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Mid Devon District Council

Special meeting of the Audit Committee

Tuesday, 21 February 2017 at 4.00 pm
Phoenix Chamber 1, Phoenix House, Tiverton

Next ordinary meeting
Tuesday, 21 March 2017 at 5.30 pm

Those attending are advised that this meeting will be recorded

Membership

Cllr R Evans (Chairman)
Cllr Mrs J B Binks
Cllr Mrs C Collis
Cllr R M Deed
Cllr T G Hughes
Cllr R F Radford
Cllr L D Taylor

A G E N D A

Members are reminded of the need to make declarations of interest prior to any discussion which may take place

1. **Apologies**

To receive any apologies for absence.

2. **Public Question Time**

To receive any questions relating to items on the Agenda from members of the public and replies thereto.

3. **Chairman's Announcements**

To receive any announcements that the Chairman may wish to make.

4. **Minutes of the previous meeting** (*Pages 5 - 10*)

To approve as a correct record the Minutes of the meeting held on 24 January 2017 (copy attached).

5. **Internal Audit Options from 2017/18** (*Pages 11 - 14*)

To receive a report from the Internal Audit Team Leader summarising the options MDDC has for Internal Audit provision going forwards.

6. **Identification of items for the next meeting**

Members are asked to note that the following items are already identified in the work programme for the next meeting:

- Internal Audit Strategy
- Risk and Opportunity Management Strategy
- Performance and Risk
- Four Year Strategic Audit Plan and Work Programme
- Code of Corporate Governance
- Internal Audit Progress Report
- Internal Audit Charter
- External Audit update and progress report
- Chairman's annual report for 2016/17

Note: This item is limited to 10 Minutes. There should be no discussion on the items raised.

Stephen Walford
Chief Executive
Monday 13 February 2017

Anyone wishing to film part or all of the proceedings may do so unless the press and public are excluded for that part of the meeting or there is good reason not to do so, as directed by the Chairman. Any filming must be done as unobtrusively as possible from a single fixed position without the use of any additional lighting; focusing only on those actively participating in the meeting and having regard also to the wishes of any member of the public present who may not wish to be filmed. As a matter of courtesy, anyone wishing to film proceedings is asked to advise the Chairman or the Member Services Officer in attendance so that all those present may be made aware that is happening.

Members of the public may also use other forms of social media to report on proceedings at this meeting.

Members of the public are welcome to attend the meeting and listen to discussion. Lift access the first floor of the building is available from the main ground floor entrance. Toilet facilities, with wheelchair access, are also available. There is time set aside at the beginning of the meeting to allow the public to ask questions.

An induction loop operates to enhance sound for anyone wearing a hearing aid or using a transmitter. If you require any further information, or if you would like a copy of the Agenda in another format (for example in large print) please contact Sarah Lees on:

Tel: 01884 234310

E-Mail: slees@middevon.gov.uk

Public Wi-Fi is available in all meeting rooms.

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MID DEVON DISTRICT COUNCIL

MINUTES of a **MEETING** of the **AUDIT COMMITTEE** held on 24 January 2017 at 5.30 pm

Present

Councillors

R Evans (Chairman)
Mrs J B Binks, Mrs C Collis, R M Deed and R F Radford

Apologies

Councillors

T G Hughes and L D Taylor

Also

Present

Steve Johnson (Grant Thornton)

Present

Officers

Stephen Walford (Chief Executive), Andrew Jarrett (Director of Finance, Assets and Resources), Catherine Yandle (Internal Audit Team Leader), Nicky Chandler (Auditor), Suzanne Kingdom (Auditor) and Sarah Lees (Member Services Officer)

61. **ELECTION OF VICE CHAIRMAN**

RESOLVED that Councillor Mrs C A Collis be elected Vice Chairman of the Committee for the remainder of the municipal year 2016/17.

62. **APOLOGIES**

Apologies were received from Councillors T G Hughes and L Taylor.

63. **PUBLIC QUESTION TIME**

There were no members of the public present.

64. **MINUTES OF THE PREVIOUS MEETING**

The minutes of the meeting held on 22 November 2016 were confirmed as a true and accurate record and **SIGNED** by the Chairman.

65. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman had no announcements to make.

66. **INTERNAL AUDIT OPTIONS FROM 2017/18 (00:03:50)**

The Committee had before it a report * from the Internal Audit Team Leader summarising the options the Council had for Internal Audit provision going forwards.

It was explained that as a result of changes made in other areas of the service the Leadership Team had decided that the present Internal Audit Team Leader was the best person to take on the responsibility for Governance reporting within the Council. As a result of this there was not only too much work for one person to do but there were potential impairments to the Internal Audit Team Leader's independence which was a fundamental requirement of the Public Sector Internal Auditing Standards

hence there had been a need to consider alternative approaches to service provision to determine the most efficient option and also the best value for money. The options available to the Council were outlined within the report. The two Internal Auditors within the team had been invited to attend the meeting to take part in the discussion.

Discussion took place regarding:

- The Internal Auditors' views on the different options.
- Whether or not going out to tender was a viable option and whether other providers not hitherto considered could provide similar terms and conditions to the Council.
- The need to consider what would deliver the best outcomes both for the Council and for the employees.
- Access to a wider pool of auditors could give access to a wider range of specialisms.

The Committee felt that it was difficult to make a decision without all of the information before them and that a deferral would allow for additional relevant information to be sought prior to being brought back for a decision. It was explained that a decision was not time critical and a delay in a decision was manageable.

RESOLVED that a decision on Internal Audit Options be deferred until the next meeting due to the need for additional information.

(Proposed by Cllr R M Deed and seconded by Cllr Mrs J B Binks)

Note: * Report previously circulated; copy attached to the signed minutes.

67. **PROGRESS UPDATE ON THE ANNUAL GOVERNANCE STATEMENT ACTION PLAN**

The Committee had before it, and **NOTED**, a report * from the Internal Audit Team Leader providing the Committee with an update on progress made against the 2015/16 Annual Governance Statement Action Plan.

The contents of the report were outlined and particular attention was drawn to the Action Plan. The Chief Executive was asked why actions relating to the staff survey and the Members complaints process had not been completed by the target date. It was explained that a new staff survey had recently been carried out with a closing date of 9 December 2016 therefore it would have been impossible to meet the October 2016 deadline. The results from the recent survey would be compared to the previous survey and there would be discussion both with staff and Unison before coming to any conclusions. As regards the complaints process, this was being discussed by the Standards Committee the following evening and would follow a timetable to allow due diligence and informed decision making. He considered that these revised target dates were completely realistic.

Note: * Report previously circulated; copy attached to the signed minutes.

68. **INTERNAL PROGRESS REPORT**

The Committee had before it, and **NOTED**, a report * from the Internal Audit Team Leader updating the Committee on the work performed by Internal Audit for the

2016/17 financial year. It was explained that the report covered the period up to the end of December 2016. System and core audits completed were below target and system audit completions were likely to remain so at the end of the year. Some audits had taken longer than expected and time lost due to additional responsibilities.

Three Internal Audit opinions had been issued since the last report in relation to the following service areas:

Car Parking

The Committee were reassured regarding a loss of data on car park vends during one month. Foul play had not been the causing factor and the sealed cash boxes inside had not been damaged. There was every confidence that the bankings recorded were accurate and correct.

Payroll

No comments were made regarding this audit.

Housing Benefit

A question was asked as to how many overpayments over £2,000 had occurred. The Internal Audit Team Leader explained that she did not have the information to hand but would get back to the Councillor after the meeting.

A general comment was made by the Chairman that there was now only one outstanding audit recommendation remaining with a high priority which had an acceptable explanation. However, 34 medium audit recommendations remained which he had brought to the attention of the Chief Executive. The Chief Executive had said that he would follow these up and actions would be monitored by the Leadership Team on a regular basis.

Note: * Report previously circulated; copy attached to the signed minutes.

69. **INTERNAL AUDIT REPORTS**

The discussion regarding internal audit reports had taken place under the previous item; there had been no need to move into Part II.

70. **PERFORMANCE AND RISK**

The Committee had before it, and **NOTED**, a report * from the Director of Corporate Affairs & Business Transformation providing Members with an update on performance against the Corporate Plan and local service targets for 2016-17 as well as providing an update on the key business risks.

The contents of the report were outlined and discussion took place regarding the following Corporate priorities:

- Environment – only missed collections that were reported through the Customer Management system were recorded. If picked up within 48 hours a collection was not classed as missed.

- Economy – figures regarding the number of empty shops were doing well when compared to the national statistics.
- Community – compliance with food safety law was routinely followed up by the Environmental Health officers. The outturn report for 2016/17 would show whether there had been an improvement in “scores on the doors” for premises previously ranked with a low score.
- Corporate – number of days lost through sickness was lower than the ‘target’. Responses to FOI’s remained on target and Performance Planning Guarantee figures for quarter 2 and quarter 3 were on target.

Note: * Report previously circulated; copy attached to the signed minutes.

71. **ARRANGEMENTS FOR THE APPOINTMENT OF EXTERNAL AUDITORS FROM 2017/18**

The Committee had before it a report * from the Director of Finance, Assets and Resources discussing whether to recommend to full Council to opt in to the Public Sector Led body to appoint external auditors for five years from 2018/19. The Director explained that he had now received a formal invitation from the Public Sector Audit Appointments (PSAA). To date circa 220 councils had decided to opt in to the PSAA offer to enter into a joint contractual arrangement and it was his recommendation that this was the cheapest and the easiest option. There were relevant economies of scale and ‘at the end of the day’ Audit providers offered a generic service.

RECOMMENDED to Council that Mid Devon District Council accepts the Public Sector Audit Appointments (PSAA) invitation to ‘opt in’ to the sector led option for the appointment of external auditors for up to five financial years commencing 1 April 2018.

(Proposed by Cllr R F Radford and seconded by Cllr Mrs J B Binks)

Note: * Report previously circulated; copy attached to the signed minutes.

72. **EXTERNAL AUDIT PROGRESS REPORT AND UPDATE**

The Committee had before it, and **NOTED**, a report * from the external auditors providing a progress report and update. They would be commencing their interim audit in two week’s time when they would be undertaking early testing work which would culminate in bringing the audit plan to the next meeting.

Items of interest within the report were brought to the attention of the Committee including the following:

- The comprehensive income and expenditure statement would now mirror the Council’s internal reporting.
- National Audit Office publications.
- The Joint Venture Seminar which had been run by Grant Thornton on 6 December 2016 and which the Director of Finance, Assets and Resources and the Audit Committee Chairman had attended. Both commented that the event had been well organised, they had valued the honesty from other local

council's which had been refreshing and the discussion on risk had been informative.

Note: * Report previously circulated; copy attached to the signed minutes.

73. **GRANTS CERTIFICATION REPORT**

The Committee had before it a report * from the external auditors regarding their certification work for the Council for the year ended 31 March 2016. It was explained that the audit had gone well. The area was very well managed given its complexities. Some areas had been identified as needing additional testing but there had been nothing to cause concern.

Note: * Report previously circulated; copy attached to the signed minutes.

74. **IDENTIFICATION OF ITEMS FOR THE NEXT MEETING**

In addition to the items already listed in the work programme, the following items were requested to be on the agenda for the next meeting:

Internal Audit Options
Grant Thornton – Audit Plan

(The meeting ended at 6.50 pm)

CHAIRMAN

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SPECIAL AUDIT COMMITTEE 21 FEBUARY 2017

REPORT ON INTERNAL AUDIT OPTIONS FROM 2017/18

Cabinet Member Cllr Peter Hare-Scott
Responsible Officer Audit Team Leader, Catherine Yandle

Reason for Report: This report summarises the options MDDC has for Internal Audit provision going forwards.

RECOMMENDATION(S): That the Audit Committee resolves which option for future Internal Audit provision it believes will be best for MDDC going forward so more detailed negotiations can take place.

Relationship to Corporate Plan: Effective Internal Audit plays a fundamental role in assisting the Council to deliver its corporate plan.

Financial Implications: The Council's budget for Internal Audit in its current form is £124,380 the primary objective here is not to save money but to ensure effective service provision.

Legal Implications:

1. The provision of an internal audit service within Local Government is a requirement of the Accounts and Audit Regulations 2015.
2. S151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of its financial affairs.
3. MDDC will have to enter into a financial agreement with an external supplier for the provision of services. The form of agreement will depend upon which route is chosen.

Risk Assessment: There is no immediate risk to the Council; however, early consideration by the Council of its preferred approach will enable detailed planning to take place so as to achieve successful transition to the new arrangement in a timely and efficient manner.

1.0 Introduction

- 1.1 In common with all other services of the Council regular consideration must be given to whether the current model for the internal audit service is the most efficient one and also the best value for money.
- 1.2 As was stated in the report to this committee on 24 January, the Internal Audit Team Leader has taken on responsibility for various functions which were previously the responsibility of the Head of Communities and Governance (who has now left MDDC).
- 1.3 As a result of this change there are potential impairments to the Internal Audit Team Leader's independence, which is a fundamental requirement of the

International Auditing Standards and the Public Sector Internal Audit Standards, by which MDDC operates.

1.4 In addition, any potential supplier will need to have some input into the Audit Plan for 2017/18 as they will be, in the main, delivering it. This is due to come to the 21 March Audit Committee meeting so needs to be prepared by 3 March.

1.5 Once the initial decision has been made, further negotiations with the potential suppliers will be necessary and more detailed costings agreed. Further reports will then be presented to the Committee on progress made, prior to a final decision.

2.0 The Options

2.1 Do Nothing

2.1.1 This is not really a viable option for the reasons in 1.3 above. The Internal Audit Team Leader has concluded that even if capacity was created by buying in additional 'Audit days' there would still be the issue of the reduction in independence due to the Audit Team Leader's line manager being the line manager for a lot of other services.

2.2 Procure Audit management via a Service Level Agreement (SLA) or Enter into Partnership Arrangements with an External Provider

2.2.1 This is the option which both the Leadership Team and the Internal Audit service believe is best for MDDC. It was for this reason the background papers about the potential suppliers were provided with the report on 24 January. The Committee has not been asked to choose a supplier as yet.

2.2.2 This would be a shared service arrangement constituted under s20 of the Local Government Act 2000. Joining a local authority shared service partnership removes costly procurement exercises.

2.2.3 Under full partnership arrangements MDDC would be involved in the management of the service provider with representation on the Board of the organisation.

2.2.4 These arrangements are not likely to save money; the costs would be very similar to the present arrangements, but the resultant service should be an even more effective and efficient service than at present (i.e. it should improve the audit outcomes for the Council).

2.2.5 The Internal Audit Team Leader would be freed up to perform other statutory functions such as the preparing the Code of Corporate Governance and the Annual Governance Statement.

2.3 Tender for Internal Audit Services from External providers.

2.3.1 If we wish to consider commercial external providers we would need to publish an OJEU notice to invite potential suppliers to have discussions – possibly via a supplier day – and treat them all in the same way with the same access to information. It is important to document what is discussed so that

this can then be shared with all potential bidders in the case of a tender exercise.

- 2.3.2 The EU regulations minimum response timescales for a tender of this type of 15 days. However to give the supplier a chance to give their best possible offering longer is advised.
- 2.3.3 In terms of the whole process, this is really driven by how long we take to come up with a specification, evaluate tenders and make award decisions. That is what adds the time and so we are often looking at around 2-3 months all in. Possibly a bit longer if you want to do the official pre-procurement with the supplier day.
- 2.3.4 TUPE requirements still apply to the private sector but may make the contract less attractive to a potential supplier.
- 2.3.5 The organisations at 2.2 are “not for profit”, which is clearly a different position to any commercial organisations that would be likely to tender.
- 2.3.6 Regarding costs the CIPFA average cost per audit day for 2014/15 was £298 so the cost of our 500 days in the plan would be £149,000 although in practice the actual fee charged would likely be closer to the present budget.

3.0 Conclusion and Next Steps

- 3.1 Further work will be undertaken to agree the detailed timetable and budget with the party MDDC decide to work with and arrangements to co-ordinate software, training etc. will be necessary, this process will take about 3 months.
- 3.2 In addition, transitional internal audit management provision will be needed which ever route is chosen.
- 3.3 A further report will be brought to the next Audit Committee meeting on 21 March with further information to enable an informed decision to be made.

Contact for more Information: Catherine Yandle, Audit Team Leader, x4975

Circulation of the Report: Management Team and Cllr Peter Hare-Scott

List of Background Papers: None

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