

## MENDIP DISTRICT COUNCIL

Minutes of the meeting of the Audit Committee held on Wednesday, 10 August 2016 in the Council Chamber, Mendip District Council, Shepton Mallet commencing at 3 pm.

**PRESENT:** Councillor John North (Chair)  
Councillors: Peter Bradshaw (Vice Chair), Philip Gait (Co-opted Member), John Greenhalgh, and Clive Mockford

**OFFICERS PRESENT:**

Paul Deal	Section 151 Officer
Katie Haines	Audit Manager, Grant Thornton
Jessica Harper	Financial Accounting Team Leader (Capita)
Duncan Moss	Temporary Deputy Corporate Financial Advisor
Adam Savery	Finance and Procurement Manager
Ben Sugg	Committee Officer
Alex Walling	Engagement Lead, Grant Thornton
Alistair Woodland	Audit Manager, South West Audit Partnership (SWAP)

Agenda Item	Subject	Actioned by
1	<p><b>CHAIR'S ANNOUNCEMENTS</b></p> <p>The Chair announced the mobile phones should be switched to silent. The evacuation procedures in the event of an emergency were explained.</p>	
2	<p><b>APOLOGIES FOR ABSENCE</b></p> <p>Councillors Bryan Beha and Claire Hudson.</p> <p>Councillor Hudson had said she was unable to attend the meeting because of work commitments and was disappointed that time of the meeting had been moved to 3 pm.</p>	
3	<p><b>DECLARATIONS OF INTEREST</b></p> <p>There were no declarations of interest.</p>	
4	<p><b>PUBLIC PARTICIPATION</b></p> <p>Items on the agenda: None.</p> <p>Items not on the agenda: None.</p>	
5	<p><b>PREVIOUS MINUTES</b></p>	<b>Ben Sugg</b>

The minutes of the Audit Committee meeting held on Wednesday 29 June 2016 were agreed.

Further to the concerns expressed at the last meeting of the Audit Committee regarding Business Continuity, an update was provided by the Section 151 Officer.

At the time of the audit, there were 11 Team BC plans and an overarching Corporate BC plan. Some of those Team plans required a refresh and the corporate plan was also due for refresh. Furthermore, the management restructure of the organisation also triggered a requirement to refresh BC plans to reflect that services now report under a new structure. Therefore, six new BC plans would be drafted to reflect the new service groups, along with a Corporate Finance BC plan and the overarching BC plan.

Following the commencement of the five councils business support services contact, a BC plan would also be required to cover the services provided through the Five-Councils Partnership. This would be provided from the contractors and will apply to specific services provided to each authority across all five councils.

A further and separate recommendation of the audit stated that when the Corporate BC plan was updated it should comply with a relevant standard (ISO 22301), and thus by inference all BC plans. At the same time Somerset County Council (SCC) were having a similar audit process were subsequently engaged to work with Group Manager's to ensure all BC plans met the standard. All BC plans would contain a Business Impact Analysis and an individual service level Risk Assessment, along with background information on the Civil Contingencies Act 2004 and the ISO: 22301.

The refresh and update of the Service Plans and the Corporate plan was to be completed imminently.

1. A short BC session (approx 1 hour duration) was to be held within which both BC 'training and exercising' would be undertaken. This was to be delivered by SCC and would serve as an opportunity to exercise and validate all service level plans.
2. A training programme was to be developed to include:
  - An annual meeting between Group Managers and SCC to review respective BC plans.
  - SCC to deliver short, sharp awareness sessions (10-15mins) to operational team members or attend team meetings as required.
  - A BC corporate training and exercise session every 12 months.

	<ul style="list-style-type: none"> <li>• A Group Manager was invited to attend the Corporate BC Steering Group at County Hall which was held every 3 months to share collective learning and best practice</li> <li>• BC was included as a 'quarterly' agenda item at senior management meetings and SCC would attend if required to provide a BC input.</li> </ul> <p>3. All BC plans were to be reviewed at least every 12 months and...</p> <ul style="list-style-type: none"> <li>• Following a real incident</li> <li>• Following an exercise</li> <li>• After an organisational restructure</li> <li>• Following a 'near miss' or as a matter of good practice after a major BC incident elsewhere.</li> </ul> <p>It was expected that these plans would be fully implemented by November.</p>	
6	<p><b>5 COUNCILS PARTNERSHIP GOVERNANCE UPDATE REPORT</b></p> <p>A verbal update was provided by the Finance and Procurement Manager.</p> <p>The Officer provided a run-through of the internal and external governance structures that had been put in place. He then went into some detail regarding the governance of pension arrangements for 5 Councils staff.</p> <p>The Officer explained that there were two governance boards currently in operation, namely the Strategic Management Board, and the Joint Member Officer Board.</p> <p>The Strategic Management Board consisted of the Chief Executive of each authority, leads from Capita and Vinci plus leaders of each Council in the partnership. The meeting was held on a quarterly basis, with its location rotated around the Councils in the partnership.</p> <p>The Joint Tactical Board provided guidance at a Senior Officer level, reporting to the Strategic Management Board. The Board consisted of Operational leads, Finance leads and nominated Directors from authorities within the partnership. Financial and Operational leads from suppliers were also part of the Board, and representatives from Capita and Vinci's main subcontractors were also in attendance.</p> <p>Still to be set up were Service Improvement Groups and Officer Operational Meetings to examine where further improvements could be made.</p>	Adam Savery

The Officer noted that there would be an annual review of the joint procurement process, which would be fed up to the Strategic Management Board and circulated around the authorities in the partnership.

As per the Inter-Authority agreement between the 5 Councils, there would be a Joint Committee and Joint Scrutiny Committee. These committees would function in a similar manner to Cabinet and the Scrutiny Board covering the whole partnership. Members would designate Substitutes in order to ensure that all Councils were represented, and an annual report would be produced by the Joint Scrutiny Committee.

With regard to the 5 Councils pension arrangements, the Officer explained that all TUPE staff who had been transferred to the 5 Councils Partnership would be transferred as admitted bodies to allow them to continue to pay into their pension schemes. Negotiations had been undertaken with the actuaries of the individual pension funds, who were happy for the funds to be combined into one pension scheme. A draft version of the Inter-Authority agreement had been passed around the Lead Officers of all 5 Councils and would be circulated within the next few weeks pending finalisation.

The Officer noted that further information was available on the January 2016 Cabinet agenda.

During the discussion that followed, Members asked if risks were identified, would they be dealt with by a central body or separately by the 5 Councils. The Officer explained that a central risk register would be operated and risks would be dealt with at the Strategic Management Board, which was a self contained body in terms of the risk register. If any concerns were raised by a member of the partnership, they would be recorded on this central risk register.

Members noted that the circulated draft of the Inter-Authority agreement included several uses of the term 'best endeavours', and suggested that the term 'reasonable endeavours' may be a better alternative.

In response to questions from Members, the Officer explained that it was unlikely that the planned transfer to the South Oxford pension scheme would not go ahead, but in such an eventuality the 5 Councils would retain their current pension schemes.

Members expressed their gratitude for the advice, help and support contributed by the Finance and Procurement Manager, who was moving on to the 5 Councils Partnership.

**RESOLVED**

	That the Committee note and endorse the report.	
7	<p><b>GRANT THORNTON EXTERNAL AUDIT FINDINGS REPORT</b></p> <p>This report highlighted the key issues affecting the results of Mendip District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2016. It was also used to report the audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK &amp; Ireland) 260, and the Local Audit and Accountability Act 2014.</p> <p>Under the National Audit Office (NAO) Code of Audit Practice, the auditors were required to report whether, in their opinion, the Council's financial statements gave a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they had been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.</p> <p>The auditors were also required to consider other information published together with the audited financial statements, whether it was consistent with the financial statements and in line with required guidance.</p> <p>The auditors received draft financial statements and accompanying working papers at the commencement of their work, in accordance with the agreed timetable. For 2015/16 the Council's accounts were prepared for 1 June 2016, a month prior to the national deadline of 30 June 2016 which was a significant achievement for the Council.</p> <p>In response to questions from Members, the Author explained that the IT issues discussed in the report were not significant risks, however the Author was unable to provide further detail as the work was carried out by a third party.</p> <p>Members noted that these risks did not apply to Councillors, however if access points were available only to low grade employees, this could present a risk.</p> <p>The Lead Officer referred to pages 41 and 42 of the Management Response, which did not deem this to be a significant risk.</p> <p>Members asked whether assets could be valued on a rolling basis, and questioned whether this suggestion should be submitted to the Corporate Assets Management Group (CAMG). The Chair replied that he would raise the issue with the Chair of CAMG.</p> <p>In response to questions from Members, the Author explained</p>	<p><b>Alex Walling, Katie Haines</b></p>

	<p>that retention of zero value assets on the register for a five year period allowed interested parties to see what the Council may be looking to replace.</p> <p>The Chair thanked the Authors for their report, commenting that the Council's performance had been an improvement on the previous year and this showed good progress. The Chair noted that it was good to see that the Council was acting in accordance with the code.</p> <p><b>RESOLVED</b></p> <p>That the Committee note and endorse the report.</p>	
8	<p><b>2015-16 STATEMENT OF ACCOUNTS AND ANNUAL GOVERNANCE STATEMENT</b></p> <p>The purpose of this report was to present to Members the final 2015/16 Statements of Accounts. The pre audited accounts were signed off by the Council's S151 officer on the 26 May 2016, in line with the local target and more than one month ahead of the statutory deadline of 30 June 2016.</p> <p>This represented a significant shortening of the timeframe for closing the accounts from previous years and positioned the Council well for the movement of the statutory deadline to 31st May in two years time. A copy of the audited accounts had been circulated as Appendix 1 of the report.</p> <p>As part of the statement of accounts process the council reviewed its governance arrangements and produced an annual governance statement. This was provided as Appendix 2 of the report and set out the controls in place within the organisation and identified key governance issues for the organisation for the next twelve months. The Audit Committee was asked to review and approve the governance statement as part of this report.</p> <p>The Council was required to authorise and approve the annual Statement of Accounts by 30 September each year. The Council had delegated the authority to approve these accounts to the Audit Committee. Now that the annual audit had been completed by Grant Thornton, our external auditors, the Audit Committee was asked to approve the accounts.</p> <p>A letter of representation expressing an opinion as to whether the financial statements gave a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 was considered by the Members.</p> <p>The letter stated that the Annual Governance Statement (AGS)</p>	Paul Deal

fairly reflected the Council's risk assurance and governance framework and confirmed that the signatories were not aware of any significant risks that were not disclosed within the AGS.

The letter further stated that the disclosures within the Narrative Statement reflected the signatories understanding of the Council's financial and operating performance over the period covered by the financial statements. The letter was signed by the Chair of the Audit Committee and the Section 151 Officer.

The Section 151 Officer presented a list of queries from Co-opted Philip Gait, to which responses were supplied as detailed below. The page numbers related to the Statement of Accounts.

**1. p20 The bars for Corporate Management were the wrong way round.**

Agreed - this needed updating and had been corrected.

**2. p22 The second paragraph was not clear - should the second and third sentences have been just one sentence?**

Agreed - Second and third sentence combined into one

**3. p23 Would it be better to split Government Grants out separately in the table?**

Disagreed – The Code didn't require us to split out government grants separately. In reality this was largely Disabled Facilities Grant.

**4. p24 Would it have been clearer to have the order in this table the same as on p37?**

Didn't make it unclear but something to think about in future years

**5. p25 I thought that the 4th line in the second paragraph should refer to growth not inflation.**

Disagreed – No it was inflation which was being driven by growth – i.e. for stability you need inflation to be driven by manufacturing and investment expenditure not growth.

**6. p35 As I said the line should end ".. the full approval of the Audit Committee" without any mention of members (as we are rarely all there!)**

Agreed – Changed

**7. p40 You explained why "Other Land and Buildings had gone down by ~£10Mn but if the money was due back in 50 years shouldn't it have appeared in the balance sheet as a "Long Term Debt"?**

Disagreed – This was not debt, not money due back to us. When the lease ends and the assets legally became ours again, they would be valued at that point in time and

bought back on to our balance sheet.

- 8. p91+ I seemed to remember that when the pension fund was revalued the aim was for MDC to have cleared the deficit within 25 years. Clearly the contributions that were being made would not do this. Was there any agreed policy to tackle the deficit - and if so shouldn't it have been mentioned?**

Yes the deficit was due to be recovered over 25 years. However, in reality, that 25 years was likely to have a rolling element to it depending on performance, otherwise the recovery could have been unaffordable. There was a tri-annual revaluation of the pension fund, and the deficit recovery rate was set for the next 3 years. I believed, we had now had 6 years deficit recovery but I believed the first 3 years were not very successful and so the recovery rate was increased and the period reset to 25 years again. To give you some reassurance, current projections indicated that we had met, and possibly exceeded, the planned recovery over the last 3 years and so I envisaged that the recovery rate would remain (rather than increase or decrease) and the period reduce to 22 years.

The following queries were raised on the Annual Governance Statement:

- 9. p4&5 Local Code of Corporate Governance should have been in the same case on both pages**

Agreed and changed

- 10.p7 Bullet point on risk score of 5 - either needed to say here that there were none this year or state there were none on the next page under Significant Governance Issues.**

Agreed and added

- 11.p7 Last bullet point should end .... for all new staff and members.**

Agreed and added

- 12.p8 4 lines up should have 2014/15**

Amended

- 13.p9 In the table, for completeness, it should have stated which of these were now complete**

Agreed and added

During the discussion that followed, Members accepted that actuaries used standardised methods to calculate deficits, but expressed concerns that in light of the issuing of negative bonds by the Bank of England, and the fact that German Treasury

	<p>bonds were at negative yields, the world economy was unstable. As such, Members commented that it was difficult to project pension liabilities over a 25 year period. Members expressed concerns for the Council's long-term reputation and asked if there was a plan 'B'.</p> <p>The Section 151 Officer explained that the Council was bound by what the actuaries had advised, and levels were set by the actuaries.</p> <p>Members remarked that the situation had the potential to get out of control quicker than the actuaries could respond.</p> <p><b>RESOLVED</b></p> <p>That the Committee approve the audited 2015/16 Statement of Accounts and the Annual Governance Statement.</p> <p>In addition, that the October/November meeting of the Audit Committee, would receive an update following the latest tri-annual review.</p>	
<p><b>9</b></p>	<p><b>FINANCIAL ASSESSMENT OF MENDIP DISTRICT COUNCIL</b></p> <p>This report informed the Committee of the S151 Officer's financial assessment of the Council, outlining whether it was a "going concern" based on the Statement of Accounts for 2015/16.</p> <p><b>RESOLVED</b></p> <p>That the Committee note the conclusions reached through the financial assessment of the draft Statement of Accounts for 2015/16</p>	<p><b>Paul Deal</b></p>
<p><b>10</b></p>	<p><b>MENDIP DISTRICT COUNCIL INTERNAL AUDIT PLAN PROGRESS 2016-17</b></p> <p>The Internal Audit service for the Mendip District Council was provided by South West Audit Partnership Limited (SWAP). SWAP was a Local Authority controlled Company part owned and controlled by Mendip District Council. SWAP had adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also followed the CIPFA Code of Practice for Internal Audit. The Partnership was also guided by the Internal Audit Charter approved by the Audit and Governance Committee at its meeting in March 2016.</p> <p>Internal Audit provided an independent and objective opinion on the Authority's control environment by evaluating its effectiveness.</p>	<p><b>Alistair Woodlands</b></p>

	<p>The author noted that there had been delays due to the recent restructure, and the audit plan was running a few weeks later than anticipated. He commented that there were no significant changes to bring to the Committee's attention in this update.</p> <p><b>RESOLVED</b></p> <p>That the Committee note and endorse the report.</p>	
11	<p><b>INTERNAL AUDIT RECOMMENDATIONS MONITORING 2016-17</b></p> <p>This paper updated the Committee on work to monitor and progress outstanding priority 4 and 5 internal audit recommendations.</p> <p>Members noted that most recommendations had now been resolved.</p> <p><b>RESOLVED</b></p> <p>That the Committee:</p> <p>a) Consider the process agreed by Corporate Governance Group for the follow up of internal audit recommendations;  b) Consider progress against outstanding priority 4 and 5 internal audit recommendations;  c) Consider areas where further work needed to be carried out or further clarification was required from the responsible officer, taking into account comments and recommendations from Corporate Governance Group (CGG);  d) Consider and agree actions put forward by CGG, where applicable.</p>	Paul Deal
12	<p><b>URGENT BUSINESS</b></p> <p>None.</p>	

The meeting closed at approximately 4.15 pm.