

AUDIT AND CORPORATE GOVERNANCE SCRUTINY COMMITTEE

MINUTES OF MEETING HELD ON 6 APRIL 2017

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AUDIT AND CORPORATE GOVERNANCE SCRUTINY COMMITTEE

MINUTES OF MEETING HELD ON 6 APRIL 2017

Present:

Councillor D Skinner (Chair)

Councillor G Butler
“ G Morley

Councillor Mrs C A Smith

Also Present:

D Clarke	-	Assistant Director – Finance and Revenues and Benefits
S Cottam	-	Senior Governance Officer (Acting)
B Mason	-	Executive Director – Operations
S Sternberg	-	Assistant Director of Governance and Solicitor to the Council and Monitoring Officer
J Williams	-	Head of Internal Audit

Also present representative from:

K Meats - KPMG

594 Apologies for Absence

Apologies for absence had been received from Councillors B Barnes, S J Ellis, A Garrett, M E Thacker and from Tony Crawley KPMG.

595 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, in any item on the agenda and to withdraw from the meeting at the appropriate time.

There were no interests declared at this meeting.

596 Minutes of Last Meeting

RESOLVED – That the Minutes of the meeting of the Audit and Corporate Governance Scrutiny Committee held on 2 February 2017 be approved as a correct record and signed by the Chair.

597 NEDDC – External Audit Plan 2016/2017

The Audit and Corporate Governance Scrutiny Committee considered the Audit Plan 2016/2017 which had been prepared by KPMG for consideration by elected members of the Council. The KPMG representative outlined the significant audit risks in the plan. One risk requiring specific audit attention was the significant changes in the pension liability due to the LGPS Triennial Valuation. During the year the Local Government Pension Scheme (the Pension Fund) for the authority had undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The Authority's share of pensions assets and liabilities were determined in detail and a large volume of data had been provided to the actuary in order to carry out this triennial valuation.

As part of KPMG's planned audit it would agree the relevant data provided by the authority to the actuary back to the relevant systems and reports from which it was derived, in addition to checking the accuracy of the data. Discussion would also take place with the Pension Fund Audit team where the data was provided by the Pension Fund on the Authority's behalf to check the completeness and accuracy of that data.

Other areas of audit focus were the business rate provision. It was advised that KPMG would continue to monitor as there was still uncertainty around the financial impact of successful appeals as the potential change in rateable value could not be predicted. The Committee were advised that KPMG would be liaising with the Authority's finance team in regards to the disclosure associated with retrospective reinstatement of Comprehensive Income and Expenditure Statement (CIES), Expenditure and Funding Analysis (EFA) and Movement in Reserves Statement (MIRS) and to agree the new disclosures, including the restatement of the prior year comparators.

RESOLVED – That the Audit and Corporate Governance Scrutiny Committee having considered the External Audit Plan 2016/2017 and notes the report from the Council's External Auditors KPMG.

598 NEDDC – External Audit Progress Report and Technical Update

The Audit and Corporate Governance Scrutiny Committee considered the External Audit Progress Report and Technical Update which had been prepared by KPMG for consideration by Members. The Committee were advised that there were no matters arising from the External Audit but the Committee were asked to note key points arising from the Technical Update.

In July 2016 a report was published by Civica in partnership with CIPFA outlining the need for councils to improve their commercial skills and seek new income streams in order to close the current funding gap. Independent research spanning 45 local authorities found that:-

- 40% of local authority leaders said that commercialisation played some part in their current strategy, however, only 4% of public sector CEO's and CFO's said that they had significant commercial expertise.
- Positive progress was being held back by the lack of understanding of what the market needed (36%) and concerns about the risk involved (56%).
- A constructive culture (40%) and discomfort about new models (56%) was also having an impact.
- Those with a commercial strategy said commercialisation gave them more control over developments in the community, builds closer relationships with people they serve and supported the creation of new jobs.

Following increase in financial uncertainty in another tough financial settlements for councils in England where Government grants had been cut by 25% and organisations were expected to be financially self sufficient by 2020, local authorities were looking beyond service reduction towards commercialising services. Whilst commercialised approaches and option were plentiful, finding the right strategy that delivered genuine returns was a task that a few local authorities had found easy.

The Home Office had produced an Organised Crime Procurement Pilot report, which had been circulated to all local authorities, police forces and police and crime commissioners in England and Wales. The report provided findings from pilot studies which it had undertaken on the threat that serious and organised crime posed to publically procured services in local authorities and how to respond to that threat. The report estimated that of the £2.1 billion of local government fraud in 2013, £876 million related to procurement fraud. Local government spent around £60 billion on procurement (excluding central services) in 2014-15, so this area was considered to be attractive to serious and organised criminals.

The pilots indicated the sectors most at risk were waste services, taxi/transport services and low value spending (generally payments in the hundreds of pounds and in schools for property maintenance services). These sectors could be more vulnerable because they were predominantly cash based businesses, enable high value transactions, can have market domination within geographical areas, have predictable returns or high levels of potential profit, and present opportunities to launder cash by, for example, acting as a front company. Local authority taxi contracts were identified as being at particular risk. The main focus of these contracts was to provide transport for some of the most vulnerable members of society and criminal groups could use taxis to gain access to the vulnerable.

The KPMG representative advised the Committee that officers may wish to consider producing a report on the organised crime procurement and the possible risk posed to the Council.

The Executive Director Operations advised the Committee that North East Derbyshire District Council was part of a procurement syndicate with other councils and Chesterfield Royal Hospital. The tenders were published through the transparency agenda. It was advised that companies had to meet a strict tender criteria to be invited to submit tenders to the Council.

RESOLVED – That the Audit and Corporate Governance Scrutiny Committee having considered the report notes the updates from the Council's External Auditor KPMG in respect of the progress report and technical update.

599 Internal Audit Plan 2017/2018

The Audit and Corporate Governance Scrutiny Committee considered the Internal Audit Plan for 2017/2018. A key requirement of the public sector internal audit standards was that a periodic risk based plan should be prepared that was sufficiently flexible to reflect the change in risks and priorities of the organisation. The risk based plan should be fixed for a period of no longer than one year, should outline the assignments to be carried out, their respective priorities and the estimated resources needed. The Internal Audit Plan was linked to North East Derbyshire District Council's Corporate Plan objective to provide customers with an excellent service. Audit reviews report on the operation of controls in place and recommended improvements.

The plan had been prepared to take into account the following factors:

- The organisational objectives and priorities
- Local and national issues and risks
- The requirement to produce an annual internal audit opinion
- The organisations assurance framework
- An update of the internal audit risk assessment exercise covering the financial control and other procedure subject to audit
- The fraud risk register
- The Council's strategic risk register and
- The views of the Executive Director Operations and other managers.

It should be noted that in terms of IT coverage a meeting had been held with the ICT Manager and Executive Director Operations to discuss where Internal Audit time spent would be more productive. In terms of network and cyber security assurance was received via the external accreditation of PSN. Internal Audit would focus on reviewing a system to verify that the data within the system and access to the system was suitably controlled and secure and that data protection requirements were met.

RESOLVED – That the Audit and Corporate Governance Scrutiny Committee notes the Internal Audit Plan for 2017/2018.

600 Key Decision Levels

The Audit and Corporate Governance Scrutiny Committee considered a report on the key decision levels for the Council as referred by the Constitution Working Group.

The Council was required to set the level for Executive Key Decisions at the annual meeting of the Council. The Standards Committee Constitution Working Group had been considering this as part of its review of the Constitution.

The level was currently £50,000 and there was a non financial limit of a matter which significantly affected two or more wards. The financial limit had not been reviewed since 2000 when it was introduced.

The effect of this is:

- Decisions above the financial level may be called in by Scrutiny
- The intention to take such decisions has to be publicly advertised 28 days before the meeting; and
- Many decisions below this level would be decided by officers in accordance with the delegation scheme.

The Constitution Working Group met on Monday, 13 March 2017 to consider the level of key decisions as part of their remit for reviewing the Constitution for presentation to Annual Council. At their meeting they considered the level of key decisions agreed by other neighbouring local authorities and this information was attached as an appendix to the report. After due consideration the Working Group agreed in principle for the revenue key decision level to be set at £100,000 and the capital key decision level to be set at £250,000, but agreed to refer the matter for further consideration at the next meeting of the Audit and Corporate Governance Scrutiny Committee.

The Audit and Corporate Governance Scrutiny Committee may wish to make recommendations for different levels of key decisions and any recommendations made by the Committee would be considered by Standards Committee as part of the formulation of the review of the Constitution report to be presented to the Annual Meeting of Council in May for approval.

No comments from the Audit and Corporate Governance Scrutiny Committee were made on the report.

RESOLVED – That the Audit and Corporate Governance Scrutiny Committee considered the proposed levels for key decisions and had no comments to make upon the report.

601 Accounting Policies

The Audit and Corporate Governance Scrutiny Committee considered the report on the Accounting Policies. The purpose of the report was to request approval by the Committee of the Accounting Policies that it was proposed to adopt for the current financial year in the preparation of the Statement of Accounts 2016/2017.

The Accounting Policies adopted by the Council determine the accounting treatment that was applied to transactions during the financial year and in the preparation of the Statement of Accounts at the year end. They determine the specific principles, bases, conventions, rules and practices that would be applied by the Council in preparing and presenting its financial statements. The Accounting Policies themselves were published within the Statement of Accounts in accordance with the Code of Practice on Local Government Accounting and incorporate the requirements of Internal Financial Reporting Standards (IFRS). The approval of the Accounting Policies to be applied by the Council demonstrates that due consideration was being given to which policies to adopt and apply and that those charged with corporate governance were fully informed prior to the commencement of the Statement of Accounts preparation of policies that were being adopted.

The Assistant Director Finance, Revenues and Benefits outlined the Accounting Policies that the Council would apply in the preparation of the Statement of Accounts 2016/2017.

RESOLVED

1. That the Audit and Corporate Governance Scrutiny Committee approves the Accounting Policies detailed in Appendix 1 to the report.
2. That Members note that any proposed amendments or changes to these policies would be reported back to the Committee, together with an explanation for the reasons change was considered to be appropriate and detailing any financial implications of the amendment.

(Executive Director Operations)

602 Derbyshire Audit Forum

The Audit and Corporate Governance Scrutiny Committee considered a report on the Derbyshire Audit Forum. Members of the Committee were provided with a copy of the material which was presented at the Derbyshire Audit Forum to assist them in informing a view as to the effectiveness of the Audit and Corporate Governance Scrutiny Committee at North East Derbyshire.

The Audit Committee plays a key role in governance agreements of any local authority. As such an effective Audit Committee was crucial to secure the effective operation of governance arrangements within the Council. Given the importance of the Committee's role it was crucial that the Committee gave regular consideration to its effectiveness in practice.

To help evaluate the effectiveness of the Committee and to identify areas for improvement copies of the material presented at the Derbyshire Audit Forum on 26 January 2017 were attached to the report. The event was held at Derbyshire County Council's buildings at Matlock and was facilitated by KPMG the Council's External Auditors. A further event will be held in Derby on 22 June 2017 to which all Members of the Audit and Corporate Governance Scrutiny Committee were welcome to attend. Full details will be provided to all the Audit and Corporate Governance Scrutiny Committee Members nearer the time.

RESOLVED – That the Audit and Corporate Governance scrutiny Committee considered the attached report in order to help self assess the effectiveness of the current arrangements.

(Executive Director Operations)

603 Key Issues of Financial Governance

The Audit and Corporate Governance Scrutiny Committee considered a report on the Key Issues of Financial Governance. The purpose of the report was to update Members on the progress on addressing the key issues of financial governance.

The Committee considered the Action Plan concerning the Key Issues of Financial Governance which was attached as an appendix to the report.

It was requested by Members of the Audit and Corporate Governance Scrutiny Committee that an officer attend the next meeting of the Audit and Corporate Governance Scrutiny Committee to explain the process of the write off of corporate debt.

RESOLVED – That the Audit and Corporate Governance Scrutiny Committee notes the report.

That the Assistant Director Finance, Revenues and Benefits would bring a report on the progress taken with regards to the write off of corporate debt to the next meeting of the Audit and Corporate Governance Scrutiny Committee.

(Assistant Director Finance, Revenues and Benefits)

604 Urgent Business – Public Session

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