

## **AUDIT COMMITTEE**

# A

### **Minutes of a meeting of the Audit Committee held on Tuesday, 20 September 2016 at 6.00pm in Meeting Room G3-G4, Addenbrooke House, Ironmasters Way, Telford**

**Present:** Councillors R J Sloan (Chair), C F Smith (Vice Chair), A Lawrence, K S Sahota and D G Wright

**In Attendance:** A Bunting (Manager KPMG), K Clarke (Assistant Director Finance and Human Resources), P Harris (Finance Manager: Corporate & Capital) (until 7.05pm), P Katrak (Client Director Arlingclose) (until 6.40pm), J Marriott (Service Delivery Manager: Internal Audit, Information Governance & Insurance), R Montgomery (Information Governance & Insurance Team Leader), B Morris (Finance Team Leader) (until 7.05pm), I Pennington (Director KPMG), Jon Power (Organisational Delivery & Development Manager) ( until 7.13pm).

#### **AUC 16 Apologies for Absence**

Councillors I T W Fletcher, K R Guy and B Tomlinson.

#### **AUC 17 Declarations of Interest**

None.

#### **AUC 18 Minutes**

**Resolved** – that the minutes of the meeting of the Audit Committee held on 28 June 2016 be confirmed and signed by the Chairman.

#### **AUC 19 VERBAL PRESENTATION FROM THE COUNCIL'S TREASURY ADVISORS ON THE IMPLICATIONS FOR THE COUNCIL OF THE UK'S EXIT FROM THE EU**

A presentation was delivered by P Katrak, Client Director Arlingclose, which provided the Committee with an update from the Treasury Advisors on the economy and outlook post the EU referendum. It was noted that there was a lack of clarity on the impact of Britain's exit from the EU on the financial markets, but the broader economy remained in global financial crisis. Economic recession and the Government's fiscal policy suggested a poor outlook, with reduced global economic activity, lower consumer confidence, higher unemployment, and rising import costs following a near 30% devaluation in the value of sterling.

In terms of inflationary pressures it was reported that commodity prices had been a key driver, China's economic growth subsiding had lowered demand, fracking and high supply of crude oil was being maintained within OPEC and inflation exceeded levels of wage growth, measured for the whole economy, until 2014 and real earnings growth (i.e. after inflation) was now positive.

Data from the Bank of England's Monetary Policy Committee (MPC) responsible for monetary stability, showed that since March 2009 the bank rate was at 0.5% and there was £375bn asset purchases (quantitative easing); in August 2016 in response to Brexit there was uncertainty, the bank rate was cut to 0.25% and there was £60bn more quantitative easing. However, Arlingclose advised that monetary policy on its own would not fix the economy and that fiscal measures were also needed from the Chancellor to guide the economy through the uncertainty, anticipated in an Autumn Statement.

The committee noted that political establishments and markets had been wrong-footed by the referendum outcome. The uncertainty was characterised by:

- a fall in the exchange rate
- a fall in consumer confidence
- a weakening in the outlook for economic growth
- a range of policy responses from the Bank of England
- further cut in Bank Rate to 0.25%
- additional and wider QE (£60bn)
- access to Term Funding Scheme for banks

The timing of Article 50 being invoked and whether or not there would be successful trade relations with the rest of the EU and rest of the world remained unknown. This raised questions for consumer and business confidence, together with other economic and political uncertainties, such as:

- potential US interest rate increases
- central banks' continuing appetite for ever looser monetary policy (QE),
- effect of negative interest rates (Eurozone, Japan, Switzerland, Sweden),
- outcome of the US presidential election in 2016
- Italy's referendum on its constitution in 2016
- German federal parliamentary elections in 2017
- French presidential elections in 2017.

## **AUC 20      EXTERNAL AUDIT REPORT 2015/16**

The Committee received the External Audit Report presented by KPMG which summarised the key findings arising from the Council's audit work, in relation to the 2015/16 financial statement and the work to support KPMG's 2015/16 conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources (VFM conclusion).

The Committee noted that KPMG anticipated issuing an unqualified audit opinion on the Council's financial statement by 30 September and confirmed that the Annual Governance Statement complied with the guidance issued by CIPFA/SOLACE in June 2007.

KPMG reported that they did not identify any material misstatements to the Council's accounts and had advised on a number of minor presentational and disclosure changes to the supporting notes to the accounts to ensure compliance with the Code of Practice on Local Authority Accounting in the UK 2015/16.

Risks to the financial statements had been reviewed on an ongoing basis and no significant financial statement risks specific to the Council during 2015/16 had been identified. Other areas of audit focus had been identified in the 2015/16 external audit plan issued in April 2016; Group accounting; and Better Care Fund accounting. KPMG had worked with Officers to discuss these areas throughout the year and detailed findings were provided in Section 3 of the report; no matters of significance had arisen.

Draft accounts had been received in accordance with the DCLG deadline. It was reported that:

- the accounting policies, accounting estimates and financial statement disclosures had been in line with the requirements of the Code
- implementation of the fixed asset module in Agresso was consistent with KPMG's recommendation in the ISA 260 Report 2014/15
- good processes were in place for the production of the accounts
- good quality supporting working papers had been provided.

Members noted the VFM risks that had been identified in the External Audit Plan 2015/16, Better Care Fund Governance, and Budget Delivery. KPMG had discussed the risks with officers; detailed findings were reported in section 4 of the report. No matters of significance had arisen as a result of the audit work in the VFM risk areas. The conclusion, that the Council had made proper arrangements to secure economy, efficiency and effectiveness, was noted and KPMG would be issuing an unqualified VFM conclusion by 30 September 2016.

The audit of financial statements was reported to be substantially complete at the time of the Audit Committee meeting subject to all declarations made by members being seen, completion of review of the prior period adjustment disclosure; and final review of the revised statement of accounts.

KPMG would not be able to certify that all work was closed until questions from an elector had been resolved by the Authority; however, KPMG advised that they did not believe there would be an impact on their accounts audit opinion.

## **AUC 21      2015/16 STATEMENT OF ACCOUNTS**

The Committee received the report on the outcome of the audit of the Council's accounts for 2015/16 and the final Statement of Accounts for approval.

In accordance with the Accounts and Audit (England) Regulations 2015 the Committee noted that the draft statement of accounts had been:

- certified by the Chief Financial Officer prior to the 30 June,
- presented to Audit Committee on the 28 June
- made available for public inspection
- provided to the external auditors to undertake the audit of accounts.

The Committee used its delegated authority to approve the council's final audited Statement of Accounts; no financial adjustments had been made as a result of the audit

and the outturn position remained as reported to Cabinet on 16 June 2016. Presentational changes identified had been agreed and included in the final version and a comment in relation to the result of the European Referendum had been added in relation to post balance sheet events.

One elector question relating to 2015/16 part of the statement of accounts remained outstanding.

To comply with International Auditing Standards, the external auditor had presented the Annual Governance report to the Audit Committee which commented on the final accounts audit; an unqualified audit report had been presented by KPMG.

**Resolved that –**

- a) the 2015/16 Statement of Accounts be approved;**
- b) authority be delegated to the Assistant Director: Finance & HR to make any presentational changes required to the Statement of Accounts prior to publication;**
- c) the updated action plan appended to the Annual Governance Statement be approved.**

**AUC 22 PUBLICATION OF INFORMATION ON COUNCILLORS WHO TRADED WITH THE COUNCIL DURING 2015/16**

The Committee received the report on information that was due to be published on Councillors who traded with the Council during 2015/16. The information had been collected as part of the final accounts process to provide better transparency, and was in addition to the declarations of interest.

The information provided details of the 2015/16 year's value and a description of any payments made by the Council to any businesses/companies where that Member had an interest. This information would be readily accessible by the public and demonstrated the Council's co-operative commitment to openness.

**Resolved that the contents of the report be noted together with the information that will be published on the Council's website.**

**AUC 23 STRATEGIC RISK REGISTER**

The Committee received the report on the Strategic Risk Register; which enabled the Council to meet its statutory requirements. Members noted that the register was a means of identifying and managing the substantive issues that could impact negatively on delivery of the Council's priorities. The Register had been presented to Cabinet in July 2016, in line

with governance arrangements; which allowed the Cabinet to demonstrate that the Council understands its key risks and how they were being mitigated.

The key ongoing risks which had been identified for 2016/17 and the mitigating actions in place to manage these risks were appended to the report. The Committee noted that the register was reviewed and updated as necessary on a regular basis to ensure appropriate management of these risks and mitigations and to make sure they were always current.

The Committee questioned the risk of reduced resources and support for managers responsible for budgets and finance. It was noted that the size and volatility of the budgets was monitored and reviewed closely, that training requirements had been identified and a small number of managers had been equipped to take on greater management and control of their budgets.

The Committee noted the insurance cover for children who had been exposed to CSE and were assured that the Council had sought advice on the policy from nationally renowned brokers. Details of the policy would be circulated to the Committee members following the meeting.

**Resolved that the strategic risks is appendix A of the report be noted.**

#### **AUC 24      AUDIT COMMITTEE ANNUAL REPORT 2015/16**

The Committee received the report of the 2015/16 operations of the Audit Committee. It was noted that as this was the key assurance Committee of the Council, best practice was to present an Annual Report to the Council on the operations of the Committee during the municipal year (May 2015 – April 2016). The structure of the report was based on the terms of reference and included a summary of the business conducted by the Committee during the period.

The Committee noted the conclusions on the work of the Committee during 2015/16, which had included comprehensive agendas providing assurance for Members and the community on the audit, governance (including information governance), risk management, financial statements, treasury management, complaints and anti-fraud and corruption arrangements of the Council. Many challenging questions had been asked by Members who had required senior officers to attend and give account for decisions taken and progress in implementing both internal and external audit recommendations.

For 2016/17, the Committee recognised that the Council was continuing to experience significant challenges and that it would continue to seek and provide appropriate assurance during 2016/17. Most notable were the organisational changes, continued significant reductions in resources and the greater commercial approach being adopted by the Council.

**Resolved that the contents of the annual report 2015/16 be noted.**

#### **AUC 25      2016/17 INTERNAL AUDIT QUARTER 1 UPDATE REPORT AND INFORMATION GOVERNANCE REPORT TO END JULY 2016**

The Committee received the report which provided an update on the work of Internal Audit during quarter one; April – June 2016 and the appointment of CIPFA Business Ltd to undertake the External Assessment of Internal Audit against the Public Sector Internal Audit Standards (PSIAS).

The report also provided details on the work of the Information Governance team from April – July 2016.

The Committee noted the requirement for the Council to comply with the Public Sector Internal Audit Standards for which an external assessment against the Standards was necessary every 5 years. The Standards were effective from 1<sup>st</sup> April 2013; therefore an assessment would have to be completed by 31<sup>st</sup> March 2018. Undertaking the audits as set out in the report and providing updates to the Committee contributed towards meeting the requirements, together with the necessary external assessment.

The Committee recalled that at the January 2016 Audit Committee meeting a collaborative procurement route had been agreed with Staffordshire County Council. The process and contract had been awarded on 1<sup>st</sup> July 2016 – 30<sup>th</sup> June 2018 to CIPFA Business Ltd at a cost of £6,900 to T&W. The cost would be met from within the existing budget and the Committee noted the emphasis on quality rather than cost. The Council's assessment would take place in January 2017 and the results (including an action plan) would be reported to the June 2017 Audit Committee. It was noted that undertaking the assessment in January 2017 would ensure that the assessment would be completed by 31<sup>st</sup> March 2018.

The Committee noted the detailed report on the work of Internal Audit from 1st April – 30th June 2016 and the update on the progress of previous audit reports issued (April 2013 to March 2016). The internal audit updates were appended to the report.

The key focus for the team during quarter one had been the commencement of the 2016/17 plan and completion of the audits outstanding from 2015/16 (including a few IT audits). It was reported that a long term absence had affected the work plan in the quarter but the plan was readjusted before the financial year started. Planning had started for some of the key financial systems audits and the specification for the 2016/17 IT audits had been developed; work was due to commence in quarter 2.

It was noted that Internal Audit was confident and had been assured by management that controls had and would continue to improve in all areas where recommendations had been made.

The Committee received information in respect to the number of Freedom of Information and Environmental Information requests and Subject Access Requests. Information was included in respect to 1 appeal to the Council and 2 complaints to the Information Commissioners Office. There was also information in respect to security incidents/data breaches levels of which were greatly reduced compared to last year.

The Committee recalled that the IG work programme for 2016/17 had been presented and approved at the June 2016 Audit Committee. A summary had been appended to the report which provided detail of each task on the programme and the progress to date. IG had made good progress in terms of completing agreed tasks; the majority of tasks due for

completion had either been completed on time or were within an acceptable extended timescale. The Committee was assured that IG was confident that the remaining tasks on the work programme would be completed in full by the end of 16/17.

**Resolved that the information contained in the report be noted in respect of the work of Internal Audit and Information Governance for the first part of 2016/17 and the external assessment of Internal Audit against the PSIAS.**

#### **AUC 26      APPOINTMENT OF EXTERNAL AUDITORS BY 31/12/17 FOR APRIL 2018 ONWARDS**

The Committee received the report that summarised the changes to the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.

The Audit Committee changed their terms of reference at the June 2016 meeting and these changes were ratified by Council in July 2016. The changes included that the "Committee recommend the appointment of the External Auditors to the Council".

The report:

- set out the options available and provided information for the future appointment of external auditors under the relevant legislation;
- provided details on the Sector Led Body (Public Sector Audit Appointment Ltd - PSAA) procurement route for the Council to opt into and recommended that the Council should approve opting into the PSAA for the procurement of the External Auditors.

A further report would be presented to the September 2017 Audit Committee so that the Audit Committee could recommend to full Council the appointment of External Auditors by 31 December 2017 ready for 1<sup>st</sup> April 2018.

The Committee considered the advantages, disadvantages and risks of each option as outlined in the report and questioned the practical impact of the recommended option of the PSAA. Members felt that the concept of this option was good but questioned whether in reality it would be the most cost-effective model. It was noted that economies of scale should mean that it would be the most cost-effective offer but it was recognised as a risk. It was noted that the Council would not be able to withdraw from the route if the fees were too high and that to secure economies of scale it would be necessary to lock in for 3-5 years. It was also noted that most authorities, both unitary and district in the Midlands were looking to take the sector led option.

**Resolved -**

- a) that the information and options available as set out in section 4 of the report be noted;**
- b) to approve that the Council uses option 3, the national Sector Led Body (SLB) appointed by the Government – Public Sector Audit Appointments Ltd - to undertake the procurement;**
- c) TO RECOMMEND TO COUNCIL that opting into the PSAA for the purpose of appointing External Auditors for 2018/19 onwards be approved;**

- d) to note that the CFO (or their delegated officer) takes appropriate actions following the Council decision to opt into the PSAA procurement process and engages with the PSAA to inform their specifications and proposed supplier in order to ensure appropriate independence; and
- e) to note that a further report be presented to the Audit Committee in September 2017 so that the Committee can agree and recommend the appointment of the External Auditor to full Council by 31 December 2017.

**AUC 27      Exclusion of Press and Public**

The Chair announced the exclusion of the Press and Public from the meeting for the next item of business on the grounds that it may involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972

**AUC 28      CAPITAL RECEIPTS UPDATE**

The Committee received a verbal update on capital receipts; including progress on the programme of disposals and projected disposals. It was noted that every effort had been made and continued to be made to ensure the timing was right for each disposal. It was also noted that there had not been a noticeable impact following the result of the referendum for Britain to exit the EU.

The meeting ended at 7.46pm

**Chairman:** .....

**Date:** .....