

BOROUGH COUNCIL OF KING'S LYNN & WEST NORFOLK

AUDIT COMMITTEE

Minutes from the Meeting of the Audit Committee held on Tuesday, 30th May, 2017 at 5.00 pm in the Card Room - Town Hall, Saturday Market Place, King's Lynn PE30 5DQ

PRESENT: D Pope (Chairman)
Councillors Mrs J Collingham, M Hopkins (Vice-Chairman), P Kunes, C Manning and T Tilbrook

Officers:

Lorraine Gore, Assistant Director
Kathy Woodward, Audit Manager
Vanessa Dunmall, Performance and Information Officer
Gordon Adam, Auditor

Observing:

Dan Cooke, Ernst & Young
Becky Box, Policy, Performance and Personnel Manager
Matthew Head, Auditor

A1 **APPOINTMENT OF CHAIRMAN FOR THE MUNICIPAL YEAR 2017/2018**

RESOLVED: That Councillor Pope be appointed Chairman for the Municipal Year 2017/2018.

A2 **APPOINTMENT OF VICE-CHAIRMAN FOR THE MUNICIPAL YEAR 2017/2018**

RESOLVED: That Councillor Hopkins be appointment Vice-Chairman for the Municipal Year 2017/2018.

A3 **APOLOGIES**

Apologies for absence were received from Councillors Collop, Long, Hodson and Middleton.

A4 **MINUTES**

The Minutes of the Audit Committee held on 13 February 2017 were agreed as a correct record and signed by the Chairman.

A5 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

A6 **URGENT BUSINESS UNDER STANDING ORDER 7**

There was no urgent business.

A7 **MEMBERS PRESENT PURSUANT TO STANDING ORDER 34**

There were no Members present under Standing Order 34.

A8 **CHAIRMAN'S CORRESPONDENCE (IF ANY)**

There was none.

A9 **TRAINING - HOW TO UNDERTAKE AN AUDIT**

The Committee received a presentation from Kathy Woodward, Audit Manager and Gordon Adam, Auditor (a copy of the presentation is attached to the minutes).

The Audit Manager and Auditor responded to questions relating to:

- How the Council identifies risk.
- Sample sizes when undertaking an audit.
- Processes identified to carry out duties more effectively and efficiently to potentially achieve a saving.
- Information sharing with other local authorities.

The Chairman, Councillor Pope thanked the Audit Manager and Auditor for the presentation.

A10 **DRAFT ANNUAL GOVERNANCE STATEMENT**

The Performance and Information Officer presented the draft 2017 Annual Governance Statement (AGS) – covering the 2016-2017 which provided the Committee with the opportunity for the Committee to review, challenge and provide input prior to the AGS being finalised which will be brought back to the Committee in July 2017.

The Committee was reminded that the preparation and publication of an AGS was a statutory requirement. The AGS was a public statement that described and evaluated the Council's overall governance arrangements, in particular how it had complied with its Code of Corporate Governance during a particular financial year.

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

- Section 1: Report Detail – Introduction.
- Section 2: The Draft Statement.
- Section 3: Issues for the Panel to Consider.
- AGS: Section 4: Review of Effectiveness.
- AGS: Section 5: Areas of Special Interest in Terms of Governance.
- AGS: Section 6: Known changes in the 2017/18 year.
- AGS: Section 7: Action Plan.
- AGS: Appendix A: Evidence List.
- AGS: Appendix B: Action Plan for 2017/2018.

In response to questions regarding the backing system for IT, the Performance and Information Officer explained that the Council had ICT policies in place which were considered fit for purpose and were reviewed on a regular basis. Councillor Kunes proposed that the ICT Manager be invited to attend a future meeting to give a presentation on the Council's back-up systems to which the Committee agreed.

The Chairman, Councillor Pope referred to 5.1.8 Governance elements within Alive Management Ltd which were published on ModGov and asked if the Audit Committee could be given access to the Agendas and Minutes. The Democratic Services Officer undertook to consult with the Democratic Services Manager.

The Policy, Performance and Personnel Services Manager responded to questions on the West Norfolk Strategy Group and advised that Councillor Long attends the meetings.

The Performance and Information Officer confirmed that the Audit Committee now signed off the Statement of Accounts.

Following comments on the Panels electing their own Chairman and Vice-Chairman the Democratic Services Officer advised that the Scrutiny Structures Task Group would be meeting 25 July to undertake a review of the scrutiny arrangements.

The Chairman, Councillor Pope thanked the Performance and Information Officer for the draft AGS.

RESOLVED: 1) The Committee reviewed the draft 2017 Annual Governance Statement and determined that the work undertaken to review the governance arrangements in place during the 2016/2017 year was appropriate.

2) The ICT Manager be invited to attend a future meeting of the Audit Committee to give a presentation on the back-up systems operated by the Council.

The Performance and Information Officer presented the report which set out the changes to the Corporate Risk Register since the last monitoring report in October 2016. The report gave details of the risks falling into the 'Very High' category and the associated work being progressed to mitigate the effects.

The Committee was informed that two risks had been removed from the register and two new ones had been added. No risk scores had been changed as part of the review undertaken.

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

- Section 2: Changes to the Register – Risks to be removed and new risks identified (Contaminated Land – Financial Impact, Cyber Security Attack).
- Appendix 1: Corporate Risk Register.

In response to a question from the Chairman, Councillor Pope regarding mandatory training providing for all Members sitting on Internal Drainage Boards, the Executive Director reminded Members that the training session had been held on 15 September 2016. A refresher training sessions for all Councillors could be scheduled if required.

Following questions on how the retail properties were monitored in the Town Centre, the Performance and Information Officer explained that the Town Centres Manager was employed by the Borough Council who provided updates on a regular basis. It was noted that the Council held a good track record of attracting new businesses to the area and assisting those business who wished to expand.

The Executive Director responded to questions on the current refuse contract with Kier.

The Executive Director and Performance and Information Officer responded to questions on the Council's five year land supply.

The Performance and Information Officer responded to questions relating to Manor Farm.

The Chairman, Councillor Pope thanked the Performance and Information Officer for the report.

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.

The Audit Manager explained that the purpose of the report was to provide the Audit Committee with an overview of the work undertaken by Internal Audit during 2016/17 and provide the Audit Manager's annual opinion on the system of internal control.

The Audit Manager reminded the Committee that the report included consideration of the effectiveness of the internal audit team and the basis of the Audit Manager's opinion.

In conclusion, the Audit Manager advised that on the basis of the work undertaken during the year, it was considered that the key issues operated in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. However, Members were advised that the Audit Manager's opinion can only provide a reasonable, not absolute, level of assurance as to the adequacy and effectiveness of those systems. In the Audit Manager's opinion, the Council's control arrangements were adequate and effective in 2016/2017, with sound controls in all key areas.

The Chairman, Councillor Pope invited the Committee to comment/ask questions.

There were no questions or comments from the Committee.

RESOLVED: The Committee received the annual audit opinion and note the work of Internal Audit for 2016/2017.

A13

INTERNAL AUDIT FULL YEAR PROGRESS REPORT 2016/2017

In presenting the report, the Audit Manager explained that the report provided Members with an update on progress against the Internal Audit Strategic Plan 2016/2017 that was endorsed by the Audit Committee at the meeting on 23 February 2016.

Members were informed that 20 audits had been issued in 2016/2017, details of which were set out at 2.2 of the report. A summary of the reports was attached at Appendix 1 and the full versions were available under the relevant year to Members of the Audit Committee on InSite.

The Audit Manager drew the Committee's attention to section 3 of the report and explained that £115,000 of fraud or error had been identified.

In response to questions on the current resource available for undertaking fraud work was 0.5 post which was considered to be adequate at the present time.

The Executive Director referred to article in the press. The Borough Council had been given funding as part of a scheme in which local authorities are being given the money to recruit extra resources to

review housing benefit claims for fraud and error. A new officer had been recruited on a 12 month contract, using money provided by the Department of Work and Pensions.

The Executive Director/Audit Manager responded to questions on Channelshift and explained that with electronic benefit claims it was easier to compare datasets and it was unlikely therefore to reduce the level of fraud/error.

The Chairman, Councillor Pope thanked the Audit Manager for the report.

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

A14

AUDIT COMMITTEE EFFECTIVENESS REPORT

The Audit Manager informed Members 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 2016/2017 and considered if the Committee had effectively fulfilled its role.

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

- Appendix 1 – Audit Committee Self-Assessment Exercise. It was noted that there were two partially met and two non-compliant issues, details of which were outlined.
- 1.13 – (partial) Have all Member's skills and experiences been assessed and training given for identified gaps?.
- 4.6 – (partial) Is there appropriate co-operation between the internal and external auditors?
- 6.4 (not met) Are inputs for Any Other Business formally requested in advance from committee members, relevant officers, internal and external staff)
- 6.6 (not met) Does the Audit Committee issue guidelines and/or a orofoma concerning the format and content of the papers to be presented? It was noted that the format was a corporate template.

The Audit Manager responded to questions and comments relating to 1.13 above and suggested that a questionnaire could be circulated to the Audit Committee to analyse the skills Members had.

The Executive Director advised that a questionnaire comprising 6 questions looking at the key skills could be circulated to ascertain a collective assessment of skills within the Audit Committee. The Audit

Manager explained that it was not possible to delete question 1.13 as it was part of the standing CIPFA template.

The Audit Manager referred Members to 4.6 and explained that Ernst and Young, the Council's external auditors undertook their own testing and did not use information from the Council's Internal Audit Team to form their conclusions. The Borough Council worked well with Ernst and Young and highlighted that the external auditors had a different way of working to the Borough Council's Internal Audit Team.

In relation to 6.4 above, the Audit Manager explained that 'Any other Business' was not an agenda item and that only 'urgent business' was accepted under Standing Order 7.

The Chairman, Councillor Pope commented that the Audit Committee had held 6 meetings in 2016/2017 and considered 25 reports which he considered that the Members had performed well.

RESOLVED: 1) That the Audit Committee considered the content of the report and agreed that it accurately reflected the work of the Committee in 2016/2017.

2) That the Audit Committee confirmed their agreement to the Chairman take the report to Cabinet as evidence that the Committee operated effectively.

A15 **COMMITTEE WORK PROGRAMME 2017/2018**

The Committee noted the Work Programme 2017/2018.

A16 **DATE OF NEXT MEETING**

The Chairman, Councillor Pope advised the Committee that the meeting scheduled for 19 June 2017 would be cancelled and instead a training session would be held on the Statement of Accounts and all Councillors would be invited to attend.

The meeting closed at 6.44 pm



Internal Audit: How We Undertake a Planned Assignment

67

Kathy Woodward and
Gordon Adam



We are INTERNAL Audit

- As part of the organisation we share the organisation's ambition to succeed and to be efficient, effective and economic, all in an equitable way.
- We want to deliver ASSURANCE about how well RISK is being CONTROLLED and to play a POSITIVE role in improving management of risk.
 - Not finding fault, catching out, picking on, telling tales, laying the blame, criticising, nit-picking.....



Public Sector Internal Audit Standards

- Standard 2200 Engagement Planning: Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations.
- Standard 2300: Internal auditors must identify, analyse, evaluate and document sufficient information to achieve the engagement's objectives.
- Standard 2400: Internal auditors must communicate the results of engagements.



Shared Internal Audit Arrangement

- Since April 2017, have an arrangement to share the Audit Manager with Fenland Council (As agreed by Audit Committee July 2016)
- Audit Plan shows slight reduction in available audit days, but also reduction in audit costs
- Still delivering sufficient audit work to support the annual opinion



Annual Planning

- Assurance Framework
 - Consistent analysis / risk assessment of the Council's systems / activities
 - Considers financial values, transaction volumes, complexity, regulatory issues, potential reputational impact and staffing issues.
- Provides the “toolkit” to propose an Annual Plan



Audit Manual

- Our own AUDIT MANUAL contains a section on “Procedures for Conducting Audit Work” which reflects the requirements of the Public Sector Internal Audit Standards.
- We use standardised documentation to record work in a consistent way.



Audit Files

Each planned assignment has an electronic and a paper file following a set structure

- 1 – Audit Terms of Reference
- 2 – Reports
- 3 – Time record
- 4 - Review Notes
- 5 – Correspondence
- 6 – System Description
- 7 – Finding / test Sheets
- 8 – Background Papers
- 9 – Risk Assessment
- 10 – Follow up



Planning for an assignment

- **Background research**
 - Previous audit work / any significant developments since last audit work?
 - Legislation / Regulations / good practice.
 - Management concerns / known issues.
- **Contact Sheet** – make sure we identify all the key people we need to know about to perform the audit
- **Terms of Reference** document (Executive Director sign off) and the **Scoping** document set out the specific matters over which we want to achieve assurance (Audit Objectives) and the boundaries of what will, and what will not, be covered by the audit.
- **Assignment Plan** document – sets out what activities we intend to undertake to achieve the audit objectives.



Ascertainment

- Understand and document how the system / process / activity takes place
 - Narrative descriptions
 - Flow diagrams
- How?
 - Interview staff
 - Read manuals / policies / operating procedures – anything that helps us understand what happens and how it happens
- Why?
 - Identify specific RISKS and the CONTROLS in place to mitigate them.
- Sometimes immediate FINDINGS emerge at this stage which are documented for carry through to the Audit Report



Testing

- Are identified controls actually being applied in practice?
 - Compliance
- Is the application of controls effective?
 - Substantive
- Test using suitable samples
 - Acquire evidence to form a conclusion (Would another qualified auditor come to the same conclusion based on this evidence?)
- Are controls the best controls for the purpose?
- Is there over / redundant control?
- Document our tests with sufficient supporting evidence



As we go along...

- Check our understanding with managers – ensure we have got it right.
- Keep management informed of emerging issues – “no surprises” when a draft report is issued.
 - Managers often respond immediately.
- Discuss with colleagues to test and check our own judgement



Concluding

- Assignment Plan also serves as a conclusion forming document.
- An assurance level is determined for each Audit Objective, in turn informing the assignment assurance level
- For a lot of generic systems (Eg – Council tax, Creditors, Debtors) CIPFA* produce Generic Control Matrices to assist and support documentation and evaluation of audit work.

* = Chartered Institute of Public Finance and Accountancy



Review

- Internal “Quality Assurance” is built in to the process
- Before a report is issued the complete file is reviewed, usually by the Audit Manager
 - Has the audit work covered the planned scope?
 - Are the conclusions supported by adequate and appropriate evidence?
 - Are there any “loose ends”?
- Review queries are documented and responded to by the auditor



Reporting

- Standard Internal Audit Report template
 - “Exception Reporting” principle
 - Sets out issues in consistent format
 - Observation / consequence / recommendation.
- Meet with management to discuss and agree report content (Draft Report).
- Management add in their response with detail of what will be done, by whom, and when.
- Report becomes Final and is issued to relevant Executive Director and Portfolio Holder.
- 2 weeks later a copy goes on “InSite” (in PDF format) and is copied to other stakeholders including the Chief Executive and External Audit .



Assurance

- The report offers assurance at overall level and at the level of each Audit Objective
 - **FULL:** “A sound system of internal control that is likely to achieve the system objectives and which is operating effectively in practice”.
 - **SUBSTANTIAL:** “A sound system of internal control but there are a few weaknesses that could put achievement of system objectives at risk”.
 - **LIMITED:** “ A system of internal control with a number of weaknesses likely to undermine achievement of system objectives and which is vulnerable to abuse or error”.
 - **NONE:** “A fundamentally flawed system of internal control that is unlikely to achieve system objectives and is vulnerable to serious abuse or error”.



Follow Up

- Follow up is normally six months after issue of the Final Report
 - Purpose is to assess whether progress with implementation of agreed actions is very good / good / adequate / poor / inadequate
- A formal Follow Up report is issued (and placed on InSite)
- Depending on the timescale of the action plan more than one follow up may be appropriate



The Internal Audit team

- Kathy Woodward: Shared Internal Audit Manager

- Gordon Adam: Auditor
- Jamie Hay: Investigations Officer/Auditor*
- Matthew Head: Auditor

* Has commenced professional training



Some Useful Links

- Internal Audit Reports on InSite:
http://insite.west-norfolk.gov.uk/service_areas/FinanceAndResources/internal_audit/default.aspx
- Public Sector Internal Audit Standards:
<http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards>
- Chartered Institute of Internal Auditors:
<https://www.iaa.org.uk/>

