it was efficient and effective in terms of both officer and Member involvement to be undertaken.

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

- It was highlighted that one of the Members that attended training had thought that it was very negative on the subject of Brexit.

RESOLVED that the current progress in relation to completing the actions identified within the Annual Governance Statement be noted.

A.53 Overdue High Priority SWAP Audit Recommendation

(Report No. WSC 36/17, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with a position statement on the SWAP audit recommendations for WSC, which were assessed as high and very high priority, where the agreed action was overdue.

The Corporate Strategy and Performance Officer presented the report and highlighted the Priority 4 and 5 audit actions that affected WSC, where the agreed remedial action was overdue. On this occasion there were six Priority 4 actions which were overdue but zero overdue Priority 5 recommendations.

The six Priority 4 actions were:-

- Contract Management Bribery – The Procurement function was not limited enough;
- Contract Management Bribery – No assurance that the contract standing orders and the anti-bribery policy was embedded within the Council;
- Asset Management – Strategy linked to corporate priorities;
- Asset Management – Development of a new Asset Management Plan;
- Asset Management – Fundamental review of the property database;
- Homelessness – Leased properties were not all compliant with gas safety regulations.

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

- A query was raised whether the Asset Register was now complete?
Yes the register was now complete and available on the Council's website.
- It was confirmed that the other two Asset Management priorities were due to go before Corporate PAG and Scrutiny and that the Homelessness priority was now cleared.

RESOLVED that the overdue actions and the measures taken or being taken to address them be noted.

A.54 Exclusion of the Press and Public

RESOLVED that the press and public be excluded during consideration of Item A.15 on the grounds that, if the press and public were present during this item, there would be likely to be a disclosure to them of exempt information of the class specified in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended as follows:

The item contains information that could release confidential information relating to the financial or business affairs of any particular person (including the authority holding that information). It was therefore agreed that after consideration of all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

A.55 Corporate Fraud Arrangements

(Report No. WSC 37/17, circulated with the Agenda).

The purpose of the report was to provide feedback to the Audit Committee on the alternative options for Counter Fraud services. The current South West Counter Fraud Partnership would end on 31 March 2017.

The Revenues and Benefits Service Manager presented the report and requested the Audit Committee to consider two proposals to deliver fraud prevention, detection and investigation services.

RESOLVED that Proposal B be supported as the preferred provider to deliver a Corporate Counter Fraud service from 1 April 2017.

(The meeting closed at 3.35pm.)