

# **GOVERNANCE AND AUDIT COMMITTEE**

## **28 JUNE 2016**

*Present:-* Councillor Pearson (Chairman), Councillor Barlow, Councillor Chaplin, Councillor Chillingworth, Councillor F. Maclean, Councillor Willetts

### **3. Minutes**

The minutes of the meeting held 19 January 2016 and 25 May 2016 be approved as a correct record of the meeting.

### **4. Work Programme 2016-17**

Councillor Pearson introduced the Work Programme for the Governance and Audit Committee.

Councillor Pearson highlighted that the Chairman of the Governance and Audit Committee and the Chairman of the Scrutiny Panel will be meeting to discuss how to balance the work programme between the two Committees.

*RESOLVED* that the Work Programme 2016-17 be noted.

### **5. Audit Plan and Annual Audit & Certification Fees**

**Councillor Fiona Maclean joined the meeting prior to this item.**

Francesca Palmer, Ernst and Young, introduced the Audit Plan and Annual Audit and Certification Fees report. The report requests that the Governance and Audit committee consider and note the contents of both the Audit Plan for year ending 31 March 2016 and the indicative audit and certification fees for 2016/17.

Francesca Palmer highlighted within the report the two significant financial statement risks which affect all local authorities. This includes the risk of fraud in revenue recognition, and the risk of management override. In addition, the Council is also at risk of significant national appeals which may impact the Council's business rates appeals provision.

The report from Ernst and Young also give information on a risk in its value for money conclusion. This risk relates to the Council continuing to face significant financial challenges over the next three to four years and the risk that the savings plans to bridge this gap are not robust and/or achievable. Francesca Palmer also highlighted that the audit fees have reduced compared to prior years as a result in reduction of overheads of the Public Sector Audit Appointments compared to the Audit Commission.

The Committee welcomed the report and the Chairman requested that acronyms within the report are explained in full. Councillor Chillingworth questioned whether the level of risk associated with funding from external sources particularly government funding should be identified. In response Francesca Palmer stated that this was a business risk to the Council rather than an audit risk. In addition, it was noted by the Committee that a Risk Register report which will include information about external funding risks to the authority will be coming to the committee at its next meeting.

Councillor Jarvis asked for further information on the difference between audit fees and non-audit fees, and the significance of the 3.9% ratio between the two types of audit. In response Francesca Palmer stated that audit fees are those associated to auditing the financial statements and certification of claims and returns which are set out under statute, and managed by the Public Sector Audit Appointments (PSAA). The Non-audit fees refer to those outside the framework such as the Housing Pooling return and there is a threshold on the amount of non-audit work allowed to ensure independence. With regard to the 3.9% ratio, this is as expected as it only includes the Housing Pooling return.

*RESOLVED* that:-

- a) The Audit Plan for year ending 31 March 2016 be noted.
- b) The indicative audit and certification fees for 2016/17 be noted.

## **6. Draft Annual Statement of Accounts 2015/16**

Steve Heath, Financial Manager, introduced the Draft Annual Statement of Accounts 2015/16. The report requests that the information provided regarding the pre-audit Statement of Accounts for 2015/16 be considered and that the Governance and Audit Committee consider the proposal for an internal briefing session on the Statement of Accounts prior to the meeting approving the audited accounts.

Steve Heath stated that the report provides an overview of the process of approving the statement of accounts for 2015/16. Steve Heath highlighted that the auditing deadlines have been moved forward so that the deadline for approving and publishing the audited accounts is 31 July rather than 30 September. Whilst these new deadlines need to be implemented for the 2017/18 accounts, the recommendation is that Local Authorities move to these new deadlines as soon as possible, with Colchester Borough Council implementing them for the 2015/16 accounts.

Steve Heath also stated that the Chief Financial Officer had signed the draft accounts on the 27<sup>th</sup> of May with the accounts having been published on the website for members of the public to view. The final accounts audit has been started and will hopefully be completed in the week following this meeting. In addition Steve Heath stated that there will be an internal briefing session taking place on 21 July so that members can raise any concerns in advance.

The Committee welcomed the report and that the link to the Statement of Accounts was tweeted. The Committee also discussed the ability for members of the public to have their say at the meeting on the Statement of the Accounts, and that the Statement of Accounts are currently out to public consultation if members of the public wish to look at the accounts. Steve Heath confirmed that there had been no comments as yet from the public regarding the draft accounts.

*RESOLVED* that

- a) the Draft Annual Statement of Accounts 2015/16 report be noted.
- b) an internal briefing session on the Statement of Accounts 2015/16 be held on 21 July.

## **7. Year End Internal Audit Assurance Report 2015/16**

Hayley McGrath, Corporate Governance Manager, introduced the report on Year End Internal Audit Assurance Report 2015/16. The report requests that the Governance and Audit Committee review and comment on the internal audit activity from 1 October 2015 to 31 March 2016 and the performance of internal audit by reference to national best practice benchmarks.

Hayley McGrath stated that Colchester Borough Council has been using an external auditor, Mazars, to run its internal audit for a number of years. The Council has an Audit Plan which lasts for five years, and is broken down into yearly plans. Key financial systems and services are audited either fully or on an interim bases each year, with other areas reviewed on a cyclical and risk related basis depending on issues such as use of contractors or whether the service is public facing.

With regard to the audit process, Hayley McGrath stated that this starts with an audit brief being written and then agreed with senior management. Following the audit a report including the recommendations resulting from the audit is submitted to management to accept the recommendations. In terms of reporting to the Governance and Audit Committee, two reports come to the Committee the 6 month and year end reports with the majority of audits being reported at the end of the year. The reports only include detailed information on the limited or no assurance audits.

During 2015/16, there were two full assurance ratings, which included the audit on Creditors and the Museums services. Two services, Payroll and Parking Services Partnership, had their audits reduced from substantial to limited. All recommendations from the audits have been agreed with management, and there are currently no recommendations outstanding.

Hayley McGrath highlighted that Colchester Borough Homes also use Mazars for their internal audit, and when joint audits are undertaken the audit days are shared between the organisations. In addition, the contract with Mazars has recently been extended for three years, with the option to extend for a further two years. The contract includes a slight reduction in the number of audit days so that these days can be used to provide specialist provision for certain services that require upfront audit controls.

The Committee welcomed the report; Councillor Jarvis questioned the categorisation of the recommendations given the high number of priority two recommendations for the Animal/Pest Control audit, but lower number of overall recommendations for the Payroll audit which had one priority and one priority two recommendation. Alan Woodhead, Mazars, stated that whilst each recommendation is a priority, the priority one recommendations are the highest and therefore the categories of audit are based on this. In both cases all the recommendations made have been accepted by management.

Councillor Chillingworth requested further information on contract management and the audit of the service. The Committee agreed that a presentation on contract management and its role at Colchester Borough Council would be helpful.

Councillor Barlow requested that the detailed recommendations from the audits be displayed in order of their priority in future reports.

*RESOLVED* that;

- a) the Internal Audit Activity for the period 01 October 2015-31 March 2016 be noted.
- b) the performance of internal audit by reference to national best practice benchmarks be noted.
- c) A report on contract management be brought to the Governance and Audit Committee on 13 September 2016.

## **8. Review of the Governance Framework and Draft Annual Governance Statement**

Hayley McGrath, Corporate Governance Manager, introduced the Review of the Governance Framework and Draft Annual Governance Statement report. The report requests that the Committee consider and note the review of the Council's compliance with the six principles of good governance including the review of effectiveness of the internal control arrangements and approve the annual Governance Statement for 2015/16.

Hayley McGrath stated that draft Annual Governance Statement comes to the Committee annually and provides a review on how the Council has been governed over the past year. In compiling the statement, one on one interviews are held with members of senior management to establish the performance over the year, which includes input from Human Resource issues and internal audits.

The report includes those areas of concern for the year, where managers have asked for assistance or additional controls are required. This included issues within Payroll, Contract Management and the Revenues and Benefits system. In addition further controls were also required for Data protection; however this issue was with a third party contractor, which has resulted in a formal protocol being created.

*RESOLVED* that:

- a) The Council's compliance with the six principles of good governance including the review of effectiveness of the internal control arrangements be noted.
- b) The Annual Governance Statement for 2015/16 be noted.