

Audit Committee

30 March 2016

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

AC30/03/16 Apologies

Apologies for absence were received from Councillors G Bell, L Bell, D McGarr.

AC31/03/16 Declarations of Interest and Dispensations

There were no declarations of interest or dispensations reported.

AC32/03/16 Minutes

Resolved that the minutes of the meeting held on the 25 November 2016 be confirmed as a correct record and signed by the Chair.

AC33/03/16 External Audit: Audit Strategy Memorandum 2015/16

Gareth Davies, Partner from Mazars, the Council's external auditors, presented the Audit Strategy Memorandum for the year ended 31 March 2016. The report summarised Mazars approach to their 2015/16 audit, highlighted significant audit risks and areas of key judgements and provided details of the audit team.

Particular reference was made to the four significant audit risks, namely; management override of controls; revenue recognition; pension transactions and balances; and property, plant and equipment – valuation.

The audit would also include a Value for Money (VfM) conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in the use of its resources. This would now be based on one overall criterion which is made up of three sub-criteria, which are; informed decision making; sustainable resource deployment; and working with partners and other third parties. Mazars had identified one significant risk that would be addressed as part of its value for money conclusion relating to level of savings required, which would involve reviewing the robustness of; the medium-term financial strategy; budget monitoring reports and other finance updates; and a sample of the savings plans and underlying assumptions to their delivery.

The committee noted that the 2015/16 scale fee had been reduced by 25%, which is inline with the Public Sector Audit Appointments scale fees, and received assurance that although this was a significant reduction it did not impact on the quality of work.

During questioning Mazars provided clarification on how they evaluated the Council's pension assumptions and assured members that any concerns would be reported to the Audit Committee.

The Chair thanked Mazars for their report.

Resolved that the Audit Strategy Memorandum for the year ending the 31 March 2016 be noted.

AC34/03/16 External Audit Report: Certification of Claims and Returns 2014/15

Diane Harold, Senior Auditor Manager from Mazars, the Council's external auditors, presented a report arising from its annual audit of grant claims and returns during 2014/15. The audit had assessed whether the Council had in place adequate arrangements to prepare and authorise each claim and return and whether it could evidenced 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 were certified in 2014/15.

Of the three claims certified, the Housing Benefit subsidy had been qualified and amended, resulting in the total subsidy reducing by £1,106. Members noted that an action plan had been put in place which identified the errors, made recommendations and showed the management response. There had been no major issues identified with the remaining two grant claims and returns, namely; the pooling of housing capital receipts return; and teachers' pension return.

In relation to the Housing Benefit subsidy return action plan, Mazars explained that although it maybe too late to rectify some issues for the 2015/16 return, some issues can be addressed at the end of the year.

The Chair thanked Mazars for their report.

Resolved that the Certification of Claims and Returns Annual Report 2014/15 be noted.

AC35/03/16 External Audit: Progress Report

The committee received a progress report presented by Diane Harold, Senior Auditor Manager from Mazars, the Council's external auditors, in respect of the 2015/16 audit year.

Mazars are currently completing its planning of the audit and carrying out interim testing. This includes; refreshing its understanding of the business and significant risks of material misstatement in respect of the financial statements and also the VfM conclusion; a walkthrough of the Council's controls with its key financial systems; planning and carrying out any substantive interim testing; liaising with internal auditors to share knowledge and ensure no duplication; liaison with senior officers and consideration of key agendas and papers. There will also be ongoing discussion of key accounting changes, in relation to infrastructure and the Better Care Fund.

As in previous years, Mazars have run accounts workshops, designed to inform practitioners of the main changes impacting on the preparation of financial statements, along with any future accounting and financial reporting changes.

The Chair mentioned that he had attended the Regional Forum in Durham early this year and had found it to be very useful.

In relation to the revised timetable for the closedown of accounts in 2017/18, Mazars praised officers for the importance they have placed on this and also their positive approach.

The report highlighted the National Audit Office's published updated guidance in respect of the VfM conclusion, as well as a number of national publications and other updates.

During questioning the committee:

- (a) were informed that the topic of devolution has been discussed at regional governance forums; and that audit arrangements and issues which might emerge because of devolution is continuously under review;
- (b) noted that although the criteria used to assess VfM had been amended, the work hasn't really changed. Mazars had started work on the assumptions of savings, i.e. asking for evidence on how it had been calculated and whether it is reasonable.

The Chair thanked Mazars for their report.

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

AC36/03/16 Accounting Policies to be used in the compilation of the 2015/16 Annual Statement of Accounts

The committee gave consideration to the proposed Accounting Policies to be used in the compilation of the 2015/16 Annual Statement of Accounts. The purpose of the Accounting Policies is to explain the basis for the recognition, measurement and disclosure of transactions and other events in the accounts of the Authority.

Members noted that significant changes to Accounting Policies, other than those specified in The Code, are relatively rare. This is because The Code specifies the Accounting Policies for a high percentage of the typical transactions, items, events or other conditions that are faced by local authorities. On this occasion there were a small number of changes recommended to the Authority's Accounting Policies for 2015/16. The most significant change introduced was in relation to the Fair Value Measurement, which is how the Authority measures the value of certain assets and liabilities in its balance sheet. Resulting from changes to the Fair Value Measure, changes were also made to the Accounting Policy for Property, Plant and Equipment which has been updated to reflect the valuation of assets; and Financial Instruments (available for Sale Assets) which provided clarification on the method to be used for measuring value. Finally in relation to schools an account policy has been added following confirmation in 2014/15, by the Chartered Institute of Public Finance & Accountancy (CIPFA), of accounting requirements for reporting on Local Authority maintained schools.

In relation to the 'Fair Value Measure' the committee were given assurance that the Council's valuation section had the expertise and resources to deal with the re-valuation of surplus assets.

The Chair thanked officers for the report.

Resolved that the Accounting Policies to be adopted by the Authority and used to compile the Authority's Annual Statement of Accounts for the financial year 2015/16 be endorsed.

AC37/03/16 Report on the preparation of the Annual Statement of Accounts

The committee received a report which gave an update on progress associated with the preparation of the 2015/16 Annual Statement of Accounts (Accounts) and work undertaken to date in respect of the new statutory dates for closing the accounts from 2017/18.

In relation to the preparation of the 2015/16 Accounts, these are being prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom'. To date no issues have been raised by the external auditor in respect of this year's closedown and regular meetings are being held to allow any issues to be raised promptly. At this stage in the process it is not anticipated that there will be any problems in meeting the current statutory deadline of the 30 June for the publication of the draft Accounts.

Currently the Chief Finance Officer is required, no later than 30 June, to sign and certify that the Statement of Accounts present a true and fair view of the Authority's financial position for the year to 31 March. The audited set of accounts should, no later than the 30 September, be approved and subsequently published. As a result of new legislation, from 2017/18, these dates will change to 31 May and 31 July respectively. A plan has been devised to assist in the implementation of the new deadlines. Appendix B of the report sets out the key dates and progress to date within the plan and details of when updates will be provided to the committee. It was reported that no problems are anticipated in bringing forward the deadlines.

The committee sought assurance that the Annual Statement of Accounts would be presented to the Audit Committee prior to full Council in September, so if required the committee can put forward recommendations to Council.

The Chair thanked officers for the report.

Resolved that the progress made in working towards the preparation of the 2015/16 Accounts and work being undertaken in respect of future years' closedown be noted.

AC38/03/16 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 & Accountancy (CIPFA) 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.

Members were informed that the project is on target and that no major issues had been identified, the report highlighted the main milestones which were all on track. The main milestones are shown below:

| Task | Due Date | Comments |
|--|---------------|----------|
| Identify key staff | November 2015 | Complete |
| Impact assessment | December 2015 | Complete |
| Identify asset data requirements & systems changes (if applicable) | December 2015 | Complete |
| Implement required changes to asset data & systems | March 2016 | On-going |
| Submit 2015/16 Whole of Government Accounts (WGA) | June 2016 | |
| Restate 2015/16 accounts | January 2017 | |
| Identify & implement any procedure or data omissions | February 2017 | |
| Produce 2016/17 accounts | May 2017 | |
| Submit 2016/17 WGA | June 2017 | |

A meeting had taken place with neighbouring North East Councils to discuss the Transport Code, and the committee noted that other councils are at the same stage.

During questioning the committee:

- (a) were informed that in relation to Highways Network Assets (HNA) nothing has been found which is not already on the books, and that there doesn't appear to be any issues in relation to energy costs; and
- (b) officers will clarify with the engineers section whether any comparative work with neighbouring authorities had been carried out in relation to the condition and life span of roads. This will be reported with the next update.

The Chair thanked officers for the report.

Resolved that (1) the progress made in working towards implementing the Transport Code be noted; and (2) officers will clarify with the engineers section whether any comparative work with neighbouring authorities had been carried out in relation to the condition and life span of roads, and report back with the next update.

AC39/03/16 Risk Based Verification

The committee received an update on the continuing use of a Risk Based Verification (RBV) approach to the assessment of entitlement to Housing Benefit (HB) and Council Tax Support (CTS). The RBV Policy was agreed by Cabinet on 9 March 2015, and recently updated in February 2016 due to a direction from the Department of Work and Pensions (DWP) around the need to verify original evidence for identification of all risk groups.

In relation to performance, Coactiva have provided an overview report from June to December 2015 on the Councils use of the system and reported the distribution of claims as follows:

| | | |
|-------------|---|-----|
| Low Risk | – | 60% |
| Medium Risk | - | 20% |
| High Risk | - | 20% |

More recent data shows that the distribution has changed and is now in line with the DWP estimated figures, which are Low Risk – 55%, Medium Risk – 25% and High Risk – 20%.

The committee noted that there has been a positive impact on the processing times for those in the lower risk group who provide less evidence. Data from June to December 2015 shows claims in this group are processed on average in 17.54 days whereas medium risk claims are processed on average in 22.12 days and high risk claims are processed on average in 26.26 days.

In relation to detection rates, which are monitored monthly, the latest data shows that the actual detection figure is now 11.15%, which compared to the original baseline of 8.5% before RBV was implemented, it demonstrates that taking a RBV approach improves the identification of error or fraud overall.

A meeting with a representative from Coactiva is planned in April 2016 to discuss the use of the system and raise any issues. Coactiva have also been asked for information on if we are performing as expected for our caseload profile and also against other users of Coactiva.

The committee were informed that although there had been a significant reduction in the time to process claims, and it continues to reduce further, we are not complacent and continue to and regularly monitor this with our partner.

The committee raised concerns in relation to customer service centres advising residents to self-serve, even when there are no queues. The Senior Client Manager, Revenues, Benefits and Customer Services, explained that this shouldn't be happening, and that it may take 2-3 steps for residents to be confident with self-serve and that some may need more assistance than others. It is important that residents are given assistance to self-serve, for example with IT, so that claims are completed accurately.

In relation to deliberate fraudulent claims, the committee sought assurance that the message is clear that this won't be tolerated. It was explained that claimants do know we are vigilant and serious about fraud, and the message gets out in number of ways, for example through information on the application form and publicity of fraud investigations. The Council also has a Senior Counter Fraud Officer and a Counter Fraud Officer, working in Internal Audit.

The Chair thanked officers for the report.

Resolved that the update on the continuing use of a Risk Based Verification approach be noted.

AC40/03/16 Strategic Audit Plan 2016/17

The Group Assurance Manager, Internal Audit, presented the Strategic Audit Plan for the period 2016/17.

The presentation gave an overview of how the plan is put together, which included; Internal Audit's approach to planning; what audit coverage we must meet; planned work in addition to the 'known' time commitments; and other plans for 2016/17.

The plan detailed those areas planned to be subject to audit coverage during the period, and had been prepared in accordance with the Public Sector Internal Audit Standards (PSIAS) and it outlined:

- (a) the approach taken to risk assessment and audit planning;
- (b) the respective roles of management and of Internal Audit with regard to internal control;
- (c) the relationship between Internal and External Audit, and the approach which Internal Audit was planning to adopt in respect of key financial systems audit;
- (d) quality standards with which Internal Audit would comply when delivering the Strategic Audit Plan;
- (e) the resourcing of the Internal Audit team; and
- (f) key themes in the Strategic Audit Plan.

The plan would be kept under continuous review throughout the year. A half year progress report would be submitted to the committee in November 2016 and a full outturn report in May 2017.

During questioning the committee:

- (a) were informed that there was a link between the work carried out in relation to the planned audits contained in the Annual Audit Plan 2016/17 and the key corporate risks;
- (b) were given assurance that all redundant controls in the system were removed; and
- (c) were given details of the new 'Assurance Mapping' technique which was being introduced.

There was some discussion in relation to the stripping out of non-chargeable activity. It was noted that this would be looking at how some aspects of Internal Audit activity can be done more efficiently and that this information would be circulated to the committee.

In relation to Internal Audit's planned work, the committee asked if time was allocated to individual audits. The Chief Internal Auditor suggested that a report providing this information is presented to the committee at a future meeting.

The committee noted that future audit reports will be shorter, providing key messages and actions, but will still fulfil professional requirements of the PSIAS. Members thought that it would be beneficial to see some of these reports to help them understand the approach and depth of the audit. The Chief Internal Auditor suggested that these were provided to the committee as part of the key outcomes from internal audit reports which are regularly presented to the committee.

The Chair thanked officers for the report.

Resolved that the Audit Committee reviewed and assessed the Strategic Audit Plan 2016/17 and the proposed Internal Audit coverage.

AC41/03/16 Review of Audit Committee Arrangements

The committee received a presentation which provided a summary of the review of Audit Committee arrangements which had been undertaken by the co-opted Chair of the Audit Committee.

The review had evaluated North Tyneside's Audit Committee arrangements in the context of the Chartered Institute of Public Finance & Accountancy (CIPFA) published guidance; the views of elected members, Senior Leadership Team and the External Auditor; and also good practice identified elsewhere.

The presentation gave an overview of the purpose of the review; the approach taken; the questions asked; what is happening elsewhere; and the key findings.

It was recommended by CIPFA that audit committees should regularly assess their own effectiveness. It was also important to engage with all key stakeholders of the Audit Committee, to assess what the committee is doing well and where it could improve.

The report included recommended actions, which should form the basis of a development plan.

It was highlighted in the report that the Audit Committee had the potential to be a real 'force for good', as it is uniquely placed to examine and challenge everything the Council does, and provide a strong assurance overview, but it exists in isolation and there needs to be stronger links to both Cabinet and the Senior Leadership Team (SLT). There was a lot of

good work carried out by the committee, however it needed to go somewhere and be given a higher profile, and it was proposed that an annual report from the Audit Committee is presented to Cabinet.

The report recommended that a development programme for Audit Committee members, but also for non-members of the Audit Committee to raise awareness on what the Committee's role is, and its remit was given high priority. There should also be greater engagement by Audit Committee members in agreeing the work programme for the Committee. It is anticipated that this should help to secure a greater level of engagement and make the subject matters covered by the Committee more 'live' to those involved in the debate.

In relation to the merging of the Audit Committee functions with other bodies, it was stressed that this is contrary to CIPFA's recommended practice, and that the merging of the Audit Committee functions with those of other committees may impede on the independence which the Audit Committee is required to have to work effectively and fulfil its role. The review concluded that this was not a recommended way forward at the current time.

The report suggested that there were some areas where slight changes to the Audit Committee's Terms of Reference would demonstrate a better fit with CIPFA's Audit Committee position statement, and recommended that these are considered for proposal to full Council as part of the next review of the Constitution.

The Chair asked the Head of Commissioning and Investment if he would be willing to progress the recommended actions listed in the report as Senior Leadership team sponsor for this work. The Head of Commissioning and Investment said he would be pleased to progress the recommended actions, and believed that it was important that the work undertaken by the Audit Committee was recognised and that there was greater connectivity between the Committee and the Senior Leadership Team. It was explained that although the recommendations were fair, it maybe a challenge to transform them into practical actions.

There was detailed discussion in relation to merging the Audit Committee with another body. Although it had been put forward as part of the budget setting process and efficiency savings, it was believed that it was crucial that the Audit Committee carried out its duties in line with CIPFA's published guidance. Members also expressed concern in relation to the Audit Committee losing its independence if a merger goes ahead. The committee agreed that the full report of the Chair of the Audit Committee is provided to the Constitutional Task Group, to be considered by the Constitutional Task Group regarding any proposals on future delivery of the Audit Committee's arrangements.

The committee complimented the Chair for the carrying out the review and for taking it forward.

It was **agreed** that (1) the report of the Chair of the Audit Committee was considered and endorsed; (2) the recommended actions set out by the Chair of the Audit Committee are of the Audit Committee are progressed with the Head of Commissioning and Investment as Senior Leadership team sponsor for this work; (3) any changes to the Audit Committee's Terms of Reference necessary to reflect CIPFA's Audit Committee Position are recommended for adopt to full Council, as part of the next review of the Constitution; and (4) that the full report of the Chair of the Audit Committee is provided to the Constitutional Task Group, to be considered by the Constitutional Task Group regarding any proposals on future delivery of the Audit Committee's arrangements.

AC42/03/16 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 items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Act.

AC43/03/16 Corporate Risk Management Summary Report

The committee received the Corporate Risk Management Summary Report which outlined the corporate risks that had been identified for monitoring and management by the Council's Senior Leadership Team, as at November 2015. The report provided detailed information on each of the corporate risks including the cause of the risk, the consequence if they were to materialise, the existing and new controls in place to address these risks and an assessment of their likelihood and impact.

As this item had been deferred from the previous Audit Committee and included data only up to November 2015, an updated report will be presented at the next meeting for members' consideration.

It was **agreed** that the corporate risks identified for monitoring and management by the Council's Senior Leadership Team and the action being taken be noted.