

Minutes of the Audit & Governance Committee
held at Riverside, Lowestoft on **Thursday, 17 January 2019 at 6.00pm**

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Audit & Governance Committee Members Present:

Councillors S Woods (Chairman), E Back, M Barnard, L Coulam and A Green.

Cabinet Members Present:

Councillor B Provan – Cabinet Member for Resources.

Officers Present:

K Blair (Head of Operations), L Fuller (Audit Manager), S Martin (Head of Internal Audit), A Stapleton (Senior Auditor), S Taylor (Chief Finance Officer) and S Davis (Democratic Services Officer).

Others Present:

T Poynton (Ernst & Young).

1 APOLOGIES / SUBSTITUTES

Apologies were received from Councillors Ardley, Gandy and L Smith.

2 DECLARATIONS OF INTEREST

No declarations of interest were made.

3 MINUTES

RESOLVED

That the Minutes of the Meeting held on 20 September 2018 be approved as a correct record and signed by the Chairman.

4 ANNUAL AUDIT LETTER FOR THE YEAR ENDED 31 MARCH 2018

The Committee received a report enclosing Ernst & Young's (EY) Annual Audit Letter which communicated the key issues arising from their work to Members and external stakeholders including members of the public. Members were reminded that they and Council had already considered the detailed findings of EY's work in July 2018 as part of the Audit Results Report.

Mr Poynton went through the Annual Audit Letter and reported that it was similar to the Audit Results Report but was aimed at the wider stakeholder groups and, therefore, contained less jargon and was a summary of the work done and the conclusions reached, risks identified, how apply the materiality of work and unqualified financial statements. He concluded that the Grant Certificate would be presented to Members at their March meeting.

Reference was made to the fact that the audit fees for the core work had increased due to additional audit work undertaken in relation to the significant weaknesses identified by the Head of Internal Audit, particularly in relation to the Asset Management Strategy and Contract Management.

RESOLVED

That the key findings within Ernst & Young's Annual Audit Letter for the Year Ended 31 March 2018 be noted.

5 EXTERNAL AUDIT PLAN FOR 2018/19

The Committee received a report enclosing Ernst & Young's (EY's) External Audit Plan which summarised their assessment of the key risks driving the development of an effective audit for the Council and also outlined their planned Audit Strategy in response to those risks.

Mr Poynton reported that the Plan informed Members of the approach and scope to be undertaken ensuring compliance with statutory requirements. Members were informed that there were no changes in the scope of work from that previously reported.

The Committee received a summary of the significant accounting and audit matters outlined in the report which gave an overview of EY's initial risk identification for the upcoming audit and any changes in risks identified in the current year. It was noted that capitalisation of revenue expenditure on property, plant and equipment was now shown as a separate risk given the extent of the Council's capital programme. It had also been identified that there was a risk that fixed assets might be under/overstated or the associated accounting entries incorrectly posted. Mr Poynton also highlighted other areas of audit focus and it was noted that the Chief Finance Officer would submit a paper on these to Ernst and Young in the near future. In terms of materiality for the audit of the financial statements this had initially been determined as £1.55m based on 2% gross operating expenditure and EY wanted a reasonable assurance that the accounts were accurate. Members were reminded that performance materiality had set thresholds and depended on risk. In addition, Audit had a different threshold with 5% materiality and any uncorrected errors identified over £77,500 would need to be reported to Committee. Mr Poynton stated that it would be useful if Members noted and agreed the materiality levels. Members noted that Debbie Hanson was the new Associate Partner who would sign off the reports.

The Chief Finance Officer reported that the risks were the same as those identified in the past, although he was working on IFRS15 and IFRS9 to assure auditors that everything had been dealt with correctly. The Committee was informed that, following the procurement exercise run by the Public Sector Audit Appointments Ltd, the audit fees for 2018/19 had decreased by £17,814 in relation to core audit work. In response to a query, the Chief Finance Officer reported that additional work would be monitored this year so it was possible there could be an additional fee.

RESOLVED

That the 2018/19 External Audit Plan and materiality criteria be noted.

6 INTERNAL AUDIT: PROGRESS AGAINST THE AUDIT PLAN 2018-19

The Cabinet Member for Resources stated that the report provided Members with an update on progress made against the Plan for the period 1 April 2018 to 30 November 2018.

The Head of Internal Audit referred Members to the table detailing progress against the Plan and indicated that, unfortunately, given the Audit team only had 6.2 fte staff, the introduction of GDPR had taken up a lot of the team's time, equating to 253 days which had impacted on progress against the Plan. In addition, one of the Senior Auditors had resigned and a significant amount of time had been spent providing extra support for managers. Members were assured that the Team would still cover the main areas of work but that there were some key risk areas which would need to be deferred and a new Plan would be submitted to the Committee's March meeting for consideration.

Whilst the Chairman acknowledged that it was clear a lot of the Team's resources had been diverted to other areas of work, he expressed disappointment at the lack of progress against the Plan and queried whether this would have a knock on effect with the external auditors. Mr Poynton stated that EY did not have to rely on the Internal Audit Team's work as such but did look at reports and risks and if the Annual Governance Statement was accurate. He stressed that, at the moment, he did not have any concerns that the control environment was not functioning correctly.

The Chairman queried if team resources would be an ongoing problem and the Head of Internal Audit responded that she hoped to be able to replace the Senior Auditor post shortly but obviously carrying the vacancy impacted on progress in the meantime. She added that depending on the continued impact of work around Data Protection, she might need to request an expansion to the team next year.

RESOLVED

That the Internal Audit: Progress Against the Audit Plan 2018-19 report be noted.

7 WHISTLEBLOWING POLICY

The Cabinet Member for Resources presented a report requesting the Committee to fulfil its terms of reference by regularly reviewing the Council's Whistleblowing Policy.

The Head of Internal Audit reported that the Committee had last reviewed the Policy in September 2016 and the main content remained compliant with expected good practices but minor changes had been made to the structure and length following a review by Protect, formerly known as Public Concern at Work who had suggested the document should be clearer with simplified words so that anyone reading it could understand it. Members were also informed that one key change was the emphasis from "whistleblowing in the public interest" to "whistleblowing in good faith".

Several Members commented that the revised Policy was much easier to read.

RESOLVED

That the refreshed Whistleblowing Policy be endorsed.

8 CURRENT POSITION OF THE WORK PROGRAMME

The Committee reviewed the Work Programme and it was noted that due to the Monitoring Officer's absence, her two reports had been deferred from this meeting to the 7 March 2019.

The Chairman suggested that the Committee's Terms of Reference scheduled to be considered on 7 March should be removed as the new East Suffolk Audit & Governance Committee would consider their own Terms of Reference. The Head of Audit clarified that it had only been scheduled to be considered as it was a standard item rather than for a specific reason. She suggested that the Annual Governance Statement be added to 7 March 2019 meeting.

The Chairman referred to the two previously suggested items relating to the Communication and Engagement Strategy and the Tree Preservation Order change to the Constitution and suggested that these should also be removed from the Work Programme as they were no longer required due to the imminent creation of East Suffolk Council.

A suggestion was also made that the previously agreed procurement training be rescheduled to the new Municipal Year so that East Suffolk Councillors could attend.

RESOLVED

That the current position of the Work Programme for 2018/19 be noted and updated as agreed above.

9 EXEMPT/CONFIDENTIAL ITEMS

RESOLVED

That under Section 100(A)(4) of the Local Government Act 1972 (as amended), the public were excluded from the meeting for the following items of business on the grounds that it involved the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Act.

10 CHANGE IN ORDER OF BUSINESS

With the agreement of the Committee, the Chairman changed the order of business to allow item 11 on the agenda relating to Internal Audit: Status of Recommendations to be heard prior to item 10 – Internal Controls – Status Update: Contracts, Asset Management and Health & Safety Records with Partners – Interim Update.

11 INTERNAL AUDIT: STATUS OF RECOMMENDATIONS

The Cabinet Member for Resources introduced the report which listed the status of all recommendations that had been made as a result of Internal Audit reviews over the past three years, providing an overview of the number of recommendations that had been completed and those that were pending.

RESOLVED

That the report be noted.

12 INTERNAL CONTROLS – STATUS UPDATE: CONTRACTS, ASSET MANAGEMENT AND HEALTH & SAFETY RECORDS WITH PARTNERS – INTERIM UPDATE

The Committee was reminded that they had received an update at their last meeting on progress against the overdue audit recommendations as set out in the Internal Audit: Status of Recommendations report, together with updates in relation to Asset Management, Contract Management and Health and Safety with the Leisure and Operations Partnership and had then requested an interim update in January 2019 with a final report in March 2019.

The Head of Operations gave a verbal update and the point was made that some of the Internal Audit recommendations went back to 2016 so it was pleasing that an assurance had been given that they would all be completed by 31 March 2019 and in time for the end of Waveney District Council.

The Head of Internal Audit reported that everything seemed very positive to date and once the Head of Operations notified her that the actions were all completed, she would assign an Internal Audit Officer to undertake tests.

RESOLVED

That the verbal interim update be noted.

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RESOLVED

That the report be noted.

14 INTERNAL AUDIT: RECENTLY ISSUED REPORTS

The Cabinet Member for Resources introduced the report which gave details of recently issued Internal Audit Reports in relation to Commercial Rents 2018/19, Criminal Finance Act 2017, Housing Rents 2017/18 and Treasury Management 2018/19.

RESOLVED

That the Head of Audit's report containing the four recently issued reports be noted and the Head of Operations be asked to respond to the questions raised at the meeting.

15 MINUTES

RESOLVED

That the Exempt Minutes of the last meeting (Part Two) held on 20 September 2018 were confirmed as a correct record and signed by the Chairman.

The meeting was concluded at 7.05pm.

Chairman