

WAVERLEY BOROUGH COUNCIL

MINUTES OF THE AUDIT COMMITTEE - 15 NOVEMBER 2016

SUBMITTED TO THE COUNCIL MEETING – 13 DECEMBER 2016

(To be read in conjunction with the Agenda for the Meeting)

**Present**

Cllr John Gray (Chairman)	Cllr Christiaan Hesse
Cllr Richard Seaborne (Vice Chairman)	Cllr Nicholas Holder
Cllr Mike Band	Cllr Jerry Hyman

**Apologies**

Cllr David Round

27. MINUTES (Agenda item 1.)

The Minutes of the last meeting of the Audit Committee held on 13 September 2016 were confirmed as a correct record and signed.

28. APOLOGIES FOR ABSENCE (Agenda item 2.)

Apologies for absence were received from Councillor David Round.

29. DISCLOSURE OF INTERESTS (Agenda item 3.)

There were no disclosures of interest received from Members.

30. QUESTIONS BY MEMBERS OF THE PUBLIC (Agenda item 4.)

There were no questions from members of the public received.

**PART I – RECOMMENDATIONS TO THE COUNCIL**

31. APPOINTMENT OF EXTERNAL AUDITORS (Agenda item 7.)

31.1 As part of closing the Audit Commission the Government novated external audit contracts to Public Sector Audit Appointments which is a sector-led body set up by the Local Government Association, on 1 April 2015. The audits were due to expire following conclusion of the audits of the 2016/17 accounts, but could be extended for a period of up to three years by PSAA, subject to approval from the Department for Communities and Local Government.

31.2 In October 2015 the Secretary of State confirmed that the transitional provisions would be amended to allow an extension of the contracts for a period of one year. This meant that for the audit of the 2018/19 accounts it would be necessary for authorities to either undertake their own procurements or to opt in to the appointing person regime through the sector-led body.

- 31.3 PSAA have been specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person is sometimes referred to as the sector led body and PSAA has wide support across most of local government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission and is a not for profit company owned by the Local Government Association.

Option 1 - To make a stand-alone appointment

- 31.4 In order to make a stand-alone appointment the Council will need to set up an Auditor Panel. The members of the Panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, this excludes current and former Members (or officers) and their close families and friends. This means that Members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Council's external audit. A new independent auditor panel established by the Council will be responsible for selecting the auditor.

Advantages/benefits

- 31.5 Setting up an auditor panel allows the Council to take maximum advantage of the new local appointment regime and have local input to the decision.

Disadvantages/risks

- 31.6 Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £15,000 plus on-going expenses and allowances.
- 31.7 The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.
- 31.8 The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by Members.

Option 2 - Set up a Joint Auditor Panel/local joint procurement arrangements

- 31.9 The Act enables the Council to join with other authorities to establish a Joint Auditor Panel. Again this will need to be constituted of wholly or a majority of independent appointees. Further legal advice will be required on the exact constitution of such a Panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.

Advantages/benefits

- 31.10 The costs of setting up the Panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities.

31.11 There is greater opportunity for negotiating some economies of scale by being able to offer a larger, combined contract value to the firms.

Disadvantages/risks

31.12 The decision making body will be further removed from local input, with potentially no input from Members where a wholly independent Panel is used or possible only one Member representing each Council, depending on the constitution agreed with the other bodies involved.

31.13 The choice of auditor could be complicated where individual councils have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for that council. Where this occurs some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the Panel choose a firm that is conflicted for this Council then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

Option 3 - Opt-in to a sector led body

31.14 The LGA successfully lobbied for councils to be able to 'opt-in' to a Sector Led Body (SLB) appointed by the Secretary of State under the Act. An SLB would have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector. The sector-led body is the Public Sector Audit Appointment (PSAA).

Advantages/benefits

31.15 The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities.

31.16 By offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation

31.17 Any conflicts at individual authorities would be managed by the SLB who would have a number of contracted firms to call upon.

31.18 The main advantages of using PSAA are set out in its prospectus and are copied below.

- \* Assure timely auditor appointments
- \* Manage independence of auditors
- \* Secure highly competitive prices
- \* Save on procurement costs
- \* Save time and effort needed on auditor panels
- \* Focus on audit quality
- \* Operate on a not for profit basis and distribute any surplus funds to scheme members.

Disadvantages/risks

- 31.19 Individual Members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.
- 31.20 In order for the SLB to be viable and to be placed in the strongest possible negotiating position the SLB will need councils to indicate their intention to opt-in before final contract prices are known.
- 31.21 It is likely that a sector wide procurement conducted by PSAA will produce better outcomes for the Council than any procurement we undertook by ourselves or with a limited number of partners. Use of the PSAA will also be less resource intensive than establishing an auditor panel and conducting our own procurement.
- 31.22 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by Full Council (authority meeting as a whole). The Audit Committee accordingly

**RECOMMENDS that**

- 1. Waverley opts in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors from 2018/19**

**PART II – MATTERS OF REPORT**

The background papers relating to the following items are as set out in the reports included in the original agenda papers.

32. PROPOSED DRAFT 2018 AUDIT COMMITTEE WORK PROGRAMME (Agenda item 5.)
- 32.1 The Committee was reminded that one key area of the Accounts and Audit Regulations 2015 made under the Local Audit and Accountability Act 2014 was the acceleration of financial close arrangements.
- 32.2 From the 2017/18 financial year, the timetable for the preparation and approval of accounts will be brought forward to a draft accounts deadline of 31 May and an audit deadline of 31 July.
- 32.3 The Committee was advised that the current annual recurrent work programme was attached on green paper. This set out the major items that were required to be completed by the Audit Committee each year.
- 32.4 Also attached, was a draft proposed target recurrent annual work programme to meet the new requirements in 2018.
- 32.5 The Committee was informed that officers would be working together with Grant Thornton, the Council's external auditor, to progress towards achieving the new timeline.

32.6 Members discussed the timing of meetings and the fact that the meeting that had been in June would now need to be moved to early July. This would allow the Committee to meet the new requirements whilst allowing the external auditor as much time as possible to produce the accounts. The Audit Committee accordingly

RESOLVED that

1. the recurrent annual work programme and the draft proposed target recurrent annual work programme for trial in 2017/18 and implementation in 2018/19 be noted; and
2. The next Audit Committee be moved from June to early July from 2017.

33. EXTERNAL AUDIT ANNUAL AUDIT LETTER (Agenda item 6.)

33.1 Iain Murray of Grant Thornton introduced the Annual Audit Letter to the Committee.

33.2 The purpose of the letter was to summarise the key findings arising from the work that they had carried out for the Council for the year ended 31 March 2016. A number of risks had been identified in the audit plan, namely;

- Fraudulent transactions included in the revenue cycle
- Management over-ride of controls
- Operating expenses
- Valuation of property, plant and equipment
- Valuation of pension fund net liability

33.3 Grant Thornton had focused their work on these areas and did not identify any significant issues to report from some revisions to the accounts to correct the overstatement of the pension fund liability in the balance sheet.

33.4 Iain Murray confirmed that Grant Thornton were satisfied that they had been provided with all the information they asked for, including minutes of meetings, and that the Council had put in place appropriate measures to mitigate the risks identified.

33.5 Cllr Jerry Hyman disagreed with the Value for Money findings and conclusions of the Annual Audit Letter specifically relating to the Local Plan on page 21 and the Brightwell's development on page 22 and wanted this to be recorded in these Minutes. The Audit Committee accordingly

RESOLVED that the External Annual Audit Letter from Grant Thornton be noted.

34. REVISED GOVERNANCE POLICIES (Agenda item 8.)

34.1 The Committee received the revised governance policies and was advised that changes were mainly minor including those that were required to reflect changes in job titles, and suggested changes from best practice guides from professional institutions.

34.2 The Committee felt that the terminology contained within the reports was wrong and were concerned that there was confusion and overlap between policies, strategies

and plans. They also highlighted some further concerns about the perception of the public reading the documents, inconsistencies, and areas of vagueness. Many felt it very important that the correct language be used.

- 34.3 Members asked about the effectiveness of the plans and what sanctions were in place for handling failure to adhere to them. Officers responded that they could look at incorporating details on possible penalties but that there was scope for the use of judgement within the documents. The Audit Committee accordingly

RESOLVED that

1. Officers be asked to re-draft the documents following receipt of further observations of Members; and
2. The item be revisited at the next meeting in March 2017.

35. PROGRESS ON THE INTERNAL AUDIT PLAN FOR 2016-17 (Agenda item 9.)

- 35.1 The Committee received an update on the progress being made in achieving the Internal Audit Plan for 2016/17. Members were advised that report no. IA17-00 `Accuracy of Tenancy Information` on page 110 and `Corporate Governance` on page 111 had now been completed.

- 35.2 Members asked that from the next meeting, they be given a brief overview of those items listed as `partial assurance` and that the colour of items in the `overall opinion` column be changed to match their status.

- 35.3 It was agreed that officers provided Cllr Holder with a copy of the final report on `Recruitment of permanent and agency staff and performance management` (IA17-02) and feed back his observations to Cllr Gray before the next meeting. The Audit Committee accordingly

RESOLVED that the progress for the Internal Audit Plan 2016-17 be noted.

36. PROGRESS ON THE IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS (Agenda item 10.)

- 36.1 The Committee received a report detailing the latest position regarding the implementation of Internal Audit Recommendations.

- 36.2 Members were advised that all items listed as overdue or due within the next month had now been completed since publication of the Agenda except item IA/26.003 `Training` in the DBS procedure. Research had been undertaken into fulfilling the agreed action but no training courses had been found. The Committee was invited to comment on the situation and suggest an alternative course of action.

- 36.3 Members felt that the best solution would be to bring in an external expert from another local authority to spend a couple of days with the responsible officer and train them that way. The Audit Committee accordingly

RESOLVED that officers should bring in an external expert from another local authority to train the responsible officer in respect of item IA/26.003 `Training` in the DBS procedure.

37. COUNTER FRAUD INVESTIGATION SUMMARY (Agenda item 11.)

37.1 The Committee was advised that the value of financial savings detailed in Annexe 1 for Quarter 2 of 2016-17 was £443,661 based on Audit Commission notional figures.

37.2 The Committee was very pleased with the progress being made and asked officers to add the previous quarters figures to the bottom of Annexe 1 from the next meeting to help Members to identify the trend. They also asked that they be provided with the progress report relating to the Surrey Counter Fraud Partnership Data hub referred to in paragraph 7 on page 121. The Audit Committee accordingly

RESOLVED that

1. The success of the investigation activity be noted and to continue to support the work being completed to safeguard Waverley's assets and ensure that only those that are legitimately eligible to receive our services are successful; and
2. The Council's participation in the National Fraud Initiative and the Surrey Counter Fraud Partnership Data Hub to assist in identifying fraudulent activities be noted.

38. EXCLUSION OF PRESS AND PUBLIC (Agenda item 13.)

RESOLVED that, pursuant to Procedure Rule 20 and in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting during consideration of the following item on the grounds that it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during the item, there would be disclosure to them of exempt information (as defined by Section 100I of the Act) as specified in the following paragraphs of the revised Part 1 of Schedule 12A to the Local Government Act 1972, namely;

Paragraph 3. Information relating to the financial or business affairs of any particular person (including the authority holding that information).

39. RISK MANAGEMENT POLICY (Agenda item 12.)

39.1 The Committee received the Risk Management Policy report and the Process Document.

39.2 Members were advised that local authorities, with their wide-ranging responsibilities and duties, faced a significant number of risks. A risk was the threat that an event or action would adversely affect an organisations ability to achieve its objectives. The effective management of risk was an essential element in the overall operation of the Council and the delivery of its services.

- 39.3 Members noted that local authorities were required to demonstrate to their residents that managing risk was at the heart of their governance framework and that they had effective arrangements in place to identify and respond to them. The Risk Policy and Process, including the format of the Register, had been produced in conjunction with the Audit Committee in recent years.
- 39.4 Officers then moved on to discuss the Risk Management Report by Zurich Municipal. The Audit Committee accordingly

RESOLVED that the Committee revisit this item at the next meeting in March 2017 following an informal risk workshop with Zurich Municipal in January 2017.

**The meeting commenced at 7:10pm and concluded at 9:49pm**

**Chairman**