

**ACCOUNTS, AUDIT & GOVERNANCE COMMITTEE**  
**26<sup>TH</sup> JUNE 2014**

Present: Councillors: John Bailey, Roy Cornell, Leonard Crosbie, David Holmes, Gordon Lindsay, Jim Rae

Apologies: Councillor: Stuart Ritchie

Also present: Councillor: Brian O'Connell  
Emma Bryant, Audit Manager, Ernst & Young

AAG/1 **ELECTION OF CHAIRMAN**

RESOLVED

That Councillor David Holmes be elected Chairman of the Committee for the current Council year.

AAG/2 **APPOINTMENT OF VICE-CHAIRMAN**

RESOLVED

That Councillor Gordon Lindsay be appointed Vice-Chairman of the Committee for the current Council year.

AAG/3 **TIME OF MEETINGS**

RESOLVED

That meetings of the Committee be held at 5.30pm for the ensuing Council year.

AAG/4 **MINUTES**

The minutes of the meeting held on 26<sup>th</sup> March 2014 were approved as a correct record and signed by the Chairman.

AAG/5 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

AAG/6 **ANNOUNCEMENTS**

There were no announcements.

AAG/7 **AUDIT PLAN**

Emma Bryant, Audit Manager, Ernst & Young, presented the External Auditors Plan in respect of the 2013/14 audit. The Plan set out the audit work the Auditor proposed to undertake for the audit of financial statements; the statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness; and the review of the Whole of Government Accounts return.

The Audit Manager drew attention to two significant risks that had been identified as being relevant to the audit of the accounting statements and indicated how she would audit these areas:

- Risk of management override (the Audit Manager reassured Members that this was not a particular risk at Horsham but one that was identified and responded to on every audit engagement they undertook).
- National Non-Domestic Rates (NNDR) rateable value appeals provision.

In response to a Member's query, the Head of Financial & Legal Services advised that the Government had indicated that they would endeavour to clear 90% of the outstanding NNDR appeals by June 2015.

With regard to Economy, Efficiency and Effectiveness, the Audit Manager had not identified any significant risks but they had identified two key areas they would consider to support the Value for Money conclusion - financial standing due to continued funding challenges from national policies and Council spending in comparison to a group of statistical nearest neighbours.

The planned fee for the 2013/14 audit had been set at the same level as the previous year.

The outcome of the 2013/14 audit would be reported to the meeting of the Committee in September 2014.

AAG/8 **2013/14 YEAR END OUTTURN REPORT**

The Director of Corporate Resources presented a report comparing the 2013/14 actual expenditure (outturn) on revenue, capital and repair & renewals with the budget approved by the Council in February 2013, as subsequently amended.

Whilst there was a substantial underspend on the revenue budget, part of this was attributable to significant additional income particularly in respect of green waste and planning fees and additional grants.

AAG/8 2013/14 Year End Outturn Report (Cont.)

The capital programme was also underspent, as some projects had not proceeded as quickly as expected. The unused budgets for capital schemes in progress would be carried forward to 2014/15.

As agreed last year, in future all revenue expenditure previously met from the repairs and renewals fund would be accounted for in the revenue accounts. Unspent budgets from 2013/14 for schemes which were in hand or due to commence shortly, would be carried forward to the 2014/15 revenue budget. Budgets in excess of the available balance on the repairs and renewals fund would be financed from general reserves.

In response to a query regarding expenditure on casual/temporary staff, the Head of Financial & Legal Services explained that there had been greater use of casual staff in 2013/14 due to the success of the green waste project. It was also the practice of Operational Services to employ agency staff initially to fill vacancies, with those who proved satisfactory subsequently being offered permanent positions. In future, this would be reflected in the budget provision for Operational Services. It was noted that the Finance & Performance Working Group had raised concerns regarding the level of expenditure on casual/temporary staff and would be looking at this subject in more detail.

**RESOLVED**

That the following be noted:

- (i) The financial position of the Council, as outlined in the report.
- (ii) The revenue budget carry forwards approved by the Director of Corporate Resources, as outlined in the report.
- (iii) The carry forward of unspent capital and repairs & renewals budgets.
- (iv) The transfers between the General Reserve and the earmarked reserves outlined in the report.

**REASON**

Monitoring of the Council's budget is essential, so that action can be taken to safeguard the Council's financial position if required.

AAG/9 **DRAFT STATEMENT OF ACCOUNTS 2013/14**

The Head of Financial & Legal Services advised the Committee that the deadline for the submission of the draft Statement of Accounts 2013/14 to the auditors was 30<sup>th</sup> June 2014 and that they would also be circulated to the Members of the Committee at that time. The final version of the accounts would be submitted to the next meeting of the Committee for approval.

Members were asked to raise any queries they had with the Director of Corporate Resources or the Head of Financial & Legal Services before the next meeting of the Committee, and that such queries and responses should be shared with all Members of the Committee. It was also agreed that a seminar would be arranged to enable Members of the Committee to gain a greater understanding prior to the next meeting of the Committee.

AAG/10 **INTERNAL AUDIT – QUARTERLY UPDATE REPORT**

The Chief Internal Auditor submitted a report summarising the work of the Internal Audit Section since March 2014.

A summary of audit findings in respect of Procurement, Debtors, Treasury Management, Risk Management, Asset Management, Hop Oast Management Controls, Payroll and NNDR, all of which had achieved an overall audit opinion of substantial assurance, was submitted.

The Committee welcomed the overall results of these audits but expressed concern that two issues in respect of fuel stocks and consumption needed to be addressed. The Chief Internal Auditor was asked to provide an update for the Committee on these issues at the next meeting.

It was noted that a Transition Team had been set up to address potential control weaknesses arising from the management restructure. Regular meetings were taking place, chaired by the Director of Corporate Resources, at which relevant issues were addressed. Members were reassured that, to date, there had been no problems arising from changes/reallocations of responsibilities and that the Transition Team was aware of the need to continue to monitor this aspect. It was noted that there were some areas where managers had yet to be appointed and transition arrangements were in place. It was anticipated that all posts would be filled by September but there would still be a learning curve for the new postholders.

**RESOLVED**

That the summary of audit work undertaken since March 2014 be noted.

AAG/10 Internal Audit – Quarterly Update Report (Cont.)

REASONS

- (i) To comply with the requirements set out in the Public Sector Internal Audit Standards 2013.
- (ii) The Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

AAG/11 **ANNUAL INTERNAL AUDIT REPORT 2013/14**

The Chief Internal Auditor advised that the annual report had been compiled to:

- Summarise the work undertaken by Internal Audit during 2013/14 and provide an overall opinion on the adequacy of the Council's governance arrangements, risk management systems and control environment;
- Summarise the effectiveness of audit work; and
- Provide a statement on conformance with the Public Sector Internal Audit Standards.

The internal audit team worked to a four-year strategic audit plan, prepared by the Chief Internal Auditor, and aimed to review the Council's major areas of operation and systems on a rolling cycle. The strategic plan had been developed using a risk-based assessment which determined priorities and time allocations for each audit. Areas and systems which were considered fundamental to the Council's operations, or which were considered to be high risk, were normally reviewed on an annual basis.

The Council's Internal Audit Service was operated in accordance with the Public Sector Internal Audit Standards. These standards required the Chief Internal Auditor to undertake a self-assessment of the internal audit service against a Quality Assurance and Improvement Plan checklist and the results were outlined as part of the Annual Audit Report. It was noted that the Internal Audit Team had maintained its independence throughout 2013/14 in accordance with the Audit Charter.

In order to respond to a number of risk areas identified during the year, the audit plan was sufficiently flexible to allow for additional audits to be undertaken. During the year, 86% of audits had been completed against a target of 85%. Details of progress against the annual plan for 2013/14, the implementation of agreed actions, reporting and management feedback was reported.

AAG/11 Annual Internal Audit Report 2013/14 (Cont.)

The Chief Internal Auditor was of the overall opinion that substantial assurance could be given that there was generally a sound system of internal control, designed to meet the Council's objectives, and that the controls were generally being applied consistently. Areas of particular comment were highlighted.

The submitted table of internal audit assurance opinions showed the following balance of substantial and moderate audit opinions on individual audit reports:

<b>Internal Audit Opinion</b>	<b>Definition of Opinion</b>	<b>Number in 2012/13</b>	<b>Number in 2013/14</b>
Full Assurance	There is a sound system of control in place which minimises risk to the Council; and audit testing identified that all expected controls are being consistently applied	0	0
Substantial Assurance	Whilst there is basically a sound system of control (i.e. key controls are in place), there are some weaknesses which may place the Council at risk in a few areas; and/or audit testing identified a lack of compliance with controls in a few areas	19	21
Moderate Assurance	There are some weaknesses in the system of control (i.e. the absence of two or more key controls) which is placing the Council at risk in a number of areas; and/or audit testing identified a lack of compliance with two or more key controls	8	5
No Assurance	The system of control is very weak or non-existent, which is placing the Council open to significant risk: and/or audit testing identified a high number of key controls which are not being complied with	0	0

In response to the Chairman of the Committee's query whether any neighbouring authorities achieved full assurance in respect of any of their audits, Emma Bryant, Audit Manager, Ernst & Young advised that an audit opinion of full assurance was very unusual.

AAG/11 Annual Internal Audit Report 2013/14 (Cont.)

RESOLVED

- (i) That the opinion of the Chief Internal Auditor on the overall adequacy and effectiveness of the Council's internal control environment, governance and risk management systems be noted.
- (ii) That the performance of internal audit against performance targets be noted.
- (iii) That the statement of compliance with the Public Sector Internal Audit Standards be noted.

REASONS

- (i) To comply with the requirements set out in the Public Sector Internal Auditing Standards 2013.
- (ii) The Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

AAG/12 DRAFT ANNUAL GOVERNANCE STATEMENT

The Director of Corporate Resources submitted the Annual Governance Statement (AGS) in draft form for Members' information. The Statement was designed to demonstrate how the Council delivered good governance and to meet the requirements of the Accounts and Audit (England) Regulations 2011.

Comments included reference to the difference in the order of the core principles of the Council's Governance Framework as set out in paragraph 3 of the AGS and then subsequently expanded, improving the robustness of reports presented to Councillors for decisions, implementing new channels of communication between parishes, the district and the council, and the relationship between the District Plan and Departmental Service Plans.

The AGS would be submitted for final approval by the Committee at its next meeting in September and Members were asked pass any comments to the Director of Corporate Resources and the Chairman of the Committee.

AAG/13 RISK MANAGEMENT – QUARTERLY UPDATE REPORT

The Chief Internal Auditor presented the latest quarterly update in respect of the Corporate Risk Register.

AAG/13 Risk Management – Quarterly Update Report (Cont.)

It was noted that the corporate risk register had been fully reviewed by the Senior Leadership Team.

RESOLVED

That the report be noted.

REASON

To ensure that the Council has adequate risk management arrangements in place.

AAG/14 URGENT MATTERS

There were no urgent matters to be considered.

AAG/15 EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED

That, under Section 100A(2) of the Local Government Act 1972, 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 Part I of Schedule 12A of the Act, by virtue of the paragraph specified against each item, and in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

AAG/16 INTERNAL AUDIT – QUARTERLY UPDATE REPORT (PARAGRAPH 3)

The Committee considered the detailed information submitted concerning the implementation of agreed actions arising from internal audit reports.

The meeting finished at 7.11pm having commenced at 5.30pm.

**CHAIRMAN**