

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE
HELD AT FOLLATON HOUSE, TOTNES ON THURSDAY 21 JUNE 2018**

Members in attendance * Denotes attendance ∅ Denotes apology for absence			
*	Cllr I Bramble	*	Cllr J A Pearce (Chairman)
*	Cllr J Brazil	*	Cllr J T Pennington (Vice-Chairman)
*	Cllr T R Holway		

Members also in attendance:
Cllrs N A Hopwood and S A E Wright

Item No	Minute Ref No below refers	Officers and Visitors in attendance
All Items		Section 151 Officer; Finance Community Of Practice Lead; Case Management Manager; Internal Audit Manager and Senior Specialist – Democratic Services

A.1/18 MINUTES

The minutes of the meeting held on 22 March 2018 were confirmed as a correct record and signed by the Chairman.

A.2/18 URGENT BUSINESS

The Chairman advised that she had agreed for one urgent item to be raised at this meeting. The item related to recent Financial Reporting Council reports about the performance of KPMG and the Section 151 Officer was invited to provide a summary statement that had been received from KPMG representatives that read as follows:

'The recent Financial Reporting Council (FRC) reports (including the outcome of their review of our work at Quindell) are clearly disappointing for the firm and highlight that there are areas where we are not meeting regulatory expectations. We take this matter very seriously and are committed to rectifying those areas of under performance (as has been noted by the FRC in their report).

There are two points that we would particularly like to highlight:

- 1. The FRC report is based upon audits for years ending in 2016 and pre-date significant changes that we began to implement in October of last year (our Audit Quality Transformation Programme) which were specifically designed to improve quality around these areas which have been identified as 'problematic';*

2. *The FRC report is based on their review of our work at large listed entities. Our work over local government clients is reviewed separately by the FRC under an arrangement with Public Sector Audit Appointments (PSAA). The reports produced on this work, including the most recent report, have consistently found that we are meeting the expected standards through our delivery of local government audits. This does not mean that we are relaxed in this area however and the changes arising from our Audit Quality Transformation Programme are also being implemented on your audit this year.'*

A.3/18 **DECLARATIONS OF INTEREST**

Members and officers were invited to declare any interests in the items of business to be considered during the course of the meeting, but none were made.

A.4/18 **DRAFT STATEMENT OF ACCOUNTS 2017/18**

The Committee considered a report that presented the draft Statement of Accounts and the draft Annual Governance Statement for the financial year ended 31 March 2018.

In discussion, the following points were raised:-

- (a) Those Members in attendance paid tribute to the achievements of the Finance Community Of Practice in meeting the requirement to publish the Council's Accounts a month earlier than in 2016/17;
- (b) With regard to the main budget variations identified in 2017/18, Members recognised that some of the % differentials were very significant. In particular, a Member identified the 60% shortfall in anticipated trade waste income and asked for a further explanation. In so doing, it was requested that greater explanation of the significant variations be given outside of this meeting and it was therefore agreed that a Briefing Paper would be produced and circulated to the Committee;
- (c) For clarity, officers confirmed that the reduction in 'long-term revenue grant receipts in advance (Section 106 Deposits)' reflected the fact that the Council had exercised its right to take a one-off 5% admin fee from this source;
- (d) A Member commented that the mortality assumptions seemed to be very high, which would have a consequent impact upon pension liabilities. In reply, it was noted that clarity had been sought on this point from Barnett Waddingham (an independent firm of actuaries), who had advised that the assumptions reflected the fact that people in the Devon Local Government Pensions Scheme statistically lived longer than the rest of the country;

- (e) In noting that the 'Business Rates Receivable' had fallen by £1 million in comparison to the previous year, a Member questioned whether this was part of a worrying trend whereby a number of local businesses were closing. In reply, officers informed that this was due to 2017/18 being a re-evaluation year for Business Rates, with the outcome of this review being that an increased number of small businesses were entitled to receive rate relief;
- (f) A Member expressed his surprise at the general lack of reference in the documents to the 'One Council' decisions. Whilst noting its reference in the narrative statement, such were the intrinsic links between the Council and West Devon Borough Council (WDBC) that the financial standing and performance of WDBC were a direct risk to the Council that should not be underestimated. As a result, the Committee requested that this point be incorporated into the Council's Risk Register. Furthermore, the Chairman advised the Committee that WDBC was currently at risk of its planning service being designated by the Government and this was felt to be an example of why the Committee needed to closely monitor the performance of WDBC;
- (g) For clarity, the Committee asked that the Annual Governance Statement be amended to clarify that the detailed delivery plans that sit beneath the Corporate Strategy themes were still to be developed.

It was then:

RESOLVED

1. That the Draft Statement of Accounts and the Draft Annual Governance Statement for the financial year ended 31 March 2018 be noted;
2. That the Council notify the Department for Work and Pensions that it will appoint KPMG as their appointed Reporting Accountant for 2018-19 for the Housing Benefit Subsidy Claim (as set out in Section 4 of the presented agenda report);
3. That officers produce a Briefing Paper for Members that provides a greater explanation of those significant main variations to the Budget in 2017/18.

A.5/18

INTERNAL AUDIT ANNUAL REPORT 2017/18

A report was considered that summarised the work undertaken by the Council's Internal Audit team during 2017/18. In addition, the report also reviewed the performance of the Internal Audit service and provided an audit opinion on the adequacy of internal control.

In discussion, the following points were raised:-

- (a) The Committee wished to thank the Internal Audit Team for all the work it undertook to ensure that the Council obtained a 'significant assurance' on the adequacy and effectiveness of its Internal Control Framework. By way of an update, the Committee noted that the member of the team who had suffered a serious accident had now returned to work. Whilst elements of the absence had been backfilled by the Devon Audit Partnership, Members were advised that the Audit Plan for 2017/18 had not been fully completed;
- (b) With regard to the fundamental weaknesses that had been identified during a recent Section 106 Agreements audit, the Committee was informed that progress had since been made. However, there did remain a number of issues to be followed up to ensure that this audit assignment achieved a good standard. When questioned, the Internal Audit Manager confirmed that these included: the need to build in some additional officer resilience and the need for all relevant information to be contained in one place;
- (c) In respect of Business Continuity, the lead Executive Member informed the Committee that an IT Resilience report was on the agenda for consideration at the next Overview and Scrutiny Panel meeting on 28 June 2018;
- (d) The Internal Audit Manager confirmed that counter fraud arrangements remained a high priority for the Council and it was acknowledged by Members that these assisted in the protection of public funds and accountability.

It was then:

RESOLVED

1. That, overall and based on work performed during 2017/18 and that of our experience from previous year's audit, approval be given to the Head of Internal Audit's Opinion is of 'significant assurance' on the adequacy and effectiveness of the Authority's internal control framework; and
2. That approval be given to the satisfactory performance and achievements of the Internal Audit Team during 2017/18.

A.6/18

ANNUAL REPORT OF THE STATUTORY OFFICERS' PANEL

The Committee was presented with a report that sought to inform Members of the work that the Statutory Officers' Panel had carried out over the last Financial Year.

In discussion, the following points were raised:-

- (a) Further to his previous comments (Minute A.4/18 above refers), a Member again reiterated his concerns in relation to the risks associated with the medium to long-term financial future of West Devon Borough Council. As a consequence, it was **PROPOSED** and **SECONDED** and when put to the vote declared **CARRIED** that:

'The risks to South Hams District Council associated with the potential failure of West Devon Borough Council are explicitly added to the Council's Risk Register, with an accompanying Mitigating Strategy also included.'

- (b) Whilst accepting that this was the first report of the Panel, the Committee requested that future reports include additional information relating to the role that had been played by the Panel during key corporate projects over the course of that year.

It was then:

RESOLVED

1. That the report be noted; and
2. That the risks to South Hams District Council associated with the potential failure of West Devon Borough Council are explicitly added to the Council's Risk Register, with an accompanying Mitigating Strategy also included.

A.7/18 GRANT THORNTON EXTERNAL AUDIT FEE LETTER

The Committee considered the planned audit fee letter for 2018/19 from Grant Thornton and welcomed the news that the Council would be paying, in comparison to the previous year, 23% less in its External Audit Fees for 2018/19.

It was then:

RESOLVED

That the contents of the External Audit Fee Letter be noted.

A.8/18 AUDIT COMMITTEE WORKPLAN PROGRAMME 2018/19

Members considered a report that sought approval of the Workplan Programme for the financial year 2018/19.

In discussion, reference was made to the pay on entry proposals for public conveniences. A Member expressed his disappointment that, despite making numerous requests, he had yet to receive a Business Plan that underpinned the recent Executive decision to implement a pay on entry system for some Council owned Public Conveniences. Indeed, such were the extent of these concerns, that Members requested that lead officers be invited to attend a future Committee meeting to outline the governance arrangements that were being proposed to underpin this project.

It was then:

RESOLVED

1. That the Workplan Programme for the financial year 2018-19 be approved; and
2. That lead officers be invited to attend a future Committee meeting to outline the governance arrangements that were being proposed to underpin the Pay on Entry Proposals for Public Conveniences.

(Meeting commenced at 10.00 am and finished at 12.05 pm)

Chairman