

COTSWOLD DISTRICT COUNCIL

AUDIT COMMITTEE

28<sup>TH</sup> JUNE 2016

Present:

Councillor LR Wilkins	- Chairman
AW Berry	PCB Coleman (from 10.02 a.m.)
T Cheung	R Theodoulou (until 11.40 a.m.)

AUD.4 SUBSTITUTION ARRANGEMENTS

No substitution arrangements had been put in place for this Meeting.

AUD.5 DECLARATIONS OF INTEREST

There were no declarations of interest under the Code of Conduct for Members or Section 106 of the Local Government Finance Act 1992.

There were no declarations of interest under the Code of Conduct for Officers.

AUD.6 MINUTES

**RESOLVED that:-**

**(a) the Minutes of the Meeting of the Committee held on 5<sup>th</sup> April 2016 be approved as a correct record;**

**Record of Voting - for 2, against 0, abstentions 2, absent 1.**

**(b) the Minutes of the Meeting of the Committee held on 17<sup>th</sup> May 2016 be approved as a correct record.**

**Record of Voting - for 4, against 0, abstentions 0, absent 1.**

AUD.7 CHAIRMAN'S ANNOUNCEMENTS

The Chairman announced that he intended to change the order of the Agenda for the Meeting and take exempt Agenda Item (17) as the first item of substantive business.

AUD.8 PUBLIC QUESTIONS

No public questions had been received.

AUD.9 MEMBER QUESTIONS

No questions had been submitted by Members.

AUD.10 EXCLUSION OF THE PUBLIC AND PRESS

**RESOLVED that under Section 100A(4) of the Local Government Act 1972 the public and Press be excluded from the Meeting for the following item of business on the grounds that it involves likely disclosure of exempt information as defined in paragraph (3) of Part I of Schedule 12A to the said Act (Information relating to financial or business affairs) and that the public interest in maintaining the exemptions outweighs the public interest in disclosing the information concerned.**

**Record of Voting - for 5, against 0, abstentions 0, absent 0.**

AUD.11 GLITNIR UPDATE

The Committee was updated on the repatriation of the Council's investment in the former Icelandic Bank, Glitnir, including in relation to an urgent decision taken under Council Procedure Rule 38.

It was reported that the Council had received the total of its original capital sum of £2m, together with interest in an approximate sum of £176,000, which would equate to a 'windfall' gain for the Council in a sum of £120,000 in the current financial year. The Council had participated in a Central Bank of Iceland currency auction on 16<sup>th</sup> June 2016, which had resulted in the sale of its Icelandic Krona holding. The receipt from the auction was due to be paid in Euros, and was likely to be converted into sterling the day after the date of this Meeting.

In response to a question, it was reported that the final outcome of the transaction would be detailed in the Council's accounts as a post-balance sheet event, and that a statement in that respect would be made to the Council at its next scheduled Meeting.

**RESOLVED that the urgent decision taken under Council Procedure Rule 38, by the Head of Paid Service in respect of the Council's participation in the Central Bank of Iceland's currency auction, be noted.**

**Record of Voting - for 5, against 0, abstentions 0, absent 0.**

Note:

At this juncture, the Meeting reverted to 'open' session.

AUD.12 ANNUAL INTERNAL AUDIT OPINION 2015/16

The Committee was requested to consider and comment on the Annual Internal Audit Opinion for the financial year 2015/16.

The Head of Internal Audit (Operational) reminded the Committee of the purpose of the Opinion, and amplified various aspects of the circulated report, including in relation to the adequacy of control; responsibilities; compliance with the internal Code of Practice; the Council's quality assurance arrangements; development of the Internal Audit Plan; resourcing; training; procurement of an audit management system to help with the management of multiple Audit Plans and clients; and the management of 'significant' control weaknesses which had been identified in a number of audit reviews undertaken throughout the year.

The Committee considered the executive summaries attached to the circulated report and Officers responded to a number of questions thereon. In response to

such questions, it was reported that, for future audits, a meeting request would be submitted to discuss any issues with the appropriate Officer(s) during the week following completion of audits; procurement training for staff should be mandatory; the bank reconciliation processes had been changed as the treasury management and bank reconciliation audit had progressed; staff resources had not been a contributory factor the 'limited' assurance given in respect of the 'income streams' audit; the Council was well-aware of the impacts of cyber-crime, which could form part of the remit of the proposed Counter-Fraud project; a lack of control over use of social media had been identified and addressed; GO Shared Services, risk registers and social media had been identified in the Internal Audit Plan for 2016/17; identified weaknesses were monitored as part of the follow-up audits on a six-monthly basis with reports being submitted to this Committee; where possible, Freedom of Information requests were directed to the Council's Website as some such requests constituted a drain on the Council's resources; and 605 such requests had been submitted to the Council in 2015, and 37 had been submitted in the first two months of 2016.

**RESOLVED that the report be noted.**

**Record of Voting - for 5, against 0, abstentions 0, absent 0.**

AUD.13 DRAFT ANNUAL GOVERNANCE STATEMENT 2015/16

The Committee considered a report detailing the draft Annual Governance Statement for the financial year 2015/16.

Officers amplified various details of the circulated report, drawing attention to the background information; the six principles of governance; effectiveness; and significant governance issues during 2015/16. It was reported that, once approved, the Annual Governance Statement would be incorporated into the Council's Pre-Audit Statement of Accounts.

Arising on the Draft Annual Governance Statement:

(i) It was AGREED that the final sentence of the fourth paragraph on page 29 be amended to read 'The Local Plan will be submitted for examination in 2016/17.'

(ii) It was AGREED that the first sentence of the third paragraph on page 32 be amended to read 'The Audit Committee was re-established during the 2015/16 municipal year although, prior to this, there was an Audit and Scrutiny Committee.'

(iii) The Committee was reminded of some forthcoming training/awareness sessions which were due to be held within the next two months.

**RESOLVED that the draft Annual Governance Statement 2015/16 be approved for inclusion in the pre-audit Statement of Accounts, as amended.**

**Record of Voting - for 5, against 0, abstentions 0, absent 0.**

AUD.14 DRAFT STATEMENT OF ACCOUNTS 2015/16

The Committee considered a report detailing progress on the preparation of the Statement of Accounts for the financial year 2015/16.

The Chief Finance Officer reminded the Committee of changes to the procedures for the preparation of future Statements of Accounts with effect from the financial year 2107/18. Officers amplified various aspects of the draft Statement of Accounts, drawing attention to the 'core' statements; the Collection Fund; accounting policies; significant items affecting the accounts; the Comprehensive Income and Expenditure Statement; and the Balance Sheet. They drew particular attention to the cost of the services provided by the Council; adjustments to the Comprehensive Income and Expenditure Account; asset values; long and short-term investments; Pension Fund liabilities; and the Council's reserves. In response to various questions from Members, it was reported that the debt-collection system was considered to be effective; short-term investments were managed by the Council's in-house team and Treasury Advisors; 'short-term debtors' referred to debts which were due to be collected within the next twelve months, including the balance from the sale of land in Bourton-on-the-Water, which was due to be paid to the Council in September 2016; there had been a slight increase in investment property income during the year but no new investments had been made; such investments were made to secure long-term rental income; the triennial valuation of the Pension Fund was progressing; the Council's Pension Fund liabilities were currently estimated to be lower in the future than had been the case previously; the increase in the Council's reserves could, in part, be attributed to the early delivery of savings through the 2020 Programme, an increase in the level of development control income, which was not considered to be sustainable for future years, and a one-off underspend on budget.

It was reported that account would be taken of any impact arising from the result of the recent EU Referendum by way of a non-adjusting post-balance sheet disclosure. It was further reported that professional bodies and County-wide groups would consider the impact of any 'emergency' budget proposed by the Chancellor of the Exchequer.

**RESOLVED that:**

**(a) the key financial statements and extract from, and the Accounting Policies applied in the production of, the draft Statement of Accounts 2015/16 be noted;**

**(b) any questions, issues or concerns relating to the draft Statement of Accounts 2015/16 be notified to the Chief Finance Officer by no later than 22<sup>nd</sup> July 2016.**

**Record of Voting - for 4, against 0, abstentions 0, absent 1.**

Notes:

(i) Copies of the draft Statement of Accounts 2015/16, and a Grant Thornton publication 'Better Together: Building a Successful Joint Venture Company', were circulated to Members at the end of the Meeting.

(ii) The Chairman of the Committee thanked staff for the predicted underspend on the budget. The Chief Finance Officer thanked her staff for their work in preparing the draft Statement of Accounts.

AUD.15 GRANT THORNTON UPDATE

Ms J Masci (Associate Director) and Ms M Burge (Assistant Manager), both of Grant Thornton the Council's external auditor, were present for this item.

The Committee considered a report detailing progress to date in respect of Grant Thornton's work programme, and Ms Burge amplified aspects of that report relating to progress to date; the value for money conclusion; and emerging issues and developments. Ms Masci and Ms Burge also responded to some questions from Members.

**RESOLVED that the report be noted.**

**Record of Voting - for 4, against 0, abstentions 0, absent 1.**

AUD.16 PLANNED AUDIT FEES 2016/17

Ms J Masci and Ms M Burge of Grant Thornton, the Council's external auditor, were present for this item.

The Committee considered a report detailing the fee to be charged by Grant Thornton for the external audit during 2016/17. Ms Burge amplified aspects of the circulated report including in relation to the framework; calculation of the fee; the proposed scope of the audit; the timetable; and the billing schedule.

It was noted that the proposed fee of £44,879 was the same as for the previous financial year (2015/16).

**RESOLVED that the external audit fees for 2016/17 be noted.**

**Record of Voting - for 4, against 0, abstentions 0, absent 1.**

AUD.17 AUDITOR PANELS

The Committee was requested to consider the options for the appointment of external auditors, and to forward its comments thereon to the Cabinet at the appropriate time.

The Committee was reminded of the legislative background to the proposed change and considered each of the five options for the potential delivery of external audit services. It was noted that the new regime was due to take effect from 31<sup>st</sup> December 2017.

Ms J Masci of Grant Thornton was invited to address the Committee. Ms Masci reminded the Committee that, under the procurement regulations, the Council could decide to continue to make a direct appointment in respect of its external auditors and continue with the existing arrangement.

In response to questions from Members, it was reported that, in the opinion of Officers, Public Sector Audit Appointments Ltd. (PSSA) was performing well in respect of its role in controlling relationships between local authorities and external audit companies; it was possible to allow time to see how the sector progressed before the Council was required to make a decision; if the Council decided to pursue Option 1, as detailed at paragraph 4.1.1 of the circulated report, PSAA would carry out the appointment process on behalf of the Council;

and, on its own, the Council might not be able to secure the current levels of savings achieved through economies of scale.

It was considered that the Council should pursue Option 1, as detailed at paragraph 4.1.1 of the circulated report.

**RESOLVED that the report be noted.**

**Record of Voting - for 4, against 0, abstentions 0, absent 1.**

AUD.18 COUNTER FRAUD UNIT UPDATE AND DRAFT BUSINESS CASE

The Committee was requested to consider a draft business case relating to the establishment of a Counter Fraud Unit, and a summary of activity undertaken by the Unit.

The Committee was reminded of the background to the establishment of the Counter Fraud Unit and Officers amplified various aspects of the three suggested options for the establishment of a permanent Unit which would serve partner Councils across the region. In response to questions from Members, it was reported that the suggestion was for this Council to be the 'host' authority for the Unit; partner Councils were being asked to express their preference for a permanent arrangement; the partner Councils would be able to recover their investments in the proposed Unit through the carrying out of proactive fraud work; the overheads would be shared across the partner Councils and would reduce if more external organisations sought to join the proposed partnership; and a further report detailing a 'final' business case would be submitted to the Council in the autumn of 2016.

A Member expressed the view that the proposed Unit did not necessarily need to be self-financing. The Member considered that the Council had a duty to deter fraud and to ensure that its resources, and the interests of those parties who did not attempt to defraud the Council, were protected from crime. The Member contended that the cost of establishing the proposed Unit was a small price to pay for a high profile, professional service that would produce results, and concluded by stating that the Council should invest in, and promote, the Unit.

It was considered that Option 3, as detailed in Appendix 'B' of the circulated report, should be supported.

**RESOLVED that:**

- (a) the Counter Fraud Unit project summary be noted;**
- (b) the Cabinet be advised that this Committee supports the establishment of a permanent Counter Fraud Unit, as detailed at Option 3 of Appendix 'B' to the circulated report.**

**Record of Voting - for 4, against 0, abstentions 0, absent 1.**

AUD.19 OTHER BUSINESS

There was no other business that was urgent.

The Meeting commenced at 10.00 a.m. and closed at 12.40 p.m.

Chairman

(END)