

AUDIT AND GOVERNANCE COMMITTEE

Wednesday 15 March 2017

Present:-

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

Also Present

Assistant Director Finance, Audit Manager (HP) and Democratic Services Officer (Committees) (MD)

1 **APOLOGIES**

Apologies were received from Councillor Gottschalk and Darren Gilbert, Director KPMG.

2 **MINUTES**

The minutes of the meeting held on 7 December 2016 were taken as read and signed by the Chair as correct.

3 **DECLARATIONS OF INTEREST**

No declarations of disclosable pecuniary interest were made.

4 **EXTERNAL AUDIT PROGRESS REPORT AND TECHNICAL UPDATE**

Rob Andrews, Audit Manager from KPMG presented the progress report which provided Members with an updated position with regards to the delivery of their responsibility as the City Council's external auditor.

Members were advised that work on the interim audit, which had tested the control environment at Exeter City Council, had been completed in January 2017. KPMG would feedback the results at the next meeting. An overview of the work completed by KPMG between June and August was presented. Members were also informed that the Public Sector Audit Appointments Ltd (PSAA) had published its consultation on the 2017/18 work programme and scale of fees.

The Assistant Director Finance updated Members that Council had approved to opt in to the public sector audit appointments on the 21st February and was currently going through the tender process. He had confirmed to PSAA that Exeter City Council would wish to have the same external auditors as Teignbridge District Council and East Devon District Council and that there were no conflicts with external auditors. The Assistant Director Finance would provide an update at the next meeting.

The Audit and Governance Committee noted the report.

5 **AUDIT AND GOVERNANCE COMMITTEE UPDATE 2016/17**

Rob Andrews, Audit Manager from KPMG presented the Council's External Audit Plan for 2016/17, which was a supplement to the Audit Fee Letter presented at the April 2016 meeting.

Members were advised that there were no significant changes to the accounting framework. He explained that the materiality for planning purposes had been set at £1.9million and the requirement to report uncorrected omissions had been set at £95,000. Significant risks which required specific attention which would show financial statement errors were explained to Members and were identified as:

- The significant changes in the pension liability due to the LGPS Triennial Valuation;
- The value of property plant and equipment, which occur on a rolling basis with only 20% of assets being valued annually;
- Management override of controls

Value for money arrangements was discussed which highlighted that risk assessment was ongoing and that four significant risks had been identified and would be reported on during the audit:

- Non-Compliance with procurement process;
- New development of the leisure centre and bus station;
- Impact of the performance of Strata Service Solutions on the Authority; and
- Medium Term Financial Planning.

The Assistant Director Finance informed Members, that the valuation figures from Devon County Council, were based on bringing the Fund back to balance after the change made in the 1990s, which allowed the local authority pension fund to reduce from fully funded to between 75-80%. The Fund was currently running at approximately 80-85%, with the Council's deficit at around £90m

In response to Members' questions, Rob Andrews and the Assistant Director Finance informed Members:

- The interval of reporting significant risk was dependent on the testing of controls for the interim audit. Any significant risk would be added to the report;
- The pension scheme contributions had been set at 15.7% for Exeter. The Local Government Pension Scheme is the only funded pension scheme in public sector.

The Audit and Governance Committee noted the Annual Audit Plan.

6

ANNUAL REPORT ON GRANTS AND RETURNS 2015/16

Rob Andrews, Audit Manager from KPMG, presented the report on grants and returns, which provided an overview of results from the work undertaken by KPMG on the Council's 2015/16 grant claims and returns.

Members were informed of the work that had been completed under PSAA certification arrangements and on other grants returns in 2015/16.

No recommendations had been made to the Council from this year and the error reporting levels had reduced from last year. The certification and assurance results had highlighted that the sample testing of benefits had in the main been correctly calculated, agreed to a standard rate and issued to the Department for Work and Pensions (DWP).

Members were informed that PSAA would be running a tender for most Local Authorities for external audit, however the housing benefit subsidy was not included and would have to be run on a separate audit.

The Audit and Governance Committee received the Annual Report.

7

ANNUAL INTERNAL AUDIT PLAN 2017/18

The Audit Manager (HP) presented the report which required approval from Members of the 2017/18 Internal Audit Plan to meet the terms of reference of the Audit and Governance Committee.

The Audit Manager referred Members to the Audit Plan and highlighted the high risk priorities for Enabling Services and discussed the risk priorities for Customer Access, Housing, Environment, Health and Wellbeing, Public Realm and City Development.

In response to a Member's question about Procurement, the Assistant Director Finance explained that the Executive had approved the creation of a new team which was now being evaluated. Final approvals would be presented to Executive on 11th April 2017 and Council on 25th April 2017.

Once tendering had been completed it was expected that using a single recruitment supplier would save money and ensure compliance. KPMG would provide more information at the September meeting.

RESOLVED that the Audit and Governance Committee approve the 2017/18 Internal Audit Plan.

8

INTERNAL AUDIT PROGRESS REPORT 3RD QUARTER 1ST OCTOBER TO 31ST DECEMBER 2016

The Audit Manager (HP) presented the report which provided a review of the internal audit work carried out for the third quarter of 2016/17 and delivered a progress update to Members.

Members noted that in 2015, it had been identified that significant improvements to the financial control areas of income and sundry debt were required. As of 2017 and noted in the Section 151 Officers comments, these improvements had been made and acknowledged. The Audit Manager (HP) discussed the principles of the internal audit and assurance rating scores and explained that the report status target dates were on schedule.

The Audit Manager (HP) referred Members to the internal audit summary of completed work from October to December 2016 and discussed the three main audit reports issued in this period, providing a summary of creditors, sundry debt and housing right to buy and summarised the housing right to buy audit findings. The recommendations from the audit and the risk findings had been accepted by management and had also been presented the significant governance issues progress report explaining the various issues, proposed action and progress dates.

In response to Members' questions the Audit Manager (HP) and the Assistant Director Finance responded:

- Audit findings on the right to buy scheme had been scored as some improvement required because of the number of findings and the potential risk for fraud.

Findings included a 30% error rate in calculation of discounts, lack of evidence on credit checks and residency checks;

- Impacts of reduced staff members had effected the segregation of duty controls where responsibilities were previously divided between two staff members but now undertaken by one and Internal Audit have needed to work with management to identify alternative control methods.

The Audit and Governance Committee noted the Internal Audit Report for the third quarter of 2016/17.

9

APPROVAL OF THE INTERNAL AUDIT CHARTER

The Audit Manager (HP) provided a review of the internal audit charter and explained its function and requirement to be reviewed and updated every two years to comply with the Public Sector Internal Audit Standard.

The Audit Manager (HP) explained to Members that the internal audit charter outlined the internal audit activity's purpose, authority and responsibility. It also defined the key terminology and arrangements for appropriate resourcing to avoid conflicts of interest.

From April 2017, there would be changes to both the senior management structure and the audit process, the Internal Audit Charter having been updated to reflect the new changes and meet the PSIA requirements. There were no recommendations, however the report displayed expectations and the best response to risk. The Audit and Governance Committee had final approval of the Internal Audit Charter.

RESOLVED that the Audit and Governance Committee approve the updated Internal Audit Charter.

10

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

RESOLVED that, under Section 100A (4) of the Local Government Act 1972, the press and public be excluded from the meeting for the consideration of the following item on the grounds that it included the likely disclosure of exempt information as defined in paragraph 3, of Part 1 of Schedule 12A of the Act.

11

REVIEW OF CORPORATE GOVERNANCE RISK REGISTER

The Assistant Director Finance presented the report which provided advice on the Council's risk management progress and the updated Corporate Risk Register. Members were informed that during the last quarter, four new risks had been added to the register, which were discussed.

The Assistant Director Finance confirmed there were still currently five high risks on the Corporate Risk Register which included one of the new risks, and explained the risks removed from the register. He highlighted the Medium Term Financial Plan, which demonstrated that the Council was no longer dependent on additional business rates from new developments and noted it was a positive position to be in.

In response to Members' questions, the Assistant Director Finance informed:-

- Overpayments on housing benefit happened when the claimant's information is changed and notification is delayed or there has been an error by the Local Authority. An overpayment made by Local Authority error, would not be recovered and therefore would not be a risk to people on housing benefits.

Where individuals were required to repay an overpayment there was a set repayment system to prevent financial difficulty;

- A detailed response concerning maintenance at Eastern Fields and legal responsibilities would be distributed to Members. The Deputy Chief Executive would be requested to add Eastern Fields back onto the risk register;
- A detailed response from Legal concerning any legal risk from over expenditure concerning the bus station development would be issued to Members;
- Any potential harmful pollutants or contaminated land would still be the Councils responsibility to address. This would include any land being sold.

The Audit and Governance Committee reviewed and noted the updated Corporate Risk Register.

(The meeting commenced at 5.30 pm and closed at 6.20 pm)

Chair