

## **AUDIT AND GOVERNANCE COMMITTEE**

Wednesday 21 June 2017

### **Present:-**

Councillor Vizard (Chair)  
Councillors Wood, Harvey, Mrs Henson, Lamb, Musgrave, Sheldon and Warwick

### **Also Present**

Chief Finance Officer, Audit Manager (HK) and Democratic Services Officer (Committees)  
(MD)

Darren Gilbert – Director KPMG

12

### **APOLOGIES**

Apologies were received from Councillor Baldwin and Rob Andrews, KPMG.

13

### **MINUTES**

The minutes of the meeting held on 15 March 2017 were taken as read and signed by the Chair as correct.

14

### **DECLARATIONS OF INTEREST**

No declarations of disclosable pecuniary interests were made.

15

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

Darren Gilbert, Director 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 the report was in two parts, the progress report and a technical update. He explained that the Audit was going well with a few minor points, which they considered didn't warrant an interim report. A report on the outcome of the audit of the financial statements and VfM conclusion would be provided to the Audit and Governance Committee in September. The interim fieldwork had been completed in January 2017.

He discussed the Value for Money approach for 2016/17 and explained its part in the audit plan and that progress had been made on following up the procurement risk which would be tested further in respect of 2016/17. The Benefit Subsidy Form 2016/17 had been received after it had been submitted by the Council to the Department of Work and Pensions (DWP). He explained that there was no other work currently ongoing.

In response to Members' questions, Darren Gilbert and the Chief Finance Officer responded:

- The role of the external auditors in relation to projects like the new leisure complex was to assess risks to major schemes, governance, progress monitoring, monitoring where money was spent and to ensure there were fair arrangements for getting value for money;

- There was keen interest in the Devon area to be a pilot scheme for 100% Business Rates retention, however the Councils were waiting for a response, as to whether this would progress post-election;
- There were no impacts for next year currently that would risk the Council not meeting the new statutory deadline for closing the accounts. The Exeter Science Park had a potential to trigger a requirement for group accounts, which would add an extra amount of work;
- The KPMG Audit Letter 2016/17 complemented this report, and this item.

The Chief Finance Officer informed Members that the legal deadline to complete accounts next year was 31<sup>st</sup> May 2018, however this year the draft publication was completed by the 25<sup>th</sup> May. He highlighted that the new procedures had worked well and the Council was ahead of schedule.

The Audit and Governance Committee noted the External Audit Progress Report and Technical Update report.

16

### **KPMG AUDIT LETTER 2016/17**

Darren Gilbert, Director from KPMG presented, the Audit letter, which explained that the planning and interim audit work set out in the External Audit Plan had been completed. He commented that this item had been explained as part of the external Audit Progress Report and Technical Update report.

The Audit and Governance Committee noted the Letter.

17

### **ANNUAL GOVERNANCE STATEMENT 2016/17**

The Chief Finance Officer presented the report that set out the Annual Governance Statement to accompany the Council's Statement of Accounts for 2016/17. He explained that the Council was required to prepare and publish an Annual Governance Statement by Regulation 4 of the Accounts and Audit (England) Regulations 2011. The Governance Statement reported on the Council's performance against the Code of Corporate Governance which had been approved by the Audit and Governance Committee on 7 December 2016 to reflect the updated code.

He discussed the significant governance issues of 2015-16, highlighting reduction in resources, separation of duties and procurement issues. He provided an overview of 2016-17 significant governance issues, highlighting the key areas of focus. In response to questions from Members, the Chief Finance Officer responded:-

- Projects such as the leisure centre complex were now being reviewed by an experienced procurement team member;
- The current position of procurement was that the job evaluation had been completed. It was unlikely that the roles would be filled before a final decision was made on the leisure centre;
- The accounts expenditure for up to 31 March 2017 had been addressed and, if a significant expenditure were to occur, a note would be placed in the Post Balance Subsequent Events;
- There was a planned team of four people for Procurement.

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

- (1) Audit and Governance Committee supported the Annual Governance Statement to be included within the Council's Annual Statement of Accounts for 2016/17; and
- (2) Council to note and approve the Annual Governance Statement to be included within the Council's Annual Statement of Accounts for 2016/17.

18

### **ANNUAL INTERNAL AUDIT REPORT 2016/17**

The Audit Manager (HK) presented the Annual Internal Audit Report which conformed to the Public Sector Internal Audit Standards (PSAIS) and informed the Council's Annual Governance Statement. It also included the quarterly update on the progress of Internal Audit work.

She advised that the evaluation of the control environment is informed by a number of sources including work undertaken by Internal Audit during the year, reports issued by the External Auditors and risks identified in the Council's corporate risk register.

Progress against the annual audit plan was discussed. Audit Manager (HK) advised that some audits had been deferred as policies, procedures and processes were not yet in place, however these would be completed during 2017-18. She discussed the summary of investigations highlighting that there had been an increase of reports from the public, which were mostly anonymous and explained the housing benefit fraud and right to buy fraud reported in 2016/17.

Audit Manager (HK) advised that the Council was also required to report on the use of The Regulation of Investigatory Powers (RIPA) to the Audit and Governance Committee and highlighted that, despite RIPA not being used during 2016/17, refresher courses had been provided to staff to improve their awareness and understanding of the legislation

The Audit Manager (HK) advised that no significant issues have been identified during 2016-17. However, issues identified as part of the recent Corporate Governance audit would be subject to regular monitoring by the Audit and Governance Committee She updated Members on the areas of concern identified 2015-16. She advised that the overall audit opinion was that systems were operating satisfactorily and that there were no fundamental breakdown of controls resulting in material discrepancy. However, the Audit and Governance Committee should continue to monitor the weaknesses outstanding from 2015-16 to continue to improve the Council's corporate governance arrangements.

In response to questions from Members, the Audit Manager (HK) responded:-

- Over the last couple of years the audit resource had reduced by one full time equivalent staff throughout the Council faced many challenges with reduced resources, however despite this, the control environment remained at a good level. It depended on the type of fraud committed, as to whether it was possible to reclaim the money. If single occupier fraud was discovered, the discount would be stopped, but the money taken would not be paid back;
- All local authority councils were required to partake in the Cabinet Office national fraud initiative, which undertakes data matching in order to identify potential fraud. The cases identified are then passed back to the Council to investigate;
- An exercise run by the Council to investigate single occupancy discount fraud had been undertaken by a private company. The cost was £20,000 which was a saving when offset against how much was lost;

- It was difficult to reclaim fraud arrears money from single occupier discount. Cases were passed to the Council Tax team, but without specific details and dates, it was difficult to reclaim back;
- Whether the Council prosecutes the perpetrators of fraud was dependent on the type of fraud. The first right to buy fraud case in the city had happened recently. Right to buy fraud was increasing nationally and in many cases is thought to be organised crime. The council doesn't have a dedicated counter fraud team and is reliant on the audit team to conduct investigations ;
- A report on the Council's counter fraud capability was due to be submitted to the Senior Management Board (SMB) shortly.

The Chief Finance Officer discussed the options of working with and sharing expertise with other Local Authorities on countering fraud. He emphasised that one of the responsibilities of the Audit and Governance Committee was to counter fraud.

The Audit and Governance Committee noted the Annual Audit Report for the year ended 31 March 2017

19      **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.

20      **REVIEW OF CORPORATE GOVERNANCE RISK REGISTER**

The Chief Finance Officer presented the report which advised the Audit and Governance Committee of the Council's risk management progress and presented the updated Corporate Risk Register. He highlighted that the Committee was responsible for monitoring and reviewing the Council's risks and reporting new and updated risks to the Corporate Manager (Executive Support).

He discussed the new risks added during the last quarter, highlighting that events on council owned land were held regularly. He discussed the process of notifying the Council of an event and the limitations which had led to unauthorised events taking place in which the Council was potentially liable for any incident on council owned land. Cyber security was highlighted following the cyber-attack against the NHS and other organisations. STRATA had confirmed that the Council's systems had been attacked, however security had protected the council's network. The attack led to this risk being added to the Corporate Risk Register. The last risk for Legionella risk assessments for Council owned assets was out of date. The Chief Finance Officer informed that the Council had employed an external contractor to carry out risk assessments and they had identified that the risk assessments were out of date. It was intended to have all the high and medium assessments completed by August 2017 and the rest by November 2017.

The other high risks were the same as the previous quarter. In response to questions from Members, the Chief Finance Officer responded:-

- The mitigation dates on the risk register would be looked at to ensure they are up to date to reflect the latest information;
- When the Council is notified of an event on Council land, the appropriate officers were notified to make the approvals. However the Council and event organisers could both be potentially liable. An example would be if the land was

the cause, the Council was responsible, but if equipment was brought onto the land then the organiser was liable;

- He would provide a written response to whether the unauthorised access to council land or if residents changing routes, leading to an incident, would mean that the Council was liable;
- The bus and coach station risk in the report related to the wider project of working with the Crown Estates and the challenges involved;
- A Section 25 Notice related to the process of taking back the lease from Stagecoach;
- The bus and coach station steering group would be the best forum to find out how much the Council was at risk from the re-development.

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

(The meeting commenced at 5.30 pm and closed at 6.30 pm)

Chair