



**MINUTES of
AUDIT COMMITTEE
31 AUGUST 2017**

PRESENT

Chairman	Cllr P G L Elliott
Vice-Chairman	Cllr E L Bamford
Councillors	A S Fluker, B E Harker, M S Heard, A K M St. Joseph, Mrs M E Thompson and R G Boyce MBE
Substitute Members	Councillors R G Boyce, MBE

357. CHAIRMAN'S NOTICES (PLEASE SEE OVERLEAF)

The Chairman drew attention to the list of notices published on the back of the agenda.

358. APOLOGIES FOR ABSENCE

An apology for absence was received from Councillor R Pratt, CC. In accordance with notice given Councillor R G Boyce, MBE was acting as substitute for Councillor Pratt.

359. MINUTES OF THE LAST MEETING

RESOLVED

- (i) that the Minutes of the meeting of the Committee held on 22 June 2017 be received.

Minute No. 187

At the end of the first sentence of the fourth paragraph, the words “...on other committees” should be added.

RESOLVED

- (ii) that subject to the above amendment the Minutes of the meeting of the Committee held on 22 June 2017 be confirmed.

360. DISCLOSURE OF INTEREST

There were none.

361. ANNUAL GOVERNANCE REPORT 2016-17

The Committee considered the report of the External Auditors, the purpose of which was to provide them with an opportunity to report the key findings of their audit to those charged with governance, prior to issuing their opinion on the 2016/17 Statement of Accounts.

Section 1 – Executive Summary

The Appointed Auditor advised that the audit was mostly completed and that it was hoped to issue both an unqualified opinion and an unqualified value for money statement.

Two objections to the Council's accounts had been received which raised issues relating to value for money. Having considered the objections, which did meet the statutory requirements for objections, EY had decided not to accept them on the grounds of proportionality. The reasoning for this was that the cost to the authority and the public purse would be significant in relation to the value of the items that had been objected to.

The points in relation to value for money had been considered and whilst there were areas for improvement, there were no significant issues and they did not impact upon the value for money conclusion.

The Appointed Auditor then drew attention to the areas where they had not completed their procedures. Most of these related to the signing and finalisation process and it was hoped that these would be completed soon.

There were some small remaining audit queries which were currently being cleared and these were not significant.

There was a query over valuation of property, plant and equipment (PPE) that was being looked at by EY's valuers. The Appointed Auditor assured Members of the Committee that this had arisen at a number of other local authorities. EY's valuers had been requested to re-look at valuations of the council offices and the leisure centre. It was hoped that a response would be received shortly with assurance that the valuations were not materially misstated. If, however, they were found to be materially misstated, then the matter would be discussed with the Council's finance team. Whilst there was no impact upon the actual net worth of the Council, PPE assets must be materially accurate and reasonable.

In relation to audit differences, there were no unadjusted differences, which was very positive.

Section 2 – Areas of Audit Focus

The Appointed Auditor highlighted the main areas of risk to the audit; being management override and estimations. EY confirmed satisfaction with all estimations regarding pensions.

EY's pensions experts had looked at work done and were in agreement with PwC's conclusions that some valuation methodology did not take account of the duration of the schemes liabilities and that this was a risk. Based on the work done this year, EY were satisfied that there was no material impact for the Council. However, EY advised that

discussions with the pensions administrator should be held, to ensure that there is no risk of a material error starting to accumulate in the Council's account relating to the assumptions made.

Section 5 – Value for Money

The Appointed Auditor apologised for a formatting error and advised that the overall conclusion should read:

“We did not identify any significant risks in your value for money conclusion and, therefore, there is nothing to report.”

The External Audit Manager then drew attention to the positive aspects and the focus on financial sustainability, amongst other things. The Council was in a reasonably strong position, although all Councils were subject to risks (highlighted in the report). The Council was addressing the gaps and looking at areas for income generation.

Section 7 – Assessment of Control Environment

At the time of review in March EY found the contracts register was not fully up-to-date. A moderate priority recommendation was raised and this would be followed up to ensure that arrangements were strengthened next year.

The Appointed Auditor thanked the Council's finance team and stated that the audit had gone well, responses had been timely, prompt and of good quality. The Council was in a good position for the earlier sign-off deadline of the end of July 2018. A meeting would be held next week to discuss how to respond to the challenge of the earlier deadline for next year.

The Appointed Auditor then invited questions from Members.

- Was EY satisfied that the Council was executing its policies properly in relation to debtors and, in particular, long term debtors and whether the list of long term debtors had been reviewed? Some of the long term debts had become of interest to Members and there was a need to be satisfied that EY believed that action being taken by the Council fitted within its policies.

The Appointed Auditor advised that if a long term debt was material then it would be reviewed as would the Council's processes. However, EY's involvement was to check the accuracy of figures rather than looking at the Council's compliance with its policies.

- Although the importance of the democratic right of the public to challenge accounts was acknowledged, what was the cost to the Council of this?

The Appointed Auditor advised that the cost to the Council would be in the region of 1-2 days of her time. This was not built in to the fees charged as it was not something that normally occurred. However, fees would be kept to a minimum wherever possible. There was not really anything that could be done to prevent such challenges.

Members were further advised that there had been a change in legislation a couple of years ago and some objections could now be rejected at an earlier stage. There was now clearer guidance on what should be taken forward and what could be discounted on the basis of proportionality and cost to the public purse.

- Clarity was requested as to whether measures regarding the contracts register had been put in place and what they were.

The Appointed Auditor advised that EY did not go back to check if the Council had taken any measures, but it would be addressed during the following year.

- Who made the objections to the accounts and what were they?

The External Audit Manager advised that there were two separate objectors on the same topic. However, objectors would not be named in the report and due process was to be followed.

RESOLVED:

- (i) that Members agreed to any uncorrected misstatements in Section 4 of the Audit Results Report remaining uncorrected;
- (i) that Members formally noted the opinion of the Auditors on the draft Statement of Accounts;
- (ii) that in all other respects the report of the External Auditors be noted.

362. STATEMENT OF ACCOUNTS 2016-17 AND LETTER OF REPRESENTATION

The Committee considered the report of the Director of Resources, reporting to Members the position of the Ernst and Young LLP (EY) audit of the statements and any amendments arising from the audit.

The report outlined that the contents of the Statement of Accounts were largely determined by statutory requirements and mandatory professional standards as set out within The Code of Practice on Local Authority Accounting (The Code). The Council's unaudited Statement of Accounts for 2016/17 was signed off by the Director of Resources at the end of June.

The Director of Resources advised the Committee that in relation to EY's comments earlier in the meeting on pensions, this would be taken up with Essex County Council as they were the pensions administrator. In relation to EY's comments earlier in the meeting on valuations, the Council commissioned valuations from a reputable valuer and had not had any issues in the past and had, as an authority, complied with due process.

Members asked various questions and responses were given:

Transfers to/from Earmarked Reserves

- Repairs and Renewals – there was a big difference from previous years – where has the money been spent?

This was in fact a contribution in to the reserve which was agreed as part of the budget process earlier in the year.

- Community Grants – how did this work?

Money was required to be there for any outstanding payments that still needed to be made. There was money to cover existing liabilities in reserves.

- Local Development Plan (LDP) – why were large costs budgeted for?

These figures were at 31 March 2017 and we did not have an approved LDP at that point. The Finance and Corporate Services Committee would review this, followed by a review by Council during the budget. The sums involved would then be transferred to where funding was needed.

- Heritage Projects – was this the grant for listed buildings?

Environmental Initiatives and Historic Listed Buildings were both included in this amount. During the year £6,000 had been spent - £4,000 on listed buildings and £2,000 on environmental initiatives.

Concern was raised regarding objections and that EY could decide not to pursue them. The Appointed Auditor advised that objections must be considered against certain criteria. The cost of the items objected to in relation to the costs of considering the objection/issuing a decision notice etc. would be considered as the costs of investigating objections ultimately fell on Maldon District council tax payers. If an objection indicated a wider issue, then EY could investigate.

The Director of Resources then advised Members that the Letter of Representation provided Auditors with assurance that officers had carried out due process and acknowledged the Council's responsibility.

RESOLVED:

- (i) that the audited Statement of Accounts for 2016/17 be approved; and
- (ii) that delegated authority be given to the Chairman of the Audit Committee and the Director of Resources for the final approval of the 2016/17 Statement of Accounts and letter of representation.

363. BRIEFING NOTE FROM EXTERNAL AUDITOR (ERNST AND YOUNG)

The Committee received the report of the Director of Resources informing Members of the Committee regarding the briefing note published by the Council's External Auditor (EY).

The Appointed Auditor drew Members' attention to the section of Appendix 1 to the report setting out information and steps to be taken in relation to cyber-security. The need to keep this high on the Council's agenda was stressed and it was suggested that this Committee may wish to have this as an agenda item from time-to-time to ensure processes were being reviewed and kept up-to-date.

A Member asked if the Annual Governance Statement had been reviewed and commented that the St. Cedds issue was a massive failing of the Council. The Chairman advised that it had been dealt with and that the comments were noted.

RESOLVED that the briefing by Ernst & Young LLP, as shown in Appendix 1 to the report, be noted.

364. PERFORMANCE AGAINST INTERNAL AUDIT PLAN

The Committee received the report of the Director of Resources, the purpose of which was to report progress to date with regard to work completed and any deviances to, or slippage, on the Internal Audit Plan 2016 / 17.

The Internal Auditor advised that one audit had been completed since the last report to this Committee. All matters were either in progress or timing had been agreed for them to be actioned later in the year.

The Internal Auditor further advised that anything that remained outstanding from previous years would be followed-up until completed and that most items from 2015/16 were now completed.

In response to a question, the Internal Auditor advised that, in relation to invoices without order numbers, the Council had now introduced a "no purchase order, no pay" policy and was taking a strong line on that.

The Internal Auditor assured the Committee that some of the recommendations were not scheduled to be implemented yet and would be dealt with later in the year. Following a request, it was agreed that both the original due date and the revised due date would be shown on future reports. It was further requested that recommendations in progress also be shown on the report. The Internal Auditor confirmed that the report would be made clearer.

RESOLVED that the progress against the 2016 / 17 Internal Audit Plan, be noted.

365. UPDATED INTERNAL AUDIT CHARTER

The Committee received the report of the Director of Resources detailing the Internal Audit Charter which was a requirement of the Public Sector Internal Audit Standards (PSIAS). It formally defined internal audit's mission, purpose, authority and responsibility. It also established internal audit's position within Maldon District Council and defined the scope of internal audit activities.

The PSIAS were revised with effect from April 2017 and the changes had been reflected in the updated charter.

RESOLVED that the Updated Internal Audit Charter for 2017/18 be noted.

366. QUARTERLY REVIEW OF CORPORATE RISK

The Committee considered the report of the Director of Resources providing an update on the position at the end of Quarter 1 (30 June 2017) on the corporate risks included within the Corporate Risk Register 2017/18.

The Director of Resources advised that the process for this was that the Audit Committee raised queries, which were then taken back to the Corporate Leadership Team (CLT) for consideration. It was CLT that owned the Risk Register.

Councillor M S Heard declared a non-pecuniary interest at this point in the meeting, as he was employed by Essex Police. He had withdrawn from the last Audit Committee meeting when the Risk Register was discussed on the advice of the Monitoring Officer. However, he did not intend to leave this meeting as his question did not have any bearing on anything operational or affecting this authority.

Members discussed the report and raised a number of issues:

Risk re: Changes to police resources/priorities impacts resident perception of crime -
The Performance and Risk Officer advised that CLT had discussed that there may be a risk around policing, but that it needed to be clearly defined as it may no longer be around the perception of crime. This would be discussed with the Responsible Authorities Group and, following this, an appropriate risk to be included on the Risk Register would be brought back to this Committee.

In response to a question, the Chairman confirmed that it was for CLT to decide what was included on the risk register, but that this Committee could make recommendations to it and note its displeasure if there was something the Committee believed should be included but was not.

Councillor E L Bamford proposed that this Committee recommend to CLT that risks regarding flooding and police be reinstated on the Risk Register. This proposal was not seconded.

The Director of Resources commented that in terms of the flooding risk a specific risk would be defined following a meeting between the Environment Agency, Essex County Council and Maldon District Council. This did not mean that CLT would not include a risk relating to tidal flooding.

In terms of the police risk, CLT had considered the concerns of this Committee and agreed that there should be a risk relating to crime, but that it must be clearly defined.

In response to a request, the Director of Resources confirmed that Minutes of the meeting of CLT where the Risk Register was discussed would be circulated to Members of this Committee. There were difficulties in accessing the idrive (where these Minutes

were kept) on ipads and the Director of Resources advised that she would take this up with the IT Department.

The Chairman raised concerns as he was of the understanding that the Risk Register was not the sole domain of CLT. He requested that a report be brought back to the next meeting of the Audit Committee setting out the policy and when the decision was made for CLT to own the Risk Register.

The Appointed Auditor advised the Committee that in her experience it was usually senior management that owned the Risk Register and that the Audit Committee would review it.

The Performance and Risk Manager would take the Committee's comments and concerns back to CLT.

A request was made for this issue to be referred to Council for a definitive decision.

Members again raised concern regarding the police as a tenant of the Council and that public perception was that the move was not a good thing. Therefore, Members considered the risk should remain on the Risk Register.

The Appointed Auditor clarified that management override referred to earlier in the meeting came from an auditing standard and related to financial statements relating to systems control only and not to the decision making process of the Council.

Risk re: Uncertainty regarding strategic ownership of flooding mitigation and long term maintenance responsibilities - Members were concerned that the comments in the report were not an adequate response from CLT and did not address the issues sufficiently in relation to tidal flooding.

It was requested that a workshop be held to review corporate risk further to gain further assurance that corporate risk was being managed effectively.

RESOLVED that the Corporate Risk Register for 2017/18 as agreed by the Corporate Leadership Team (CLT), be noted.

367. REVIEW OF RISK MANAGEMENT POLICY

The Committee received the report of the Director of Resources, the purpose of which was to seek approval of the Council's revised Risk Management Policy. This policy was currently reviewed every two years to ensure that it was up to date and fit for purpose. The policy defined the roles and responsibilities for Members and individuals within the Council in respect of Risk Management.

Members were of the opinion that decisions to remove or add risks should be joint decisions between CLT and this Committee and were, therefore, not minded to consider the revised Risk Management Policy at this time.

RESOLVED that the Risk Management Policy be deferred until Members had undertaken training on Risk Management.

There being no further items of business the Chairman closed the meeting at 4.25 pm.

CLLR P G L ELLIOTT
CHAIRMAN