

**AUDIT COMMITTEE
8th February, 2017**

Present:- Councillor Wyatt (in the Chair); Councillors Allen, Cowles, Ellis and Walsh and Bernard Coleman (Independent Person).

Debra Chamberlain, KPMG, was also in attendance.

Councillor Alam, Cabinet Member for Corporate Services, was in attendance for Minute No. 52 (Risk Register Deep Dive – Assistant Chief Executive).

42. QUESTIONS FROM MEMBERS OF THE PUBLIC OR THE PRESS

There were no members of the press or public present at the meeting.

43. AUDIT COMMITTEE SELF-ASSESSMENT

The Chair proposed that a self-assessment be carried out following the CIPFA publication Audit Committees – Practical Guidance for Local Authorities to ensure that the Committee was effective and identify areas for development.

The CIPFA questionnaire would be e-mailed to Audit Committee Members, key stakeholders and appropriate officers seeking their anonymous comments/scores. The outcome would be submitted to the April meeting for discussion.

Resolved:- That a self-assessment of the Audit Committee be carried out following the CIPFA publication – Audit Committees – Practical Guidance for Local Authorities.

44. MINUTES OF THE PREVIOUS MEETING HELD ON 23RD NOVEMBER, 2016

Consideration was given to the minutes of the meeting held on 23rd November, 2016.

Resolved:- That the minutes of the previous meeting be approved as a correct record for signature by the Chairman subject to the addition of the following wording:-

Minute No. 37(2) “.... be submitted”.

45. INTERNAL AUDIT PROGRESS REPORT

Consideration was given to a report presented by David Webster, Head of Internal Audit, which provided a summary of Internal Audit work completed during November and December, 2016, and the key issues that had arisen therefrom.

Performance against Key Indicators was generally positive with delivery against the amended plan on schedule. No adverse audit opinions had been issued during the last two months. Of the six outstanding actions from the PwC review, two were now green with the remaining four rated as amber.

Summary conclusions in all significant audit work concluded during November and December 2016 were set out in Appendix B of the report submitted together with the audits that were at draft report stage. All assurance opinions were reasonable or substantial.

Allegations of fraud, corruption or other irregularity were also investigated with details of significant investigations completed in the period set out in Appendix C.

The report highlighted:-

- An Internal Audit Plan for 2016/17 had been produced in line with the UK Public Sector Internal Audit Standards
- The Plan had been reviewed and updated at the half year
- Although there was an overall reduction in audit days, it was still sufficient to give the required coverage
- Despite the challenges, Internal Audit was exceeding other key performance targets and feedback on several pieces of work completed demonstrated value added by the Service
- Management responses and action plans were in place for all recommendations made by Internal Audit during the period
- The majority of the actions from the external review had been completed. A new annual assessment against PSIAS had been carried out and the two remaining actions would become part of the action plan from the assessment

Veritau Ltd. had been asked to review and provide independent comment on the progress reports. They had made a number of suggestions on presentation and highlighted areas for review but overall the report accurately reflected the work being undertaken by the Team.

Discussion ensued with the following issues raised/clarified:-

- Development of the 2017/18 Audit Plan underway
- Continued arrangement with Leicester City Council with regard to ICT qualified internal auditors
- Should the monitoring of the Corporate Improvement Plan objectives/priorities be submitted to the Audit Committee?
- Were the whistle blowing incidents stated on Appendix C fed through to the Standards and Ethics Committee?
- There had been progress on audits since production of the report

Resolved:- (1) That the performance of the Internal Audit Service during November and December, 2016, and the key issues that had arisen therefrom be noted.

(2) That the information contained regarding the performance of Internal Audit and the actions being taken by management in respect of the performance be noted.

(3) That the independent assurance provided by Veritau Ltd. on the report be noted.

(4) That discussions take place with the Assistant Chief Executive with regard to the reporting of the Corporate Improvement Plan.

(5) That future summaries of completed audit work should include whether any recommendations relating to whistle blowing allegations had been accepted and implemented to prove validity of the actions.

46. INTERNAL AUDIT ASSESSMENT AGAINST PSIAS

David Webster, Head of Internal Audit, presented the results of the internal self-assessment for 2016-17 to confirm compliance with the Public Sector Internal Audit Standards (PSIAS).

The self-assessment had found that substantial progress had been made in the past year; accordingly the Department now demonstrated partial conformance with the Standards.

Actions would be taken over the coming year to bring the Department to general conformance with the Standards. Appendix 1 of the report submitted contained results of the review in the full checklist giving definitions of general, partial and non-conformance followed by a summary of the results and the detailed result against each standard.

The areas of partial conformance gave rise to actions which would form the Quality Assurance and Improvement Plan for the next year. Key actions included:-

- Embedding new audit scoping, reporting and performance monitoring and management processes
- Individual and team development plans implemented
- Implementation of the electronic audit system, streamlining of administration and reduction of non-productive time
- Development of assurance mapping
- Fully refreshing the Internal Audit Manual to reflect new PSIAS compliant audit policies and procedures
- Establishing a programme to review the Council's Governance Arrangements set out in its Code of Governance

Progress against the action plan would be reported to meetings of the Audit Committee.

The Standards required that an external assessment be carried out every five years by a qualified independent assessor; the next one was due in 2020-21. However, as general conformance had not yet been reached, it was proposed that the next external assessment be carried out next year to verify the general conformance at that time.

Discussion ensued with the following issues raised/clarified:-

- Whether the review should be carried out by the original reviewers to give confidence in the consistency of review
- The dates stated in the report for the review should correspond
- Further discussion required as to how to measure what “good” really was i.e. the team had a good reputation within the Authority

Resolved:- (1) That the result of the self-assessment against the Public Sector Internal Audit Standards (PSIAS) be noted.

(2) That the progress made from the external assessment carried out in 2015/16 be noted.

(3) That an external review be completed in 2018 when general conformance would be reached.

47. LOCAL CODE OF CORPORATE GOVERNANCE

Simon Dennis, Corporate Risk Manager, presented the Council's refreshed Local Code of Corporate Governance setting out how it would comply with the 2016 CIPFA (the Chartered Institute of Public Finance and Accountancy) and SOLACE (the Society of Local Authority Chief Executives) revised guidance on delivering good governance in local government.

The new Guidance set out seven key principles of good governance which the Council's new Local Code now reflected:-

- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law
- Ensuring openness and comprehensive stakeholder engagement
- Determining outcomes in terms of sustainable economic, social and environmental benefits
- Determining the interventions necessary to optimise the achievement of the intended outcomes
- Developing the Council's capacity including the capability of its leadership and the individuals within it
- Managing risks and performance through robust internal control and strong public financial management

- Implementing good practice in transparency, reporting and audit to deliver effective accountability

In many Councils the implementation and operation of the local Code was overseen by a Governance Group. Ideally the Group would consist of staff directly involved in the implementation of the Code and the production of the Annual Governance Statement. It would meet as required, envisaged to be at least three times a year, to focus on the process for the production of the Annual Governance Statement as well as the progress on issues from previous Statements.

Resolved:- (1) That the refreshed version of the Local Code of Corporate Governance be approved.

(2) That a Governance Group be established to oversee the implementation of the Local Code as well as the provision of evidence to support the Annual Governance Statement.

(3) That the Governance Group give consideration to the linking of Principle C – defining outcomes in terms of sustainable, economic, social and environmental benefits – into the Strategic Risk Register to enable the data and outcomes to be measured as defined within the governance document.

48. RISK POLICY AND STRATEGY UPDATE

Further to Minute No. 36 of the meeting held on 24th November, 2015, Simon Dennis, Corporate Risk Manager, submitted proposed changes to the Risk Policy and Strategy.

The changes to the Policy and Strategy were:-

- Removal of references to posts and structures that no longer existed
- Inclusion in the Guide of changes in practice that had been introduced in the light of operational experience
- Minor changes to improve risk management practice in the Council

It was noted that a further refresh and revision was planned for Summer 2017 although the extent of the revision would depend upon progress in identifying improvements to the current risk management system.

Discussion ensued with the following issues raised/clarified:-

- The Risk Register would have a separate column for the mitigating action and dates to enable tracking
- The Strategic Risk Register was supposed to be in a different format from that of Departmental Risk Registers as it captured issues at a different level. Work was taking place on what this would look like
- Commitment to regularly review the Risk Policy and Guidance

- Historical reasons as to why the Risk Management System had not worked but did not necessarily mean that the system was not right for the Authority; it should be considered before a replacement system was purchased
- Consideration be given to inviting a Member of the Audit Committee to any future meetings of the joint workshop

Resolved:- (1) That the revised Risk Policy and Strategy be approved.

(2) That any changes to the Risk Policy be submitted to the Audit Committee for approval.

(3) That consideration be given as to how Members of the Audit Committee could be actively engaged in the review of the Risk Policy.

(4) That an update on the Risk Management process be submitted to the next meeting.

49. PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2017/18-2019/20

Judith Badger, Strategic Director for Finance and Customer Services, reported that, in accordance with the Prudential Code for Capital Finance, the Secretary of State's Guidance on Local Government Investments, the CIPFA Code of Practice for Treasury Management in Local Authorities and with Council policy, she was required, prior to the commencement of each financial year, to seek the approval of the Council to the following:-

- The Prudential Indicators and Limits for 2017/18 to 2019/20
- A Minimum Revenue Provision (MRP) Statement which sets out the Council's policy on Minimum Revenue Provision
- An Annual Treasury Management Strategy in accordance with the CIPFA Code of Practice on Treasury Management including the Authorised Limit
- An Investment Strategy in accordance with the Department for Communities and Local Government (CLG) investment guidance.

The key messages were:-

- Investments – the primary governing principle would remain security over return with the criteria for selecting counterparties reflecting this. Cash available for investment would remain low resulting in low returns
- Borrowing – overall it was estimated to year-on-year increase over the said period as the Council planned to incrementally reduce its under-borrowing position as part of managing its daily and long term liquidity position. New borrowing would only be taken up as current portfolio debt matured and where approved capital investment was to be financed by borrowing

- Governance – strategies were reviewed by the Audit Committee with continuous monitoring which included mid-year and year end reporting

The report formed a key part of the financial management reporting framework and covered the Prudential Indicators and Treasury and Investments Strategies for 2017/18 and the following two financial years. It also provided an update on the indicators for the 2016/17 financial year.

The Council's treasury activities were strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management revised November 2009).

The report would be considered by the Cabinet/Commissioners' Decision Making Meeting on 13th February, 2017, as part of the Council's 2017/18 budget setting process.

Resolved:- That the Cabinet/Commissioners be asked to recommend to Council:-

(1) The approval of the prudential indicators and limits for 2017/18 to 2019/20 as set out in the report.

(2) The approval of the Minimum Revenue Provision Policy Statement (Appendix A refers) which sets out the Council's Policy on Minimum Revenue Provision.

(3) The approval of the Treasury Management Strategy for 2017/18 to 2019/20 and the Authorised Limit Prudential Indicator.

(4) The approval of the Investment Strategy for 2017/18 to 2019/20.

50. PROCUREMENT AND APPOINTMENT OF EXTERNAL AUDITORS - 2018/19 ONWARDS

Judith Badger, Strategic Director for Finance and Customer Services, reported that the Local Audit and Accountability Act 2014 had introduced new arrangements for the procurement and appointment of external auditors from 2018/19.

The Local Audit and Accountability Act 2014 had introduced new arrangements for the audit of authorities superseding the previous arrangements in which the Audit Commission was responsible for making audit appointments. The new arrangements would come into effect for 2018/19 when the existing contract expired.

There were three options for meeting the objective:-

1. making a standalone appointment
2. making an appointment with one or more other authorities
3. opting into a sector-led national scheme.

Under both options 1 and 2 the Council would need to establish an Auditor Panel. They provided greater scope for the audit contract to be tailored but would incur higher costs from the setting up of and administration of the Auditor Panel either in isolation or jointly and the staff time involved in the procurement exercise.

The preferred option was considered to be option 3, supported by the LGA, as this would minimise the financial and administrative burden on the Council and likely to secure a high quality audit at competitive fees. Under the arrangement, the procurement and appointment would be led by Public Sector Audit Appointments (PSAA) as the designated "appointing person".

Neighbouring authorities had been consulted to ascertain which option they intended to take and whether there was any possibility of a joint procurement/appointment exercise under option 2, however, all consulted had opted for option 3.

Resolved:- (1) That the sector-led option (option 3) for the procurement and appointment of external audit from 2018/19 onwards be supported.

Recommended:- (2) That the opt-in form (Appendix A) be completed and submitted to Public Sector Audit Appointments (PSAA) by the Strategic Director of Finance and Customer Services by the deadline of the 9th March, 2017.

51. EXCLUSION OF THE PRESS AND PUBLIC

Resolved:- That, under Section 100(A) 4 of the Local Government Act 1972, the public 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 3 of Part 1 of Schedule 12(A) of such Act indicated, as now amended by the Local Government (Access to Information) (Variation) Order 2006 (information relates to finance and business affairs).

(COUNCILLOR WYATT LEFT THE MEETING AT THIS POINT IN THE MEETING. COUNCILLOR WALSH ASSUMED THE CHAIR.)

(COUNCILLOR WALSH IN THE CHAIR.)

52. RISK REGISTER DEEP DIVE - ASSISTANT CHIEF EXECUTIVE

Councillor Alam, Cabinet Member, Corporate Services, together with Shokat Lal, Assistant Chief Executive, presented the Assistant Chief Executive's Risk Register and risk management activity in particular highlighting:-

- How the Register was maintained/monitored and at what frequency
- Cabinet Member involvement
- How risks were included on/removed from the Register
- Anti-fraud activity in the Directorate

Discussion ensued with the following issues raised:-

- The Risk Register was submitted to the Cabinet/Commissioners' Decision Making Meeting – from April it would form part of the Corporate Plan
- There were a number of risks that were due to external factors outside the control of the Local Authority
- Inclusion of risk review dates was welcomed

Resolved:- (1) That the progress and current position in relation to risk management activity in the Assistant Chief Executive's Directorate be noted.

(2) That the wording be amended to Risk No. 7 to reflect the discussion at the meeting.

53. ITEMS FOR REFERRAL FOR SCRUTINY

There were no items for referral.

54. DATE OF NEXT MEETING

Resolved:- That a further meeting be held on Wednesday, 19th April, 2017, commencing at 5.00 p.m.