

Audit Committee

28 March 2018

Present: Mr K Robinson (Chair)
Mr M Wilkinson
Councillors L Bell, D Cox, N Craven, S Graham,
A McMullen and J Wallace.

AC36/03/18 Apologies

An apology for absence was submitted on behalf of Councillor D Drummond.

AC37/03/18 Substitute Members

There were no substitute members reported.

AC38/03/18 Declarations of Interest and Dispensations

There were no declarations of interest or dispensations reported.

AC39/03/18 Minutes

Resolved that the minutes of the meeting held on the 22 November 2017 be confirmed as a correct record and signed by the Chair.

AC40/03/18 Audit Progress Report – March 2018

The Committee received a progress report from Diane Harold of Mazars in respect of how they had delivered their responsibilities as the Authority's external auditors. It was explained that the planned work was on track and there had been no significant issues which had arisen although some internal control recommendations had been presented to management for their consideration. Details of each of the internal control recommendations were outlined together with the management response.

The steps taken by Mazars to liaise with officers of the Authority to facilitate the earlier close down of the accounts, including timetabling of specific pieces of work at an early stage of the process, were also outlined.

The report also outlined a number of publications and updates relevant to the Committee and the Authority including:

- research issued by the Association for Public Service Excellence (APSE) which explored how public services could be held to account including through the introduction of local Public Account Committees;
- An update on the implications for authorities of the General Data Protection Regulations (GDPR);
- Report by the National Audit Office on the role of the Department of Health and Social Care in overseeing the adult social care workforce;

- Report by the National Audit Office on sustainability and transformation in the NHS;
- Report by the National Audit Office on the rationale, cost and benefits of Private Finance Initiative (PFI) and the reformed PFI model (PF2); and
- Report by the Smiths Institute on the rise of local housing companies set up by authorities to provide commercial and social housing.

Clarification was sought in relation to the potential insurance liability and associated risks in respect of an employee who had commenced work before a signed contract was in place. It was explained that there could be implications for the Authority but in the particular instance all required checks had been carried out and the employee did not receive payment until the contract had been signed and returned to the Authority. It was explained that a review of practice had been undertaken.

The Chair thanked Mazars for the report.

Resolved that the audit progress report be noted.

AC41/03/18 Audit Strategy Memorandum Year Ending 31 March 2018

Diane Harold of Mazars, the Authority's external auditors, presented the Audit Strategy Memorandum for the year ended 31 March 2018. The report summarised Mazars approach to its 2017/18 audit, highlighted significant audit risks and areas of key judgements. The report also provided details of the team who would carry out the audit.

Particular reference was made to the five significant audit risks identified, namely; management override of controls; revenue recognition; valuation of the defined benefit liability valuation; and property, plant and equipment – valuation.

As part of the works a Value for Money (VfM) conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in the use of its resources would be undertaken. This would be based on informed decision making, sustainable resource deployment and working with partners and other third parties. Mazars had identified two significant risks, the first relating to the scale of savings to be made over the period of the medium term financial strategy and the second relating to the review of the adequacy of arrangements in place for the delivery of the capital investment plan. Reference was also made to the 2017/18 scale of fees for the work carried out by Mazars.

Clarification was sought on whether the works to be undertaken would cover the partner organisations. It was explained that Internal Audit currently monitored the work of the partners and there were regular reports to the partner boards.

The Chair thanked Mazars for the report.

Resolved that the 2017/18 Audit Strategy Memorandum be noted

AC42/03/18 Grants Report 2016/17

Diane Harold from Mazars, the Council's external auditors, presented a report arising from its annual audit of grant claims and returns. The audit had assessed whether the Authority had adequate arrangements in place to prepare and authorise each claim and return and whether it could evidence that it had met the terms and conditions attached to each claim. The report provided a full analysis of all of the claims and returns which had been certified in 2016/17.

It was explained that a qualification letter had been issued in relation to the Housing Benefit Subsidy. Details of the errors found together with the management's response to the auditors recommendations were outlined. It was also explained that the processes in place were positive.

Reference was also made to the return required to be submitted in respect of the teachers' pension scheme in relation to discrepancies between the Authority's records and those of the Employers Portal. Details of the management response to the recommendations were outlined.

The fees charged for carrying out this work were outlined.

Clarification was sought on the reported errors in relation to housing benefit subsidy. It was explained that there were appropriate processes in place to deal with any errors. Reference was also made to the roll out of Universal Credit and it was explained that from an audit perspective this did not raise any specific concerns.

The Chair thanked Mazars for the report.

Resolved that the report be noted.

AC43/03/18 Annual Statement of Accounts 2017/18

Consideration was given to a report which provided an update on the preparation of the 2017/18 annual statement of accounts. It was explained that detailed guidance notes had been published to remind officers of the deadlines and to provide advice on where to raise any concerns. Guidance had also been issued to schools on what they needed to concentrate on and this had been backed up by the provision of training sessions.

It was also explained that External Audit had carried out some early testing on income and expenditure samples which had not highlighted any areas of particular concern. Reference was also made to the successful key work undertaken with the valuation team. It was explained that regular meetings continued to be held between officers in finance and valuation to address any issues which might arise.

Resolved that the work in respect of the closure of the 2017/18 accounts be noted

AC44/03/18 Accounting Policies to be used in the compilation of the 2017/18 Annual Statement of Accounts

Consideration was given to a report which set out the accounting policies to be used in the compilation of the annual statement of accounts. It was explained that in the annual

statement of accounts the Authority was required to disclose how the accounting statements had been prepared. The accounting policies explained the basis for the recognition, measurement and disclosure of transactions in the accounts.

It was explained that changes to the accounting policies would only be made if the change was required by the Code of Practice on Local Authority Accounting in the UK 2017/18 or it would result in the statements providing more reliable or relevant financial information.

Details of the proposed changes and the reasons for the changes were set out.

Members sought clarification on whether improvements to land and property would affect their value. It was explained that the Authority reviewed its valuations every year to take account of such changes. Clarification was also sought in relation to the notes which would be attached to the accounts when published, particularly in respect of Private Finance Initiative (PFI) and similar contracts. Officers agreed to provide this information to members of the Committee.

Resolved that the Accounting Policies to be adopted by the Authority and used to compile the Annual Statement of Accounts for the financial year 1 April 2017 to 31 March 2018 be endorsed.

AC45/03/18 Strategic Audit Plan 2018/19

The Chief Internal Auditor presented a report which set out the Strategic Audit Plan for 2018/19. It was explained that the Strategic Audit Plan helped to ensure that Internal Audit was able to provide an independent and objective opinion on the Authority's framework of governance, risk management and control. The Plan, which set out those areas which were planned to be subject to audit coverage over the coming year, had been developed in consultation with the Chief Executive, Deputy Chief Executive, the Head of Finance and the other Heads of Service along with the Cabinet Member for Finance and Resources.

It was also explained that Internal Audit had performed an initial assurance mapping exercise of the Authority's key risk registers. The Plan would be kept under review over the course of the year and regular reports would be made to future meetings of the Audit Committee.

Clarification was sought on whether there were sufficient resources available to carry out the planned work. It was explained that the plan was realistic and that there was sufficient time allocated to carry out the proposed works. Reference was also made to the systems in place to monitor the work of the partners. It was explained that the partner organisations had their own risk registers which were regularly monitored. Reference was also made to the systems in place to monitor the use of Section 106 monies and whether there was a need to strengthen those arrangements.

Resolved that the proposed Internal Audit work programme, as detailed in the Strategic Audit Plan 2018/19, be agreed.

AC46/03/18 Proposed Audit Committee Work Programme 2018/19

Consideration was given to a report which suggested a programme of work for the Audit Committee during 2018/19 which took account of the terms of reference of the Committee and enabled the Committee to discharge its duties effectively and efficiently whilst still providing capacity to consider ad-hoc items of business if required. It was also

acknowledged that it may be necessary to alter or amend the timing of reports during the year as work progresses.

Date of meeting	Item of Business
23 May 2018	<p><u>Internal Audit and Risk Management</u></p> <ul style="list-style-type: none"> • Annual Report from Chief Internal Auditor and Opinion on the Framework of Governance, Risk Management and Control • Final Outturn Report (showing performance in achieving the previous year's Strategic Audit Plan) • Key Outcomes from Internal Audit Reports (reporting the key outcomes of reports issued in the preceding six months and progress made with the implementation of audit recommendations) • Risk Management Update <p><u>Finance</u></p> <ul style="list-style-type: none"> • Draft Annual Governance Statement (and supporting information) <p><u>External Audit</u></p> <ul style="list-style-type: none"> • External Audit Progress Report (Mazars) • External Audit Fee Letter (including Terms of Engagement) (Ernst & Young)
July 2018	<p><u>External Audit</u></p> <ul style="list-style-type: none"> • Audit Completion Report (annual governance report) (Mazars)
November 2018	<p><u>Internal Audit and Risk Management</u></p> <ul style="list-style-type: none"> • Interim Outturn Report (showing profiled performance against the Strategic Audit Plan) • Key Outcomes from Internal Audit Reports (reporting the key outcomes of reports issued in the preceding six months and progress made with the implementation of audit recommendations) • Risk Management Update <p><u>Finance</u></p> <ul style="list-style-type: none"> • Annual Governance Statement Update (progress on previously identified actions and agreeing methodology for coming year) • Report on preparation of Annual Statement of Accounts 2018/19 <p><u>External Audit</u></p> <ul style="list-style-type: none"> • Annual Audit Letter (Mazars) • Grants Report (Mazars) • External Audit Progress Report (Ernst & Young)
March 2019	<p><u>Internal Audit and Risk Management</u></p> <ul style="list-style-type: none"> • Strategic Audit Plan (for the forthcoming financial year) • Annual Review of Audit Committee Effectiveness • Annual Audit Committee Work Programme <p><u>Finance</u></p> <ul style="list-style-type: none"> • Report on accounting policies to be used in Compilation of Annual Statement of Accounts • Report on preparation of Annual Statement of Accounts 2018/19

	<u>External Audit</u> <ul style="list-style-type: none"> • Audit Strategy Memorandum (audit plan) (Ernst & Young)
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Resolved that (1) the proposed core business work programme for 2018/19 be agreed; (2) it may be necessary to change or adapt the proposed reports to be considered to ensure optimum timing of consideration of governance issues and to respond to emerging trends during the year be noted; and (3) the Committee will receive additional reports on any ad-hoc items of business which arise during the year and relate to its responsibilities under its terms of reference.

AC47/03/18 Outcomes from the External Assessment of the Shared Internal Audit Service, February 2018

Consideration was given a report which provided an update on the findings/outcome of the external assessment of the shared internal audit service which had been carried out in accordance with the requirements of the Public Sector Internal Audit Standards 2017. The assessment had been carried out by the South Tyneside Council's Corporate Assurance Manager who had concluded that the Shared Internal Audit Service was compliant with the requirements of the Public Sector Internal Audit Standards. The report also explained that there were a small number of areas which required action but these did not significantly impact on the overall opinion of the assessor. It was explained that a number of the recommendations had previously been identified as part of the self- assessment of the shared service and that all of the recommendations would be implemented during 2018/19.

Reference was made to the proposed change in the management structure of the Authority and clarification was sought that this would not have an adverse impact on the independence of the audit service. It was explained that appropriate safeguards were in place to ensure and maintain the independence of internal audit.

Resolved that (1) it be noted that the mandatory external assessment of internal audit had taken place in February 2018; (2) the opinion of the external assessor that the Shared Internal Audit Service was compliant with the requirements of the Public Sector Internal Audit Standards be noted; (3) it be noted that there were several small areas which the external assessor had recommended that further action be taken to enhance compliance with the standards and that these would be fully implemented during 2018/19:

AC48/03/18 Exclusion Resolution

Resolved that under Section 100A (4) of the Local Government Act 1972 (as amended) and having applied a public interest test as defined in Part 2 of Schedule 12A of the Act, the press and 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 12A to the Act.

AC49/03/18 Counter Fraud Work

Consideration was given to a report which provided an update on the counter fraud work carried out between April 2015 and September 2017. It was explained that the work had been targeted at specific areas which had been identified as at high risk of potential abuse, including the Council Tax Single Persons Discount and Council tax exemptions. Details of a number of other areas of work which had been carried out were outlined together with the savings which had been generated as a result.

Resolved that (1) the counter fraud performance and the savings generated in respect of Council Tax Single Persons Discount and Council Tax exemptions be noted; and (2) the other key areas of work carried out as a result of counter fraud activity and the savings generated be noted.