

Audit Committee – 6 December 2016

Minutes of the meeting of the **Audit Committee** held on **6 December 2016** when there were present:-

Chairman: Cllr Mrs L A Butcher
Vice-Chairman: Cllr D Merrick

Cllr R R Dray
Cllr D S Efde
Cllr A H Eves

Cllr M Hoy
Cllr M J Webb

APOLOGIES FOR ABSENCE

Apologies for absence were received from Cllrs Mrs J R Gooding, R Milne and T E Mountain.

SUBSTITUTES

Cllr Mrs L Shaw - for Cllr R Milne

OFFICERS PRESENT

J Bostock	- Assistant Director, Democratic Services
M Petley	- Principal Finance Officer
G Mortimer	- Interim Chief Audit Executive
S Worthington	- Democratic Services Officer

ALSO PRESENT

C Hewitt	- Ernst & Young
K Suter	- Ernst & Young

263 MINUTES

The Minutes of the meeting held on 28 September 2016 were approved as a correct record and signed by the Chairman.

264 EXTERNAL AUDITOR REPORT UPDATES FOR 2015/16

The Committee considered the report of the Section 151 Officer providing details of the findings and recommendations arising from the final report to the Audit Committee for the year ended 31 March 2016.

Since publication of the report, two additional issues had been raised by the external auditors. The first related to the historical minimum revenue provision (MRP), which was an annual amount of spend to be recognised if the Council has spent any money. The external auditors had requested that the Council reviewed these historical balances and provide appropriate updates for the 2016/17 year end. Officers were of the view that as the Council had no borrowings, there should be no MRP; the external auditors nevertheless had requested that the calculation be confirmed for the last few

years and officers confirmed that this work would be done.

The other issue related to the classification of provisions and contingent liabilities. The external auditors had asked that the Council reviewed its notes and disclosures in this section of the accounts and officers advised that this would be ready for the year end accounts process in March/April.

In response to a Member question relating to a reference on page 7.6 of the report to weaknesses in internal audit arrangements, officers advised that this was addressed further in the report on pages 7.21 and 7.22, with details provided of the steps taken by the Council to address the issue of previously not having in place a suitably qualified Chief Audit Executive.

Officers confirmed, in response to a Member query relating to whether the Council had tended to rely on external audit support in respect of omissions from the published PDF version of the financial statements detailed on page 7.16 of the report, that changes had subsequently been made in the structure of the Council's Finance team, with additional levels of review also put in place.

It was noted that officers would provide Members with confirmation as to whether or not public reporting of performance targets on the Council's website was up to date, as detailed on page 7.21 of the report, outside the meeting.

In response to a Member question as to what was the incentive referred to on page 7.20 of the report relating to the receipt of £1.2 million incentivised funding from the County Council each year, it was noted that a response would be provided to Members outside the meeting.

Responding to a Member query relating to errors in the calculation of the capital financing requirement (CFR) detailed on page 7.17 of the report, officers advised that this was not material and did not relate to specific errors *per se*, but was more a question of good practice; ensuring that this was done via the best method and in line with current financial requirements, given that this had not been looked at in depth for some time.

Resolved

That the updates to the external audit 2015/16 key action points sheet for the Ernst & Young recommendations arising from the Final Report to the Audit Committee, Audit for the year ended 31 March 2016 be noted. (S151O)

265 INTERNAL AUDIT CHARTER

The Committee considered the report of the Assistant Director, Democratic Services providing an updated Internal Audit Charter for Members' consideration.

Officers advised, in response to a Member question on page 8.7 of the report relating to consultancy services provided by Internal Audit, that this related to work undertaken by Internal Audit for the Council usually undertaken outside of the annual audit plan for reasons other than providing an assurance opinion, for instance at the request of management. Consultancy services are intended to add value and improve the Council's governance, risk management and control processes without Internal Audit assuming management responsibility. Examples include counsel, advice, facilitation and training. Consultancy engagements still contribute to the overall body of assurance on which the Head of Internal Audit can rely when forming an annual opinion. It was further emphasised, in response to a Member concern that such consultancy services might detract from core internal audit work, that timely advice from Internal Audit when systems or processes are being introduced or changed could result in less effort being required from Internal Audit later on, as management has had the opportunity to deal with any previously identified control, governance and risk management requirements.

Members concurred with a suggestion made by one Member that the sixth paragraph on page 8.11 of the report should be expanded to include the following:-

“If evidence of fraud or corruption is identified during the course of an engagement the matter will be reported to the Audit Committee.”

It was also emphasised that where there was evidence of fraud Council procedures stipulated that this should be reported to the Police.

Resolved

That, subject to the amendment to page 8.11 of the report detailed above, the updated Internal Audit Charter be approved. (ADDS)

266 2016/17 INTERNAL AUDIT PLAN

The Committee considered the report of the Assistant Director, Democratic Services providing an update on the delivery of the 2016/17 Internal Audit plan.

In response to a Member concern relating to work being scheduled for completion in quarter 4, rather than being completed during earlier quarters, officers advised that by quarter 4 a lot of work will already be completed, partly on key financial systems with lots of testing done. The internal audit resource plan accurately listed how long each piece of work would take to complete and by early May sufficient testing should have taken place to enable the Head of Internal Audit to form an opinion. The end of quarter 4 was March/April 2017, but it would be possible to provide details, by month, of when specific pieces of work would be done.

Responding to a Member question as to whether there were sufficient staff to complete the internal audit work within the plan and whether the scope of the plan was wide enough, officers advised that the plan was sufficient to inform the Head of Internal Audit opinion; the soundness of the plan could be tested by benchmarking the number of days allocated compared to other Local Authorities.

A Member observed that it may be useful to know the number of days being allocated to areas being audited, and how many days had been used/how many days were left. It was emphasised, however, that it was important to look at outcomes of the audit work reported to the Committee and the extent that it provided Members with assurance in relation to the Council's governance, risk management and internal control environment, rather than numbers of days' work.

Responding to a Member concern raised in respect of page 9.5 of the report relating to I.T., officers confirmed that the wording '...project is more fully understood' referred to Internal Audit being able to do further work on the project once they understood the project's plan and intended outcomes.

In response to a Member question relating to PwC, referred to on page 9.5 of the report, Officers confirmed that PwC had been appointed by the Council after a competitive tendering process to undertake a programme of assurance reviews of key risk areas. Members would be provided with details of PwC's costs outside the meeting.

Resolved

That the progress made to date on delivering the 2016/17 Internal Audit plan be noted. (ADDS)

267 AUDIT 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.

Officers advised, in response to a Member question relating to financial management of disabled facility grants, set out on page 10.7 of the report, that there was now closer liaison between Housing and Finance and that the problem had been resolved.

It was noted that the recommendations detailed on pages 10.20 and 10.21 of the report had all been completed. In addition, recommendation 5 on page 10.19 of the report had been implemented. It was noted that recommendation 1 relating to report 4, contract management – MRF was now scheduled for implementation by 31/01/2017.

Resolved

- (1) That the conclusion and result from the audit engagements in appendix 2 be noted.
- (2) That the updated information on the audit recommendations, outlined in appendix 4, be noted. (ADDs)

The meeting closed at 8.18 pm.

Chairman

Date

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