

Audit Committee – 16 January 2018

Minutes of the meeting of the **Audit Committee** held on **16 January 2018** when there were present:-

Chairman: Cllr A L Williams
Vice-Chairman: M J Lucas-Gill

Cllr D S Efde
Cllr A H Eves
Cllr M Hoy

Cllr T E Mountain
Cllr Mrs L Shaw
Cllr M J Webb

APOLOGIES FOR ABSENCE

Apologies for absence were received from Cllrs R R Dray and R Milne.

SUBSTITUTES

Cllr D Merrick - for Cllr R R Dray

OFFICERS PRESENT

J Bostock - Assistant Director, Democratic Services
N Lucas - Section 151 Officer
M Petley - Head of Finance
M Porter - Chief Audit Executive
J Kevany - Principal Auditor
S Worthington - Democratic Services Officer

ALSO PRESENT

C Hewitt - EY (external auditors)
C Weaver - E Y (external auditors)

14 MINUTES

The Minutes of the meeting held on 26 September 2017 were approved as a correct record and signed by the Chairman.

15 EXTERNAL AUDITOR REPORT UPDATES FOR 2016/17

The Committee considered the report of the Section 151 Officer drawing Members' attention to EY's annual audit letter 2016/17.

Responding to a Member question relating to page 6.22 of the report as to whether the commentary relating to the closing of the budget gap should refer to income generation - as well as savings – in respect of the sum of £1.4 million referred to, officers confirmed that the sum of £1.4 million did include income generation, as well as savings.

In response to a Member question relating to the penultimate paragraph on page 6.22 of the report, officers confirmed that 12% of the overall savings plan

figure of £2.441 million could be at risk of not being delivered. Responding to a supplementary question as to whether 12% of the overall savings plan figure of £2.441 million was at high risk of not being achieved, officers emphasised that the current position was considerably different to the Medium Term Financial Strategy position last year. With any five-year financial strategy, there will be a range of risk exposures to different savings plans. The Member expressed concern that the commentary within EY's Annual Audit Letter for the year ended 31 March 2017 omitted reference to the high risk of 12% of the overall savings plan not being achieved.

It was confirmed, in response to a Member concern relating to page 6.17 of the report relating to the issue of pensions methodologies used to derive the discount rate and Retail Price Index inflation assumptions being optimistic continually cropping up in reports, that this Council works with Essex County Council (ECC), who appoint an actuary who provides the pensions valuations. There were ongoing conversations taking place between ECC, EY and the actuaries around the assumptions underpinning the pensions valuations; this was outside the control of the District Council. In response to the Member reiterating that almost the same comment was made by EY on this issue in their audit letter last year, officers advised that this was a difference in professional opinion, to which there was no right or wrong answer; however, steps were being taken this year to try and resolve this issue.

Responding to a Member request for additional information in relation to additional work undertaken by EY during 2016/17 as a result of delays in the receipt of audit trails and information to complete the financial statements and the value for money conclusion, as set out on page 6.2 of the report, officers stated that the delays did not drive most of the increase in audit fees. There was a breakdown available of the additional fees that would be provided to Members outside the meeting.

In response to a supplementary question as to whether there were likely to be further instances of such delays that could potentially result in future increases in audit fees and whether this could be attributed to staffing/resource issues, officers emphasised that every attempt was made to provide EY with all requested information in a timely manner. Occasionally some of the information requested could be more difficult to pull together, e.g., involving looking back for historical data, and this would take longer therefore to provide. EY advised that this largely related to the value for money conclusion and the working papers supporting that, specifically around Green Gateway and also the Council's accounts. It was also emphasised that EY had to deliver its audit opinion by 31 July, rather than 30 September in 2017/18. Accordingly, EY was in discussions with officers to try and address bottlenecks that can occur; quality control was being done on the Council's fixed assets register in response to EY flagging this up with officers; EY was aiming to complete its value for money work by 31 March this year. In conclusion, EY emphasised that it was not unusual for such delays to be reported in local authority annual audit letters.

Responding to a Member question relating to the last two paragraphs on page 6.23 of the report relating to the introduction of procedures to clearly identify turnover for LATCo and Council work, officers confirmed that procurement procedures were in place for the LATCo to ensure that the 19% Teckal arrangement was applied and that income for the LATCo complied with the Teckal criteria. It was further confirmed that a log was being kept of all LATCo income to ensure compliance.

In response to a Member question relating to the last two paragraphs of page 6.26 of the report around incorrect entries in the financial statements and incorrect formulae within the Fixed Asset Register, officers confirmed that procedures were now in place to ensure that this did not re-occur; external audit would be looking at this again this year as part of its audit plan.

Responding to a Member question on page 6.28 of the report in respect of IFRS 16 and the need for the Council to classify all of its leases, officers confirmed that advice had been sought from auditors and CIPFA and procedures were now in place to ensure that the Council was compliant with these new standards.

Resolved

That the Annual Audit Letter for the year ended 31 March 2017 be noted. (S151O)

16 EXTERNAL AUDITOR REPORT: CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2016/17

The Committee considered the report of the Section 151 Officer drawing Members' attention to the Certification of Claims and Returns Annual Report 2016/17.

Officers confirmed, in response to a Member question relating to the timescale for early extended testing where further errors had been revealed in respect of rent allowances, as detailed on page 7.11 of the report, that this would be done at the end of July, as part of this year's audit. Testing would be conducted by the Revenues and Benefits team and Internal Audit would also do some checking.

In response to a supplementary question as to whether there might be a need for training for staff, officers advised that staff were experienced in this area. Sample checking was conducted throughout the year; however, it should be emphasised that the nature of this work was complex and rules were constantly changing. It was the nature of some of the changes that had resulted in the errors identified. It was difficult to pinpoint an exact reason for errors year on year; however, new legislation introduced this year, coupled with the complexity of some of the benefits cases, had certainly resulted in errors this year. It was emphasised that the errors found during one year contributed to the testing that would be undertaken the following year; more in depth testing will inevitably

lead to more errors being uncovered. It is anticipated that such errors will be small ones, given the nature of the work, involving small sums.

Responding to a supplementary question as to how staff are informed of any changes in legislation, officers advised that team leaders received external training, which was cascaded down to the teams. There were also systems in place to ensure that all relevant staff were advised of any relevant changes. The Benefits Manager ensured that any changes were communicated to supervisors. Any national changes that would have a significant impact on work would be addressed by means of external training and the team was, coincidentally, receiving external training today and tomorrow. It was, however, stressed that the team dealt with an active caseload of approximately 3,000 complex cases, each of which could require, e.g., two changes in one day; with such volume there would inevitably be an element of human error.

One Member observed that she had recently come across a benefits case where difficulties had arisen when the computer system had difficulties identifying that there had been 5 weeks in a particular month. Officers advised that whenever changes occur, the Academy software had to be upgraded; however, a 5-week month should not have caused issues and this issue would be looked at separately outside the meeting and an update provided to the Member. The Council would look to the software supplier to find a solution to such issues, as these could, potentially, affect more than just one claimant.

Resolved

That the Certification of Claims and Returns Annual Report 2016/17 be noted. (S151O)

17 2017/18 EXTERNAL AUDIT – AUDIT PLAN REPORT

The Committee considered the report of the Section 151 Officer presenting the Council's external auditor's annual audit plan (AAP) covering the audit of the 2017/18 accounts and the certification of the 2017/18 Housing Benefits claim.

Officers advised, in response to a Member question relating to page 8.7 of the report as to whether the Council would experience the same risk issue, as had previously been the case in respect of property, plant and equipment valuations and pension valuation, that the pension valuation issue, as mentioned earlier in the meeting, had been raised with the County Council, who was in discussion with the actuary on this matter; potentially, the same issue could arise again. As previously reported to the Committee, the issue relating to property, plant and equipment valuations, was one of a difference of professional opinion between the Council's external valuer and EY. However, a rolling plan was being put in place for re-valuation of assets; potentially, not all assets would need to be re-valued every year. This year, the same level of issues in this area should therefore not arise.

Concern was raised by a Member that page 8.16 of the report relating to

savings needed to bridge the budget gap omitted reference to income generation. EY confirmed that the text on that page of their report would be amended appropriately to also include reference to income generation.

Responding to a Member question as to the precise amount of the pension fund deficit, officers advised that it was difficult to state what the exact figure was for this authority. The Council was up to date in terms of its payments towards the overall deficit. It was noted that an update would be provided at the next meeting of this Committee setting out the overall position for the Council in respect of the pension scheme.

Officers confirmed, in response to a Member query as to whether the Council was being charged for the auditing of Green Gateway Trading, that any associated costs were re-charged to the LATCo. In response to a Member request for details of these figures to come to the Audit Committee for auditing in future, officers advised that a report detailing these figures was to be considered the next day by the Investment Board, a copy of which had gone to all Members. It was further emphasised, in response to a Member observation that this should be looked at specifically by the Audit Committee, that external audit did not, however, audit the LATCo accounts as a company, but rather audited the Council's Group accounts, which incorporated Green Gateway Trading.

In response to a Member question on page 8.18 of the report relating to the threshold of £364,000 for determining the extent of audit procedures in respect of performance materiality, officers confirmed that items falling under that financial threshold would not be reported as a material risk to the misstatements of the accounts. EY further clarified that, if there was a correction to the accounts, items over this threshold would be reported; items falling just below the threshold could also be reported at EY's discretion; there was no hard and fast rule. However, if the Council chose not to correct its accounts that threshold would be much lower, at £36,000.

Officers confirmed, in response to a Member question as to what the additional risk for 2017/18 in respect of business rates appeals provision detailed on page 8.7 of the report covered, that this related to the methodology that had been used by the Council's external supplier. The Council was undertaking that work in-house this year, employing different methodology. This would be an area that the external auditors would scrutinise closely this year, given that the methodology was different to that of last year; however, officers were confident that this was robust and had consulted with the external auditors.

Resolved

That the external auditor's annual audit plan for 2017/18 be noted. (S1510)

18 INTERNAL AUDIT PROGRESS REPORT

The Committee considered the report of the Assistant Director, Democratic

Services drawing Members' attention to completed audit engagements and providing an update of audit recommendations.

It was noted that six, rather than five, audit reviews had been completed since September 2017. It was further noted that the environmental health review (including food hygiene inspections and waste management audits) had received a limited audit opinion.

The Portfolio Holder for Community emphasised, in relation to the limited audit opinion in respect of environmental health, that there had been issues with the software used by the department, which had resulted in difficulties in reporting environmental health work. In addition, there had been staffing challenges. They were currently in the process of recruiting to a post.

In response to a Member request for further details relating to testing within the air quality management programme, officers advised that there were a number of sites within the District where there were static measures and also ongoing measurement of air quality by the Council throughout the District. In response to a request to see a copy of the results of the monitoring, officers advised that the results were reported to Chelmsford City Council who produced a report that was uploaded to the County Council website, a link to which would be made available to Members. The Portfolio Holder for Community also advised that a report on air quality for the year would be available in March and would be provided to all Members.

In response to a question from officers as to what level of detail Members would want to see in future reports on audit engagements in respect of outstanding recommendations, Members confirmed that they would want to continue to see reports in this same format, with the same level of detail.

Officers advised, in response to a Member question as to how far behind the Council was in respect of its audit plan, that the audit plan was on track and would be delivered. There were two audits that would be deferred to 2018/19 as these could not currently be delivered as a result in changes in the service structure; these were staff performance and management and safer recruitment.

In response to a Member question on audits relating to leisure services, I.T. support and street scene, officers confirmed that these would be undertaken in quarter 4, i.e., during January to March 2018.

Responding to a Member question relating to quality control work relating to key risk areas within information technology, officers advised that quotations were currently being sought for the I.T. audit work to be undertaken in quarter 4. If there were insufficient funds available for the work to be undertaken by an external contractor, this work would be done in-house; a series of questions were being developed to pose to the Council's I.T. contractor, Eduserv, and the cloud provider.

In response to a Member query relating to counter fraud work, officers advised that the work was limited to benefits and Council Tax and related to compliance. The fraud risk was relatively low, as the Council did not have its own housing stock. The Council participates in a national fraud exercise, where the Council submits data to the National Fraud Initiative (NFI), who then highlight for the Council which cases need to be looked at in more detail. This did not automatically mean that the cases involved fraud; it was for the Revenues and Benefits team to look into the cases to establish whether or not there were any instances of fraud and to take appropriate action to recover any over-payments or instigate any other penalties.

Resolved

That the update on delivering the 2017/18 audit plan, as set out at appendix A, including the conclusions and results from completed audit engagements and the updated status of audit recommendations, be noted. (ADDS)

The meeting closed at 8.35 pm.

Chairman

Date

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