

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE
HELD AT FOLLATON HOUSE, TOTNES ON THURSDAY 19 SEPTEMBER 2013**

Members in attendance			
* Denotes attendance		∅ Denotes apology for absence	
*	Cllr I Bramble	∅	Cllr L P Jones
*	Cllr C G Bruce-Spencer (Vice Chairman)	*	Cllr J T Pennington (Chairman)
*	Cllr A S Gorman		

Other Members in attendance and participating
Cllrs H D Bastone and S A E Wright

Other Members in attendance and not participating
Cllr L A H Ward

Item No	Minute Ref No below refers	Officers and Visitors in attendance
All Items		Head of Finance and Audit, Chief Accountant, Principal Accountant, Chief Internal Auditor and Member Services Officer.
Items 1 to 8, & 10	A.10/13 to A.15/13, and A.17/13	Audit Manager - Grant Thornton Engagement Lead - Grant Thornton
Item 9 & 11	A.16/13 & A.18/13	Corporate Director (AR)

A.10/13 MINUTES

The minutes of the meeting held on 18 July 2013 were confirmed as a correct record and signed by the Chairman.

A.11/13 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.12/13

GRANT THORNTON – REVIEW OF THE COUNCIL’S ARRANGEMENTS FOR SECURING FINANCIAL RESILIENCE FOR SOUTH HAMS DISTRICT COUNCIL

The Audit Manager (Grant Thornton) presented a report that set out the findings of the review of the Council’s arrangements for securing financial resilience, which supported the Value for Money (VfM) conclusion as part of the statutory external audit. She highlighted that in the current economic climate, and with the cuts imposed on local government funding, that financial resilience was a key risk for local government bodies.

The review considered the Council’s financial resilience for the next twelve months and considered the Authority’s key indicators for performance, approach to strategic financial planning, financial governance and financial control. Overall in each category, the Authority had been rated as ‘arrangements meeting or exceeding adequate standards’.

More specifically, in relation to key indicators performance, the level of sickness performance had increased year on year, and for 2012-13 an average of 11.52 days per FTE had been lost to sickness which was above the public sector average of 7.9 days. In response, the Council’s Human Resources Department had stated that *‘The Council continually monitors the causes of sickness absence and work closely with Occupational Health providers. The Council has recently progressed four cases of early retirement on health grounds and along with greater emphasis on short term absence, the recent performance indicators show an improvement in both long term and short term statistics’*

In relation to Financial Control, it was recommended that the Council consider separately monitoring and reporting savings to Members and to clearly identify where planned savings were not achieved.

Whilst the Council was facing a significant budget gap, overall it was considered that it was responding to that gap with appropriate actions.

It was then:

RESOLVED

That the Committee notes and welcomes the report.

A.13/13

GRANT THORNTON – THE AUDIT FINDINGS FOR SOUTH HAMS DISTRICT COUNCIL (2012-13)

The Audit Manager (Grant Thornton) presented a report which highlighted the key matters arising from the audit of the Council’s financial statements for the year ended 31 March 2013. The auditors had found them to be a quality set of accounts with very few errors or inconsistencies with only one adjustment of £293,000 affecting the Council’s net expenditure reported in the Comprehensive Income and Expenditure Statement.

There was a recommendation in relation to internal controls, as a weakness had been found in the systems in place for capitalisation of expenditure in the Property Services Repairs and Maintenance System. The Chief Accountant responded that the Building Maintenance software used for costing jobs was not designed as an accounting system and it did not link into the general ledger software. Transfers between the two systems were now undertaken manually.

The report also recommended that in relation to pension liabilities, which was an area of uncertainty, that the long standing disclosures be enhanced to include estimates and judgements in relation to property, plant and equipment. The Chairman requested that a seminar for Members on the Council's Pension Fund be organised. The Head of Finance and Audit responded that this had been discussed at a Senior Management Team meeting and the Council would soon get the results of the Tri-Annual revaluation. It was noted that January 2014 might be an appropriate time to invite colleagues from Devon County Council to make a presentation to Members.

During the discussion, the following points were raised:

- It was asked if there was a regular review of the asset mix of the invested pension fund to compensate for the low gilt yields. Members were informed that this was reviewed. The Chief Internal Auditor added that the external auditors also audited the pension fund and he had received assurances on it.
- The 40% reduction in external audit fees (as set out on page 55 of the published agenda) was commented upon and Members wished for this huge saving to be noted.
- Members also noted the conclusion (page 61 of the published agenda) that the Auditors were satisfied that in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

It was then

RESOLVED

That the satisfactory report and the 40% reduction in external audit fees be noted; and

That Finance Officers be congratulated for their sterling work on the production of the quality set of accounts.

A.14/13

ANNUAL GOVERNANCE STATEMENT 2012/13 UPDATE

The Chief Internal Auditor presented an update to the Annual Governance Statement and informed Members that there were a few minor amendments to the draft that had been presented to the Committee at its meeting in July 2013, these being:

- Data Quality Strategy – this would now be completed by 31 October 2013;
- Shared Services – Overarching Agreement – this would now be completed by 31 December 2013;
- Delegation to Middle Managers – this would now be completed by 31 December 2013; and
- Dartmouth Embankments – the Head of Assets would provide an oral update on the progress being made to the Audit Committee at its meeting in September 2013.

Dartmouth Embankment – Oral Update from the Head of Assets:

The officer informed that a deadline had been given to complete the signing of Heads of Agreement in the areas under discussion and she had given the Dart Harbour Authority until the end of September to respond to specific points that had been raised.

During the discussion, the following points were raised:

- Members were informed that the Audit Commission had published a document entitled ‘Council Accounts – A Guide to Your Rights’ and systems had been put in place to enable the public to have access to the accounts and it was advertised both on the website and in local press when the accounts were available for inspection.
- Referring to ‘Financial Uncertainty’, a Member highlighted that as well as the review of spending, new income streams should also be reviewed and feature in the annual governance statements. The Member accepted that the list of mitigating actions was not exclusive and it was agreed that the income point be minuted rather than an amendment be made to the Statement.

It was then

RESOLVED

That the Committee:

Notes the minor amendments to the Annual Governance Statement 2012/13 which was recommended to Council in the minutes of the Audit Committee held on 18 July 2013 (minute A.08/13 refers).

Be kept informed on the progress made in updating the Data Quality Strategy.

A.15/13 AUDITED ANNUAL STATEMENT OF ACCOUNTS 2012/13

The Head of Finance and Audit presented the report which presented a summary of net revenue and capital expenditure and which sought approval for the audited statement of accounts 2012/13.

During the discussion, the following points were raised:

- Members were informed that to date, the Council had received 94% of its original deposit in the Heritable Bank (a UK registered subsidiary of Landsbanki, an Icelandic Bank);
- It was noted that there was one non-adjusting event after the balance sheet date relating to Non Domestic Rates. Local Authorities now had to assume liability for refunding non domestic rate payers who successfully appealed the rateable value of their properties. The Head of Finance and Audit explained that this was a difficult liability to estimate as some appeals were seven years old and it was hard to predict which ones would ultimately be successful, but this was being monitored on a monthly basis.
- Members were informed that the £355,000 incurred for employee expenses in the Building Control Unit was a combination of salary costs, national insurance contributions, pension costs, employees liability insurance and training and professional subscriptions, for a total of eight employees.
- Members were informed that a short term provision of £18,000 had been created for Municipal Mutual Insurance (MMI), but the Council's maximum exposure to loss remained at £118,608

It was then:

RESOLVED

That the Letter of Representation and the Audited Statement of Accounts be approved.

A.16/13 NEW BUDGET PROCESS AND MONITORING – NEXT STEPS

Members discussed the notes of the informal meeting of the Audit Committee which had met to identify areas for further investigation by the Joint Task and Finish Group as part of the budget preparation exercise.

During the discussion, the following points were raised.

- With regard to the request for detailed accounts, Members were informed that quarterly budget monitoring reports were presented to the Executive and formed part of the agenda papers that were distributed to all Members. The next quarterly report was due to be presented in November 2013.

- A Member requested that participatory budgeting be considered by the Joint Task and Finish Group as there were likely to be experts in the community who could be approached for expertise in relation to new opportunities for income generation. The Chief Internal Auditor added that a specific methodology might be needed to guide the future work on sourcing new income streams. The Head of Financial Services and Audit added a cautionary note, highlighting that a few years ago an event was held for the public to give their views on the budget, but attendance had been low despite the resources that had been incurred on preparing for and holding the event. The Member noted that this topic might well present a marketing and public relations challenge.
- Another Member highlighted the role of Tone Leisure that was selling some car parking permits on behalf of the Council and perhaps Tourist Information Centres could be also be approached to carry out similar types of income generating roles.
- A Member expressed that it was a myth that the commercial environment always had better knowhow as there were many common features across the public and private sector and he felt there was a lot of expertise within the Council that was being overlooked.
- Noting that the Locality Funds often had a multiplier effect, a Member suggested that the Authority could provide match funding for community projects, to encourage communities to support projects they were interested in. The Corporate Director (AR) also added a cautionary note, highlighting that this approach had been very successful in the past but the issue now was the reduced financial capacity of the Authority to support match funding. For significant sums there would be a requirement for high level business plans to demonstrate the value for money returns of any proposed initiative or project. It was acknowledged that significant injections of Council funding had attracted large external grants in the past, but this had been in a different economic climate and the focus of future capital programmes in the short to medium term was likely to shift from supporting community projects to meeting operational requirements.
- A Member noted that Crowd Funding was becoming a much bigger phenomenon and questioned whether the Council could follow this lead and become a facilitator and receiver for funds.
- A Member suggested that initiatives to generate income that required large upfront costs should be discounted because of the uncertainty of outcomes.
- In addition to the three areas of investigation discussed at the informal meeting, it was proposed and seconded that Outdoor Sport and Recreation be considered as an area to both reduce costs and increase income.

- It was discussed that re-locating costs in relation to cemeteries and burials to Town and Parish Councils be considered. The Chief Internal Auditor agreed to consider this from a statutory perspective.
- The costs in relation to community safety was raised. However, the Committee was informed that the Authority had a statutory duty to work with other bodies to reduce anti social behaviour and the Authority was already contributing at the minimum level. However, the Chief Internal Auditor agreed to consider this area.
- It was noted that a Beach Management Working Group was considering what income could be generated from beach cleaning private beaches.
- It was requested that a breakdown of the costs in relation to the Wembury Marine Partnership be provided by Finance officers. It was noted that this partnership had been set up many years ago and that there might possibly be contractual obligations in relation to this.
- Members were informed that the Authority provided the stalls for the pannier market participants to rent and therefore was responsible for the manual setting up and closing down of the stall hardware. The Chief Internal Auditor agreed to confirm the position for the next meeting of the Committee.

It was then

RESOLVED

That the Joint Task and Finish Group be tasked to investigate the following:

- Opportunities for advertising and sponsorship;
- Utilisation of Follaton House and Grounds and other Council Assets;
- Opportunities for capitalising on in house skills, expertise and experience;
- Potential savings and income generation in outdoor sport and recreation;
- Opportunities to gain additional external expertise through participatory budgeting; and
- That the Chief Internal Audit Manager and Head of Financial Services and Audit provide details to the next Audit Committee on the costs associated with:
 - Cemeteries and Burials;
 - Community Safety;
 - Pannier Markets; and
 - Wembury Marine Centre

A.17/13 INTERNAL AUDIT – PROGRESS AGAINST THE 2013/14 PLAN

The Chief Internal Auditor presented a report that informed Members of the principal activities and findings of the Council's Internal Audit team for 2013/14 to the 31 July 2013.

The officer advised that the CIPFA Guidance for the new internal audit standards had now been published and the terms of reference for Internal Audit and the Internal Audit Strategy had been reviewed against the new guidance and the 35 page detailed questionnaire had also been completed. Both the strategy and the Terms of Reference were deemed fit for purpose and a list of the items which should be included in them for the following year was set out paragraph 1.3 (page 205 of the published agenda).

With regard to the Internal Audit Plan 2013/14 there was only one proposed amendment at the current time. This was in relation to the management of contracts. The Risk Management Group had requested that the Leisure Contract be reviewed in order to determine lessons to be learned.

The officer added that with regard to the key performance indicator, 'Completion of 2013/14 Plan' he was confident that the service would attain the same level of performance as for 2012/13.

The Committee had been informed at the previous meeting that a Counter Fraud Plan would be presented and this was set out at paragraph 3.2 (page 208 of the published agenda).

During the discussion, the following points were raised:

- It was asked that details for the costs of the prosecutions of benefit fraud be brought to the next meeting.
- Members highlighted their concerns about the costs associated with the Connect Partnership and related Strategies, and noted that there was an opportunity for them to comment on this when the item was presented to Council on 26 September 2013.
- The Chairman raised his concerns about the value for money aspect of the costs incurred for hiring agency staff rather than employing staff for various posts and noted that the hourly rate for employing more senior and professional staff was considerably less than paying agency rates. It was noted that the a report on the Use of Agency Staff was to be presented to the Corporate Performance and Resources Scrutiny Panel at its next meeting on 3 October 2013.

- Members were informed that the procedure rules in relation to Contract Management were to be reviewed and that all original contracts should be presented to and stored by the Legal Service.
- Members were informed that there was still no update on the HMRC Inspection.

It was then

RESOLVED

That the Audit Committee notes the progress made against the 2013/14 Audit Plan and has commented on it.

A.18/13

STRATEGIC RISK ASSESSMENT – SIX MONTHLY UPDATE

The Corporate Director (AR) presented a report that summarised the key risks identified at the time of the six monthly review and also included a summary of the management and mitigation actions to address the identified risks in the following categories:

- Strategic Political Risks;
- Strategic Management Risks;
- Strategic Staffing Risks;
- Strategic Financial and Asset Risks; and
- Corporate Issues Risks

The officer referred to some notable risks in relation to the robustness of the Medium Term Financial Strategy and officer capacity to deliver the Connect Strategy and T 18 programme, as well as day to day service delivery.

In light of the Committee wishing to discuss elements of the exempt appendices,

It was then:

RESOLVED

That in accordance with Section 100(A)(4) of the Local Government Act 1972, the public and press be excluded from the meeting during consideration of the following items of business in order to avoid the likely disclosure to them of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the Act.

Members then discussed the exempt appendices, and officers responded to a number of queries that were raised.

It was then:-

RESOLVED

That the public and press be readmitted.

It was then:-

RESOLVED

That the Audit Committee notes the content of the Strategic Risk Assessment – six monthly update and has commented on it.

At the end of the meeting the Chairman thanked the Chief Internal Audit Manager and the Finance Officers for all the hard work they undertook and wished for Members appreciation of this to be noted.

(Meeting commenced at 2.00 pm and finished at 4.30 pm)

Chairman