

# AUDIT COMMITTEE

25 JUNE 2015

## REPORT OF CORPORATE DIRECTOR (CORPORATE SERVICES)

### A.4 AUDIT COMMITTEE – TABLE OF OUTSTANDING ISSUES

(Report prepared by Richard Barrett)

#### PART 1 – KEY INFORMATION

##### PURPOSE OF THE REPORT

To present to the Committee the progress against outstanding actions identified by the Committee.

##### EXECUTIVE SUMMARY

- The Table of Outstanding Issues has been reviewed and updated since it was last considered by the Committee at its 19 March 2015 meeting.
- To date there are no significant issues to bring to the attention of the Committee, with updates provided against individual items set out in **Appendix A** or elsewhere on the agenda where appropriate.

##### RECOMMENDATION(S)

That the Committee:

- a) Reviews and notes the progress against the outstanding issues.

#### PART 2 – IMPLICATIONS OF THE DECISION

##### DELIVERING PRIORITIES

The existence of sound governance, internal control and financial management practices and procedures are essential to the delivery of Corporate priorities supported by effective management and forward planning within this overall framework.

##### FINANCE, OTHER RESOURCES AND RISK

###### Finance and other resources

There are no significant financial implications associated with monitoring of the agreed actions or responses. If additional resources are required then appropriate steps will be taken including any necessary reporting requirements.

For information the External Auditors Fee letter relating to 2015/16 is attached. This highlights a 2015/16 proposed fee that is significantly lower than 2014/15, which reflects the on-going reduction in fees seen over the last few years. The 2015/16 budget is £86,840 which is sufficient to meet the external audit fees of £75,087 and allows for the cost of additional work that may be required outside of the basic fee.

###### Risk

The Table of Outstanding Issues is in itself a response to potential risk exposure with further activity highlighted to address matters raised by the Audit Committee.

##### LEGAL

There are no direct legal implications associated with this report.

#### **OTHER IMPLICATIONS**

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

**Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.**

This report does not have a direct impact although such issues could feature in future recommendations and actions. Any actions that may have an impact will be considered and appropriate steps taken to address any issues that may arise.

### **PART 3 – SUPPORTING INFORMATION**

#### **TABLE OF OUTSTANDING ISSUES**

A Table of Outstanding Issues is maintained and reported to each meeting of the Committee. This approach enables the Committee to effectively monitor progress against issues and items that form part of its governance responsibilities.

An updated Table of Outstanding Issues is set out in **Appendix A**.

Previously the Committee have been advised of the progress against actions identified within the 2013/14 Annual Governance Statement within this report. The latest position on these actions is set out within the 2014/15 Annual Governance Statement that appears elsewhere on the agenda. Subject to the agreement of the 2014/15 Annual Governance Statement, any outstanding, revised or new actions will be included in future Table of Outstanding Issues reports to ensure members are kept up to date with progress.

#### **Update Against Issues Raised**

Any actions identified by the Committee at its last meeting have now been included where appropriate.

Updates against items either appear as separate items elsewhere on the agenda or set out within the Appendices, with work scheduled or remaining in progress against all items.

#### **Other Matters for Consideration**

**The End of the Audit Commission** - The formal closure of the Audit Commission took place on 31 March 2015 which marks the point at which other organisations become responsible for delivering several of the Commission's functions. Further details are set out in **Appendix B** which lists each key area of activity and who is now responsible.

#### **BACKGROUND PAPERS FOR THE DECISION**

None

#### **APPENDICES**

**Appendix A** – Table of Outstanding Issues (June 2015) – General.

**Appendix B** - The Audit Commission's Closure: An Overview

**Attached – External Audit Fee Letter 2015/16**

## AUDIT COMMITTEE - Table of Outstanding Issues (June 2015)

<b>GENERAL</b>					
Governance Area	Activity / Subject	Recommendation / Issue	Lead Service	Progress / Comments	Status - Target Date
<b>General Governance</b>	<b>Outcomes from work of Internal Audit</b>	<p>The Audit Committee have maintained a watching brief on a range of planning issues such as enforcement and S106 agreements. The relevant Portfolio Holder and a representative from the service have attended previous Committee's to provide general updates.</p> <p>At its December 2014 meeting the Committee discussed the Community Infrastructure Levy and its future impact on the Council and requested that the topic be included in a Member's Briefing session when next appropriate.</p>	Head of Planning Services	<p>General S106 updates will remain on the Committee's work programme for 2015/16 with the next one planned for later in the year.</p> <p>The Community Infrastructure Levy has been put forward as a future item for an All Members briefing session when the next appropriate opportunity arises.</p>	<b>On-going</b>
<b>External Audit</b>	<b>Future Change</b>	<p>At its meeting on 13 December 2012, the Audit Committee resolved:</p> <p><i>That the local procurement of external audit services along with any impact on Parish/Town Councils is added to the Table of Outstanding Issues for future consideration.</i></p>	Finance and Procurement Manager	<p>Under current proposals, Local Authorities will be able to appoint their own external auditors from 2017 (subject to the potential extension of existing arrangements). Independence, quality and governance arrangements will form part of any procurement decision which will be undertaken within the necessary timescales to be in a position to confirm appointment when applicable.</p>	<b>2016/17</b>
<b>Risk Management</b>	<b>Effective Management of the Council's Property Portfolio</b>	<p>Following the Audit Committee's training session on 23 October 2014, Officers were requested to keep the Committee up to date with the property risk audit that is to be undertaken in partnership with the Council's insurers.</p>	Finance and Procurement Manager	<p>The Council's insurers are currently 'designing' and scoping the necessary work which will be phased across the diverse range of properties owned / operated by the Council.</p>	<b>On-going</b>
<b>Recommendations from the External Auditor</b>	<b>Certification of Claims and Returns Annual Report 2013/14</b>	<p>At its 19 March 2015 meeting the Committee considered the External Auditor's Certification of Claims and Returns Report for 2013/14 and approved the following recommendation :</p> <p>[That in respect of the Housing Benefits Subsidy Claim] Perform early extended testing in those areas where errors were identified in 2013/14 to ascertain the extent of similar errors arising in 2014/15.</p>	Corporate Director (Life Opportunities)	<p>Additional testing is being arranged as part of the 2014/15 subsidy claim along with additional training being provided. Also high risk areas are being reviewed by a designated officer within the service to support the overall subsidy process, which also formed part of the assurance / quality review undertaken by the Council's S151 Officer in authorising the subsidy claim for 2014/15.</p>	<b>In progress as part of 2014/15 Subsidy Claim and associated audit work</b>

<b>Risk Management</b>	<b>Housing and Regeneration activities - Jaywick</b>	<p>At its 19 March 2015 meeting the Committee considered a report on Housing Development in the Tendring District and resolved:</p> <p>(b) a training session be held for Members of the Committee on identifying and discussing all potential risks pertaining to the new housing development in Jaywick. Such training session to be held on Thursday 16 July 2015 commencing at 6.30 p.m. in the Council Chamber, Council Offices, Thorpe Road, Weeley and to which the relevant Portfolio Holders(s), Ward Members for Golf Green, Corporate Director (Life Opportunities), other appropriate Officers and the Council's External Auditor be invited to attend.</p>	Finance and Procurement Manager	<p>Development in Jaywick has been recognised within the Annual Governance Statement set out elsewhere on the agenda, which will therefore be a key area that will be kept under review and reported to Members in 2015/16.</p> <p>In consultation with the Audit Committee Chairman, it is proposed to hold a training session for Members as part of the next phase of the Jaywick project later in the year, which will also provide an opportunity to provide a general update to the Committee as requested.</p>	<b>Second half of 2015/16</b>
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### AUDIT COMMITTEE - Table of Outstanding Issues (June 2015)

<b>The Audit Commission's Closure: An Overview</b>		
Key Activity	Responsible Body	Responsibility
<b>Audit contracts</b>	<b>Public Sector Audit Appointments Ltd</b>	An independent company created by the Local Government Association, called Public Sector Audit Appointments Limited (PSAA), will be responsible for overseeing the Commission's current external audit contracts with audit firms from 1 April 2015 until December 2017 or up to 2020. It will manage the contracts and exercise statutory powers to appoint auditors, set and determine fees, and to make arrangements for housing benefit subsidy certification.
<b>Grant certification</b>	<b>Public Sector Audit Appointments Ltd</b>	The role of making arrangements for housing benefit subsidy certification will transfer to Public Sector Audit Appointments Limited from 1 April 2015. It is intended that this role will continue until housing benefit is rolled into Universal Credit, or until the audit contracts end – whichever happens first. The independent company will not have a role in relation to the certification of other grant claims.
<b>Analytical tools.</b>	<b>Public Sector Audit Appointments Ltd</b>	Three of the Audit Commission's analytical tools that are primarily maintained to support audit contracts will transfer to Public Sector Audit Appointments Limited and will continue until the end of the current audit contracts: the two Value for Money Profiles Tools (for councils and for fire authorities), and the Audit Fees Comparator Tool.
<b>Professional conduct of auditors</b>	<b>Professional Accountancy Bodies until 2017</b> <b>Recognised Supervisory Body 2017 to 20120</b>	The professional conduct of auditors will continue to be regulated by the professional accountancy bodies. From 2017 or up to 2020, a Recognised Supervisory Body (RSB) will determine the eligibility of local public auditors and register them. The RSB will be recognised and supervised by the Financial Reporting Council. The Financial Reporting Council's Audit Quality Review team will review the major local public audits carried out by auditors through new regulatory arrangements.
<b>Code of Audit Practice</b>	<b>National Audit Office</b>	The National Audit Office will produce and maintain the Code of Audit Practice and provide supporting guidance to auditors from 1 April 2015.
<b>Provision of information about audit.</b>	<b>National Audit Office</b>	The National Audit Office will publish information previously provided by the Audit Commission. The NAO will become the owner of Council Accounts: A Guide to Your Rights, often referred to as the guide to the electorate's rights with regard to the audit of their local authority. Public Sector Audit Appointments Limited will continue to publish Auditing the Accounts and quarterly and annual reports on auditor compliance and audit quality.
<b>National value for money studies.</b>	<b>National Audit Office</b>	Building on its existing work, including in the Health sector, the National Audit Office now also carries out studies which consider the value for money of services delivered by the local government sector.
<b>Whistleblowing</b>	<b>Comptroller and Auditor General</b>	The Comptroller and Auditor General will be a prescribed person to whom whistleblowing disclosures can be made in respect of local public bodies under the Public Interest Disclosure Act 1998 from 1 April 2015. Appointed auditors retain their status as a prescribed person under the Act.
<b>National Fraud Initiative</b>	<b>Cabinet Office</b>	The Audit Commission powers to conduct the National Fraud Initiative will pass to Cabinet Office on 1 April 2015, and the NFI will run under Cabinet Office powers from that date onwards. The NFI matches data provided by some 1,300 participating organisations from across the public and private sectors against data provided by other participants, and key data sets provided by government departments and other national agencies, to prevent and detect fraud.
<b>Best value inspections</b>	<b>DCLG</b>	The power to carry out Best Value inspections (not exercised by the Audit Commission since 2010) transferred to the Secretary of State for Communities and Local Government on 4 April 2014.

*The above information has been taken from details published by the Audit Commission (March 2015)*

Ian Davidson  
Chief Executive  
Tendring District Council  
Town Hall  
Clacton-On-Sea  
Essex  
CO15 1SE

10 April 2015

Ref: TDC/Fee letter 15-16

Direct line: 07967 624 335

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Dear Ian

## Annual Audit and Certification Fees 2015/16

We are writing to confirm the audit and certification work that we propose to undertake for the 2015/16 financial year at Tendring District Council.

Our 2015/16 audit is the first that we will undertake following the closure of the Audit Commission on 31 March 2015. Our contract will now be overseen by Public Sector Audit Appointments Ltd (PSAA), an independent company set up by the Local Government Association, until it ends in 2017 (or 2020 if extended by the Department of Communities and Local Government).

The responsibility for publishing the statutory Code of Audit Practice, under which we will conduct our audit work, has transferred to the National Audit Office.

### Indicative Audit Fee

The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies, applying from 2015/16 audits.

The audit fee covers the:

- Audit of the financial statements
- Value for money conclusion
- Whole of Government accounts.

For the 2015/16 financial year the Audit Commission has set the scale fee for each audited body prior to its closure. The scale fee is based on the fee initially set in the Audit Commission's 2012 procurement exercise, reduced by 25% following the further tendering of contracts in March 2014. It is not likely to increase during the remainder of our contract without a change in the scope of our audit responsibilities.

The 2015/16 scale fee is based on certain assumptions, including:

- ▶ The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;
- ▶ We are able to place reliance on the work of internal audit to the maximum extent possible under auditing standards;
- ▶ The financial statements will be available to us in line with the agreed timetable;
- ▶ Working papers and records provided to us in support of the financial statements are of a good quality and are provided in line with our agreed timetable; and
- ▶ Prompt responses are provided to our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee which is set out in the table below.

For Tendring District Council this fee is set at the scale fee level as the overall level of audit risk is not significantly different from that of the prior year.

As we have not yet completed our audit for 2014/15, our audit planning process for 2015/16 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

#### Certification fee

The Audit Commission has set an indicative certification fee for housing benefit subsidy claim certification work for each audited benefits authority. The indicative fee is based on actual 2013/14 benefit certification fees and incorporating a 25 per cent reduction.

The indicative certification fee is based on the expectation that an audited body is able to provide the auditor with a complete and accurate housing benefit subsidy claim with supporting working papers, within agreed timeframes.

The indicative certification fee for 2015/16 relates to work on the housing benefit subsidy claim for the year ended 31 March 2016. We have set the certification fee at the indicative fee level. We will update our risk assessment after we complete 2014/15 benefit certification work, and to reflect any further changes in the certification arrangements. We will report the final indicative fees for 2014/15 in our 2015/16 Certification Report.

## Summary of Fees

	Indicative fee 2015/16 £	Planned fee 2014/15 £	Actual fee 2013/14 £
Total Code audit fee	58,708	78,277**	93,699*
Certification of claims and returns	16,379****	19,090****	23,746***
Non audit work	n/a	n/a	n/a

\* In 2013/14, the Audit Commission set the scale fee for the Code audit at £77,377. The final audit fee was £93,699, following extra audit work in reviewing the Council's tendering arrangements for coastal protection, the impact of the High Court Judgement on the Council's local council tax scheme, questions and correspondence from the public and extra audit procedures required to gain sufficient audit assurance around business rate income.

\*\* The Audit Commission initially set the set the 2014/15 Code audit scale fee at £77,377. The increase of £900 to £78,277 reflects extra audit procedures required to gain sufficient audit assurance around business rate income. This is because certification work on Business Rates was withdrawn from the Audit Commission's grants and returns regime in 2013/14.

\*\*\* In 2013/14 the Audit Commission set the certification of claims and returns scale fee at £16,931. The final certification fee was £23,746 due to the additional testing on the 2013-14 housing benefits and the pooling of capital receipts return.

\*\*\*\* For 2013/14, grant claim certification included work on both housing benefits and the pooling of capital receipts return. Following the closure of the Audit Commission on 31 March 2015, 2014/15 and 2015/16 certification fees relate only to claims for housing benefit subsidy under the audit contracts managed by the PSAA.

Any additional work that we may agree to undertake (outside of the Audit Code of Practice) will be separately negotiated and agreed with you in advance.

## Billing

The indicative audit fee will be billed in 4 quarterly instalments.

## Audit Plan

Our audit plan is expected to be issued in March, 2016. This will communicate any significant financial statement risks identified, planned audit procedures to respond to those risks and any changes in fee. It will also set out the significant risks identified in relation to the value for money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Finance and Procurement Manager and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Audit Committee.



Audit team

The key members of the audit team for the 2015/16 financial year are:

Neil Harris  
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We are committed to providing you with a high quality service. If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, please contact me. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London, SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute.

Yours sincerely

Neil A Harris  
Audit Director  
For and on behalf of Ernst & Young LLP

cc. Richard Barrett, Finance and Procurement Manager  
Councillor Griffiths, Chairman of the Audit Committee