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**MINUTES OF THE MEETING OF THE AUDIT COMMITTEE HELD****ON THURSDAY 26 JANUARY 2017****AT 7.30 P.M. IN THE COUNCIL CHAMBER, COUNCIL OFFICES, WEELEY**

**Present:** Councillors Coley (Chairman), Griffiths (Vice-Chairman), Hones and Poonian

**In Attendance:** Head of Finance, Revenues & Benefits Services & Section 151 Officer (Richard Barrett), Audit and Governance Manager (Steve Blake) and Committee Services Manager (Ian Ford)

**Also in Attendance:** Chris Hewitt (Ernst & Young – External Auditor)

**19. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

An apology for absence was submitted on behalf of Councillor Stephenson (with Councillor Hones substituting).

**20. MINUTES OF THE LAST MEETING**

The minutes of the meeting of the Committee held on 22 September 2016 were approved as a correct record and signed by the Chairman, subject to the correction of a minor typographical error in Minute 13.

**21. DECLARATIONS OF INTEREST**

There were none on this occasion.

**22. REPORT ON INTERNAL AUDIT – SEPTEMBER 2016 – NOVEMBER 2016**

The Council's Audit and Governance Manager (Steve Blake) provided a periodic report on the Internal Audit function for the period of September 2016 to November 2016, which also set out the proposed budget for Internal Audit for 2017/18 and also the arrangements for the first stage of seeking the mandatory external review of Internal Audit.

The Audit and Governance Manager informed the Committee that 11 audits had been completed with the final report issued and 9 audits completed in the period had achieved a satisfactory level of assurance, with two exceptions (Procurement – Contractor Use and Payroll/Human Resources – Computer Application Review) receiving an "improvement required" classification.

The Audit and Governance Manager also informed the Committee of the current position in relation to:

- (i) Public Sector Internal Audit Standards;
- (ii) Standard 1110 Organisational Independence;
- (iii) Standard 1312 External Assessments;
- (iv) Internal Audit Plan Progress;
- (v) Emerging Key Projects;
- (vi) Fraud and Compliance Team review;
- (vii) Quality Assurance;

- (viii) Outcomes of Internal Audit Work;
- (ix) Procurement – Contractor Use;
- (x) Payroll/Human Resources – Computer Application Review; and
- (xi) Management response to Internal Audit findings.

Following discussion and questions by Members, it was:

**RESOLVED** that

- (a) the contents of the report be noted;
- (b) the proposed Internal Audit budget for 2017/18 be approved;
- (c) the Committee confirms its agreement to the approach to be adopted for the forthcoming external assessment of the Internal Audit function and;
- (d) the changes to the Internal Audit plan, as detailed in the report, be approved.

### **23. CORPORATE RISK UPDATE**

There was submitted a report by the Council's Corporate Director (Corporate Services), which presented to the Committee an updated Risk Management Framework and Corporate Risk Register.

It was reported that the Risk Management Framework had been updated to reflect updated guidance on corporate governance.

It was also reported that the Corporate Risk Register was regularly updated and presented to the Committee every six months.

Members were informed that three new risks had been identified and added to the Corporate Risk Register, no risks had been removed and no risks had been amended. One risk score had been amended.

The Committee was informed of the reasons why the following three new risks had been identified and added to the Corporate Risk Register:

- (1) Risk 2i Garden Communities;
- (2) Risk 3c Health and Safety; and
- (3) Risk 3d Fraud and Corruption.

Members were further informed of the reasons that a risk score amendment had been made in respect of:

Risk 5a Financial Strategy.

Having considered and discussed the report it was:

**RESOLVED** that the updated Risk Management Framework and the current Corporate Risk Register be noted.

### **24. CODE OF CORPORATE GOVERNANCE**

There was submitted a report by the Council's Corporate Director (Corporate Services), which sought approval for a new Code of Corporate Governance reflecting the requirements of the new local government framework.

Members were reminded that the current Code of Corporate Governance had been approved by the Committee at its meeting held on 25 June 2015 (Minute 5 referred). That Code had been consistent with the principles of the CIPFA/Solace Framework "Delivering Good Governance in Local Government (2007).

However, it was reported that CIPFA/Solace had published an updated framework in 2016 which was applicable to local authorities from 2016/17 onwards and therefore it had been necessary to produce a new Code of Corporate Governance that reflected the new framework.

The proposed new Code was before the Committee for consideration as Appendix A to item A.3 of the Report of the Corporate Director (Corporate Services).

Having considered and discussed the report and the proposed new Code it was:

**RESOLVED** that the Code of Corporate Governance, as set out in Appendix A to item A.3 of the Report of the Corporate Director (Corporate Services), be approved.

**25. EXTERNAL AUDIT'S ANNUAL AUDIT LETTER 2015/16**

There was submitted a report by the Council's Corporate Director (Corporate Services), which presented to the Committee the External Auditor's Annual Audit Letter 2015/16.

The Committee was informed that the Letter primarily summarised the outcomes from various audit activities undertaken during the year. The key messages set out in the letter highlighted that the Council had received an unqualified opinion on both its financial statements and value for money arrangements.

It was reported that, whilst no significant concerns had been raised relating to 2015/16, a number of points had been identified to consider in the future in addition to the overall challenge of identifying the necessary savings to meet forecasted budget gaps in 2018/19 and 2019/20 which would remain one of the top priorities for the Council in 2017/18.

The Committee had before it the Officers' responses to the points raised by the External Auditor in respect of the following:

- (a) Economic impact of the EU Referendum;
- (b) Faster closure of Accounts; and
- (c) Appointment of External Auditors.

**RESOLVED** that the contents of the Annual Audit Letter 2015/2016 be noted.

**26. APPOINTMENT OF EXTERNAL AUDITOR FROM 2018/19**

There was submitted a report by the Council's Corporate Director (Corporate Services), which set out the proposal to opt in to the Public Sector Audit Appointments (PSAA) arrangements for appointing External Auditors from 2018/19.

The Committee was reminded that, following the demise of the Audit Commission, new arrangements had been needed for the longer term appointment of external auditors and that the Local Audit and Accountability Act 2014 required the Council to, either opt in to an appointing person regime, or to establish an auditor panel and conduct their own procurement exercise once the existing contract with Ernst and Young expired.

It was reported that, as part of closing the Audit Commission, the Government had novated external audit contracts to PSAA on 1 April 2015. Those contracts were due to expire following conclusion of the audits of the 2016/17 accounts, but could be extended for a period of up to three years by PSAA, subject to approval from the Department for Communities and Local Government.

In October 2015 the Secretary of State had confirmed that the transitional provisions would be amended to allow an extension of the contracts for a period of one year. This meant that for the audit of the 2018/19 accounts it would be necessary for Authorities to either undertake their own external audit procurement process or opt in to an appointed person regime. An appointed person regime was to a large extent how the external auditors had been appointed under the previous Audit Commission arrangements.

Members were advised that there had been a degree of uncertainty around the new appointed person regime until July 2016 when PSAA had been specified by the Secretary of State as an appointing person body. The appointing person was sometimes referred to as the sector led body and PSAA had wide support across local government. PSAA had originally been established to operate the transitional arrangements following the closure of the Audit Commission and was a company owned by the Local Government Association's Improvement and Development Agency (IDeA).

The Committee was informed that an invitation to local authorities to opt in had been received from the PSAA on 27 October 2016 and a response was required by 9 March 2017. Subject to the agreement of this Committee, the recommendation to make use of the appointing person arrangements offered by PSAA would be considered by Council on 7 February 2017, as required by the Regulations.

The Committee was made aware that the main advantages of opting in to the PSAA's appointing person option was set out in its prospectus which were summarised below, namely:

- Assure timely auditor appointments;
- Manage independence of auditors;
- Secure highly competitive prices;
- Save on procurement costs;
- Save time and effort needed on auditor panels;
- Focus on audit quality; and
- Operate on a not for profit basis and distribute any surplus funds to scheme members.

Members were informed that the alternative approach of establishing an auditor panel and conducting a local procurement process would be a far more resource intensive process and without the bulk buying power of the sector led procurement it would be likely to result in a more costly External Audit service.

The Committee was advised that, via discussions with other authorities, it was understood by Officers that most (if not all) other Authorities across Essex would be opting in to the new PSAA appointing person approach.

Having considered the matter it was:

**RESOLVED** that the Committee recommends to Council that this Council opts in to the appointing person arrangements made by Public Sector Audit Appointments for the appointment of external auditors from 2018/19.

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**27. AUDIT COMMITTEE – TABLE OF OUTSTANDING ISSUES**

There was submitted a report by the Council's Corporate Director (Corporate Services) which presented to Members the progress against outstanding actions identified by the Committee.

It was reported that there were no significant issues to bring to the attention of the Committee, with updates provided against individual items, as set out in Appendix A to item A.6 of the Report of the Corporate Director (Corporate Services), or elsewhere on the agenda where appropriate.

Updates against actions identified within the Annual Governance Statement 2015/16 were set out in Appendix B with no significant issues to highlight at the present time.

The Committee recalled that, at its meeting held on 22 September 2016 (Minute 13 referred), it had agreed to invite the Planning and Regeneration Portfolio Holder to the next meeting of the Committee to discuss issues relating to Section 106 agreements. However, this invite had been revised by the Head of Revenues, Benefits and Revenues Services to the March 2017 meeting of the Committee, which would provide a better opportunity to review the latest position / update from the service in terms of improvement actions undertaken.

The Head of Revenues, Benefits and Revenues Services circulated an update on HRA Impairment Charges on the land purchased in Jaywick during 2104/15 and 2015/16 following a recent HRA determination by the Government.

It was **RESOLVED** that the progress made against the outstanding issues be noted.

**28. ITEMS SCHEDULED FOR THE NEXT MEETING OF THE COMMITTEE IN MARCH 2017**

It was reported that items currently scheduled for that meeting included:

- 1) *Internal Audit Regular Monitoring Report*
- 2) *External Audit – Audit Plan 2016/17*
- 3) *Annual Internal Audit Plan 2017/18*
- 4) *Certification of Claims and Returns 2015/16*
- 5) *Audit Committee Work Programme 2017/18*
- 6) *Table of Outstanding Issues (including update against External Audit Recommendations)*

**29. EXCLUSION OF PRESS AND PUBLIC**

It was **RESOLVED** that, under Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting during consideration of Agenda Item 12 on the grounds that it involves the likely disclosure of exempt information as defined in the relevant paragraph(s) of Part 1 of Schedule 12A, as amended, of the Act.

**30. EXEMPT MINUTE OF THE LAST MEETING**

The exempt minute of the meeting of the Committee held on 22 September 2016 was approved as a correct record and signed by the Chairman.

The meeting was declared closed at 8.25 p.m.

Chairman