

AUDIT COMMITTEE

Minutes of the Meeting held on 21 June 2016 at 2.00 pm in the Dunkery Room, Williton

Present

Councillor R Lillis.....Chairman
Councillor T Venner.....Vice Chairman
Councillor R Thomas
Councillor R Woods
Councillor A Behan

Members In Attendance

Councillor M Chilcott

Officers In Attendance

Senior Accountant and Deputy s151 Officer (J Nacey)
Corporate Strategy and Performance Manager (P Harding)
Principal Accountant (S Williamson)
Senior Accountant – Corporate (J Howells)
Democratic Services Officer (E Hill)

Also In Attendance

Kevin Henderson, Manager, Grant Thornton
Alastair Woodland, Associate Director, South West Audit Partnership (SWAP)

A.1 Apologies for Absence

Apologies were received from Councillors D Archer and N Thwaites

A.2 Minutes

(Minutes of the Meeting of the Audit Committee held on 21 March 2016, circulated with the Agenda)

The Grant Thornton Audit Manager and Deputy S151 Officer requested the following amendments to minute attached to the agenda. Amendments to minute numbers:

- A.44 – bullet point one – the word ‘Used’ was removed and replaced with ‘operational’
- A 44 – bullet point two – this point was removed.
- A.45 – bullet point one – the word ‘incentive was removed and replaced with directive.

RESOLVED that the Minutes of the Audit Committee held on 21 March 2016, with the requested amended be confirmed as a correct record.

A.3 Declarations of Interest

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

A.4 Public Participation

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

A.5 Audit Committee Action Plan

There was one recorded action from the last meeting on 21 March 2016. This actions related to the approval of the revised Anti-Fraud and Corruption Policy and Strategy as well as the introduction of the Council Tax Penalties scheme.

RESOLVED that the action from 21 March 2016 be noted.

A.6 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.7 Grant Thornton External Audit – Audit Fees

(Report No. WSC 73/16, circulated with the Agenda)

The purpose of this report was to detail the fee forecast for external audit services in 2016/17.

The Audit Manager for Grant Thornton outlined the report which contained their forecast fees to be charged for the main audit and the grant certification work relating to the current year as well as 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 would be billed separately and would be an addition to the fee quoted.

The total indicative audit fee was £51,488. This amount was split between the fee for the main audit of £42,525 (which was the same as the previous year) and the grant certification work of £8,963 (which represented an increase of £1,967 from the previous year).

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

- In response to a question asking why the certification fees for the Council appeared

to be increasing, the Committee were informed that the fees were not set by Grant Thornton. These were set by Public Sector Audit Appointments (PSAA).

- In response to a question asking why were fees increasing and decreasing, the Committee were informed that PSAA go through the process of setting the fees for Local Authorities quite early on and so the fees were based on the work completed two year 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.
- Members requested that Officers contact PSAA for a statement of rationale behind their fee setting process.

RESOLVED that Grant Thornton's External Audit Fees for 2016/17 be noted.

A.8 Grant Thornton External Audit – Audit Update

(Report No. WSC 74/16, circulated with the Agenda).

This was 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 2016/17 financial year and also provides an update in relation to emerging national issues.

The Audit Manager for Grant Thornton outlined the external auditor's progress as at 31 March 2016. The Auditors have completed risk assessments in the prescribed audit work areas.

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:-

- Members requested that copies of the report on Joint Venture Companies mentioned on page 38 of agenda be made available for Member of the Committee. The Audit Manager for Grant Thornton said he would ensure this was done.

RESOLVED that the Auditor's update report be noted.

A. 9 SWAP Internal Audit – Audit Plan 2015/16 Outturn

(Report No. WSC 76/16, circulated with the Agenda).

The purpose of the report was to update members on the Internal Audit Plan 2015-16 progress and bring to their attention any significant findings identified through our work.

The attached report provided a summary of the audit work carried out to date this year by the Council's internal auditors, South West Audit Partnership (SWAP).

The Audit Manager from SWAP outlined and updated the Audit Committee on 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 and a schedule of audits completed during the period, detailing

their respective assurance opinion rating, the number of recommendations and the respective priority rankings of these.

The 2015-16 Annual Audit Plan was 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:-

- Members offered their thanks to all Officers involved for the results summarised in the report.
- Concerns were raised on the status of risk relating to Fraud being 'reasonable. Members felt this could have mixed meaning and asked Officers to clarify the meaning and consider using different wording SWAP Audit Manager clarified the meaning of 'reasonable' and informed the Committee that it indicated a feeling or opinion on that particular audit review and therefore was subjective. It was also clarified there was no industry standard for the terminology used with auditing.
- Discussion took place concerning the lack of detail for an audited area that had not returned a 'partial assurance' and Members raised concerns that they were not aware of the detail about these concerns.
- Member requested the inclusion of a summary section giving some detail about these areas and this to include level fours' and fives'.
- In response to a question asking what was meant by 'non-opinion, the Committee were informed that this referred to not scheduled or planned audits, where Service Managers had asked the Internal Audit team to review and audit an area. This would highlight any areas of concerns to the Service Manager.

RESOLVED that the progress made in delivery of the 2015/16 internal audit plan be noted along with the significant findings since previous update in March 2016.

A.10 SWAP Internal Audit – Audit Annual Opinion

(Report No. WSC 75/15, circulated with the Agenda).

The purpose of the report was to inform the Audit Committee of the Annual Opinion Report 2015-16 from Internal Audit.

The attached report provided a summary of internal audit's view on the effectiveness of internal controls, risk management and governance based on the work completed during 2015-16.

The Audit Manager from SWAP outlined the content of the report stating that Internal Audit had not reviewed all risks and assurances relating to West Somerset and cannot provide absolute assurance on the internal control environment. Their opinion was derived from the completion of the risk based internal audit plan and as such it was one source of assurance on the adequacy of the internal control environment.

Of the reviews at final report stage that had an Assurance Opinion, and those at draft that include an indicative assessment, no reviews were given 'No Assurance'. The majority of

reviews had returned a favourable opinion (Reasonable Assurance or Substantial Assurance), and in fact for the 2015-16 plan no reviews returned a Partial Assurance Opinion, although there were two reviews outstanding (Homelessness and Hinkley).

However, there were also three reviews from 2014-15 that were reported during 2015-16, these being Private Water Supplies, Choice Based Lettings and Asset Management. Two of these audits (Private Water Supplies and Asset Management) did return a Partial Assurance Opinion and had been taken into consideration when forming my opinion on the internal control environment for 2015-16.

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

- In response to a question asking if the report on the Benchmarking Exercise completed by Mendip District Council was available on the Council's website, the Committee were informed that the report was to the Council's s151 Officer but Officers would look into sending copies to Members of the Committee.
- In response to a question asking who made the decision as to what audits were to be dropped, the Committee were informed that any changes to planned audits were discussed with S151 Officer and Deputy S151 Officer, which were agreed and then reported back to this Committee.

RESOLVED that the Internal Audits Annual Opinion Report be noted.

A.11 Draft Annual Governance Statement

(Report No. WSC 79/16, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with the Councils' annual requirement to conduct a review of the 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 Corporate Strategy and Performance Manager summarised the contents of the report concerning the Draft Annual Governance and detailed the conclusions from the review by the Officers Group, which concluded that overall, the council's governance framework was 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 complies 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

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 asked the Audit Manager about the viability and possibility of using this new Internal Audit health check program, which completed a health check

on all areas of the Council. The Committee were informed that there would be an additional cost for this service and it would mean the Council would lose audit days to complete this on top of the scheduled audits. The program drills down into the internal process of each service area looking for gaps.

- In response to a question asking if Members had access to the Council's intranet site, the Committee were informed that the Council's intranet site was an area for Council staff to have access to information..
- In response to a question asking if the Staff Register of Interests should be open access identical to the Members' register, the Committee were informed that only Senior Employees (such as Chief Executive) had publically disclosed interests on the website.
- In response to a question asking if Members could have access to the Council's Disciplinary Policy, the Committee were informed that Officer were have to share the Disciplinary Policy with Members but this information was not published on the Council's website.

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.

A.12 Review of Effectiveness of Internal Audit

(Report No. WSC 77/16, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with the recent review of the effectiveness of the delivery of Internal Audit through SWAP (South West Audit Partnership) during 2015/16.

The Senior Account and Deputy s151 Officer outlined 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 – 97%, 2013/14 – 88% (plus two audits deferred by the Council), 2014/15 – 58% (plus two dropped and 11 out of 19 audits completed) and 2015/16 – 59% end of March (100% for the year).

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. We gave a fair assessment of some of the issues we had experienced and also fed back on the areas e.g. communication that SWAP do well.

Contained within the officers' report were details of agreed an 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:-

- In response to a question asking if the Council had the power to look at the way SWAP induct their staff, the Committee were informed that Officers had spoken at length to SWAP with regards to their processes for the induction of new staff. The Council needed to hold SWAP to their contractual responsibilities as well as the Council needed robustly monitor them.
The Council's responsibility was to be ready for the audits.
- Discussion took place about the robustness of SWAP's business model and that part of this model was meeting their contractual commitments.
- In response to a question asking if any other of the Local Authorities were paying for their Audit Services than the Council, the Committee were informed that there is a daily rate but other Local Authorities may have brought more audit days than us, which would increase their costs.
- In response to a question asking if the Officer knew how many members of staff SWAP had, the Committee were informed that the Council did not know how many employees that SWAP had currently.
- Concerns were raised by Members that SWAP should not be expanding their business if they were not meeting the targets set in existing contracts.
- In response to a question asking if the Council had set a deadline for SWAP to turn around their performance by clearing the backlog and keeping on schedule with 2016/17 planned audits, the Committee were informed that the Council had made a decision as to a deadline for this but in their opinion if SWAP had not cleared the backlog and continued to behind on target with 2016/17 by month six, then we should tell SWAP, they need to get temporary staff in.
- In response to a question asking what the cost difference between having an in-house audit service and using SWAP, the Committee were informed that there was a saving associated with being part of SWAP as well as going from two auditors in house to having a team of auditors through SWAP.
- Members requested the Deputy S151 Officer construct of a letter to SWAP Chief Executive Gerry Cox on behalf of the Committee expressing their concerns about the situation and SWAP's ability to clear the backlog from 2015/16 and remain on schedule with planned audits for 2016/17.
- In response to a question asking if the Council or the Committee could enforce a deadline on SWAP, the Committee were informed that the Officers would like to put the onus on SWAP to come up with a solution to this issue and then update the Committee on this.
- Members requested that S151 Officer and Deputy S151 Officer monitor the performance of SWAP month to month and request a special meeting of the Audit Committee if necessary.
- Members asked that the Officer include in the letter to SWAP, the request for a written response to the Committee detailing how SWAP were going improve their performance and bring themselves back inline contractually.

RESOLVED that:-

1. The findings of the review of effectiveness of internal audit for 2015/16 be noted.

2. The Deputy S151 Officer construct a letter to SWAP Chief Executive Gerry Cox on behalf of the Committee expressing their concerns and requesting a written response.

A.13 Treasury Management Outturn Report 2015/16

(Report No. WSC 78/16, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with a review of treasury management activity and the performance against the Prudential Indicators for the 2015/16 financial year as prescribed by the revised CIPFA Code of Practice and in accordance with the Council's Treasury Management Strategy and Annual Investment Policy.

The Senior Accountant stated that the Council's treasury management activity was underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which required local authorities to produce annual Prudential Indicators and a Treasury Management Strategy Statement on likely financing and investment activity. The Code also recommended that members were informed of treasury management activities at least twice a year.

The consideration of treasury management policy, strategy and activity was delegated to the Audit Committee.

Treasury management in this context was defined as "the management of the local authority's cash flows, its borrowings and its investments, the management of the associated risks, and the pursuit of the optimum performance or return consistent with those risks".

The treasury management function had been well-managed during the year in compliance with the Treasury Management Strategy Statement and as interest rates had remained low, the opportunities to generate significant income through investments had been limited.

The full details of the Treasury Management activity during the year are provided within Appendix A. Summary of the key points as:-

- As at 31 March 2016, WSC's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £5,490,000, while usable reserves and working capital which were the underlying resources available for investment were £10,328,000.
- As at 31 March 2016, WSC had no external borrowing and £12,795,000 of investments, of which £10,160,000 are Hinkley S106 funds managed by the Council.
- The Authority's current strategy was to maintain borrowing and investments below their underlying levels, referred to as internal borrowing.

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

- In response to a question asking how long the term of the loan was and what was the rate of interest, the Committee were informed that the length of term for the loan was not something that the Officer knew as yet but it would certainly be a short term loan and the interest rate was 0.6%.
- Members were informed that if it was a cash flow issue then the borrowing would be a matter of weeks.
- Discussion took place relating to source of the money for repayment of the potential loan and whether it related to their being no Council Tax and Business Rates being received by the Council during February and March.
- In response to a question asking whether or not the government safety kicked in this would repay the loan, the Committee were informed that this would pay back part of it and that the Officer would be negotiating with DCLG when our portion of the £5 million would come back.
- In response to a question asking how the £2 million loan was going to be repaid, the Committee were informed that this related to a simple cashflow issue at a certain points of the year for the Council and we would need to borrow the money as a short term loan.
- Members requested that the Officer email them the Cashflow Forecast following the meeting of the Committee.
- Discussion took place relating to whether or not the Council should invest reserves to clear the debt or borrow instead.
- Members were informed that in relation to the Council's borrowing of funds, these would be covered by the Council's smoothing fund and the safety net payment from central government that the borrowing would be repaid.
- Officers stated that they would enquire about arranging some more presentations and training sessions by Arling Close for Members.

RESOLVED that the Treasury Management activity for the 2015/16 financial year be noted.

The meeting closed at 4.55 pm.