

MENDIP DISTRICT COUNCIL

Minutes of the meeting of the Audit Committee held on Wednesday, 25 January 2017 in the Council Chamber, Mendip District Council, Shepton Mallet commencing at 5.30 pm.

PRESENT: Councillor John North (Chair)
 Bryan Beha, John Carter, David van Dyk, Philip Gait (Co-opted Member), John Greenhalgh, Des Harris, and Clive Mockford

OFFICERS PRESENT:

Paul Deal	Section 151 Officer
Ben Sugg	Committee Officer
Claire Malcolmson	Group Manager, Community Health Services
Adam Savery	Finance and Procurement Manager

OTHERS PRESENT:

Phil Povey	Somerset County Council
Ian Bartlett	Capita
Alistair Woodland	Audit Manager, South West Audit Partnership (SWAP)
Sophie Morgan	Audit Manager, Grant Thornton

Agenda Item	Subject	Actioned by
1	<p>CHAIR'S ANNOUNCEMENTS</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>APOLOGIES FOR ABSENCE</p> <p>Apologies were received from Councillor Claire Hudson.</p> <p>Apologies were received from Councillor Peter Bradshaw.</p>	
3	<p>DECLARATIONS OF INTEREST</p> <p>Co-Opted Member, Philip Gait declared a personal, non-prejudicial interest in item number 11 as he was Chair of Somerset Care and Repair</p>	
4	<p>PUBLIC PARTICIPATION</p> <p>Items on the agenda: None.</p> <p>Items not on the agenda: None.</p>	
5	<p>PREVIOUS MINUTES</p>	Ben Sugg

	The minutes of the Audit Committee meeting held on Wednesday 23 November 2016 were agreed.	
6	<p>CERTIFICATION LETTER</p> <p>Grant Thornton were required to certify the Housing Benefit subsidy claim submitted by Mendip District Council. This certification typically took place six to nine months after the claim period and represented a final but important part of the process to confirm the Council's entitlement to funding.</p> <p>The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) had taken on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015</p> <p>Grant Thornton certified the Housing Benefit subsidy claim for the financial year 2015/16 relating to expenditure of £31.326 million.</p> <p>In previous years Grant Thornton recommended "the Council should arrange for more internal checks to be undertaken to safeguard against inaccurate awards and overpayments". The Council had implemented further internal checks and reviews and overall there had been a significant reduction in the number of errors identified since previous years. Therefore Grant Thornton were satisfied that this recommendation had been addressed and note the progress which the Council had made in 2015/16.</p> <p>Grant Thornton were satisfied that the Council had appropriate arrangements to compile complete, accurate and timely claims/returns for audit certification.</p> <p>The indicative fee for 2015/16 for the Council was based on the final 2013/14 certification fees, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year. The indicative scale fee set by the Audit Commission for the Council for 2015/16 was £8,250.</p> <p>In response to questions from Members, the Officer explained that the reported qualification error was £109.00 from a sample of £11,000. This error rate was then extrapolated, and although this was a minor error, materiality was set at £0.02 which necessitated reporting of these errors.</p> <p>In response to questions from Members, Officers explained that of a sample of 40 cases, three errors had been found. This did not however, represent three entirely incorrect cases, but rather three cases containing minor errors.</p> <p>RESOLVED</p>	Sophie Morgan

	That the Committee note and endorse the report.	
7	<p>EXTERNAL AUDIT PROGRESS REPORT AND UPDATE YEAR ENDED 31 MARCH 2017</p> <p>This paper provided the Audit Committee with a report on Grant Thornton's progress in delivering their responsibilities as the Council's external auditors.</p> <p>During the discussion that followed, Members asked how the 'Telling the Story' section of the report made the information provided more accessible. The Officer replied that the main changes related to the income and expenditure format, and how this information was set out.</p> <p>Members remarked that this year's statement of accounts gave a more rounded picture of the performance of the organisation as it included HR data, sickness levels and other non-financial data.</p> <p>RESOLVED</p> <p>That the Committee note and endorse the report.</p>	Sophie Morgan
8	<p>APPOINTMENT OF EXTERNAL AUDITORS</p> <p>Following the demise of the Audit Commission new arrangements were needed for the appointment of external auditors. The Local Audit and Accountability Act 2014 required authorities to either opt in to the appointing person regime or to establish an auditor panel and conduct their own procurement exercise.</p> <p>Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 required that a decision to opt in must be made by Full Council.</p> <p>As part of closing the Audit Commission the Government novated external audit contracts to PSAA on 1 April 2015. The audits were due to expire following conclusion of the audits of the 2016/17 accounts, but could be extended for a period of up to three years by PSAA, subject to approval from the Department for Communities and Local Government.</p> <p>In October 2015 the Secretary of State confirmed that the transitional provisions would be amended to allow an extension of the contracts for a period of one year. This meant that for the audit of the 2018/19 accounts it was necessary for authorities to either undertake their own procurements or to opt in to the appointed person regime.</p> <p>There was a degree of uncertainty around the appointed person regime until July 2016 when PSAA were specified by the Secretary of State as an appointing person under regulation 3 of</p>	Paul Deal

the Local Audit (Appointing Person) Regulations 2015. The appointing person was sometimes referred to as the sector led body and PSAA had wide support across most of local government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission and was a company owned by the Local Government Association's Improvement and Development Agency (IDeA).

There are effectively two main options:

1. Opt in and allow PSAA to procure the new auditor
2. Opt out and undertake the procurement process individually or as a collective of authorities.

In response to questions from Members, the Officer explained that auditors would be allocated to Councils by geographical area, and that Officers were undertaking negotiations with PSAA to ensure that the same auditor would be appointed to all members of the 5 Councils Partnership.

Members expressed concerns that there was no guarantee that one auditor would be appointed to the 5 Councils, and asked whether there would be time to start the process again if the Council should reject PSAA's choice. The Officer explained that rejection of an appointment would not be a preferred option, and the Council would need to make the best of a bad situation.

Members remarked that the biggest saving did not necessarily result in provision of the best service. Members felt that Grant Thornton had performed well, and had a good understanding of Mendip District Council and its needs. Members further commented that if the Council were to consider retaining Grant Thornton, they would have an incentive to offer a good price in order to retain the contract.

Officers explained that the Grant Thornton contract was awarded as part of a nationwide procurement process carried out by the predecessor to PSAA, and as such a decision to extend this contract was not one that the Council could undertake unilaterally.

Councillor Clive Mockford proposed that the Council that the Committee recommend to Full Council that the Council opt in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors. The Motion was seconded by Councillor Bryan Beha and carried unanimously.

RESOLVED

That the Committee recommend to Full Council that the Council opt in to the appointing person arrangements made by Public

	Sector Audit Appointments (PSAA) for the appointment of external auditors.	
9	<p>BUSINESS CONTINUITY</p> <p>A verbal update was provided by the Group Manager, Community Health Services.</p> <p>The Group Manager updated the Audit Committee on the changes to the Business Continuity Plan following the audit in March 2015. In response to criticism received in the audit, reports were now produced using a template based on ISO standards. Additionally, all aspects of the Business Continuity Plan were constantly being reviewed and updated. In Quarter 3, managers looked at all plans written prior to the corporate restructure and updated them in line with the new structure. GMG were now reviewing the Business Continuity Plan on an annual basis, and the plan was also being looked at every quarter at Corporate Risk Management meetings. It was anticipated that senior staff would have been trained and tactical plans written and tested by the end of March 2017.</p> <p>Phil Povey from Somerset County Council remarked that in the time he had been working for Local Authorities he had seen little continuity between Business Continuity Plans. Aligning the Council's plan to ISO guidelines meant that a standard could be achieved. Following a business continuity incident or exercise lessons would be learned and best practice implemented, as the plan was under constant review.</p> <p>Ian Bartlett from Capita explained that a Disaster Recovery Plan had been written for the Planning system and Idox, and Business Continuity had been looked at in case of flooding; if staff were unable to travel to the Council offices they would be able to work remotely. He explained that Capita had its own internal audit team who had undertaken an audit in November 2015, reporting a clean bill of health aside from one or two minor issues.</p> <p>In response to questions from Members, Officers explained that the Lead Officer at any given Committee Meeting is responsible for the evacuation of Members, Officers and the public in the case of a fire alarm during a Committee Meeting, and that all Lead Officers were aware of this responsibility.</p> <p>In response to questions from the Chair, Officers explained that their intention was to align the Business Continuity Plan with ISO standards, but not to apply for ISO accreditation due to the associated costs.</p> <p>The Chair asked that Officers present a cost benefit analysis regarding ISO certification to the Audit Committee.</p>	Claire Malcolmson

	<p>In response to questions from Members, Officers explained that Disaster Recovery exercises were undertaken on at least an annual basis. Officers also noted that testing of Business Continuity and Disaster Recovery Plans was a contractual commitment under Capita's contract with the Council</p> <p>RESOLVED</p> <p>That the Committee note and endorse the report.</p>	
<p>10</p>	<p>REPORT OF INTERNAL AUDIT ACTIVITY 2016-17</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 worked 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. Primarily the work included:</p> <ul style="list-style-type: none"> • Operational Audit Reviews • Cross Cutting Governance Audits • Annual Review of Key Financial System Controls • IT Audits • Grants • Other Special or Unplanned Review <p>Internal Audit work was largely driven by an Annual Audit Plan. This was approved by the Section 151 Officer, following consultation with the Corporate Management Team. The 2016-17 Audit Plan was reported to this Committee and approved by this Committee at its meeting in March 2016.</p> <p>Audit assignments were undertaken in accordance with this Plan to assess current levels of governance, control and risk.</p> <p>During the discussion that followed, the Section 151 Officer noted that the failings reported had been corrected.</p> <p>Philip Gait, Co-Opted Member remarked that as Chair of Somerset Care and Repair he had found the lack of progress regarding empty homes in Mendip frustrating. A grant had been received and was split between Mendip District Council and South Somerset District Council, however due to a lack of suitable properties in Mendip, the majority of this funding had</p>	<p>Alastair Woodland</p>

	<p>ended up in South Somerset. To date, there were 57 properties now housing tenants, but unfortunately only 13 of the available bedrooms were located in Mendip. The Co-Opted Member further remarked that there were firm plans and available finance for a further 50 bedrooms over the next three years, however none of these were located in Mendip. Meetings had been undertaken to address the issue, unfortunately with no success as yet.</p> <p>In response to questions from Members, the Officer explained that when examples of best practice were discovered by SWAP, they were circulated amongst other partners.</p> <p>In response to further questions from Members, the Officer explained that SWAP had been finding increasingly that partners wanted to share examples of best practice, however they each had unique needs and priorities. He remarked that SWAP was working toward becoming a centre of excellence on the subject of best practice wherever possible.</p> <p>Members remarked that given the lack of affordable property in Mendip, it was a sad situation to see that more attention was not being given to empty homes. Members asked why more was not being done to address this, and the Officer replied that there was a lack of appetite for enforcement on this issue, and that it was up to the Council to decide how to best address the problem.</p> <p>The Chair asked that the Section 151 Officer discuss the empty homes issue with relevant Officers in an attempt to improve the situation.</p> <p>The Section 151 Officer remarked that SWAP should be looked to as a centre of excellence for benchmarking. He further noted that he had taken on board the issues relating to empty homes, and would discuss it with relevant Officers. Relaying a point made by Councillor Peter Bradshaw, the Section 151 Officer remarked that this report could be seen to be targeting the Empty Homes Officer, however it may well be the case that the Officer had not received the necessary information to address the issue.</p> <p>The Chair recommended that the Section 151 Officer look into ways that the Empty Homes function could be improved.</p> <p>RESOLVED</p> <p>That the Committee note and endorse the report.</p>	
11	<p>PROPOSAL FOR SHARED INTERNAL AUDIT SERVICES</p> <p>The Officer explained that all members of the 5 Councils Partnership were in agreement that the best solution was to</p>	Paul Deal

	<p>appoint a single, shared internal auditor. Currently, Mendip District Council had appointed SWAP, South and Vale had its own internal team, and Havant had appointed the Southern Audit Partnership. There were a variety of different contract end dates for the current arrangements, and Officers were working with Capita procurement experts to draw up a framework that would allow all five authorities to come on board with the same internal auditor. This framework was expected to be in place for 2018/19 and rolled out as and when other Council's arrangements came to an end.</p> <p>RESOLVED</p> <p>That the Committee note and endorse the report.</p>	
<p>12</p>	<p>INTERNAL AUDIT RECOMMENDATIONS MONITORING 2016-17</p> <p>The internal audit service was provided for Mendip District Council by South West Audit Partnership (SWAP). Internal Audit provided an independent and objective opinion on the council's operations and highlighted areas where improvement could be made or corrective actions needed to be taken.</p> <p>SWAP carried out a number of audits during the course of each financial year, focusing on the following key areas:</p> <ul style="list-style-type: none"> • Operational Audit Reviews • Governance Reviews • Annual Reviews of Key Financial Systems Controls • Follow up reviews <p>Each audit was given a final 'Audit Opinion' of Comprehensive, Reasonable, Partial or None, depending on the findings of the audit. A number of recommendations for improvements would also usually be made.</p> <p>In order to ensure continuous improvement across all council services and to fully utilise the internal audit function, it was essential that progress against priority 4 and 5 internal audit recommendations was followed up on a regular basis.</p> <p>It was important that internal audit recommendations and agreed actions were implemented as unless this happened the council was still exposed to the risks identified by internal audit findings. In order to ensure continuous improvement across all council services and to fully utilise the audit function, progress against high priority internal recommendations should be followed up on a regular basis.</p> <p>Each quarter, an update on all outstanding audit recommendations with a Strategic Risk rating 4 or 5 was provided to Corporate Governance Group (CGG). A Corporate Risk</p>	<p>Paul Deal</p>

	<p>assessment of each item was completed by the CGG and a Combined Risk was calculated as the product of Strategic and Corporate risk. The Combined risk helped to identify the business need to resolve audit items. Recommendations were provided by CGG for each audit item. All of the above information was presented to Audit Committee within this report.</p> <p>During Quarter 3, SWAP provided the performance team with a spreadsheet of all priority 4 and 5 recommendations that were currently still outstanding within the SWAP system as at 19th December 2016. A total of 12 recommendations were identified as outstanding.</p> <p>RESOLVED</p> <p>That the Committee note and endorse the report.</p>	
<p>13</p>	<p>UPDATE ON RISK MANAGEMENT REPORT QUARTER 3 2016-17</p> <p>Risk Management was the process used to identify, evaluate and manage the whole range of business risks facing an organisation. It was defined as ‘something happening which may have an impact on the achievement of the council’s objectives, either positively or negatively’.</p> <p>The aim of risk management was to reduce the frequency of risk events occurring, where possible, and minimise the severity of their consequences if they did occur. By managing its risks, the Council was in a better position to improve services, provide better value for money and use resources more efficiently.</p> <p>Successful Risk Management was about ensuring that the council had the right controls in place to provide sufficient mitigation from risks, without stifling the opportunities for development.</p> <p>The main areas of work undertaken in the period were as follows:</p> <ol style="list-style-type: none"> 1. Monitoring and review of the Strategic Risk Register <p>Group Managers met on 18th December 2016 to review and update the risk scores.</p> <p>As control/mitigation actions continue to be progressed, any significant changes or increases in the level of risk were highlighted by Group Managers by 6th January 2017 including, where appropriate, new management actions identified to further reduce a risk or enhance the opportunity. Corporate Management Team then reviewed the updated Risk Register with on 9th January 2017.</p> <p>A summary of the position was:</p>	<p>Paul Deal</p>

	<ul style="list-style-type: none"> • The Strategic Risk Register currently had eight open risks, all of which were currently red. • There were no new risks included on the register and no risks had been closed. • SR48 – “Failure to ensure good communication pathways between the Joint Client Team and MDC....” was scored initially as level 16. • New management controls to mitigate the risks were added to the following risks: SR46, SR47 and SR48 <p>An overview statement for each risk was provided in the Risk Register, which was provided as an appendix to this report.</p> <p>Business planning for 2017/18 was underway. As part of this process, each service team would prepare an operational risk register. High scoring risks from operational risks would be considered by Group Managers for potential inclusion on the Strategic Risk Register</p> <p>Members asked how elected Members represented a risk under SR42. In response, the Officer stated that he would investigate and report back to the Audit Committee.</p> <p>RESOLVED</p> <p>That the Committee note and endorse the report.</p>	
14	<p>URGENT BUSINESS</p> <p>The Section 151 Officer in conjunction with the Chair updated the Committee regarding the dates and times of the meetings of the Audit Committee for 2017/18.</p> <p>The meeting of the Audit Committee on 5 April 2017 would be held at 5.30 pm.</p> <p>The meeting of the Audit Committee on 26 July 2017 would be held at 3.00 pm.</p> <p>The meeting of the Audit Committee on 27 September 2017 would be held at 3.00 pm.</p>	

The meeting closed at approximately 7 pm.