

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE  
HELD AT FOLLATON HOUSE, TOTNES ON THURSDAY 12 JANUARY 2017**

<b>Members in attendance</b> * Denotes attendance ∅ Denotes apology for absence			
*	Cllr I Bramble	∅	Cllr J T Pennington (Vice-Chairman)
*	Cllr J Brazil	*	Cllr K R H Wingate (Chairman)
*	Cllr J A Pearce		

<b>Members also in attendance:</b>
Cllrs J Birch, J P Green, M J Hicks, T R Holway, R J Tucker, R J Vint and S A E Wright

<b>Item No</b>	<b>Minute Ref No below refers</b>	<b>Officers and Visitors in attendance</b>
All Items		Group Manager – Support Services and Customer First; Section 151 Officer; Devon Internal Audit Partnership Manager; KPMG Director and Senior Specialist – Democratic Services
5	A.25/16	Group Manager – Commercial Services; Group Manager – Business Development; Support Services Specialist Manager and Monitoring Officer

**A.23/16 MINUTES**

The minutes of the meeting held on 22 September 2016 were confirmed as a correct record and signed by the Chairman.

**A.24/16 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.25/16 LOCAL AUTHORITY CONTROLLED COMPANY RISK AND GOVERNANCE**

The Committee considered a report that provided it with an overview of the current position for the Local Authority Controlled Company (LACC) project in respect of risk and governance.

In discussion, reference was made to:-

- (a) the considerations of the LACC Joint Steering Group (JSG). The Committee noted that the JSG would be making its final recommendations on whether or not a LACC should be set up by the Council and West Devon Borough Council at its meeting on Monday, 16 January 2017.

The Committee proceeded to ask that its concerns in relation to the following matters be taken into account during the JSG deliberations on 16 January 2017:

- pension implications. In stressing the importance of not under estimating the pension implications, Members raised a number of related concerns including:
    - o the potential recruitment difficulties arising from new employees being on a different scheme;
    - o a different scheme also being a disincentive to university graduates. In expanding upon the point, a Member cited a recent study that had concluded that current pension schemes were a major factor in graduates deciding to take up employment opportunities in the public sector; and
    - o the inability for the Council, in the event that a LACC was unsuccessful, to be able to bring its services back in-house due to the increased pension costs;
  - Reserved Matters. A Member felt that there was an omission in the current Reserved Matters whereby, as currently drafted, there would be a lack of ability or control for the Council to hold the LACC to account over a poor performing service. As a consequence, the Leader gave an undertaking to the Committee that this matter and the proposed extent of the powers delegated to a Joint Shareholder Committee would be carefully considered before the JSG made its final recommendations;
  - the lack of a detailed Business Plan. The Committee was strong in its views that the JSG was not in a position to make any recommendations to approve the establishment of a LACC without the production (and consideration) of a detailed Business Plan that included evidence based financial projections;
  - the impact of any potential additional partners joining the LACC at a later date and any future changes to the local government structure in the county; and
  - the inclusion on the Risk Register of a clear and defined exit strategy;
- (b) state aid implications. In the event of an unforeseen cost pressure arising from a service area, Members were advised that the relationship between the Council and the LACC would be very similar to the current arrangements with external contractors;
- (c) the Teckal exemption arrangements. Officers confirmed that the exact details relating to the Teckal exemption proposals would be included in the report presented to the JSG;

- (d) the timing of this meeting. Some Members felt it to be regrettable that this Committee meeting was taking place prior to the JSG making its final recommendations;
- (e) the role of the Internal Audit service. In the event of a recommendation being made for a LACC to be established, the Committee requested that further consideration be given to whether or not Internal Audit officers should be employed by the LACC or the Council;
- (f) the degree of risk. Some Members were of the view that the extent of the risks involved in establishing a LACC were so great that they were unwilling to support the concept.

It was then:

### **RESOLVED**

That the progress of the Joint Steering Group in respect of Risk and Governance matters (as identified in the presented agenda report) be noted.

A.26/16

### **KPMG REPORT – ANNUAL AUDIT LETTER AND CLOSURE OF THE AUDIT LETTER**

The Committee received the Council's Annual Audit Letter that summarised the key findings arising from the work that KPMG had carried out at the Council for the year ended 31 March 2016.

In discussion, reference was made to:-

- (a) the definition of 'Value For Money' (VFM). A Member queried with the External Auditor the issuing of an unqualified VFM conclusion when considering that the Council had to find additional monies for extra transitional resources during the year. In reply, the External Auditor in attendance advised that there was a common misunderstanding around the definition of VFM in this respect. For clarity, the External Auditors were not responsible for ensuring the delivery of VFM, but were focusing on ensuring that the Council had adequate arrangements in place to ensure the control of expenditure was appropriate;
- (b) cost allocations between the Council and West Devon Borough Council. When questioned, the External Auditor advised that it was recognised that there was a significant audit risk related to cost sharing between the two Councils. As a consequence, this had been a key area of focus for the External Auditors. As the debate continued, the Committee formally requested receipt of an annual report for its consideration that outlined the methodology and mechanisms that were being used to calculate the cost allocations between the two Councils.

It was then:

**RESOLVED**

1. That the content of the Annual Audit Letter and the Closure of the Audit Letter (as circulated in the presented agenda) be noted; and
2. That the Committee be in receipt of an annual report that outlined the methodology and mechanisms that were being used to calculate the cost allocations between the Council and West Devon Borough Council.

A.27/16

**APPOINTMENT OF AN EXTERNAL AUDITOR**

Members gave consideration to a report that sought a recommendation from the Committee to the Council regarding the arrangements for the future appointment of external auditors.

In discussion, the following points were raised:-

- (a) The Committee was advised that the vast majority of local authorities in Devon were opting into the appointing person arrangements made by the Public Sector Audit Arrangements (PSAA). Whilst accepting that the alternative option would enable the Council to have greater control and influence, it was also acknowledged that it would be far more expensive and resource intensive;
- (b) In respect of the hope that the Council would obtain a more competitive fee for its External Auditor, it was noted that, on average across the United Kingdom since 2013, external audit fees had dropped by 55%.

It was then:

**RECOMMENDED**

That the Council be **RECOMMENDED** to opt into the appointing person arrangements made by the Public Sector Audit Arrangements (PSAA) for the appointment of external auditors.

A.28/16

**UPDATE ON PROGRESS ON THE 2016/17 INTERNAL AUDIT PLAN**

A report was considered that informed Members of the principal activities and findings of the Council's Internal Audit team for 2016/17 to 1 December 2016 by:

- providing a summary of the main issues raised by completed individual audits; and
- showing the progress made by Internal Audit against the 2016/17

annual internal audit plan, as approved by the Committee on 24 March 2016 (Minute A.38/15 refers).

In discussion, reference was made to:-

- (a) additional temporary resource. The Committee was informed that, at no cost to the Council, an additional temporary resource would be supporting the Internal Audit Service in the next few weeks to deliver three specific pieces of work on the 2016/17 Internal Audit Plan;
- (b) an audit opinion whereby 'improvements are required'. In such instances, it was noted that Internal Audit officers would discuss their findings with both operational and senior managers, who would be required to provide a response and an action plan. Furthermore, it would be a requirement for the action plan to include the name of an officer who would be responsible for improvements and a target date for implementation.

When questioned further, Members noted that any fundamental weaknesses that were found during an audit would be immediately reported to the Council's Senior Leadership Team, with the Audit Committee retaining the ability to call senior officers to account at a future meeting;

- (c) the stores (stock control and security) audit. For clarity, it was confirmed that the initial audit in this respect had now been revisited and improvements had since been made to improve the security at the depots;
- (d) the Development Control audits. Officers confirmed that these audits were to commence imminently and it was anticipated that the findings would be reported to the Audit Committee meeting in June 2017.

It was then:

**RESOLVED**

That the progress made against the 2016/17 internal audit plan, and any key issues arising, be noted.

(Meeting commenced at 10.00 am and finished at 11.25 am)

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Chairman