

ACCOUNTS, AUDIT & GOVERNANCE COMMITTEE
25TH MARCH 2015

Present: Councillors: David Holmes (Chairman), John Bailey, Roy Cornell,
Stuart Ritchie

Apologies: Councillors: Leonard Crosbie, Gordon Lindsay (Vice-Chairman),
Jim Rae

Also present: Paul King, Audit Director, Ernst & Young
Hannah Lill, Manager, Ernst & Young
Katharine Eberhart, Director of Corporate Resources
Sue McMillan, Head of Finance
Paul Miller, Chief Internal Auditor

AAG/42 **MINUTES**

The minutes of the meeting held on 7th January 2015 were approved as a correct record and signed by the Chairman.

AAG/43 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

AAG/44 **ANNOUNCEMENTS**

There were no announcements.

AAG/45 **ANNUAL CERTIFICATION REPORT 2013/14**

Paul King, Audit Director, Ernst & Young, presented the outcomes of the certification work on the 2013/14 claim and returns. The claim involved was for the Housing Benefits subsidy (£31,747,416).

It was noted that a qualification letter had been issued in respect of the claim due to the identification of errors in the calculation of benefits or compilation of claims, which when extrapolated, suggested that there had been a significant overpayment of subsidy. The Department of Work and Pensions (DWP) had suggested the Council might wish to carry out further work in order to better assess the level of error. The results of this work were agreed with the auditors who reported their revised findings to the DWP. This resulted in the extrapolated overpayment of subsidy being considerably reduced so that the net clawback of subsidy by the DWP was reduced to approximately £6,000.

The original data used for extrapolation had been based on the headline population of cases but the subsequent testing had used the sub-population

AAG/45 Annual Certification Report 2013/14 (cont.)

which enabled a better assessment of the level of error. It was hoped that in the future, the sub-population figures would be available for the auditors to use in their initial testing and extrapolation thereby reducing the need to revisit certification work.

The Audit Director indicated that, whilst it was not unusual to find such errors in benefit claims due to the complex nature of the benefits system, the number of errors in the CenSus authorities' claims were at the more significant end of the spectrum.

However, it was noted that a considerable amount of effort had already been invested in improving the quality of benefits assessments and the preparation of the subsidy claim which should result in improvements over time. An action plan had also been agreed to ensure that the recommendations of the Auditors were addressed. In this respect, the Committee requested that Tim Delany, Head of CenSus Revenues & Benefits be invited to the next meeting to update Members on the progress being made.

The Audit Director advised the Committee that the additional testing work had resulted in the actual fee for 2013/14 being higher than the initial indicative figure, although it was still lower than that for 2012/13.

RESOLVED

That the report be noted.

AAG/46 AUDIT PLAN

Paul King, Audit Director, Ernst & Young, presented the External Auditors Plan in respect of the 2014/15 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 (value for money); and the review of the Whole of Government Accounts return.

The Audit Director drew attention to three risks that had been identified as being relevant to the audit of financial statements and indicated how these areas would be audited:

- Risk of management override (the Audit Director 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).
- Accounting for property, plant and equipment
- Disposal of Park North.

AAG/46 Audit Plan (cont.)

With regard to accounting for property, plant and equipment, the Head of Finance advised that testing was currently taking place on a new asset management module that would replace the current spreadsheet system, which produced a complex audit trail. It was intended that the new module would be used to inform the year end accounts. The auditors would therefore focus on reviewing the audit trail; reviewing the migration and testing process and substantively checking entries in the balance sheet and disclosures.

With regard to Economy, Efficiency and Effectiveness, the Audit Director had not identified any significant risks but 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 Audit Director referred to the definition used by the auditors for materiality when determining whether the financial statements were free from material error. Members discussed this issue and the Audit Director advised that, if the Committee so wished, he could report on both adjusted and unadjusted errors in more detail. Members suggested that the next meeting of the Committee might wish to give further consideration to the level of detail they wished to receive in respect of errors and further discussion regarding the level for materiality.

The planned fee for the 2014/15 audit had been set at the same level as the out-turn fee for 2013/14.

The outcome of the 2014/15 audit would be reported to the meeting of the Committee in September 2015.

AAG/47 **AUDIT PROGRESS REPORT**

Paul King, Audit Director, Ernst & Young, gave an outline of plans for the 2014/15 audit. With regard to the 2015/16 audit fees, it was noted that the scale fees were proposed to be reduced by a further 25%. This was mainly due to the result of a recent procurement exercise to retender the work undertaken under the Audit Commission's older contracts with audit firms and the final winding down of the Audit Commission on 31st March 2015. Members were assured that the level and quality of service would not be reduced.

AAG/48 **REVIEW OF THE COUNCIL'S INTERNAL CONTROL ENVIRONMENT**

The Director of Corporate Resources advised Members that, following the appointment of a number of new Service Managers, the decision had been

AAG/48 Review of the Council's Internal Control Environment (cont.)

taken to appoint consultants to review the Council's internal risk and control processes. She reported on the work they had carried out so far and further activity planned in the next few weeks, which would result in repopulated Corporate and Service Risk Registers. This work would impact on the Annual Governance Statement, which would also undergo a comprehensive review.

The Director of Corporate Resources indicated that she would circulate an updated action plan for Committee Members' information once it had been considered by the Senior Leadership Team on 7th April 2015.

It was confirmed that Service Managers' role profiles included responsibility for risk management within their departments and that all managers were aware of their responsibility to drive service improvement.

AAG/49 **RISK MANAGEMENT – QUARTERLY UPDATE REPORT**

The Director of Corporate Resources presented the latest quarterly update in respect of the Corporate Risk Register.

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

The Committee noted that many areas on the register were already at their acceptable target risk level and questioned whether they therefore still needed to be amongst the Senior Leadership Team's top concerns. Further, if they were of concern, many had no actions listed against them.

As indicated in the previous minute, the Corporate Risk Register was to be repopulated as a result of the work being undertaken on the review of the Council's internal risk and control processes.

RESOLVED

That the report be noted.

REASON

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

AAG/50 **INTERNAL AUDIT – QUARTERLY UPDATE REPORT**

The Chief Internal Auditor submitted a report summarising the work of the Internal Audit Section since December 2014 and seeking approval of the

AAG/50 Internal Audit – Quarterly Update Report (cont.)

Internal Audit Charter; the Internal Audit Strategy; and the Annual Audit Plan for 2015/16.

A summary of audit findings in respect of Section 106 Agreements, which had achieved an overall audit opinion of moderate assurance, and Risk Management; Pensions Auto Enrolment; and Member Allowances, all of which had achieved an overall audit opinion of substantial assurance, was submitted. Members discussed the findings regarding S106 Agreements and welcomed the planned improvements for their control and monitoring.

The Public Sector Internal Audit Standards 2013 required the Head of Internal Audit to produce an internal audit strategy, a high-level statement of how the Internal Audit Service would be delivered in accordance with the terms of reference and how it linked to organisational objectives and priorities. The Internal Audit Strategy 2014/17 had been updated and was submitted for approval. The Chief Internal Auditor confirmed that the current level of staffing in the Internal Audit team was considered to be adequate. Members discussed the plan to allocate 25 days to providing Crawley Internal Audit with resources in return for an income. It was noted that this would help the Council to maintain a strong Internal Audit function. The Chief Internal Auditor was asked to provide the next meeting of the Committee with a report justifying the proposal.

The Internal Audit Plan for 2015/16 was also submitted for approval and included an element of flexibility to enable the audit team to respond to changing risks and priorities of the Council.

The Internal Audit Charter, which was also submitted for approval, had been reviewed and amended to indicate that Public Sector Internal Audit Standards had been adopted. The Chief Internal Auditor drew attention to the definition of internal auditing; the requirement for unrestricted access to records, documents and personnel; independence; lines of responsibility; and the scope of internal audit work.

RESOLVED

- (i) That the summary of audit and project work undertaken since December 2014 be noted.
- (ii) That the Internal Audit Charter be approved.
- (iii) That the Internal Audit Strategy 2014/17 be approved as submitted.
- (iv) That the Internal Audit Plan 2015/16 be approved.

AAG/50 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/51 **URGENT MATTERS**

There were no urgent matters to be considered.

AAG/52 **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/53 **INTERNAL AUDIT – QUARTERLY UPDATE REPORT ON AUDIT FOLLOW UPS (PARAGRAPH 3)**

The Chief Internal Auditor submitted a report summarising progress since December 2014 on the implementation of actions in respect of audits undertaken in 2014/15, 2013/14, 2012/13 and 2011/12.

The Chief Internal Auditor reported on three areas of concern: Casual Worker Policy & Volunteers Policy; Land Charges; and ICT Hardware.

The Committee requested that the schedule of outstanding agreed actions be updated to ensure that up to date staff names/post titles were used.

The Committee also noted the current position regarding contracts and expressed their concern that “action by” dates had slipped. In particular, the need to update the contracts register was outstanding.

AAG/53 Internal Audit – Quarterly Update Report On Audit Follow Ups (Paragraph 3)
(cont.)

RESOLVED

- (i) That progress in terms of agreed actions implemented since December 2014 be noted.
- (ii) That the position in respect of the specific areas highlighted by the Chief Internal Auditor be noted.

RESOLVED

The Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

At the conclusion of the meeting, Members noted that Councillor David Holmes would be retiring from the Council at the elections in May and thanked him for his excellent chairmanship of the Committee over the last four years. Councillor Holmes thanked the Members of the Committee for their support during his time as Chairman. He added that he hoped that Group Leaders in the new Council would give careful consideration to the importance of the Accounts, Audit & Governance Committee when allocating Members to it, given its important role.

The meeting finished at 7.27pm having commenced at 5.30pm.

CHAIRMAN