

AUDIT AND GOVERNANCE COMMITTEE

Wednesday 22 June 2016

Present:-

Councillor Vizard (Chair)
Councillors Warwick, Baldwin, Gottschalk, Harvey, Mrs Henson, Lamb, Packham, Sheldon and Wood

Also Present

Assistant Director Finance, Audit Manager (HK), Policy Officer and Democratic Services Officer (Committees) (SLS)

Darren Gilbert – Director KPMG

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MINUTES

The minutes of the meeting held on 9 March 2016 were taken as read and signed by the Chair as correct.

A Member sought clarification that the representative from KPMG would be permitted to stay for consideration of exempt items of business on the agenda. The Chair confirmed that the Assistant Director Finance had clarified the legislation with the external auditor from KPMG, and that he would be invited to stay for the meeting.

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DECLARATION OF INTERESTS

No declarations of disclosable pecuniary interest were made.

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PRESENTATION ON THE SCOPE OF THE AUDIT AND GOVERNANCE COMMITTEE

The Chair welcomed new Members to the Audit and Governance Committee.

The Audit Manager (HK) made a short presentation providing an overview of Internal Audit, including the independent role that internal audit had in contributing towards the Council's probity and protection against fraud and any irregularities. The Audit Team ensured that Exeter City Council was able to comply with public sector internal audit standards, provided support to Members of the Audit and Governance Committee, and provided an objective audit opinion to the Council. Other work included reviewing and assessing:

- the soundness, adequacy and reliability of financial and non-financial management systems
- the effectiveness of internal controls
- procedures
- checking for compliance with legislation, Council policies and procedures
- effective use of resources, and
- investigating fraud and irregularity

The Audit Manager responded to a Member's question and confirmed that the team worked to a pre-programmed plan providing a robust audit of the Council's operations. Regular meetings were held with the Management teams within every

Council Department to discuss the priorities and identify any issues of concern. An invitation was extended to Members to contact the Audit Managers if they required any additional information. Following a Member's request, the Assistant Director Finance agreed to provide a breakdown of all agency staff figures by service.

Darren Gilbert, Director from the City Council's current External Auditors, KPMG, outlined their role which was primarily concerned with financial reporting and financial reporting risks. He provided a brief overview of the audit regime that KPMG worked within, which included:-

- an opinion on the Council's financial statements
- a value for money (VFM) conclusion;
- data and information to the Audit Commission's successors; and
- a true and fair view of the financial position of the Council at the year end and of its expenditure and income for the year; which had been properly prepared in accordance with CIPFA's Code of Practice on Local Authority Accounting.

He provided an overview of the current arrangements and their role which was enshrined in both primary legislation as well as working to a Code of Audit Practice with responsibilities for the stewardship of public money. They also provided the role of a 'critical friend' to both the Audit and Governance Committee Members and the Council's Senior Management Team and were able to identify and share best practice. One important change would be in the preparation of the draft financial statement, which was normally required by 30 June each year, and the required published audited financial statement in September, as the audit deadlines had been brought forward for the 2017/18 period to the end of May and 31 July, respectively.

Members of the Committee thanked the Audit Manager and colleagues from KPMG for their informative presentations.

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KPMG EXTERNAL AUDIT TECHNICAL UPDATE

Darren Gilbert, Director, Public Sector KPMG, circulated a progress report which provided Members with a summary of the work carried out, and an updated position of the progress made by them to deliver their responsibilities as the City Council's auditors. He also provided a summary of the work to be performed including the completion of their work in relation to the financial statement and the anticipated opinion on the Authority's Statement of Accounts. A report on the outcome of that work including the reporting of the key findings from the audit through the required ISA 260 report would be made to the September meeting of this Committee. Audit and Governance Committee noted the report

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KPMG FEE LETTER FOR 2016/17

Darren Gilbert, Director, Public Sector KPMG referred to the Code of Practice and Public Sector Audit Appointment Ltd.'s (PSAA) proposed work programme and scale of fees for 2016/17, as the charge of the external auditors for the auditing of the Council's services and accounts. The fee for 2016/17 was set at £57,887. It was also anticipated that the fee for the certification of grant claims and returns would be around the £16,100 planned fee in 2015/16. The PSAA had still to consider the output of last year's certifying outcome and would advise KPMG accordingly of the final proposed fee.

Darren Gilbert replied to a Member's enquiry about the likely response by KPMG to any changes to the audit fee assumptions due to the impact of any additional work.

He was also able to clarify that a surplus sum was due back to the City Council, following completion of the former Audit Commission's 2014/15 accounts by the PSAA. He was not aware of the timescale though it was noted that it was likely to be during the summer.

The Audit and Governance Committee noted the Fee Letter set for 2016/17.

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ANNUAL INTERNAL AUDIT REPORT 2015/16

The Audit Manager (HK) presented the annual Internal Audit Report for 2015/16, which met the Public Sector Internal Audit Standards informing the Council's Annual Governance Statement.

The Audit Manager set out the requirements for the Audit Manager to provide an opinion on the adequacy of the control environment, together with a summary of the work undertaken by Internal Audit to support the opinion. In addition to the planned work Internal Audit also worked on a number of reported concerns and investigations. She responded to a Member's comment about the opportunity for additional testing, by utilising contingency time where appropriate. The report also included six areas of concern to be included in the Annual Governance Statement, including the impact of a reduction in resources, some issues relating to the procurement function, and an increase in commercial activities resulting in staff taking on director roles of other organisations. The Assistant Director Finance confirmed that a different approach would be taken in respect of recruitment for the procurement function, which should result in greater compliance and cost savings being identified.

She also provided an update on the progress against the annual audit plan and recommendations made in the internal audit summary of work completed for the period January to March 2016.

The Audit Manager also responded to a Member's question about whether the payroll report issued in the third quarter which was assessed as 'significant improvement required' supported the issue raised of sickness absence/reduction in resources having an impact on the control environment. As a result of this question, the Audit Manager agreed to circulate the report to Members. The importance of ensuring that staff were supported by adequate resources was acknowledged. The Assistant Director Finance undertook to raise the issue over resources with the Senior Management Team. He was not aware of a particular recruitment issue, but the reduction in staff in some areas of the Council in an effort to protect back office services was acknowledged.

The Audit and Governance Committee noted the Annual Internal Audit Report 2015/16.

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ANNUAL GOVERNANCE STATEMENT 2015/16

The Assistant Director Finance presented the report which set out the proposed updated Annual Governance Statement that would accompany the Council's Statement of Accounts for 2015/16. The Statement reviewed the Council's performance against its Code of Governance, which was published on the Council's web site. He drew attention to a review of effectiveness of the City Council's Governance Framework including the system of internal control. He provided an explanation of the six issues that needed to be addressed to ensure continuous improvement in the Governance Framework. He confirmed that there were up to five members of staff who also held a commercial directorship of a company

associated with the Council such as Strata or ESCO (District Heating Scheme) and training would be provided for those individuals as well as Members.

The Audit and Governance Committee supported the report and recommended to Council to approve the following:-

- (1) updated Code of Corporate Governance for 2015/16; and
- (2) Annual Governance Statement being included within the Council's Annual Statement of Accounts for 2015/16.

18 **LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT - EXCLUSION OF PRESS AND PUBLIC**

RESOLVED that, under Section 100A of the Local Government Act 1972, the press and public be excluded from the meeting of the following item, on the grounds that it involved the likely discussion of exempt information as defined in Paragraph 3 of Part 1, Schedule 12 of the Act.

19 **REVIEW OF CORPORATE GOVERNANCE RISK REGISTER**

The Assistant Director Finance presented the report of the Corporate Manager Policy, Communications and Community Engagement, which advised the Committee of the changes introduced to the Council's Risk Management policy and procedures. This included an appendix to the report (Appendix A).

A Member sought future information on a number of risks for the City Council. He welcomed the description and mitigation actions, but commented on the absence of key performance indicators, timelines or the cost of any outcome. The Assistant Director Finance agreed that a timeline priority would provide a useful outcome. He welcomed the list of risks identified by the Member and would ensure that the Policy Officer provided a response.

The Audit and Governance Committee noted the details contained in Appendix A.

(The meeting commenced at 5.30 pm and closed at 7.00 pm)

Chair