

Minutes of a Meeting of the Audit & Governance Committee
held at Riverside, Lowestoft on **Thursday, 15 September 2016 at 6.05pm**

Members Present:

S Woods (Chairman), E Back, T Gandy, A Green and J Groom

Cabinet Member in attendance:

Councillor M Barnard – Cabinet Member for Resources & Welfare Reforms

Councillor M Rudd – Cabinet Member for Community Health & Safety

Others Present:

G Belcher – Audit Manager, Ernst & Young LLP

K Suter – Executive Director, Ernst & Young LLP

Officers Present:

P Gore (Head of Environmental Services & Port Health), H Javadi (Chief Finance Officer (S151)), P Langford (District Emergency Planning Officer - East), S Martin (Head of Internal Audit), S Storm (Audit Manager), S Taylor (Finance Manager & Deputy S151 Officer) and A Stapleton (Democratic Services Officer)

1 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors S Logan and S Punt. Councillor A Green attended as a substitute for Councillor S Logan.

2 DECLARATIONS OF INTEREST

No declarations of interest were made.

3 MINUTES

RESOLVED

That the Minutes of the meeting held on 20 June 2016 be approved as a correct record and signed by the Chairman.

4 CHANGE IN THE ORDER OF BUSINESS

The Chairman reported that the order of business would be changed to enable item 10 (Business Continuity) to be considered earlier on the Agenda.

5 AUDIT RESULTS REPORT

The Chairman welcomed Gary Belcher – Audit Manager and Kevin Suter – Executive Director, from Ernst & Young LLP (EY), the Council's external auditors, to the meeting.

Mr Suter presented the Audit Results Report and explained that EY was required to report to the Committee on the work they had carried out to discharge their statutory audit responsibilities, together with any governance issues identified.

Mr Suter summarised the work EY had carried out, and he expressed thanks to officers for their co-operation and efficiency. EY expected to issue an unqualified audit opinion and to conclude that the Council had made appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources. Mr Suter said that the lack of issues to be brought to Members' attention reflected well on how the Finance Team had conducted its business and prepared its accounts, and that this had been the case for some years.

Mr Suter took Members through each section of the report, but repeated that there was nothing which Members needed to be concerned about, and no changes were proposed to the audit fees stated in the report.

The Chairman congratulated officers on the successful audit, and thanked Mr Suter for his presentation of the results. The Cabinet Member for Resources & Welfare Reforms added his thanks to the Finance Team for a job well done.

A Member asked why Members' allowances were specifically mentioned in the Audit Results Report, as the public may assume that there were problems with them. Mr Suter explained that they appeared due to the politically sensitive nature of Members' allowances, and that normal materiality levels did not apply to them. EY were checking to ensure Members had been paid the correct allowances and at the correct rate in line with the Members' Allowances Scheme.

RESOLVED

That the findings within the External Auditors' report be noted.

6 ARRANGEMENTS FOR THE APPOINTMENT OF EXTERNAL AUDITORS

The Cabinet Member for Resources & Welfare Reforms advised that the Council needed to choose one of three options set out in the report 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 three options available to the Council were: a) establishing a stand-alone Auditor Panel to make the appointment on behalf of the Council, b) commencing work on exploring the establishment of local joint procurement arrangements with neighbouring authorities, or c) opting-in to the national Sector Led Body, Public Sector Audit Appointments Ltd (PSAA). The advantages and disadvantages of each option were set out in the report, which recommended to Full Council option c) – opting in to the national Sector Led Body.

A Member requested more detail on the costings of Option 3, and was advised that it was too early to estimate this, however, this method would achieve economies of scale to a greater extent than the other options, and Members could be assured that it would be the least costly option.

A further advantage of Option 3 was that there would be uniformity of standards across a wider area.

RECOMMENDED TO FULL COUNCIL

That the recommended option to “opt-in” to the sector led body (Public Sector Audit Appointments Ltd (PSAA)) for the independent appointment of the council's External Auditor, beginning with responsibilities for the financial year 2018/19, be approved.

7 AUDITED STATEMENT OF ACCOUNTS 2015/16

The Cabinet Member for Resources & Welfare Reforms introduced the Statement of Accounts (SoA) for 2015/16. Under the Accounts and Audit Regulations 2015 the Chief Finance Officer was required to sign the accounts by no later than 30 June following the end of the financial year, certifying that they were a “true and fair view of the financial position of the Council at 31 March 2016, and of its income and expenditure for the year ending on that date”.

The covering report to the SoA presented the main highlights of the Narrative Report, updated Members on the audit work, and commented on the anticipated outcomes arising from the 2015/16 audit. As the SoA was a highly technical, detailed and sizeable document, its key elements were illustrated to Members by way of a presentation which covered the following key areas: Objectives; Purpose and Regulatory Framework; Process; Outcome; and Key Aspects of the SoA.

The Chief Finance Officer advised Members that the outturn for the financial year 2015/16 was a surplus of £143k between the revised budget and the year end position. A number of projects accounting for £28k of expenditure were approved to be carried forward to 2016/17 when they would be completed. The Council had established a new In-Year Savings earmarked reserve of £500k to help with future budget gap savings. The Medium Term Financial Strategy identified a target for the General Fund Balance of between £2.5m and £3m as a prudent level to maintain in the long term, based on the risks contained within the Budget. As at the end of March 2016, the General Fund Balance was £4.159m which put the Council in a stronger position to mitigate some of the future funding uncertainties and budgetary pressures.

The revised Housing Revenue Fund Budget estimated a surplus of £17k, which when compared to the outturn of £1.290m surplus, had generated an additional surplus of £1.273m for 2015/16.

Section 5.5 of the Narrative Report provided a comparison between the Capital Expenditure outturn as at 31 March 2016 and the Council's revised Capital Programme for 2015/16. The General Fund outturn was £1.578m below the revised budget for 2015/16, with spend at £5.328m compared to the revised budget of £6.906m.

In addition to the General Fund and HRA balances, the Council had General Fund Earmarked Reserves as at 31 March 2016 totalling £6.582m compared to £5.318m at 31 March 2015, and HRA Earmarked Reserves at 31 March 2016 totalling £5.228m compared to £3.864m at 31 March 2015.

Section 7.5 of the Narrative Report brought together the financial results for the year and a summary of the Council's financial position at 31 March 2016 compared to the previous year. The Council had, once again, successfully delivered its services within its approved budget, ending the year having achieved a strong outturn. The anticipated outcome of the audit of the draft Statement of Accounts was that once again the Council would achieve an unqualified Value for Money opinion, and an unqualified opinion on the Statement of Accounts.

Issues raised and questions asked during the consideration of this report were as follows:

- In relation to the collection of business rates, 100% of these were collected by the Council, of which 50% was paid to Central Government, 10% to Suffolk County Council (SCC), and the remaining 40% retained by WDC. However, SCC was deemed to be a "top-up authority", because the 10% received from district councils did not cover its needs. It was therefore also guaranteed a tariff of each district council's retained 40%, relating to the Revenue Support Grant which was now funded through business rates. The Council also paid into the Suffolk Pool at a rate of 50% of all growth in the District, and the Cabinet Member for Resources & Welfare Reforms advised that the Council had benefited from membership of the Pool during 2015/16 with the receipt of £74k.
- A Member asked whether the increase in HRA rental income was based on better collection rates, an increase in the number of properties, or an increase in rent, and was advised that the increase was a combination of all three of these factors

On behalf of the Committee, the Chairman thanked officers for the excellent work which had gone into producing a superb Statement of Accounts.

RESOLVED

1. That the progress to date on the Statement of Accounts for 2015/16 be noted.
2. That the Statement of Accounts 2015/16 be approved.
3. That, should any further minor amendments be required to the Statement of Accounts, the Chief Finance Officer, in consultation with the Chairman of the Audit & Governance Committee, be given delegated authority to make these changes.

8 ANNUAL GOVERNANCE STATEMENT 2015/16

The Cabinet Member for Resources & Welfare Reforms presented the Annual Governance Statement (AGS) for 2015/16 and advised Members that the Accounts and Audit Regulations 2015 required councils to produce an AGS by 30 September each year, in line with the conclusion of the audit of the Statement of Accounts.

The AGS was a key document which helped to provide assurance to Members and other stakeholders as to how the governance of the Council was conducted, how effective it had been for the year, and identified major issues of concern or emerging issues upon which the Council would need to focus over the coming year. Members had considered a draft of the AGS at their last meeting on 20 June 2016, and the Cabinet Member advised that the only changes since that meeting were those suggested by the Committee. The document had been submitted for external audit, and no further changes had been recommended.

RESOLVED

That the Annual Governance Statement 2015/16 be approved.

9 BUSINESS CONTINUITY

The Head of Environmental Services & Port Health advised Members that the Council was required under the provisions of the Civil Contingencies Act 2004 to prepare and exercise plans for the recovery of its services in the event of an incident that disrupted service delivery. The report set out the arrangements for preparing, reviewing, exercising and training Council staff on business continuity matters, and the action taken in response to an Internal Audit review carried out in 2015.

The report also outlined the measures taken within the wider business community in East Suffolk to promote the importance of business continuity for business resilience and economic stability in the district.

The Business Impact Assessment identified the key threats to the Council's operation and these were set out in the report. Mission Critical Services had also been identified; these were activities which had to be performed to deliver the Council's key or vital functions and services. Both had been reviewed by Corporate Management Team on 11 July 2016.

The Head of Environmental Services & Port Health advised Members that in the third quarter of 2015 Internal Audit had carried out a detailed review of the Council's business continuity arrangements. Work was underway to address the recommendations in the audit report, and good progress had been made. During 2016/17 Anglia Revenues Partnership would be reviewing and updating its own business continuity plans, supported by the Council's ICT Team and the Joint Emergency Planning Unit (JEPU), to ensure that the Council had assurance that adequate business continuity arrangements existed within its key service delivery partnerships.

The Head of Environmental Services & Port Health also referred to a major fire at the headquarters of South Oxfordshire and the Vale of White Horse District Councils. JEPU was to host a workshop to discuss the lessons learned from this incident and the implications for Suffolk, on Friday 28 October 2016 at IP CITY (Centre), Ipswich, and Members would be provided with details of this workshop outside of the meeting.

A Member asked whether potential incidents at Sizewell C were included in the BCP, and was advised that this was not appropriate, as the BCP dealt with services provided by the Council. However, Sizewell C was covered extensively in the Suffolk Resilience Forum Contingency Plans, and an exercise was to take place with key partners in October and November 2016 covering a potential incident at Sizewell C.

Referring to the Business Impact Assessment on Page 207 of the report, a Member asked why the threat of cyber attack was shown as high likelihood. The District Emergency Planning Officer (East) advised that every day the Council's ICT systems were bombarded with junk mail, and invariably at some point some manner of virus or other threat would break through. Other local authorities' services had been breached in the past, and the Council's ICT team would run an exercise on cyber attack at some point in the future.

RESOLVED

That the approach to business continuity, the arrangements in place for training and exercising the Plan, and the actions taken to address the recommendations in the Internal Audit review of business continuity be noted.

NB: the Cabinet Member for Community Health & Safety, representatives from Ernst and Young LLP, and officers attending for the foregoing item left the meeting at this point in the proceedings, at 7.08pm.

10 CORPORATE RISK MANAGEMENT UPDATE

The Cabinet Member for Resources & Welfare Reforms presented the report which gave an overview of how the Council's strategic and operational risks were managed. The Cabinet Member drew Members' attention to progress against planned developments in managing risk set out in Section 3 of the report, and to Section 5 which set out the corporate risks in detail. The Cabinet Member also advised Members that a recommendation had been missed from the report, although it was mentioned in the executive summary, asking Members to approve the revised East Suffolk Corporate Risk Management Strategy.

A Member asked for an explanation with regard to the setting of target risks. Target risks were set as objectives, if all was well. However, the Council was constantly influenced by outside forces over which it had little or no control. For example, the "Failure to produce and deliver a sustainable Medium Term Financial Strategy (MTFS)" target risk was green, however, the reality of the annual financial settlement made it a rolling amber or red risk. The Council would do all it could to mitigate against the risk and to manage it as far as possible, for example with the addition of a further risk, "Failure to deliver balanced Annual Budget", which could be measured year on year to meet statutory requirements.

RESOLVED

1. That the Corporate Risk Management Update be received.
2. That the revised East Suffolk Corporate Risk Management Strategy be approved.

11 TREASURY MANAGEMENT OUTTURN REPORT 2015/16 & MID YEAR REPORT 2016/17

The Cabinet Member for Resources & Welfare Reforms presented the report and advised Members that the Treasury Management Policy Statement required both an annual and a mid-year report to be produced by 30 September 2016, and approved by Full Council. The report reviewed the performance of the Treasury Management function, including prudential indicators, in 2015/16, and a mid-year view of the first half of 2016/17, outlined the economic background within which the Council had operated, and set out the Council's borrowing and investment activity over the previous year.

The 2016/17 mid year summary showed that investments totalled £35.2m as at 31 August 2016. Interest received to 31 August 2016 totalled £92k, and the Council had operated within its approved Prudential Indicator Limits to date.

The 2015/16 summary showed that investments totalled £27.15m as at 31 March 2016. Interest received during the year totalled £239k, and the Council had maintained its policy of investing short term rather than longer term, due to market conditions. The Council had operated within its approved Prudential Indicator Limits for 2015/16.

The Council had held an average cash balance of £28.3m during 2015/16 and received investment income of £239k, which had exceeded its planned budget of £195k for the year.

The Cabinet Member advised that the report concluded that the Council had operated its Treasury Management and Prudential Indicators within prescribed policy during 2015/16, and during 2016/17 up to 31 August 2016.

The Chief Finance Officer advised that the Treasury Management system was highly regulated, and that the Council had achieved the best possible level of interest, without putting the Council's cash assets at risk, as evidenced via benchmarking with other similar sized authorities.

A question was raised with regard to the impact of the fall in the Bank of England Base Rate to 0.25% on 4 August 2016, and officers advised that the Council had not yet seen an impact from this fall, partly due to some funds being locked into fixed interest rates. The Chief Finance Officer reminded Members that the Council also had significant borrowing, and that therefore low interest rates were not necessarily a bad thing.

RECOMMENDED TO CABINET AND FULL COUNCIL

1. That the Annual Report on the Council's Treasury Management activity for 2015/16, incorporating the Mid Year Review for 2016/17, be approved.
2. That the Prudential Indicators outturn position for 2015/16, as set out in Appendix A to Report REP1335, be noted.

12 WHISTLEBLOWING POLICY

The Cabinet Member for Resources & Welfare Reforms introduced the Head of Internal Audit, who presented a report which advised Members that the Chartered Institute of Public Finance and Accountancy (CIPFA) suggested a regular review of the organisation's Whistleblowing Policy. The Council's Whistleblowing Policy was last reviewed in January 2013, and the main body of the Policy remained compliant with expected good practices, with minor changes made to contact points.

The Head of Internal Audit also advised that the Policy had been reviewed by the Advisory, Conciliation and Arbitration Service (ACAS), in order to ascertain whether it was a usable policy, and that body had confirmed that the refreshed Policy was fit for purpose. The Head of Internal Audit also advised that no incidents of whistleblowing had been referred in the past year, as the Public Interest Disclosure Act 1998 was quite prescriptive

as to what constituted an incident of whistleblowing, and the examples such as grievances referred over the past year did not fit that prescribed description.

RECOMMENDED TO FULL COUNCIL

That the Whistleblowing Policy set out at Part 5 of the Council's Constitution be replaced with the Suffolk Coastal District Council and Waveney District Council Whistleblowing Policy August 2016, as set out at Appendix A to Report REP1253.

13 ANTI-FRAUD AND CORRUPTION STRATEGY

The Cabinet Member for Resources & Welfare Reforms asked the Head of Internal Audit to present a report which advised Members that the Council's existing Fraud and Corruption Management Strategy had been refreshed, and was to be known as the Anti-Fraud and Corruption Strategy, which was aligned to the current UK fraud and corruption environment and best practices. In introducing the report, the Cabinet Member reminded the Committee of reports presented on 20 June 2016 which had detailed the excellent results of the work of the Council's Corporate Fraud Service. Waveney District Council had a zero tolerance approach to fraud and corruption, and as such had a designated team specialising in anti-fraud and corruption activity.

The Head of Internal Audit advised that the refreshed document was significantly different to that which it was to replace, and was an umbrella document referring to a list of supporting policies. The refreshed Strategy principles would also be applied at the Council's anti-fraud partner councils, ie Suffolk Coastal District Council and Ipswich Borough Council.

RESOLVED

1. That the refreshed Anti-Fraud and Corruption Strategy be endorsed.

RECOMMENDED TO FULL COUNCIL

2. That the Fraud and Corruption Management Strategy set out at Part 5 of the Council's Constitution be replaced with the refreshed Suffolk Coastal District Council and Waveney District Council Anti-Fraud and Corruption Strategy August 2016, as set out at Appendix A to Report REP1254.

14 INTERNAL AUDIT CHARTER

The Cabinet Member for Resources & Welfare Reforms asked the Head of Internal Audit to present a report which informed the Committee of the refreshed Internal Audit Charter, which was reviewed every two years to take account of any practical or best practice changes. The Internal Audit Charter had last been reviewed on 18 September 2014 by the Committee, and set out who Internal Audit were, what their roles were, and how they interacted with the rest of the Council.

The Internal Audit Charter set out at Appendix A to the report followed the headings and requirements of the Public Sector Internal Audit Standards (PSIAS) 2013. There were no material changes, rather clearer definitions over roles and responsibilities.

The Head of Internal Audit advised that, since writing the report and Charter, some further expected changes had come to light, and she would therefore be bringing a further updated Internal Audit Charter to Members in January 2017.

RESOLVED

That the refreshed Internal Audit Charter attached at Appendix A to Report REP1462 be noted, and that a further refresh of the Charter be presented to the Committee's next meeting on 12 January 2017.

15 CURRENT POSITION OF THE WORK PROGRAMME

The Democratic Services Officer reminded Members that at its meeting on 3 March 2015 the Committee had approved its work programme for 2016/17. The Work Programme showed proposed timings for the individual reports planned for the year, however it was a live document and was subject to change throughout the year, for example with the addition of the further Internal Audit Charter update agreed under the previous item.

The Chairman had asked that the current position of the Committee's work programme be provided at each meeting of the Committee, and the work programme as it currently stood was set out at Appendix A to the report for Members' information. The Work Programme was based around the Committee's Terms of Reference as set out in the Council's Constitution.

A Member asked whether the now 12-item agenda planned for January 2017 was excessive, and was advised that this size of agenda was not unusual for the Committee, and that indeed today's agenda had consisted of 11 items. Many Members of the Committee were highly experienced in scrutinising these annual reports, and it was therefore felt that the size of the agenda would not prevent Members from adequately scrutinising the Council's financial, democratic and audit reports. The Democratic Services Officer added that the Head of Internal Audit would advise if she felt that any particular agenda was likely to be unmanageable, and amendments to the Work Programme would be made as necessary.

RESOLVED

That the current position of the Committee's Work Programme for 2016/17 be noted.

16 EXEMPT/CONFIDENTIAL ITEM

RESOLVED

That under Section 100A of the Local Government Act 1972 (as amended) the public and press be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of 'exempt' information as defined in Paragraph 7 of Schedule 12A of the Act.

17 MINUTES

RESOLVED

That the Exempt Minutes of the Audit & Governance Committee meeting (Part Two) held on 20 June 2016 be approved as a correct record and signed by the Chairman.

The meeting was concluded at 7.37pm

Chairman