

Audit Committee

29 March 2017

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

AC30/03/17 Apologies

There were no apologies for absence received

AC31/03/17 Substitutes

There were no substitute members reported

AC32/03/17 Declarations of Interest and Dispensations

There were no declarations of interest or dispensations reported.

AC33/03/17 Minutes

Resolved that the minutes of the meeting held on the 30 November 2016 be confirmed as a correct record and signed by the Chair.

AC34/03/17 2015/16 Annual Grants Report

Diane Harold, Senior Manager 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 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 had been certified in 2015/16.

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 action taken in respect of the errors identified would form part of the 2016/17 review

Reference was also made to the return required to be submitted in respect of the teachers' pension scheme in respect of the pension contributions deducted from salaries and paid to the Teachers' Pension Agency. In accordance with reporting guidance, Mazars, without qualifying its opinion, had reported on one matter in relation to a refund balance. The same issue had also been reported in 2014/15, albeit for a different figure.

The fees charged for carrying out this work were outlined.

Members sought clarification on the impact of the introduction of Universal Credit in the area. It was stated that details of the changes to guidance were still awaited and the overall impact could not yet be determined.

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 the teachers' pension return.

It was suggested that a report describing the quality assurance processes in place in relation to housing benefit subsidy returns be presented to a future meeting.

Clarification was also sought how the Authority fared in comparison to other authorities in relation to errors. It was explained that as all errors, however small, had to be reported it would not be practical to compare individual authorities' performance.

The Chair thanked Mazars for the report.

Resolved that (1) the report be noted; and
(2) a report be presented to a future meeting detailing the quality assurance processes in place in relation to housing benefit subsidy.

AC35/03/17 2016/17 Audit Strategy Memorandum

Gareth Davies, Partner from Mazars, the Council's external auditors, presented the Audit Strategy Memorandum for the year ended 31 March 2017. The report summarised Mazars approach to its 2016/17 audit, highlighted significant audit risks and areas of key judgements. The report also provided details of the team who would carry out the audit works.

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

As part of the works a Value for Money (VfM) conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in the use of its resources would be undertaken. This was based on informed decision making, sustainable resource deployment and working with partners and other third parties. Mazars had identified one significant risk relating to the level of savings required to be made which would be addressed as part of its Value for Money conclusion. Reference was made to the 2016/17 scale of fees for the work carried out by Mazars.

Clarification was sought on whether there was a need to carry out additional works to ensure that the pension fund was properly resourced. It was explained that whilst pensions

remained a long term risk for the Authority this specific risk was also applicable to most authorities.

Reference was also made to the works needed to bring forward the timetable to prepare for the earlier close down of the accounts in future years.

The Committee was advised that Mazars had a rotation strategy to ensure that appropriate experience and local knowledge were retained but that post holders did not become too familiar with a particular authority. It was explained systems were in place to ensure that directors did not serve for more than 7 years for a particular authority whilst senior managers would do no more than 10 years in the same authority.

It was also explained that a joint procurement exercise was currently being developed with Northumberland County and Newcastle City Councils for the appointment of an external auditor on a 5 year contract.

The Chair thanked Mazars for the report.

Resolved that the 2016/17 Audit Strategy Memorandum be noted

AC36/03/17 External Audit: Audit Progress Report

The Committee received a progress report presented by Gareth Davies from Mazars, the Council's external auditors, in respect of the 2016/17 financial year.

It was explained that the planning stage of the 2016/17 audit had now been concluded. At the current stage of the audit there had been no significant deficiencies in internal controls to report, however an issue had been identified following a walkthrough of the Adult Social Care material information system which had identified an underpayment by the Authority. It was explained that officers were reviewing this area to ensure that there were no further errors. It was suggested that further information on the issue was needed and officers agreed to bring a report to a future meeting of the Committee.

Reference was also made to the works undertaken in relation to the Highways Network Assets in the Authority's area and the recent announcement by the standards setting body that the introduction of the new measurement standards had been postponed. It was suggested that much of the work already undertaken had been wasted effort.

The report also outlined a number of publications and updates relevant to the Committee and Authority. It was noted that Public Sector Audit Appointments Limited had carried out a review of the performance of audit firms to provide assurance that auditors were providing high quality audits for their clients. Mazars had been given a top rating as a result of this review.

The Chair thanked Mazars for the report.

Resolved that (1) the audit progress report be noted; and
(2) a report on the issue of materiality be presented to the next meeting

AC37/03/17 Accounting Policies for 2016/17

Consideration was given to a report which set out the accounting policies used in the preparation of the 2016/17 Annual Statement of Accounts. It was explained that the only policy which had needed to be amended had been as a result of a change to the CIPFA Code to reflect the changes to the presentation of the Comprehensive Income and Expenditure Statement.

The Chair thanked the officers for the report.

Resolved that the Accounting Policies to be adopted and used to compile the Authority's Annual Statement of Accounts for the financial year 1 April 2016 to 31 March 2017 be endorsed.

AC38/03/17 Strategic Audit Plan 2017/18

Consideration was given to a report which advised the Committee of the Strategic Audit Plan for 2017/18 and outlined the internal audit section's planned work for the year.

It was explained that internal audit had performed an initial assurance mapping exercise which mapped the Authority's key risk registers against sources of assurance.

The Strategic Audit Plan had been prepared in consultation with the Chief Executive, Deputy Chief Executive, the Head of Finance, all other Heads of Service and the Cabinet Member for Finance and Resources. The Plan detailed the areas which would be covered by audit during the year and had been prepared in accordance with Public Sector Internal Audit Standards. The Plan outlined:

- The approach taken to risk assessment and audit planning;
- The respective roles of management and Internal Audit in regard to internal control;
- The relationship between Internal and External Audit and the approach which Internal Audit planned to take in respect of the key financial systems audit;
- The quality standards which Internal Audit will comply with when delivering the Strategic Audit Plan;
- The resourcing of the Internal Audit Team; and
- The key themes of the Strategic Audit Plan.

It was also explained that although the Authority had entered into a shared service arrangement with Northumberland County Council each authority had a statutory duty to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes. The Strategic Audit Plan covered this Authority's responsibilities in this regard. It was also explained that the Plan would be kept under review during the course of the year and a full outturn of the Plan would be presented to the Committee in May 2018.

Reference was made to the advantages of the shared working arrangements which had provided an opportunity for shared learning and maximising the use of resources by redirecting resources to where they can be best used.

Reference was also made to the dedicated counter fraud post which had been created on a self funding basis. It was explained that the counter fraud team was looking at the single occupancy rebate and had brought in around £100,000 mainly due to claimants withdrawing their claim. It was suggested that a further report be presented to future meetings on the works being undertaken in relation to Council Tax Single Person Discount as this had been identified as where fraudulent activity was most likely to occur.

Clarification was also sought on the works undertaken to ensure the integration of health and social care systems. It was explained that this had been added to the risk register and the Head of Service as well as Internal Audit were actively monitoring progress.

Reference was made to the security of the Authority's systems and in particular whether there was specific advice offered in relation to hacking threats. It was explained that Internal Audit had recently completed an audit of perimeter security and a report would be presented to a future meeting.

It was suggested that it would be useful for Members to examine the assurance map at a future meeting

The Chair thanked officers for the report.

Resolved that the Strategic Audit Plan 2017/18 be endorsed