

BOROUGH COUNCIL OF KING'S LYNN & WEST NORFOLK

AUDIT COMMITTEE

Minutes from the Meeting of the Audit Committee held on Wednesday, 30th May, 2018 at 5.00 pm in the Council Chamber, Town Hall, Saturday Market Place, King's Lynn PE30 5DQ

PRESENT: Councillor G Middleton (Chairman)
Councillors Mrs J Collingham, P Kunes, C Manning, D Pope, T Smith and
T Tilbrook

Portfolio Holder:
Councillor B Long, Leader

Officers:
Lorraine Gore, Executive Director
Ged Greaves, Senior Policy and Performance Officer
Matthew Head, Auditor
Jo Stanton, Revenues and Benefits Manager
Kathy Woodward, Shared Internal Audit Manager

Also Present:
Dan Cooke, Ernst and Young, External Auditor

A1 **APPOINTMENT OF VICE CHAIRMAN FOR THE MUNICIPAL YEAR 2018/2019**

RESOLVED: That Councillor T Tilbrook be appointed Vice-Chairman for the Municipal Year 2018/2019.

A2 **APOLOGIES**

An apology for absence was received from Councillor P Hodson.

A3 **MINUTES**

The Minutes of the meeting held on 12 February 2018 were agreed as a correct record and signed by the Chairman.

A4 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

A5 **URGENT BUSINESS UNDER STANDING ORDER 7**

There was no urgent business.

A6 **MEMBERS PRESENT PURSUANT TO STANDING ORDER 34**

There were no Members present under Standing Order 34.

A7 **CHAIRMAN'S CORRESPONDENCE**

The Chairman address those present, as set out below:

"I am delighted to have been given the opportunity to chair the Audit Committee for this municipal year.

I would firstly like to thank our outgoing Chairman, Councillor Pope for his contributions made to this committee over the time he served us as chairmen.

Audit plays a central part in all that the Council aims to achieve, and although some maybe see it as a bit tedious it really is one of the more important tasks that the council needs to deliver on.

One of the main items of this being the Annual Governance Statement that we see the draft of tonight and the full report at our next meeting in July.

I look forward to serving you and our residents across the Borough, and I will ensure all of you that this is our Committee and not just mine, I will be open to suggestion at any point with reference to agenda items etc

It is our responsibility to scrutinise and decision make were necessary not only on behalf of those who voted for us but on behalf of all who live in our wonderful Borough.

As we commence this meeting tonight and start on the 18/19 year I would like to ask that we respect each other's opinions and that we follow good practise for meetings, especially going through the chair when asking a question or stating opinion. I will give everyone a fair share, but I will also keep an eye on time and use Chairman's discretion where necessary."

A8 **TRAINING/BRIEFING - INTERNAL AND EXTERNAL AUDITS**

The Committee received a training session via a PowerPoint presentation from the Shared Internal Audit Manager, a copy of which is attached to the Minutes.

Members were invited to ask questions.

The Shared Internal Audit Manager, Executive Director and D Cooke from Ernst Young responded to questions relating to:

- The Shared Internal Audit Manager arrangement/role and the benefits it brought to both Councils.
- Internal Audit arrangement for looking at and discussing the work undertaken by the External Auditors.
- Composition of Internal Audit Team.
- Audit work and fees undertaken by the External Auditors on an annual basis.

The Chairman thanked the Shared Internal Audit Manager for the training received by the Committee

A9 **CERTIFICATION OF CLAIMS AND ANNUAL REPORT 2016/2017**

D Cooke, Ernst and Young presented the Certification of Claims and Annual Report 2016/2017 and highlighted the following sections as set out below:

- Scope of work.
- Summary.
- Housing Benefits Subsidy Claim.
- 2016/2017 Certification Fees.
- Looking Forward.
- Summary of Recommendations.

The Leader, Councillor Long, D Cooke, the Revenues and Benefits Manager responded to questions relating to:

- Universal Credit, how it would affect the processing of benefit claims and the timescale involved.
- Introduction of new system to assess benefit claims during 2018/2019.
- Extended and other testing identified errors on non-HRA subsidy which the Council amended. It was explained that this had a small impact on the claim, increasing the subsidy by £181.
- Department of Work and Pensions audit approach.

Councillor Tilbrook commented that it would be useful to include reference to dates in future reports.

The Chairman thanked Dan Cooke from Ernst Young for attending and presenting the report to the Committee.

RESOLVED: The Committee received the Certification of Claims and Returns Annual Report 2016/2017.

A10 **EXCLUSION OF PRESS AND PUBLIC**

RESOLVED: That under Section 100(1)(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraphs 1, 2, 3 of Part 1 of Schedule 12A to the Act.

A11 **EXEMPT REPORT: RISK BASED VERIFICATION POLICY UPDATE**

The Revenues and Benefits Manager presented the report which provided an update for the Committee on Risk Based Verification (RBV) activity over the past year, and made some minor updates to the RBV Policy. It was explained that the Council introduced RBV to assess the risk of fraud and error in New Claims for Housing Benefit and Council Tax Support from April 2015. In February 2016, RBV was extended to include Changes of Circumstance.

The Revenues and Benefits Manager responded to questions from the Committee.

The Chairman thanked the Revenues and Benefits Manager for attending and presenting the report.

RETURNED TO OPEN SESSION

A12 **CORPORATE RISK REGISTER**

The Senior Policy and Performance Officer presented the report which detailed the changes to the Corporate Risk Register since the last monitoring report in October 2017. The report set out the risk falling into the 'Very High' category and the associated work being progressed to mitigate the effects.

The Committee's attention was drawn to the following areas of the report:

- Section 2 – Changes to the Register – the risk proposed to be removed and the proposed six new risks.
- Increased risk score – 1.23 General Data Protection Regulations (GDPR). It was reported that all Councillors had been invited to attend a training session on 17 May 2018.
- Decreased risk score from Major to Moderate – 1.22 Revenues and Benefits Software Tender.

In response to questions regarding the number of risks entered in the Corporate Risk Register, the Senior Policy and Performance Officer explained that in comparison with other local authorities, the Borough Council held an average number of risks.

Following further questions, on the decreased risk score for the Revenues and Benefits Software Tender, the Leader and the Executive Director outlined the reasons and explained that following completion of the tender process the contract was awarded to the existing supplier, Civica, in January 2018. The Committee was advised that an implementation plan was in place and resources allocated to ensure effective implementation and training for staff. The Executive Director advised that the tender process has brought significant savings to the authority.

In response to comments from Members, the Executive Director explained that the Borough Council's treasury advice now obtained from Link Solutions.

Reference was made to 1.16 Business Rates being identified as a high risk and whether any figures were available together with the impact on the bottom line. The Executive Director referred to the Financial Plan 2017 – 2022 presented to Cabinet on 6 February 2018:

(Please click on link below to view the Financial Plan 2017 – 2022)

[file:///homeserver/Users\\$/wvincent/Downloads/financial_plan_2017_2022.pdf](file:///homeserver/Users$/wvincent/Downloads/financial_plan_2017_2022.pdf)

and explained that she did not have the information to hand, but would circulate the information to the Committee. The Executive Director also informed the Committee that there were also proposals for the Business Rates Retention Scheme and a Fair Funding Review currently in progress, but the outcomes were not yet known.

Following questions relating to the possible backdating of business rates to the Queen Elizabeth Hospital, the Executive Director explained that the Business Rates Pool had set aside uncommitted funds for the purpose of any claims made against Norfolk local authorities and undertook to circulate further information to the Committee.

RESOLVED: The Committee considered the contents of the Corporate Risk register and confirmed agreement with Management Team's assessment of the risks to the corporate objectives.

A13

DRAFT ANNUAL GOVERNANCE STATEMENT COVERING THE 2017/2018 YEAR

The Senior Policy and Performance Officer outlined the purpose of the report and reminded Members that the report brought the Council's draft Annual Governance Statement (AGS) 2018 to the committee to review, challenge and provided an opportunity to input prior to the AGS being finalised and considered by the Committee at its meeting in July 2018.

The key issues were outlined as detailed in the report.

The Chairman invited the Committee to ask any questions/comments.

There were no questions from the Committee.

RESOLVED: The Committee reviewed the draft Annual Governance Statement 2018 and determined that the work undertaken to review the governance arrangements in place during the 2017/18 year was appropriate.

A14

INTERNAL AUDIT ANNUAL REPORT AND OPINION 2017/2018

The Shared Internal Audit Manager presented the report which provided the Committee with an overview of the work undertaken by Internal Audit during 2017/18 and provided the Audit Manager's annual opinion on the system of internal control.

Members were reminded that the Audit Manager's Opinion set out in section 2 of the report fed into the Annual Governance Statement providing the assurance of the adequacy and effectiveness of the Borough Council's systems.

The Committee's attention was drawn to the following sections of the report:

- Audit Manager's Opinion.
- Effectiveness of the Internal Audit Team.
- Anti-Fraud and Anti-Corruption Procedures.
- Risk Management.
- Conclusion.

In response to questions regarding audits which has received limited assurance, the Shared Internal Audit Manager explained that when the audit report was issued it was accompanied by an action plan which had been agreed with the Service Manager and presented to Management Team. With regarding the Planning Control Audit which had received limited assurance, the Leader explained that as part of the process the report had been discussed with the Portfolio Holder and the Planning Committee had received extensive training and that as a result all major planning application sites were visited by the Planning Committee prior to determining a decision.

Following questions on the Housing Standards audit receiving limited assurance, the Shared Internal Audit Manager provide an update and advised that the recommendations had been implemented and a further follow up audit would be scheduled.

RESOLVED: The Committee received the annual audit opinion and noted the work of Internal Audit for 2017/18

A15 INTERNAL AUDIT FULL YEAR PROGRESS REPORT 2017/2018

The Shared Internal Audit Manager proposed that for 2019/2020 that the following two reports be combined:

- Internal Audit Annual Report and Opinion and
- Internal Audit Full Year Progress Report

to which the Committee agreed.

The Shared Internal Audit Manager presented the report which provided Members with an update on progress against the Internal Audit Strategic Plan 2017/18 that was endorsed by the Audit Committee at their meeting on 13 February 2017.

Members were informed that the Audit Committee Terms of Reference required it to monitor the delivery of the internal audit activity.

The Committee's attention was drawn to the following sections of the report:

- Section 2.3 – audits which were ongoing at the end of the year and would be reported to the Committee in the next progress report.
- Section 3.1 – 2 themes of National Fraud Initiative (NFI): The Flexible Matching Service and the NFI National Exercise 2016/17.
- Section 3.5 – investigation work conducted on an adhoc basis to attempt to trace debtors/absconders.
- Section 3.7 – other exploratory routes to attempt to prevent, detect and deter fraud and error – DWP Joint working, Counter Fraud Hub, NFI Business Rates Pilot.

In response to questions regarding the Borough Council's Council Tax collection rate figures, the Executive Director and Shared Internal Audit Manager provided an overview of potential reasons as to why the collection rate was not 100%.

Following questions on the Borough Council's approach to recover debts, the Shared Internal Audit Manager explained that the Council explored a number of options to recover debts where possible and gave an example of the Investigations Officer (Fraud) using social media to track down debtors.

The Committee was informed of the joint work with the Department of Work and Pensions to recover debt.

RESOLVED: The Committee reviewed the progress against the planned work and ensured that it complied with the requirement of the Accounts and the Audit Regulations 2015.

A16 **AUDIT COMMITTEE EFFECTIVENESS REPORT 2017/2018**

The Shared Internal Audit Manager explained that it was considered to be good practice for the Audit Committee to present Cabinet with an annual report on the work carried out by the Committee in the preceding year. The report reviewed the work of the Audit Committee during the year 2017/18 and considered if the Committee had effectively fulfilled its role.

In response to questions regarding training now being mandatory for the Audit Committee, the Shared Internal Audit Manager explained that training was an issue for the Committee to discuss and decide. The Leader provided an overview of the training requirements for the Planning Committee. If Members were not able to attend a Planning training session then a follow up session for those Councillors would be arranged.

In response to a question regarding Members' training, it was confirmed that a record of Members training was held on Mod Gov.

A discussion took place on options to ensure that all Members of the Audit Committee received the appropriate training. Mention was also made of a small number of named substitutes receiving training. The Chairman, Councillor Middleton undertook to liaise with officers on the suggestions put forward and report back to the next meeting of the Committee.

The Leader commented that Cabinet welcomed the report in the previous year and added that the Audit Committee carried out a good job and was a credit to the Chairman of the Committee.

The Chairman, Councillor Middleton invited the previous Chairman Councillor Pope to comment on the report and attend the Cabinet meeting on 25 June 2018.

RESOLVED: That the Audit Committee:

- 1) Considered the content of the report and decided it accurately reflected the work of the Committee in 2017/18.
- 2) Confirmed their agreement to the Chairman taking the report to Cabinet as evidence that the Committee operated effectively.

A17 **COMMITTEE WORK PROGRAMME 2018/2019**

The Committee noted the Work Programme for 2018/2019.

The Chairman, Councillor Middleton invited Members to put forward any suggestions for future training sessions or items to be placed on the work programme.

A18 **DATE OF NEXT MEETING**

The next meeting of the Audit Committee would take place on Monday 30 July 2018 at 5 pm in the Council Chamber, Town Hall, Saturday Market Place, King's Lynn.

The meeting closed at 7.10 pm



Key Differences between Internal and External Audit

Kathy Woodward



Internal Audit v's External Audit – The Similarities

- Both have mutual interests regarding the effectiveness of internal financial controls.
- Both professions adhere to codes of ethics and professional standards.
- Both are a requirement of legislation.



The Purpose?

Internal Audit is a key component of corporate governance within an organisation and covers the whole system of risk management, control and governance processes including:

- Corporate systems – business planning, risk management etc
- Financial systems – General Ledger, Creditors, debtors, treasury management etc
- Support systems – information, policies, premises management etc
- Operational systems – housing, refuse, planning etc

The Accounts and Audit Regulations 2015 require organisations to conduct a review of the effectiveness of their systems of internal control and prepare an Annual Governance Statement (AGS). This is then published with the Statement of Accounts.



The Purpose?

External Audit is required to provide an annual independent audit opinion on:

- The organisation's financial statements
 - assessing whether they conform to the accounting principles and standards
 - Fairly present the financial position of the organisation for a given period of time
 - have been materially affected in any way
- The value for money conclusion
 - to ensure appropriate stewardship of public funds

While external audits generally focus on transactions and events during a period, they will consider current risks and issues that might materially influence their opinion and also check that the accounts have been prepared on a 'going concern' basis.



Who are the Auditors?

Internal Auditors – are usually employed by the organisation. BCKLWN has three members of staff employed directly by the Council and purchase 50% of the Shared Internal Audit Manager from Fenland District Council.

External Auditors – Our current auditors are Ernst and Young.

From 2018/19 the Public Sector Auditor Appointments (PSAA) are responsible for appointing the Auditors for most Local Authorities. The Auditors appointed are selected from a list of approved firm of Accountants. For BCKLWN the auditors appointed are Ernst and Young. These arrangements are in place for the next five years.



How is the audit agenda set?

Internal Audit – the agenda is set internally in light of the risks assessed on each area of the Council, the corporate priorities and objectives and through input from management. This allows internal audit to set a five year plan which is reviewed and monitored on a 6 monthly basis.

External Audit – the external auditors will set their own programme of work based on its assessment of the risks of the accounts being materially misstated. This is directed by Auditing Standard ISA (UK) 200 – Overall objectives of the Independent Auditor and Conduct of an Audit in Accordance with International Standards on Auditing (UK).



Can External Audit use the work of Internal Audit?

External Audit – Can use the work of Internal Audit as described in ISA (UK) 610. The conditions for this to be applied are as follows:

- Internal Audit's status, and the organisational policies and procedures support the objectivity of Internal Audit.
- The level of competence of the internal audit function.
- Whether the internal audit function applies a systematic and disciplined approach.

Ernst and Young have chosen not to use our Internal Audit work and have provided the following statement to support their decision:

“As in prior years, we will review internal audit plans and the results of their work. We will reflect the findings from these reports in our audit Strategy. We generally do not rely on the work of Internal Audit for Our detailed testing as we determine that a fully substantive audit is more efficient.”



Reporting, who to?

Internal Audit – report internally. Service Managers and Executive Directors are the recipients of the reports as there will be recommendations that need to be acted upon. Ultimately internal auditors report to the audit committee so there is a high level of oversight. Internal Audit reports are not published publicly.

External Audit – report primarily to the Council Members, including the audit committee and also Management Team. External Audit Reports are also published publicly so stakeholders can view the results of the audit.



Reporting, what type?

Internal Audit – produce tailored reports about how the risks and objectives are being managed. There is a focus on helping the business move forward highlighting areas of best practice and improvement.

External Audit – the main report is in format required by the Auditing Standards and focuses on whether the accounts give a true and fair view and comply with legal requirements. If other things come to light which the auditors think should be brought to the client's attention they will be reported separately to the directors in a 'management letter'.



After the Audit?

Internal Audit – will conduct a follow up – usually 6 months after the initial audit report has been issued. The follow up will look to see whether recommendations have been implemented and may provide consultative help to guide the implementation of recommendations.

External Audit – there is generally no follow up, until the planning stage of the next year's audit when past issues will be considered.



In Summary

Internal Audit can be used more flexibly and should add value to the organisation. It should have a positive impact in helping the organisation move forward in achieving its objectives and identify efficiencies throughout the organisation.

External Audit is a regulated activity required by law and can be helpful for members of the public to have assurance on the stewardship of public funds. It can also be considered as a health check on the key elements of the organisation's accounting.

