

# **AUDIT AND CORPORATE GOVERNANCE SCRUTINY COMMITTEE**

## **MINUTES OF MEETING HELD ON 19 MAY 2016**

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## **AUDIT & CORPORATE GOVERNANCE SCRUTINY COMMITTEE**

### **MINUTES OF MEETING HELD ON 19 MAY 2016**

#### **Present:**

Councillor D Skinner ..... (Chair)  
Councillor B Barnes  
“ G Morley Councillor G Butler

#### **Also Present:**

Mrs D Cairns – Senior Governance Officer  
Mrs D Clarke – Assistant Director - Finance, Revenues and Benefits  
Mr B Mason – Executive Director – Operations  
Mrs J Williams – Internal Audit Consortium Manager

#### **18 Apologies for Absence**

Apologies for absence had been received from Councillors W Lilleyman and M Thacker.

#### **19 Declarations of Interest**

Members were requested to declare the existence and nature of any disclosable pecuniary interests and/or other interests, not already on their register of interests and in any item on the agenda and to withdraw from the meeting at the appropriate time.

In respect of agenda item 4(b), Councillor G Morley declared an interest as he rents a commercial property from the Council. As the audit report and the business to be discussed did not directly relate to this interest, Councillor G Morley remained in the meeting and took part in the discussion on this item.

#### **20 Minutes of the Last Meeting**

RESOLVED - That the minutes of the meeting of the Audit and Corporate Governance Scrutiny Committee held on 21 April 2016 be approved as a correct record and signed by the Chair.

#### **21 Internal Audit Consortium 2015/16 Annual Report to North East Derbyshire District Council**

The Committee considered a report of the Internal Audit Consortium which presented the consortiums 2015/16 Annual Report to the Council.

The report presented a summary of the internal audit work undertaken during 2015/16 from which the opinion on the internal control environment was derived. The consortium found that internal controls were operating satisfactorily or well giving an overall confidence in the internal control system operating in the main financial systems. The majority of the areas audited received a good or satisfactory opinion. Only one area was judged to be unsatisfactory (Section 106 Agreements) with three areas considered to be marginal (Health and Safety, Recruitment and Selection, and Commercial and Industrial Property Rents).

Any control issues arising from audits completed during the year were reported to the Executive Director Operations for consideration during the preparation of the Annual Governance Statement.

During 2015/16 a self assessment had been undertaken to review compliance with the Public Sector Internal Audit Standards. The review confirmed that there were no significant areas of non compliance, however, an improvement plan was developed to address minor issues identified and to ensure continual progress.

Quality control procedures through individual audits reviews, customer satisfaction surveys and client/officer views all contributed to ensure conformity with the Public Sector Internal Audit Standards.

Based on the information contained within the completed 2015/16 Internal Audit Plan it was considered that the requirements of the Audit Charter were met during the year.

RESOLVED - That the Internal Audit Consortium Annual Report for 2015/16 be noted.

**22     Internal Audit Consortium – Summary of Progress on the Annual Internal Audit Plan 2015/16**

The Committee considered the report of the Internal Audit Consortium detailing progress made by the Internal Audit team during the period 9 April 2016 to 6 May 2016 in relation to the 2015/16 Internal Audit Plan. The report included a summary of the internal audit reports issued during this period.

During the period Internal Audit had issued four reports, two with a good assessment, one with a satisfactory assessment and one with marginal. The marginal assessment related to Commercial and Industrial Property Rents.

The Committee had been provided with a copy of the Internal Audit report on Commercial and Industrial Property Rents that received the marginal conclusion. The Committee were advised of the main issues in relation to the recommendations made within the audit report.

The Committee requested that the Assistant Director Property and Estates attend the Committee's meeting in July 2016 to answer the Committee's questions and report on the progress of the implementation of the audit report recommendations.

The Committee requested information on the level of investment in the Council's commercial and industrial properties and estates, including details on where the money has been spent.

**RESOLVED** - That the Committee:

- (1) Notes the report on the summary of progress on the annual internal audit plan 2015/16.
- (2) Requests that the Assistant Director Property and Estates attend the Committee in July 2016 to discuss the marginal audit report on Commercial and Industrial Property Rents.
- (3) Requests that the Committee be provided with information on the level of investment in the Council's Commercial and Industrial Properties and Estates.

(Assistant Director Property and Estates)

## **23 Internal Audit Consortium – Internal Audit Charter**

The Committee considered a report of the Internal Audit Consortium which sought approval of the revised Internal Audit Charter following a review of the current charter in the light of evolving best practice.

The Public Sector Internal Audit Standards (PSIAS) had been updated in April 2016 which required the review of the Internal Audit Charter to be carried out sooner than previously anticipated.

Two changes had been made to the Internal Audit Charter in line with the revised PSIAS. The first amendment was to introduce a mission statement from internal audit "to enhance and protect organisational value by providing risk based and objective assurance advice and insight". The second change was in relation to the adoption of ten core principles for the professional practice of internal audit.

**RESOLVED** - That:-

- (1) The outcome of the review of the Internal Audit Charter be noted.
- (2) The updated Internal Audit Charter be agreed.
- (3) The agreed Internal Audit Charter be reviewed in two years time or sooner in the event of any significant changes being made to the Public Sector Internal Audit Standards.

**24     Annual Review of the effectiveness of Internal Audit**

The Committee considered report No: EDO/01/16-17/BM of the Executive Director Operations which provided his Annual Review of the Council's Internal Audit arrangements and asked Members to consider whether his conclusion at the end of the report represented a reasonable evaluation of the position in respect of the Internal Audit service and its effectiveness as part of the Council's Governance arrangements.

The Accounts and Audit Regulations required the Council to conduct an annual review of the effectiveness of its Internal Audit Service. Having considered a variety of evidence and consulted with colleagues in the Strategic Alliance Management Team, and Senior Finance Officers, the Chief Financial Officer (Executive Director Operations) was satisfied that the Internal Audit service was operating at an appropriate standard and that it continued to improve the quality of the service that was provided to the Council.

This view was substantiated within the report by a range of evidence which included the Internal Audit Consortium progress in achieving the Internal Audit Plan, its compliance with the relevant professional standards and consideration of the quality of the formal reports issued by Internal Audit.

Members discussed the implications arising from the restructure within the Internal Audit Consortium which had been approved by the Joint Board. The Internal Audit Consortium Manager advised the Committee that the workload of the Consortium had been managed effectively during the period when the position of Deputy Head of Internal Audit had been vacant. In the light of this the position had been disestablished in the restructure. A vacancy for a half time auditor post still existed, however, the workload of the Consortium was being kept under review to determine whether it was necessary that this post be filled.

The Chief Financial officer pointed out that whilst resources had been reduced within the Consortium that a benchmarking exercise of other District Councils across Derbyshire provided clear evidence that the level of resources available was sufficient to support a workplan which included audit time in excess of that available to a number of other similar authorities.

Members considered the report and endorsed the Chief Financial Officer's view that the Internal Audit Consortium provided an efficient and effective service that provides independent challenge to the Council.

**RESOLVED** - That the Committee agrees with and endorses the view of the Chief Financial Officer in his assessment of the Internal Audit service during 2015/16 financial year that:

“It is my opinion that the Council’s Internal Audit function which is provided by a Joint Service between Chesterfield, Bolsover and North East Derbyshire carries out this function competently and to a high standard. The Consortium provides an effective service which I can place reliance on”.

(Executive Director - Operations)

**25     Annual Governance Statement 2015/16**

The Committee considered report No EDO/02/16-17 of the Executive Director Operations which sought an endorsement of the Annual Governance Statement which it was proposed to incorporate into the Council’s Statement of Accounts for 2015/16.

Members were advised that one of the key purposes of the Annual Governance Statement was to assess the extent to which the principles set out in the Chartered Institute of Public Finance and Accountancy (CIPFA)/Society of Local Authority Chief Executives and Senior Managers (SOLACE) framework were in place within the authority and were adhered to in practice. The Annual Governance Statement provided an annual assessment process for the Council’s Governance arrangements.

In particular the Committee was asked to satisfy itself that the Council had a robust system of internal control in place.

The Committee was advised that the unsatisfactory conclusion in the audit report in relation to Section 106 Agreements and the marginal conclusion of the audit report in relation to Health and Safety arrangements were identified within the Annual Governance Statement as significant governance issues to be monitored and addressed.

The Committee was reminded that the timetable for the accounts process had altered from previous years and that the draft Statement of Accounts would no longer be submitted to the Audit and Corporate Governance Scrutiny Committee as they needed to be issued by the end of May. The Audited Statement of Accounts for the 2015/16 financial year would still be submitted to this Committee for approval in September.

The Committee discussed the arrangements for the Assistant Director Planning to report back to this Committee on the progress in relation to the Section 106 Agreements and discussed the need for further monitoring of the Health and Safety marginal report. The Committee were advised that the audit recommendations in relation to Health and Safety had been implemented but an external review of the Council’s Health and Safety arrangements was ongoing to ensure that our arrangements in this area were robust. The Committee requested a further report on the progress in relation to Health and Safety following the outcome of the external review.

**RESOLVED** - That:-

- (1) The Committee agreed that the Annual Governance Statement which is to form part of the Council's Statement of Accounts was a correct reflection of the Council's Governance arrangements.
- (2) Having reviewed the effectiveness of the Governance framework the Committee's agreement that the Council's Governance and Internal Control arrangements are fit for purpose be noted.
- (3) The Code of Corporate Governance which would be prepared in light of the updated CIPFA/SOLACE guidance will be brought to the next meeting of this Committee.
- (4) The Committee requests a further update on the progress within Health and Safety following the outcome of the external review.

(Executive Director Operations)

**26     Key Issues of Financial Governance**

The Committee considered the report of the Executive Director Operations which advised the Committee of Key Issues of Financial Governance.

The report included an action plan covering the most significant issues raised by External and Internal Audit, other inspections and other matters which would significantly impact upon the Council's financial governance arrangements. These included:

- The need to achieve a balanced budget over the period of the Medium Term Financial Plan
- Management of our key partnership arrangements
- Maintaining the quality of performance monitoring within the Council
- Setting appropriate targets for the recovery of arrears and monitor recovery procedures
- Monitoring the impact of new legislation
- Ensuring that internal controls are maintained
- Monitoring the Council's arrangements concerning the administration of Section 106 arrangements following the unsatisfactory conclusion of the internal audit review.

The report contained details of the Council's current position in relation to these issues and the actions being taken to address the risks.

The Committee discussed how the forecast shortfalls in the Council's budget within the Medium Term Financial Plan would be managed. The Committee were advised that a number of steps were being taken to achieve a balanced budget including increases in income and by making savings to reduce the Council's underlying level of expenditure whilst maintaining the same levels of services.

The Committee also discussed the impact on Rykneld Homes and the Housing Revenue Account following the introduction of a requirement to reduce rent levels by 1%.

**RESOLVED** - That the Committee notes the report and action plan in respect of key issues of financial governance.

(Executive Director Operations)

**27     Corporate Plan Targets Performance Update – January to March 2016 (Q4 – 2015/2016)**

The Committee considered report No EDO/04/16-17/BM which provided a summary of the outturns against the final quarter of the year 2015/16 in respect of the Corporate Plan 2015/2019 targets. The report would be considered by Cabinet at its meeting on 8 June 2016.

The report detailed progress on all key tasks and performance indicators that contributed directly to the priorities within the Council's Corporate Plan. The targets dates for the tasks and indicators were included within the report which provided an indication of how the current levels of performance related to the outcomes expected over the period of the Corporate Plan until 2019.

For the period reviewed 45 of the 55 targets were on track, 3 had been achieved, 3 were overdue and 4 had been flagged as an alert status, which meant that the target may not achieve its intended outcome by the target date. Details of the progress achieved on the targets were appended to the report including details of mitigation taken to address the targets overdue or on alert status.

The Corporate Plan had completed its first year milestone and an annual report was to be provided to the Council.

**RESOLVED** - That the Committee noted the progress against the Corporate Plan 2015 – 2019 targets.

(Assistant Director Customer Service and Improvement)



**28     Risk Management Update, Partnership Working and Strategic Risk Register**

The Committee considered report No EDO/05/16-17/BM of the Executive Director Operations which advised Members of the Strategic Risk Register which would be considered by Cabinet at its meeting on 8 June 2016.

The Committee considered the Strategic Risks as outlined within the report and the actions identified to be carried out to mitigate against these risks.

RESOLVED - That the Committee notes the report on the Risk Management Update, Partnership working and Strategic Risk Register which would be considered by Cabinet at its meeting on 8 June 2016.

(Executive Director Operations)

**29     Urgent Business Public Session**

The Committee was advised that there was no urgent business to be considered in the public session of this meeting.