

## **Audit Committee**

**25 November 2015**

Present: Mr K Robinson (Chair)  
Mr M Wilkinson  
Councillors A McMullen, M Rankin and J Wallace

### **AC20/11/15 Apologies**

Apologies for absence were received from Councillors G Bell, L Bell, D McGarr, J O'Shea.

### **AC21/11/15 Declarations of Interest and Dispensations**

There were no declarations of interest or dispensations reported.

### **AC22/11/15 Minutes**

**Resolved** that the minutes of the meeting held on the 22 September 2015 be confirmed as a correct record and signed by the Chair.

### **AC23/11/15 External Audit: Annual Audit Letter 2014/15**

The committee received the Annual Audit Letter 2014/15 presented by Catherine Banks from Mazars, the Council's external auditors. The Letter summarises many of the points raised in the Audit Completion Report 2014/15 which was presented to the committee at its meeting on the 22 September 2015.

The Letter covers the overall conclusion in respect of the Authority's financial statements which includes the Annual Governance Statement, and the assessment of arrangements to achieve value for money in the Authority's use of resources.

Members were informed that overall the External Auditor was satisfied with the quality of the Authority's financial statements and an unqualified opinion had been issued on the Authority's statement of accounts for 2014/15. In relation to Value for Money the External Auditor concluded that the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources and issued an unqualified Value for Money conclusion.

The committee noted that the Annual Audit Letter had been presented to full Council on 19 November 2015 and suggested that in future it was presented to the Audit Committee prior to full Council.

The Chair thanked Mazars for their report.

**Resolved** that the Annual Audit Letter 2014/15 from Mazars, the Council's external auditors, be noted.

### **AC24/11/15 External Audit Progress Report**

The committee received a progress report presented by Catherine Banks from Mazars, the Council's external auditors, in respect of the 2015/16 audit year.

The planning stage of the audit was to commence in the coming quarter with an assessment of the significant risks of material misstatement in respect of the financial statements and also the Value for Money conclusion; a walkthrough of the key financial systems; planning and carrying out substantive testing. External audit will liaise with internal auditors to share common knowledge and avoid duplication; there will also be on-going liaison with senior officers and consideration of key agenda and papers. The detailed Audit Strategy Memorandum will set out planned work and assessments in more detail, the plan will be presented to the Audit Committee on the 30 March 2016.

Section 3 of the progress report outlined a number of publications and other updates. In relation to the Introductory Guide to Local Government Finance, 2015 edition which highlights the growth of the devolution agenda a Member asked if auditors were involved in discussions in relation to this, as believed it was important that audit was involved at the outset and not correcting errors afterwards. The committee were informed that both external and internal audit have a watching brief and will pick up on any emerging risks and will get involved at the appropriate time.

The Chair thanked Mazars for their report.

**Resolved** that the audit progress report from Mazars, the Council's external auditors, be noted.

**AC25/11/15 Annual Governance Statement – update on the mid-year review of the Action Plan and the 2015/16 Approach (previous minute AC06/05/15)**

The committee were advised of the outcome of a mid year review of the Annual Governance Statement (AGS) action plan. The AGS explained how the Council delivered good governance and how it reviewed the effectiveness of these arrangements. At its meeting on 27 May 2015 the committee had noted that no significant governance issues had been identified and that the governance arrangements in place were considered to be adequate by the Senior Leadership Team. There were no specific recommendations however a range of issues had been highlighted as requiring continuous monitoring to ensure that they do not become significant governance issues in the future.

The committee were also presented with details of the proposed method for compiling evidence for, and preparing, the 2015/16 AGS. The completed AGS would be submitted to the committee in May 2016 for their consideration and approval.

In relation to embedding the new health and safety framework, outlined in Appendix A of the report, the committee sought assurance that service areas have action plans in place to ensure that all staff received e-learning training on health and safety and requested that the committee receives future performance updates to evidence that this is happening.

The Chair thanked officers for the report.

**Resolved** that (1) the outcome of the mid-year review of the Authority's action plan agreed as part of the 2014/15 Annual Governance Statement be noted; and (2) the proposed method for compiling evidence for the 2015/16 Annual Governance Statement be noted.

**AC26/11/15 Report on the preparation of Annual Statement of Accounts**

The committee received a report which outlined the process to ensure that the Authority meets the statutory deadline for publication of the Annual Statement of Accounts for 2015/16 and future years.

The committee noted that following amendments made as part of the Local Audit and Accountability Act 2014, the timetable for the Chief Finance Officer to sign and certify the Statement of Accounts will be brought forward from no later than the 30 June to no later than 31 May. The changes are effective from 2017/18 so will impact of the Annual Statement of Accounts 2017/18. Appendix B of the report outlined the key dates on bringing forward the closedown of accounts.

The committee sought clarification as to why the closedown of accounts had been brought forward, it was explained that in part it was to bring them in line with the Government deadlines.

The Chair thanked officers for the report.

**Resolved** that (1) the changes affecting the preparation of the Authority's Annual Statement of Accounts 2017/18 arising from the Local Audit and Accountability Act 2014 and subsequent Accounts and Audit Regulations 2015 be noted; (2) the proposed process for preparing the Annual Statement of Accounts for 2015/16 be noted; and (3) the progress to date in preparation of the future years Annual Statement of Accounts to ensure the new statutory regulations are adhered to be noted.

**AC27/11/15 Transport Infrastructure Assets**

The committee received an update on the progress associated with introducing the accounting changes required by the Chartered Institute of Public Finance (CIPFA) and for the measurement and recording of transport infrastructure assets. The Authority is required to adopt the CIPFA Code of Practice on Transport Infrastructure Assets (the Transport Code) for the 2016/17 accounts.

It was explained that the Transport Code moves the valuation basis for transport infrastructure assets from depreciated historic cost (DHC) to depreciated replacement cost (DRC). This change in accounting policy will require restatement of the balance sheet for the assets at April 2015 and 31 March 2016.

Members noted that the CIPFA guidance notes had recently become available. The aim of the Guidance Notes is to provide details for both finance and engineering staff in terms of valuation methods and processes and the financial requirements of the new Code.

A project plan has been developed to ensure that the new accounting requirements are completed successfully. Members were informed that we are currently on target with all deadlines and other local authorities are at a similar stage.

The committee received assurance that the data we were receiving from the engineering department was accurate.

The Chair thanked officers for the report.

**Resolved** that the progress made in working towards implementing the Transport Code be noted.

### **AC28/11/15 Strategic Audit Plan 2015/16: Interim Monitoring Statement**

The Chief Internal Auditor presented an interim (half yearly) monitoring statement which outlined progress against the Strategic Audit Plan 2015/16. The report showed that during the first two quarters of 2015/16, 100% of the expected productive audit days planned had been achieved, however some of this resource had been diverted to emerging risk areas brought to Internal Audit's attention. Members were informed that 23 audits had been planned to take place during the first two quarters and by the end of September 2015, 17 (74%) were either complete or underway, which is lower than previous reports to the Audit Committee. This has been caused by a higher than normal volume of additional assurance work, requests from Northumbria Police and responding to the Authority's requirements in relation to the National Fraud Initiative. The 6 originally planned audits that have not commenced have been re-programmed to take place later in the year, replacing 5 audits scheduled for the second half of 2015/16 which will now be included as a first call on audit resource in 2016/17.

The committee were presented with detailed schedules showing each audit programmed to be undertaken in the first two quarters of 2015/16, together with an indicative outturn as at the end of September 2015; and also the audits originally scheduled for the third and fourth quarters and the revised schedule.

Members noted that the Annual Audit Plan will continue to be kept under review and progress reported to the Audit Committee at its meeting in March 2016.

In relation to training for new systems and the implementation of programmes for projects such as the Education Review, the committee were reassured that as part of system audits, training requirements are looked at to ensure they are appropriate and timely.

A Member sought clarification in respect of changes to corporate applications. It was explained that any changes to corporate applications go through a change management process with ICT Cofely and that an applications board meet on a regular basis to review all changes. The committee were informed that the audit had identified some areas which could be strengthened.

In relation to physical access to the server, the committee received assurance that security measures are in place and that door access is controlled and periodically reviewed. The ICT suite is also a restricted and controlled entry area, and all visitors are required to sign in and out.

There was some discussion in relation to Public Service Network (PSN) compliance. The committee were informed that ICT Cofely prepares a PSN Code of Application submission and that this is reviewed throughout the year by a sub-group which has representatives from ICT, Internal Audit and Information Governance. The sub-group also challenges the submission as it is prepared and it is signed off by Head of Law and Governance. It was mentioned that archiving and the 'right to be forgotten' is a challenge for the Authority, as it is to any organisation.

In light of the recent terrorist attacks and threats of cyber-attacks, a Member asked if any guidance had been issued regarding extra measures which needed to be taken in relation to ICT business continuity and disaster recovery. At this stage officers were not aware of any guidance relating to this.

The Chair thanked officers for the report.

**Resolved** that the Strategic Audit Plan 2015/16 Interim Monitoring Statement and the level of planned coverage achieved by Internal Audit at this stage in the year be noted.

### **AC29/11/15 Key Outcomes from Internal Audit Reports**

The committee received a report on the key outcomes from Internal Audit reports issued during the period April to September 2015.

The report included a summary of the key findings from the planned Internal Audit reports, including good practice identified and action taken to date by management in response to each audit. Members were informed that based on the outcomes from audits issued to date, and management action undertaken in response to these, the Authority's framework of governance, risk management and control is considered to be satisfactory overall at this stage in the year, this is a positive outcome for the Council.

The Chief Internal Auditor informed the committee that at this stage there is nothing which needs to be drawn to the committee's attention and there were no 'critical priority' recommendations made.

In relation to the audit of Council Tax, the committee expressed concern about not meeting the performance targets in respect of the Council Tax collection rates for two consecutive years and asked to be provided with the target for this KPI.

A Member expressed concern in relation to the National Non-Domestic Rates (NNDR) audit which identified that explanations of calculations used to determine reliefs to be awarded could not be provided until contact was made with a former Cofely employee, and that this issue highlighted the need for handover procedures to be put in place.

The Chair thanked officers for the report.

**Resolved** that (1) the key findings from, good practice identified in, and management action taken in response to the Internal Audit reports issued during April – September 2015 be noted; and  
(2) the Chief Internal Auditor's opinion that the framework of governance, risk management and control is satisfactory overall at this stage in the year be noted.

At this point Councillor Wallace left the meeting which meant that the meeting was inquorate. The Chair adjourned at this stage and the committee agreed to carry the one remaining outstanding item, the Corporate Risk Management Summary Report, over until the next Audit Committee meeting on 30 March 2016.