



Meeting: **AUDIT AND GOVERNANCE COMMITTEE**
Date: **WEDNESDAY 15 JUNE 2016**
Time: **5.00PM**
Venue: *****MEETING ROOM 5******
To: **Councillors M Jordan (Chair), I Reynolds (Vice Chair), K Arthur, D Buckle, Mrs J Chilvers, A Thurlow and P Welch.**

There will be a training session for Councillors at 4.30pm in Meeting Room 5.

Agenda

1. **Apologies for absence**

2. **Disclosures of Interest**

A copy of the Register of Interest for each Selby District Councillor is available for inspection at www.selby.gov.uk .

Councillors should declare to the meeting any disclosable pecuniary interest in any item of business on this agenda which is not already entered in their Register of Interests.

Councillors should leave the meeting and take no part in the consideration, discussion or vote on any matter in which they have a disclosable pecuniary interest.

Councillors should also declare any other interests. Having made the declaration, provided the other interest is not a disclosable pecuniary interest, the Councillor may stay in the meeting, speak and vote on that item of business.

If in doubt, Councillors are advised to seek advice from the Monitoring Officer.

3. **Minutes**

To confirm as a correct record the minutes of the Audit and Governance Committee held on 13 April 2016 (pages 1 to 4 attached).

4. **Start time of meetings**

To agree the start time of Audit and Governance Committee meetings for the municipal year 2016/17.

5. Chair's Address to the Audit and Governance Committee

6. Audit and Governance Committee Work Programme 2016-17

To note the Audit and Governance Committee Work Programme for the municipal year 2016/17 (pages 5 to 6 attached).

7. Annual Report of the Head of Internal Audit 2015/16

To receive and note report A/16/1 which presents the internal audit annual report for 2015/16, including the opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and internal control (pages 7 to 42 attached).

8. External Audit Progress Report

To receive and note report A/16/2 which presents the external audit progress report (pages 43 to 52 attached).

9. Risk Management Annual Report 2015/16

To receive and note report A/16/3 which provides the Committee with a summary of risk management activity in 2015/16 and proposed action to be taken in 2016/17 (pages 53 to 55 attached).

10. Changes to arrangements for the appointment of External Auditors

To receive report A/16/4 and to make a recommendation to Council regarding proposed changes to the arrangements for appointing external auditors (pages 56 to 61 attached).

Gillian Marshall
Solicitor to the Council

For enquiries relating to this agenda please contact Daniel Maguire:
Tel: 01757 292247. Email: dmaguire@selby.gov.uk.

Recording at Council Meetings

Recording is allowed at Council, Committee and Sub-Committee meetings which are open to the public, subject to:- (i) the recording being conducted with the full knowledge of the Chairman of the meeting; and (ii) compliance with the Council's protocol on audio/visual recording and photography at meetings, a copy of which is available on request. Anyone wishing to record must contact the Democratic Services Officer on the above details prior to the start of the meeting. Any recording must be conducted openly and not in secret.

Minutes

Audit and Governance Committee

Venue:	Committee Room
Date:	Wednesday 13 April 2016
Time:	5.00pm
Present:	Councillors M Jordan (Chair), K Arthur, D Buckle, Mrs J Chilvers, I Reynolds, A Thurlow and P Welch.
Apologies:	None.
Officers present:	Karen Iveson, Chief Finance Officer (s151); Phil Jeffrey, Audit Manager, Veritau; Jonathan Dodsworth, Counter Fraud Manager, Veritau; Suresh Patel, Engagement Lead/Director, Mazars; Dan Spiller, Senior Auditor, Mazars and Daniel Maguire, Democratic Services Officer
Public:	0
Press:	0

39. DISCLOSURES OF INTEREST

There were no disclosures of interest.

40. MINUTES

The Committee considered the minutes of the Audit and Governance Committee meeting held on 13 January 2016.

RESOLVED:

To approve the minutes of the Audit and Governance Committee meeting held on 13 January 2016.

41. CHAIR'S ADDRESS TO THE AUDIT AND GOVERNANCE COMMITTEE

The Chair reported that members of the Committee had been able to meet with the external Auditor, Mazars, prior to the meeting. The Chair introduced Suresh Patel, Engagement Lead (Mazars), who had assumed the role previously undertaken by Cameron Waddell.

The Committee was also advised that a working group had been established to review the Overview and Scrutiny procedures within the Council. The working group consisted of the Chair of each scrutiny committee and the Executive Member for Finance and Resources. The Group had met with officers on one occasion and would meet again on 19 May 2016.

42. AUDIT STRATEGY MEMORANDUM 2015/16 (REPORT A/15/20)

The Director (Mazars) presented the report which set out the audit plan for the year ending 31 March 2016. The Committee noted several points, including: that work provided by other auditors is utilised where relevant (such as the auditor of the North Yorkshire Local Government Pension Fund); that there were two 'significant risks' identified that required special audit provisions (these were management override of controls, and pension estimates); and that there were no significant risks in relation to the value for money conclusion.

The Committee was advised that the Materiality figure was £730k, with a triviality threshold of £22k. In response to questions from the Committee it was confirmed that these figures were calculated using a formula that takes into account various factors including: spending; level of reserves; and the audit history. The Committee further noted that the triviality threshold was set at a percentage of the Materiality figure, and that the figure should be considered in the context of the Council's overall budget.

The Committee noted changes to the measurement basis for Highways Network Assets. It was confirmed that these changes were not retrospective and would apply from 2016/17 onwards. The external auditor confirmed that the impact for Selby District Council was expected to be low-level.

RESOLVED:

To note the report.

43. EXTERNAL AUDIT PROGRESS REPORT (REPORT A/15/21)

The Senior Auditor (Mazars) presented the report. The Committee were advised that audit planning for 2015/16 had been completed and that a North Yorkshire Governance Forum had been established. The Governance Forum had met in February 2016 and had been established to: promote good practice; facilitate dialogue and sharing of ideas; horizon scanning; and

providing a valued forum for discussion. The Forum included officers and councillors from North Yorkshire local authorities, in particular Audit Committee Chairs and/or Vice-Chairs.

The Committee noted changes relating to the public inspection of accounts, and the additional guidance concerning conflicts of interest for directors of companies that are partly, or wholly, owned by the public sector.

RESOLVED:

To note the report.

44. INTERNAL AUDIT PROGRESS REPORT (REPORT A/15/22)

The Audit Manager (Veritau) presented the report, which updated the Committee on progress against the Internal Audit Plan. The Committee noted that a total of 51 agreed actions from 2014/15 had been followed up, and of these 38 had been satisfactorily implemented and 10 had not been implemented by the target date. It was confirmed that the actions not implemented by the target date had been given revised target dates, but the opinion of the auditor was that this would not lead to unacceptable exposure to risk.

The Committee further noted that, of the 13 agreed actions from 2015/16, 3 had been satisfactorily implemented and 10 actions had been set a revised target date.

The Committee were presented with a summary of progress against key actions and were able to ask questions of the Audit Manager (Veritau) and the Chief Finance Officer. The Committee noted in particular the following actions: PCI DSS Compliance (2014/15); Information Security Checks; and Governance and Transparency. The Committee welcomed the progress made in relation to Health and Safety, but was concerned about the number of agreed actions that had not been satisfactorily implemented by the target date and had been given a revised target date. The Chief Finance Officer reassured the Committee that this would be raised with the officers concerned and oversight would be maintained by the leadership team.

RESOLVED:

To note the report.

45. INTERNAL AUDIT AND COUNTER FRAUD PLAN 2016/17 (REPORT A/15/23)

The Audit Manager (Veritau) presented the report, which set out the Internal Audit and Counter Fraud Plan for 2016/17. The Committee was informed that the two documents were now provided in one, but that the number of audit days remained the same. In addition the plan included 105 days for Counter

Fraud work. In addition, it was confirmed that contingency days were provided in the plan to ensure a degree of flexibility.

The Committee asked that the effects of the recent Organisational Review should be monitored. The Committee was advised that 15 days had been provided for in the Plan to review Organisational Development, and this would mean any risks would be reported to the Committee in the usual way.

RESOLVED:

To approve the Internal Audit and Counter Fraud Plan 2016/17.

46. AUDIT AND GOVERNANCE COMMITTEE ANNUAL REPORT 2015/16 (REPORT A/15/24)

The Annual Report was considered, and no amendments were suggested. It was confirmed that the Democratic Services Officer required delegated authority to update Appendix A to reflect work completed at the final meeting of the municipal year to ensure that the published report was fully accurate.

RESOLVED:

(i) To approve the Audit and Governance Committee Annual Report; and

(ii) To delegate authority to the Democratic Services Officer, in consultation with the Chair, to update the Appendix to reflect the work undertaken at the final meeting of the municipal year.

47. AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME 2016/17 (REPORT A/15/25)

The Work Programme 2016/17 was considered by the Committee. It was confirmed that a short training / briefing session would be provided before each meeting, which would reflect the agenda of each meeting.

RESOLVED:

To approve the Audit and Governance Committee Work Programme 2016/17.

The meeting closed at 5.59pm.



Audit Committee Work Programme 2016/17

Date of Meeting	Topic	Action Required
<i>All meetings will be preceded by a training / briefing session for Councillors. These sessions will start 30 minutes before the meeting.</i>		
15 June 2016	Time of meetings	To agree the start time of Audit Committee meetings for 2016/17
	Internal Audit Annual Report 2015/16	To consider the Internal Audit Annual Report for 2015/16
	External Audit Progress Report	To review the progress by Mazars in meeting its responsibilities as the Council's External Auditor.
	Risk Management Annual Report	To consider the Risk Management Annual Report for 2015/16
	Changes to the arrangements for the appointment of external auditors	To make a recommendation to Council regarding the arrangements for the appointment of external auditors.
28 September 2016	Statement of Accounts (post audit)	To approve the Statement of Accounts
	Annual Governance Statement	To approve the Annual Governance Statement
	Mazars Audit Completion Report and Opinion on the Financial Statements	To receive the Mazars Audit Completion Report and opinion on Financial Statements
	Counter Fraud Annual Report	To review the Counter Fraud Annual Report
	Internal Audit Quarter 1 Report 2016/17	To review progress against the Internal Audit Plan

18 January 2017	Information Governance Report	To approve the Information Governance Annual Report
	Internal Audit Quarter 2 Report 2016/17	To review progress against the Internal Audit Plan
	Annual Audit Letter	To receive the Mazars report on the 2015/16 Audit and Value for Money conclusion
	Review of Risk Management Strategy	To review the Risk Management Strategy
	Review of the Risk Register(s)	To review the latest Risk Register(s)
	External Audit Progress Report – Mazars	To review the progress by Mazars in meeting its responsibilities as the Council's External Auditor.
19 April 2017	Audit Strategy Memorandum and External Audit Progress Report – Mazars	To review the Audit Strategy and progress of the External Audit with Mazars
	Annual Governance Statement – Action Plan Review	To review progress against the AGS Action Plan
	Internal Audit Quarter 3 Progress Report 2016/17	To review progress against the Internal Audit Plan for 2016/17
	Internal Audit Charter	To approve the Internal Audit Charter
	Internal Audit Plan 2017/18	To approve the Internal Audit Plan 2017/18
	Audit Committee Annual Report 2017/18 and Work Programme 2017/18	To approve the 2016/17 Annual Report and the 2017/18 Work Programme for the committee

Public Session

Report Reference Number: A/16/1

Agenda Item No: 7

To: Audit Committee
Date: 15 June 2016
Author: Phil Jeffrey; Audit Manager - Veritau
Lead Officer: Karen Iveson; Chief Finance Officer

Title: Annual Report of the Head of Internal Audit 2015/16

Summary:

The purpose of the report is to present the internal audit annual report for 2015/16. That report is prepared by Veritau and is based on internal audit work carried out during the period April 2015 to April 2016.

Recommendation:

That the committee note the annual report of the Head of Internal Audit (appendix A), including the opinion on the adequacy and effectiveness of the council's framework of governance, risk management and internal control.

Reasons for recommendation

To enable the committee to fulfil its responsibility for reviewing the outcomes of internal audit work and to support its consideration of the Council's Annual Governance Statement.

1. Introduction and background

1.1 The work of internal audit is governed by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards. In accordance with these standards, the Head of Internal Audit is required to provide an annual report setting out the work done by internal audit. The report should also include an audit opinion based on an objective assessment of the framework of governance, risk management and control operating within the Council.

2. The Report

- 2.1 The purpose of the report is to provide a summary of internal audit work carried out during 2015/16 and to express an opinion on the overall framework of governance, risk management and control in place within the Council.
- 2.2 The report includes a summary of the audit opinions for individual audits completed in the year, to support the overall opinion. A number of the internal audit reports are still at draft report stage and have not yet been finalised. However, we do not expect the findings or opinion contained in these reports to significantly change.
- 2.3 The report also includes a summary of internal audit performance for 2015/16 and conclusions from Veritau's internal audit Quality Assurance and Improvement Programme (QAIP).

3. Legal/Financial Controls and other Policy matters

3.1. Legal Issues

None.

3.2. Financial Issues

None.

4. Conclusion

- 4.1 The overall opinion of the Head of Internal Audit on the governance, risk management and control framework operated by the Council is that it provides **Substantial Assurance**. There are no qualifications to that opinion. In addition, no reliance was placed on the work of other assurance bodies in reaching this opinion.
- 4.2 Although a Substantial Assurance opinion can be given, we are aware of some weaknesses in the control environment which have been identified in various audits. However, we do not feel that any of the issues identified warrant consideration for inclusion in the Council's Annual Governance Statement.

5. Background Documents

Contact Officer:

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Veritau
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Appendices: - Appendix A: Annual Report of the Head of Internal Audit 2015/16



Selby District Council

**Annual Report of the
Head of Internal Audit 2015/16**

Audit Manager:	Phil Jeffrey
Deputy Head of Internal Audit:	Richard Smith
Head of Internal Audit:	Max Thomas
Date:	15 th June 2016

Background

- 1 The Head of Internal Audit (HoIA) is required to regularly report progress in the delivery of the internal audit plan to the Audit Committee and to identify any emerging issues which need to be brought to the attention of the Committee. In addition to regular progress reports, the Council's internal audit charter also requires that the HoIA provides an annual report, that includes:
 - the Head of Internal Audit's opinion on the adequacy and effectiveness of the Council's framework of governance, risk management, and control
 - any qualifications to the opinion, together with the reasons for those qualifications (including any impairment to independence or objectivity)
 - any particular control weakness judged to be relevant to the preparation of the annual governance statement
 - a summary of work undertaken to support the opinion including any reliance placed on the work of other assurance bodies
 - an overall summary of internal audit performance and the results of the internal audit service's quality assurance and improvement programme
 - a statement on conformance with the PSIAS.
- 2 Members approved the Annual Internal Audit Plan for 2015/16 at their meeting on 15 April 2015. The total number of planned audit days for 2015/16 was 355. The performance target for Veritau is to deliver 93% of the agreed Audit Plan by the end of the year. This report summarises the delivery of the agreed plan and the other information required for the annual report as set out in paragraph 1.

Internal Audit Work Carried Out 2015/16

- 3 A summary of the audit work completed in the year is attached at **Annex A**.
- 4 Veritau officers are involved in a number of other areas relevant to corporate matters:
 - **Support to the Audit Committee**; this is ongoing through our support and advice to Members. We assist by facilitating the attendance at Committee of managers to respond directly to Members' questions and concerns arising from audit reports and the actions that managers are taking to implement agreed actions.
 - **Financial appraisals**; this work involves supporting the assurance process by using financial reports from credit rating agencies and performing financial analysis in order to confirm the financial suitability of potential contractors.
 - **Risk Management**; Veritau facilitate the Council's risk management process.
 - **General advice and support**; Veritau provide advice to Officers on request to ensure that where there are proposed changes to processes or new ways of delivering services, that the control implications are properly considered.
 - **Investigations**; Special investigations into specific sensitive issues.

5 As with previous audit reports an overall opinion is given for each of the specific systems under review. In addition to the standard reports below, non-standard reports are also issued with 'no opinion given' – these may be where the work is limited in scope or is not designed to provide assurance (for example advisory work).

6 The opinions used by Veritau are provided below:

High Assurance Overall, very good management of risk. An effective control environment appears to be in operation.

Substantial Assurance Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.

Reasonable Assurance Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.

Limited Assurance Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.

No Assurance Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

7 The following priorities are applied to individual actions agreed with management:

Priority 1 (P1) – A fundamental system weakness, which represents unacceptable risk to the system objectives and requires urgent attention by management.

Priority 2 (P2) – A significant system weakness, whose impact or frequency presents risk to the system objectives, which needs to be addressed by management.

Priority 3 (P3) – The system objectives are not exposed to significant risk, but the issue merits attention by management.

8 It is important that agreed actions are formally followed-up to ensure that they have been implemented. Further testing is carried out as appropriate.

9 A total of 53 agreed actions from 2014/15 audits have been followed up with the responsible officers. 46 had been satisfactorily implemented. In a further 3 cases, the actions had not been implemented by the target date but a revised date was agreed. This is done where the delay in addressing an issue will not lead to unacceptable exposure to risk and where the delays are unavoidable. These actions will be followed up after the revised target date. The remaining 4 actions have not yet been followed up either because the target dates have not yet passed or because follow up work is still in progress. A summary is included below:

Action status	Total No.	Action Priority		
		1	2	3
Actions now implemented	46	0	12	34
Revised date agreed	3	0	2	1
Follow up in progress	4	0	2	2
Not yet followed up	0	0	0	0
Total agreed actions	53	0	16	37

- 10 A total of 20 agreed actions from 2015/16 audits have been followed up with the responsible officers. 4 had been satisfactorily implemented. In a further 9 cases, the actions had not been implemented by the target date but a revised date was agreed and will be followed up after the revised target date. The remaining 19 actions agreed in 2014/15 audits have not yet been followed up either because target dates have not yet passed or because follow up work is still in progress. A summary is included below:

Action status	Total No.	Action Priority		
		1	2	3
Actions now implemented	4	0	0	4
Revised date agreed	9	0	4	5
Follow up in progress	7	0	1	6
Not yet followed up	12	0	8	4
Total agreed actions	32	0	13	19

- 11 Currently, ten 2015/16 audits are at draft report stage. Four reports have been finalised since the last report to this committee. A total of 95.6% of reports were completed to draft report stage by the end of April 2016 (the cut off point for 2015/16 audits), exceeding the target of 93%.

Compliance with Standards

- 12 Veritau maintains a quality assurance and improvement programme (QAIP) to ensure that internal audit work is conducted to the required professional standards. As well as undertaking an annual survey of senior management in each client organisation and completing a detailed self assessment to evaluate performance against the Standards, the service was also subject to an external assessment. The assessment was conducted by the South West Audit Partnership (SWAP) and completed in April 2014. The results of the assessment provide evidence to support the QAIP as well as helping to inform the Improvement Action Plan.
- 13 The outcome of the QAIP demonstrates that the service conforms to International Standards for the Professional Practice of Internal Auditing. Further details of the QAIP and Improvement Action Plan prepared by Veritau are given in Annex B.

Audit Opinion and Assurance Statement

- 14 The overall opinion of the Head of Internal Audit on the risk management, governance and control framework operated by the Council is that it provides Substantial Assurance. There are no qualifications to that opinion. In addition, no reliance was placed on the work of other assurance bodies in reaching this opinion.
- 15 Although a Substantial Assurance opinion can be given, we are aware of some weaknesses in the control environment which have been identified in relation to

specific audits. Key actions agreed are summarised in the annex to this report. We have not recommended any issues to be considered for inclusion in the Annual Governance Statement.



Max Thomas
Director and Head of Internal Audit
Veritau Ltd

15 June 2016

Annex A**2015/16 audit assignments status**

Audit	Status	Audit Committee
Corporate Risk Register/Access Selby RR		
Savings Delivery	Draft report issued	
Corporate Complaints	Reasonable Assurance	Jan 16
Customer Engagement	Draft report issued	
Income Generation	Support/advice provided	Jan 16
Freedom of Information	Draft report issued	
Democratic Governance and Transparency	Substantial Assurance	Apr 16
Performance Management	In progress	
Financial Systems		
Housing Rents	Draft report issued	
Council Tax/NNDR	Substantial Assurance	Jun 16
Benefits	In progress	
Creditors	Memo report issued	Jun 16
Car Parking Income	Memo report issued	Apr 16
Payroll	Reasonable Assurance	Jun 16
General Ledger (budgetary control & reconciliations)	Draft report issued	
Treasury Management	Cancelled ¹	
Regularity / Operational Audits		
Health and Safety	High Assurance	Apr 16
Members' Allowances	Substantial Assurance	Jun 16
Recruitment	Reasonable Assurance	Apr 16
Counter Fraud		
Counter Fraud Arrangements	Reasonable Assurance	Apr 16
Whistleblowing Policy	Support/advice provided	Jan 16
Technical / Project Audits		
ICT – Disaster recovery	Draft report issued	
ICT – Server Room Security	Draft report issued	
ICT – PCI DSS compliance	Action Plan Agreed	Apr 16

¹ Time was re-allocated to the Payroll audit

Audit	Status	Audit Committee
Programme for Growth Procurement Business Transformation	Draft report issued Draft report issued Ongoing support/advice provided	
Better Together ² Information Governance Information Security Checks	Cancelled Draft report issued Reasonable Assurance	Jan 16
Follow Ups:	Updates provided to Audit Committee	

² Time was re-allocated to a specific piece of work requested by the Chief Executive

Summary of progress against key actions; audits previously reported to this committee

Audit	Opinion	Comments	Date Issued	Key Agreed Actions ³	Progress against key actions
Partnerships (2014/15)	Reasonable Assurance	<p>Strengths The two partnerships that were reviewed were found to have adequate governance arrangements in place</p> <p>Weaknesses Reviews are not regularly undertaken to confirm whether it is appropriate for a partnership mandate to be in place or whether the partnership was delivering the desired outcomes for the council.</p>	31 July 2015	<p>A reference to the review of partnering arrangements (at least every five years) will be included within the Partnership Toolkit – with the extent and frequency of that review to be determined by reference to the nature/scale/risk associated with each individual partnership.</p> <p>The partnership toolkit will be attached to the council's shared filing area to ensure it can be accessed by council officers.</p>	<p>Due 31 Oct 2015</p> <p>The toolkit has been re-drafted and will be taken to a Management Team meeting for review before being published. Revised date agreed of 30 Jul 2016.</p>
General Ledger (inc Budgetary Control and Bank	Substantial Assurance	<p>Strengths The processes for the authorisation and</p>	1 September 2015	The existence of the reconciliations issue has been recognised by	<p>Due 31 Dec 2015</p> <p>This has been identified as an</p>

³ Priority 2 or above

Audit	Opinion	Comments	Date Issued	Key Agreed Actions ³	Progress against key actions
Reconciliation) (2014/15)		<p>uploading of virements were sound, with adequate supporting documentation being held or available and posting permissions suitably restricted.</p> <p>Weaknesses</p> <p>Significant delays were observed in the completion and return of system reconciliations to Finance and, on some occasions, in Finance's verification of reconciliations following receipt. It is noted that the situation had shown some improvement from 2013/14 but the timeliness of these reconciliations remains a concern.</p>		<p>Finance and highlighted as a priority.</p> <p>Work is ongoing to ensure that these are kept up to date.</p> <p>The intention over the longer term is to train staff in Business Support to take over the administration of this task in order to free up capacity within Finance for other tasks. Finance will retain overall responsibility, however.</p>	<p>issue in the 2015/16 audit which is currently at draft report stage and a new action will be agreed.</p>

Audit	Opinion	Comments	Date Issued	Key Agreed Actions ³	Progress against key actions
Corporate Complaints	Reasonable Assurance	<p>Strengths</p> <p>The system in place accurately reflects the guidance provided by the ombudsmen.</p> <p>Systems in place outline responsibilities: ensuring complaints are handled by independent staff with relevant authority, with a timely initial response and resolution.</p> <p>The process is readily accessible to customers.</p> <p>Weaknesses</p> <p>Policy/ procedure notes do not reflect working</p>	12 November 2015	<p>Policy & procedure notes will be updated to reflect working practices. A review schedule will be established to keep P&P notes up to date.</p> <p>During policy review, stage 1 and 2 acknowledgement and response times will be clarified, particularly “first working day”.</p>	Due 30 June 2016

Audit	Opinion	Comments	Date Issued	Key Agreed Actions ³	Progress against key actions
		<p>practices / are out of date.</p> <p>The complaints process is not sufficiently publicised.</p> <p>Deadlines for the acknowledgement of, and response to, complaints are not always accurate, or met.</p> <p>Recording of performance data could be improved.</p>			

Audit	Opinion	Comments	Date Issued	Key Agreed Actions ³	Progress against key actions
<p>Access Controls: Windows Network and Finance System (2014/15)</p>	<p>Reasonable Assurance</p>	<p>Strengths</p> <p>The introduction of a new user request form in November 2014 was a positive step towards better control of network user accounts.</p> <p>We also found that network and COA password settings are in practice good.</p> <p>Weaknesses</p> <p>There is still an informal process for COA user management.</p> <p>There is a lack of a</p>	<p>3 December 2015</p>	<p>Network permissions will be reviewed and revalidated at the point of changing IT provision.</p> <p>We will arrange for a list of non-SDC users to be cross-checked to staff records. Any additional non-SDC users to be queried and added to list or removed as necessary.</p> <p>User permissions will be reviewed when the council changes to a new system in conjunction with its prospective partner. How to manage user permissions</p>	<p>Due 1 May 2016</p> <p>A pilot is currently underway in Business Support ahead – revised date of 1 May 2016 This is currently being followed-up</p> <p>Due 1 Jan 2016</p> <p>Not yet completed – revised date of 1 May 2016.</p> <p>This is currently being followed-up</p> <p>Due 1 Feb 2016</p> <p>The council has not yet made the decision as to</p>

Audit	Opinion	Comments	Date Issued	Key Agreed Actions ³	Progress against key actions
		formal policy to govern the council's required standards for passwords, and there are issues with some aspects of user account management, particularly regarding changes to network permissions and control of users who have access to SDC networks but are not directly employed by the council itself.		will also be considered at this point. The council hopes to have a better understanding of how this will develop in the timescale indicated.	whether or not it will implement a new main accounting system and is currently reviewing the potential to use a scaled-down version of the Oracle system as part of the Better Together Collaboration with NYCC – revised date agreed of 30 Sep 2016
Information Security Checks	Reasonable Assurance	<p>Strengths</p> <p>Overall, the council is reasonably well protected against accidental disclosure of information. The Civic Centre office areas are not accessible without</p>	16 December 2015	An action plan will be produced to address the information security weaknesses identified in the report. This will include reminders to staff on maintaining information security and arrangements to ensure sufficient secure	Due 31 Jan 2016 Implementation has been delayed due to the organisational review; a revised date of 30 Oct 2016 has been

Audit	Opinion	Comments	Date Issued	Key Agreed Actions ³	Progress against key actions
		<p>a staff security pass and within the offices most information is stored in cupboards.</p> <p>Weaknesses</p> <p>Lockable storage is being left unlocked throughout the offices, the clear desk policy is not being followed by all staff and a significant number of council assets are unsecured</p> <p>In addition, some service areas that hold sensitive personal information should have security measures that protect this</p>		<p>storage is available where needed within the Civic Centre.</p>	<p>agreed.</p>

Audit	Opinion	Comments	Date Issued	Key Agreed Actions ³	Progress against key actions
		information from all staff that do not need access to it; this includes other council staff, cleaning staff and partners that share the office space.			
Counter Fraud Arrangements	Reasonable Assurance	<p>Strengths</p> <p>Overall, it was found that the council does have systems in place that do, in part at least, meet the principles within the Cipfa Counter Fraud Code of Practice</p> <p>Weaknesses</p> <p>Following the assessment against each of the 5 cipfa principles it is felt that the council could take further action to</p>	22 December 2015	<p>The Anti-Fraud, Theft and Corruption Policy and Strategy will be reviewed, revised and re-launched. This will be done alongside other actions and communications to raise awareness of fraud risks and to promote a fraud aware culture. The council will decide whether a councillor will be explicitly given portfolio responsibility for fraud.</p> <p>The re-launched counter fraud strategy will set out</p>	Due 31 Aug 2016

Audit	Opinion	Comments	Date Issued	Key Agreed Actions ³	Progress against key actions
		increase the degree to which it meets best practice for adhering to these principles.		<p>arrangements for annual reporting and this report will be written as a report on delivery against the strategy in the preceding year and include details of action to be taken in the year ahead and assessment of resource availability to deliver the strategy.</p> <p>Plans will be developed to raise awareness of fraud risks, the council's revised policy and strategy and whistleblowing procedures. This could include specific training sessions, e-learning (e.g. whistleblowing), corporate communications (posters, team brief email, OMG/BMG/Directors meeting agenda items) as well as the existing annual</p>	Due 31 Aug 2016

Audit	Opinion	Comments	Date Issued	Key Agreed Actions ³	Progress against key actions
				<p>reporting mechanisms. Management job descriptions will be reviewed for areas where fraud risks have been identified and these job descriptions will explicitly include counter fraud responsibilities.</p> <p>A process of reviewing risk registers has recently been started. This will include treating fraud and corruption risks as a corporate risk, which will be assessed by all services (as happens with areas like health and safety risk). It will also ensure there are mechanisms to escalate service risks to the corporate risk register.</p>	Due 31 Aug 2016
Recruitment	Reasonable Assurance	Strengths The recruitment	5 February 2016	The council's Recruitment and Selection Manual is	Due 31 Mar 16

Audit	Opinion	Comments	Date Issued	Key Agreed Actions ³	Progress against key actions
		<p>process was found to be generally working well. Employment references and manager approval had been routinely obtained from the most suitable referees, often on the council's well designed reference request pro forma, and were timely.</p> <p>Weaknesses</p> <p>It was not possible to confirm that all pre-employment clearances had been obtained. Additionally, where clearances had been obtained, these were not always timely or certified where appropriate.</p> <p>The Recruitment and</p>		<p>already in the process of being updated. Once this is finalised, it will be circulated via email to all employees involved in recruitment. The email will also draw attention to important changes to the manual and remind officers that HR will not allow successful candidates to commence employment with the council until all necessary clearances have been obtained.</p> <p>In the body of the email to which the revised Recruitment and Selection Manual will be attached, text will be included to remind officers of the importance of completing an Authorisation to Recruit form before recruitment</p>	<p>The council is still in the process of finalising the recruitment and selection manual. Revised date agreed of 30 June 16.</p> <p>Due 31 Mar 16</p> <p>The council is still in the process of finalising the recruitment and selection manual. Revised date agreed of 30 June</p>

Audit	Opinion	Comments	Date Issued	Key Agreed Actions ³	Progress against key actions
		<p>Selection Manual was reviewed and found to be outdated both in terms of current practices and the wider legislative context surrounding recruitment.</p> <p>Authorisation to Recruit forms are not providing the control over the recruitment process as intended, with some being completed only after recruitment has started.</p>		begins.	16.

Summary of audits completed to 6 June 2016; previously not reported

Audit	Opinion	Comments	Date Issued	Key Agreed Actions ⁴	Progress against key actions
Payroll	Reasonable Assurance	<p>Strengths Payments are generally made in accordance with employees' contracts of service and agreed rates of pay.</p> <p>Weaknesses The audit highlighted that the payroll audit files have not been signed off by an appropriate officer since March 2015.</p>	29 April 2016	<p>An ongoing honorarium with limited paperwork to support it will be reviewed following the restructure when lead officers and their responsibilities are agreed.</p> <p>Clarity is required as to who the responsible officer is who has the authority to authorise the monthly payroll payment, and who has the delegated authority within ESS to make an approximate payment of £380,000 on behalf of SDC. The necessary</p>	<p>Due 30 Sep 16</p> <p>Due 31 Aug 16</p>

⁴ Priority 2 or above

Audit	Opinion	Comments	Date Issued	Key Agreed Actions ⁴	Progress against key actions
				<p>amendments and inclusions will be made to the appropriate documents.</p> <p>The SLA agreement [with NYCC] is in the process of being reviewed; points raised in relation to it will be taken forward with NYCC.</p>	Due 31 Aug 16
Members' Allowances	Substantial Assurance	<p>Strengths The checking of claims for mileage and eligibility was of a high standard, with no issues identified. There is a high degree of transparency for members' allowances. All payments match the transparency report</p>	16 May 2016	<p>This issue of payments to the Chair will be considered for inclusion in the Terms of Reference of the upcoming Independent Remuneration Panel (IRP) review of members allowances (date to be confirmed).</p> <p>If it is not included in the</p>	Due 30 Jun 16

Audit	Opinion	Comments	Date Issued	Key Agreed Actions ⁴	Progress against key actions
		<p>that is available to the public via the website.</p> <p>Weaknesses The system for paying allowances to the Chair and Vice Chair of the council lacks formality and clarity regarding what elements of the budget should be used for the council to pay directly for the costs of organising and running events and what elements are intended to be paid to the Chair and Vice Chair as an allowance or to reimburse costs incurred by them</p>		<p>IRP review, a separate review will take place and a formal procedure drawn up that specifies the terms of the Chairman of the Council's allowance/budget. This will specify the value to be paid as an allowance and the amount to be used as a budget for activities.</p>	

Audit	Opinion	Comments	Date Issued	Key Agreed Actions ⁴	Progress against key actions
		personally.			
Council Tax and NNDR	Substantial Assurance	<p>Strengths Overall, there was a substantial degree of assurance. In general, the systems in place are good and are well implemented, and should mitigate most major risks. The area of arrears is generally handled well, with good controls in place to ensure that they are pursued in an appropriate and effective manner.</p>	6 June 2016		

Audit	Opinion	Comments	Date Issued	Key Agreed Actions ⁴	Progress against key actions
		<p>Weaknesses Issues identified related to supporting evidence on the council's systems and recording of write-offs on the general ledger.</p>			
Creditors	No Opinion Given	<p>This was a health check using Computer Assisted Audit Tools to identify if the key controls are functioning as expected using data matching and interrogation techniques.</p> <p>It identified issues for management to address relating to</p>	6 June 2016		

Audit	Opinion	Comments	Date Issued	Key Agreed Actions ⁴	Progress against key actions
		delegated authorities, the use of the e-procurement system and the payment of expenses.			

ANNEX B - VERITAU INTERNAL AUDIT QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

1.0 Background

Ongoing quality assurance arrangements

Veritau maintains appropriate ongoing quality assurance arrangements designed to ensure that internal audit work is undertaken in accordance with relevant professional standards (specifically the Public Sector Internal Audit Standards). These arrangements include:

- the maintenance of a detailed audit procedures manual
- detailed job descriptions and competency profiles for each internal audit post
- regular performance appraisals
- regular 1:2:1 meetings to monitor progress with audit engagements
- training plans and associated training activities
- the maintenance of training records and training evaluation procedures
- agreement of the objectives, scope and expected timescales for each audit engagement with the client before detailed work commences (audit specification)
- the results of all audit testing work documented using the company's automated working paper system (Galileo)
- file review by an audit manager and sign-off of each stage of the audit process
- post audit questionnaires (customer satisfaction surveys) issued following each audit engagement
- performance against agreed quality targets reported to each client on a regular basis.

On an ongoing basis, a sample of completed audit files is also subject to internal peer review by a senior audit manager to confirm quality standards are being maintained. The results of this peer review are documented and any key learning points shared with the internal auditors (and the relevant audit manager) concerned.

The Head of Internal Audit will also be informed of any general areas requiring improvement. Appropriate mitigating action will be taken (for example, increased supervision of individual internal auditors or further training).

Annual self-assessment

On an annual basis, the Head of Internal Audit will seek feedback from each client on the quality of the overall internal audit service. The Head of Internal Audit will also update the PSIAS self assessment checklist and obtain evidence to demonstrate conformance with the standards. As part of the annual appraisal process, each

internal auditor is also required to assess their current skills and knowledge against the competency profile relevant for their role. Where necessary, further training or support will be provided to address any development needs.

The Head of Internal Audit is also a member of various professional networks and obtains information on operating arrangements and relevant best practice from other similar audit providers for comparison purposes.

The results of the annual client survey, PSIAS self-assessment and professional networking are used to identify any areas requiring further development and/or improvement. Any specific changes or improvements are included in the annual Improvement Action Plan. Specific actions may also be included in the Veritau business plan and/or individual personal development action plans. The outcomes from this exercise, including details of the Improvement Action Plan are also reported to each client. The results will also be used to evaluate overall conformance with the PSIAS, the results of which are reported to senior management and the board⁵ as part of the annual report of the Head of Internal Audit.

External assessment

At least once every five years, arrangements must be made to subject internal audit working practices to external assessment to ensure the continued application of professional standards. The assessment should be conducted by an independent and suitably qualified person or organisation and the results reported to the Head of Internal Audit. The outcome of the external assessment also forms part of the overall reporting process to each client (as set out above). Any specific areas identified as requiring further development and/or improvement will be included in the annual Improvement Action Plan for that year.

2.0 Customer Satisfaction Survey – 2016

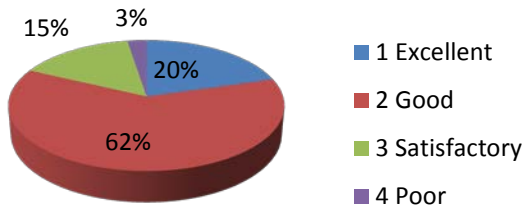
Feedback on the overall quality of the internal audit service provided to each client was obtained in May 2016. Where relevant, the survey also asked questions about the counter fraud and information governance services provided by Veritau. A total of 124 surveys (2015 – 103) were issued to senior managers in client organisations. 41 surveys were returned representing a response rate of 33% (2015 - 32%). The surveys were sent using Survey Monkey so the responses were anonymous. Respondents were asked to rate the different elements of the audit process, as follows:

- Excellent (1)
- Good (2)
- Satisfactory (3)
- Poor (4)

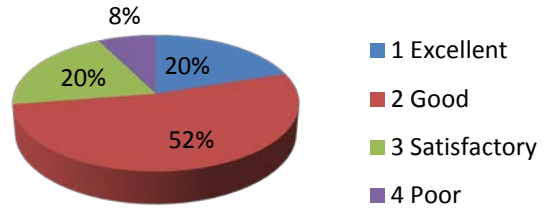
Respondents were also asked to provide an overall rating for the service. The results of the survey are set out in the charts below:

⁵ As defined by the relevant audit charter.

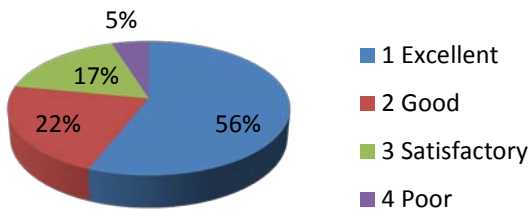
1 The quality of planning and the overall coverage of the audit plan



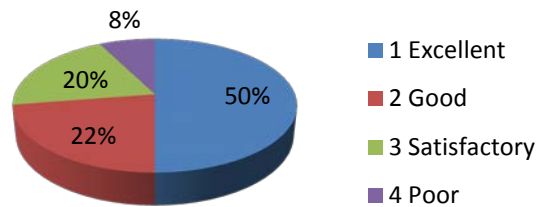
2 The provision of advice and guidance



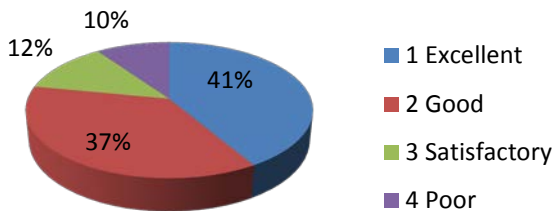
3 The conduct and professionalism of audit staff



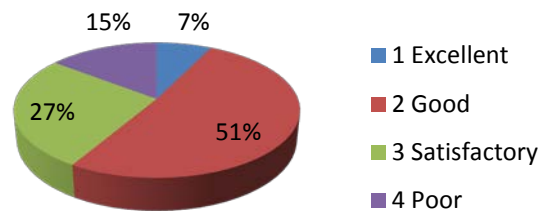
4 The ability of audit staff to provide unbiased and objective opinions



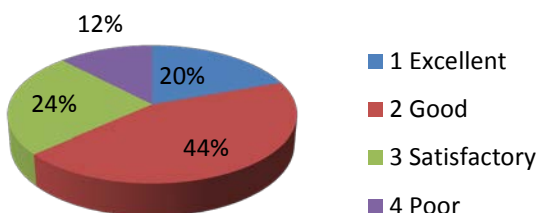
5 The ability of audit staff to establish a positive rapport with customers



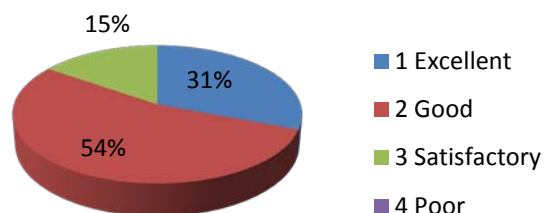
6 The auditors' overall knowledge of the system / service being audited



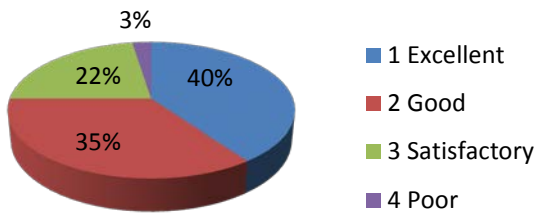
7 The auditors' ability to focus on the areas of greatest risk



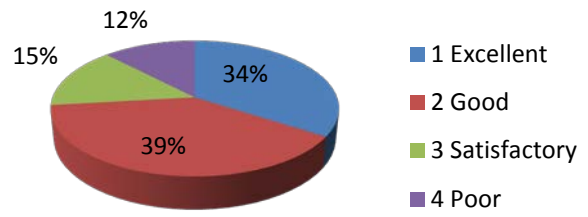
8 Agreeing the scope and objectives of the audit



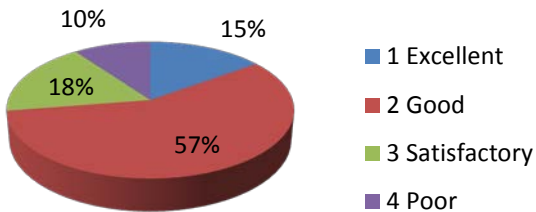
9 The auditors' ability to minimise disruption to the service being audited



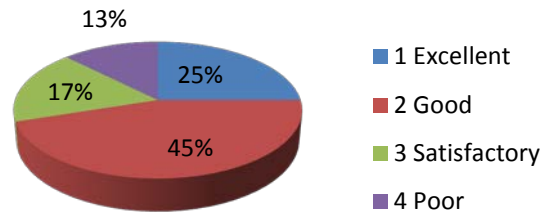
10 The communication of issues found by the auditors during their work



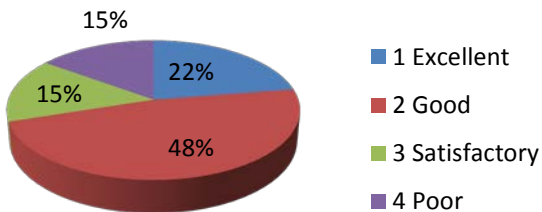
11 The quality of feedback at the end of the audit



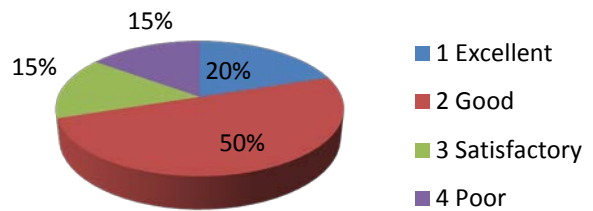
12 The accuracy, format, length and style of audit reports



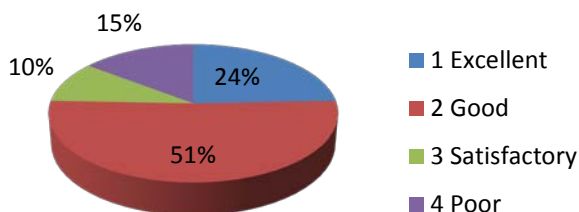
13 The relevance of audit opinions and conclusions



14 The extent to which agreed actions are constructive and practical



Overall rating for the Internal Audit services provided by Veritau



The overall ratings in 2015 were:

Excellent – 8 (27%)

Good – 19 (63%)

Satisfactory – 3 (10%)

Poor – 0 (0%)

The feedback shows that the majority of clients continue to value the service being delivered. A small number of respondents ranked the service as poor but did not provide any further comments or suggestions for improvement.

3.0 Self Assessment Checklist – 2016

The checklist prepared by CIPFA to enable conformance with the PSIAS and the Local Government Application Note to be assessed was originally completed in March 2014. Documentary evidence was provided where current working practices were considered to fully or partially conform to the standards.

In most areas the current working practices were considered to be at standard. However, a few areas of non-conformance were identified. None of the issues identified were however considered to be significant. In addition, in some cases, the existing arrangements were considered appropriate for the circumstances and hence required no further action.

The checklist has been reviewed and updated in 2016. The following areas of non-conformance remain unchanged:

<u>Conformance with Standard</u>	<u>Current Position</u>
Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the Head of Internal Audit?	The Head of Internal Audit's performance appraisal is the responsibility of the board of directors. The results of the annual customer satisfaction survey exercise are however used to inform the appraisal.
Is feedback sought from the chair of the audit committee for the Head of Internal Audit's performance appraisal?	See above
Where there have been significant additional consulting services agreed during the year that were not already included in the audit plan, was approval sought from the audit committee before the engagement was accepted?	Consultancy services are usually commissioned by the relevant client officer (generally the s151 officer). The scope (and charging arrangements) for any specific engagement will be agreed by the Head of Internal Audit and the relevant client officer. Engagements will not be accepted if there is any actual or perceived conflict of interest, or which might otherwise be detrimental to the

<u>Conformance with Standard</u>	<u>Current Position</u>
	reputation of Veritau.
Does the risk-based plan set out the - (b) respective priorities of those pieces of audit work?	Audit plans detail the work to be carried out and the estimated time requirement. The relative priority of each assignment will be considered before any subsequent changes are made to plans. Any significant changes to the plan will need to be discussed and agreed with the respective client officers (and reported to the audit committee).
Are consulting engagements that have been accepted included in the risk-based plan?	Consulting engagements are commissioned and agreed separately.
Does the risk-based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources?	Whilst reliance may be placed on other sources of assurances there is no formal process to identify and assess such sources. However, assurance mapping will be used where appropriate and audit plans will highlight where other sources of assurance are being relied upon.

4.0 External Assessment

As noted above, the PSIAS require the Head of Internal Audit to arrange for an external assessment to be conducted at least once every five years to ensure the continued application of professional standards. The assessment is intended to provide an independent and objective opinion on the quality of internal audit practices.

Whilst the new Standards were only adopted in April 2013, the decision was taken to request an assessment at the earliest opportunity in order to provide assurance to our clients. The assessment was conducted by Gerry Cox and Ian Baker from the South West Audit Partnership (SWAP) in April 2014. Both Gerry and Ian are experienced internal audit professionals. The Partnership is a similar local authority controlled company providing internal audit services to over 12 local authorities (including county, unitary and district councils across Somerset, Wiltshire and Dorset).

The assessment consisted of a review of documentary evidence, including the self-assessment, and face to face interviews with a number of senior client officers and Veritau auditors. The assessors also interviewed an audit committee chair.

The conclusion from the external assessment was that working practices conform to the required professional standards. Copies of the detailed assessment report were

provided to client organisations and, where appropriate, reported to the relevant audit committee.

5.0 Improvement Action Plan

Last year's quality assurance process identified the following required changes and improvements:

Change / improvement	Progress to date
The standard specification template will be updated to ensure that the expectations on Veritau and the relevant client organisation in terms of access to records and the distribution of reports (including the extent of any duty of care provided to third parties) are fully understood. Where appropriate, information sharing agreements will also be established with client organisations.	Completed. A new specification template has been adopted. Veritau has also signed the multi agency information sharing protocol. As well as its member councils, other signatories include North Yorkshire Police, North Yorkshire Fire and Rescue Authority plus various NHS organisations and housing associations.
Checklists will be provided to assist auditors ensure all stages of the audit process are fully completed on Galileo.	Completed.
Templates for 'non-standard' reports (for example – consultancy, fraud and special assignments) will be developed.	Completed.

The internal peer review has highlighted the need for further training to be provided on sampling and testing. This will be completed by 30 September 2016. No other changes or improvements to working practices have been identified as a result of this year's quality assurance process. To further enhance the overall effectiveness of the service, the Veritau business plan also includes a number of areas for further development, including:

- Preparation of a data analytics strategy
- Further development of in-house technical IT audit expertise
- Increased use of data matching to identify savings / data quality issues
- Development of a fraud awareness e-learning course.

6.0 Overall Conformance with PSIAS (Opinion of the Head of Internal Audit)

Based on the results of the quality assurance process I consider that the service generally conforms to the Public Sector Internal Audit Standards, including the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*.

The guidance suggests a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards. 'Partially conforms' means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the internal audit service from performing its responsibilities in an acceptable manner. 'Does not conform' means the deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit service from performing adequately in all or in significant areas of its responsibilities

Public Session

Report Reference Number: A/16/2

Agenda Item No: 8

To: Audit and Governance Committee
Date: 13 April 2016
Author: Daniel Maguire, Democratic Services Officer
Lead Officer: Palbinder Mann, Democratic Services Manager

Title: External Audit Progress Report

Summary:

The report from the external auditor, Mazars, is provided for comment and noting.

Recommendations:

To note the External Audit Progress Report.

Reasons for recommendation

The Audit and Governance Committee is required to receive and comment on reports from the external auditor.

1. Introduction and background

1.1 The report has been submitted by the external Auditor, Mazars and updates the Committee on progress in delivering external audit.

2 The Report

2.1 The report is attached at appendix A and sets out a summary of external audit progress to date.

2.2 The report also sets out key emerging national issues and developments that may be of interest to the Committee in respect of external audit.

2.3 The Committee will have the opportunity to ask questions of officers and the external auditors at the meeting.

3 Legal/Financial Controls and other Policy matters

3.1 None.

4. Conclusion

4.1 The Committee is asked to consider and note the report.

5. Background Documents

None.

Contact Officer:

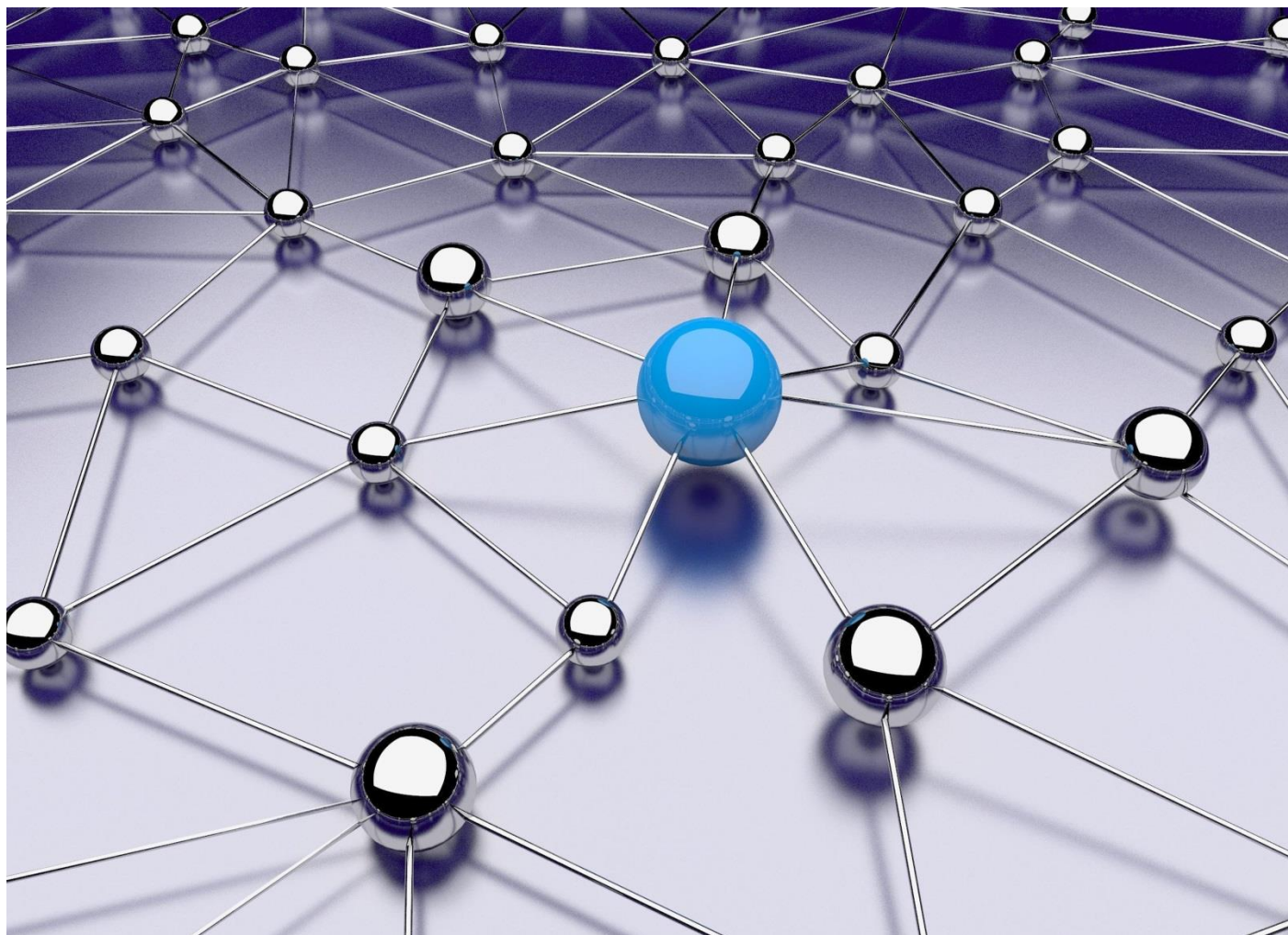
Daniel Maguire, Democratic Services Officer
Ext: 42247
dmaguire@selby.gov.uk

Appendices:

A – Audit Strategy Memorandum 2015/16

Selby District Council Audit Progress Report

June 2016



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01 Introduction

The purpose of this report is to update the Audit and Governance Committee of Selby District Council (the Council) on progress in delivering our responsibilities as your external auditors.

We have also highlighted key emerging national issues and developments which may be of interest to Committee Members.

If you require any additional information, please contact us using the details at the end of this update.

Finally, please note our website address (www.mazars.co.uk) which sets out the range of work Mazars carries out, both within the UK and abroad. It also details the existing work Mazars does in the public sector.

02 Summary of audit progress

2015/2016 update

At this stage we have completed our planning work and carried out some interim testing. We have updated our IT risk assessment.

Based on our work to date, including walkthroughs of the key financial systems, we have no matters arising to report to you and there are no changes to our original assessment of significant risks (opinion and Value for Money) as set out in our Audit Strategy Memorandum presented to the Audit and Governance Committee on 13 April 2016.

We have liaised closely with the accountancy team during the production of the Council's draft financial statements for 2015/16. This has included regular discussions and an ongoing exchange of information. In our view, this helps for a smoother audit process. This year, your officers have worked to bring forward the accounts production timetable to the end of May in preparation for the earlier requirement to prepare the accounts by 31 May from 2017/18. We have also responded early to this change by bringing forward our audit, with the bulk of the accounts work to be undertaken in June 2016.

After completing this year's audit, we will jointly assess with officers the earlier preparation and audit and take any learning into the 2016/17 audit.

On value for money (VFM) work, we have shared the results of an analysis of the latest VFM profiles with officers. There were no issues from this analysis that needed to be brought to the attention of Members. Other VFM work will be completed over the summer period. At this stage, there are no indications of any areas of significant weakness.

North Yorkshire Governance Forum

The second meeting of our North Yorkshire Governance Forum takes place on Friday 8 July 2016 near York. The Chair attends this meeting. If any other Members wish to attend, please get in touch with Gavin Barker at gavin.barker@mazars.co.uk.

03 National publications and other updates

National publications and other updates	
1.	English devolution deals , <i>National Audit Office, April 2016</i>
2.	Fighting fraud and corruption locally: the local government counter fraud and corruption strategy 2016 to 2019 , <i>Department for Communities and Local Government, April 2016</i>
3.	Oversight of audit quality , <i>Public Sector Audit Appointments, quarterly compliance reports 2015/16</i>

1. English devolution deals, National Audit Office, April 2016

Devolution deals to devolve power from central government to local areas in England offer opportunities to stimulate economic growth and reform public services for local users, but the arrangements are untested and government could do more to provide confidence that these deals will achieve the benefits intended, according to the National Audit Office.

Over the last 18 months, 10 devolution deals have been agreed, outlining the transfer of powers, funding and accountability for policies and functions previously undertaken by central government, in Greater Manchester, Cornwall, Sheffield City Region; the North East; Tees Valley; Liverpool City Region; the West Midlands, East Anglia; Greater Lincolnshire; and the West of England. They are the latest in a range of initiatives and programmes designed to support localism and decentralisation.

HM Treasury and the Cities and Local Growth Unit are responsible for managing the negotiation, agreement and implementation of devolution deals on behalf of central government as a whole. All of the deals include an agreement on devolved responsibility for substantial aspects of transport, business support and further education. Other policy areas included in some of the deals are housing and planning, employment support and health and social care.

The government has announced new additional investment funding of £246.5 million a year alongside the devolution deals announced so far. Over time, the government intends to combine this funding with a number of other funding streams into a 'single pot' to enable more local control over investment decisions, and has announced £2.86 billion of initial allocations over 5 years for the first 6 mayoral devolution deals.

Central government's management approach to brokering devolution deals is designed to support its policy of localism. The government considers that devolution proposals should be led by local areas, and that central government's role should be to respond to these proposals. As a result, the government has decided not to set out a clear statement of what it is trying to achieve through devolution deals.

According to the NAO, however, there are significant accountability implications arising from the deals which central government and local areas will need to develop and clarify. These include the details of how and when powers will be transferred to mayors and how they will be balanced against national parliamentary accountability. The deals agreed so far involve increasingly complex administrative and governance configurations. And as devolution deals are new and experimental, good management and accountability both depend on appropriate and proportionate measures to understand their impact. To improve the chances of success, and provide local areas and the public with greater clarity over the progression of devolution deals, central government should clarify the core purposes of devolution deals as well as who will be responsible and accountable for devolved services and functions, and should ensure it identifies and takes account of risks to devolution deals that arise from ongoing challenges to the financial sustainability of local public services.

<https://www.nao.org.uk/report/english-devolution-deals/>

2. Fighting fraud and corruption locally: the local government counter fraud and corruption strategy 2016 to 2019, Department for Communities and Local Government, April 2016

Fighting Fraud and Corruption Locally is the new counter fraud and corruption strategy for local government. It provides a blueprint for a tougher response to fraud and corruption perpetrated against local authorities. By using this strategy local authorities will develop and maintain a culture in which fraud and corruption are understood to be unacceptable, understand their fraud risk and prevent fraud more effectively, use technology to improve their response, share information and resources more effectively to prevent and detect fraud loss, bring fraudsters to account more quickly and efficiently, and improve the recovery of losses. This strategy is aimed at council leaders, chief executives, finance directors, and all those charged with governance in local authorities.

The strategy:

- calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment, and illustrates the financial benefits that can accrue from fighting fraud more effectively;
- calls upon central government to promote counter fraud activity in local authorities by ensuring that the right financial incentives are in place and helping them break down barriers to improvement, and updates and builds upon Fighting Fraud Locally 2011 in the light of developments such as The Serious and Organised Crime Strategy and the first UK Anti-Corruption Plan; and
- sets out a new strategic approach that is designed to feed into other areas of counter fraud and corruption work and support and strengthen the ability of the wider public sector to protect itself from the harm that fraud can cause.

<https://www.gov.uk/government/publications/fighting-fraud-and-corruption-locally-2016-to-2019>

3. Oversight of audit quality: quarterly compliance reports 2015/16, Public Sector Audit Appointments Ltd

There are no issues arising highlighted in respect of Mazars LLP in the latest quarterly report (quarter 4 of 2015/2016).

<http://www.psa.co.uk/audit-quality/principal-audits/mazars-audit-quality/>

04 Contact details

Please let us know if you would like further information on any items in this report.

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Public Session

Report Reference Number: A/16/3

Agenda Item No: 9

To: Audit Committee
Date: 15 June 2016
Author: Phil Jeffrey; Audit Manager - Veritau
Lead Officer: Karen Iveson; Chief Finance Officer

Title: Risk Management Annual Report 2015/16

Summary:

The report provides a summary of risk management activity in 2015/16 and proposed actions to be taken in 2016/17.

Recommendation:

Councillors note the risk management activity undertaken in 2015/16 and comment on the proposed actions for 2016/17.

Reasons for Recommendation

To support the Audit Committee's responsibility for considering the effectiveness of the Council's risk management arrangements.

1. Introduction and Background

1.1 It is the responsibility of all service managers to identify and manage risks associated with the delivery of their services. Veritau provides support to this process, by facilitating risk management activity and providing advice and training to managers and the Committee. This report summarises work undertaken by the Council to review risk registers during the year, and summarises work done to support this by Veritau.

2. The Report

2.1 Over the past year, the following action has been taken to develop risk management activity and review current risks.

- The Corporate Risk Register (CRR) and Access Selby Strategic Risk Register (ASSRR) have been reviewed by officers with assistance from Veritau.
- A review of the Council's CRR and ASSRR was carried out by the Audit Committee in June 2015 and January 2016.
- Presentation of the Risk Management Annual Report 2014/15 to the Committee (June 2015).
- A review of the Risk Management Strategy was completed and presented to the Committee in January 2016.
- Risk Management Awareness training was provided to Councillors in January 2016
- Officers have updated all Service Risk Registers to ensure they accurately reflect new and emerging risks.
- From June 2015, Veritau has introduced regular drop in risk clinics to help managers review risks in their service areas and identify mitigating actions where necessary.
- The publication of formal risk management guidance in order to support managers.
- Veritau has worked with officers to develop risk management information recorded on the Covalent system, which will help to ensure risk management is integrated into the culture and working practices within the council.

2.2 Further specific activity planned for 2016/17 includes the following.

- A review of the corporate risk register in light of the recent organisational restructure, ensuring risks are transferred to the appropriate risk owner (where applicable).
- Removal of duplication from the CRR and ASSRR and merger of the two into one corporate risk register.
- A review of all actions held within Covalent, to ensure they are linked to the relevant risks (Corporate, Service or Project).
- To continue to manage all updates to risks and their actions through Covalent.

2.3 A key focus of risk management activity in the coming year will be a review of the risk management arrangements and risk registers in light of changes to organisational arrangements. The loss of significant experience and the level of change which is currently ongoing represent a significant challenge.

3. Legal/Financial Controls and other Policy matters

3.1 Legal Issues

3.1.1 There are no legal implications as a direct result of this report.

3.2 Financial Issues

3.2.1 There are no financial implications as a direct result of this report.

4. Conclusion

4.1 Overall, a number of actions have been taken in order to further embed sound risk management processes within the Council. Work will continue in 2016/17 to ensure proactive risk management around the Council continues to develop.

5. Background Documents

Risk Management Strategy.

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Appendices:

No appendices.



Public Session

Report Reference Number: A/16/4

Agenda Item No: 10

To: Audit Committee
Date: 15 June 2016
Author: Karen Iveson, Chief Finance Officer
Lead Officer: Karen Iveson, Chief Finance Officer

Title: Changes to arrangements for appointment of External Auditors

Summary:

This report summarises the changes to the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.

The Council will need to consider the options available and put in place new arrangements in time to make a first appointment by 31 December 2017.

The options range from the local appointment of an audit panel, to a joint appointment and finally, an appointment via a Sector Led Body (SLB) established by the Local Government Association for this purpose.

Given the challenges of local appointment and the associated costs, the preferred option is the sector-led appointment, and whilst it means no local control over the appointment of auditor it does benefit from economies of scale.

Recommendations:

- i. Subject to confirmation of the proposals by the Local Government Association, it is recommended that the Audit and Governance Committee recommend to full-Council that Selby District Council opt-in to 'a sector-led body' for the appointment of external auditors when the current transitional arrangements expire.**

Reasons for recommendation

To ensure best value in the appointment of the external auditor.

1. Introduction and background

- 1.1. The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015 the Secretary of State Communities and Local Government (CLG) determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.
- 1.2. The Council's current external auditor is Mazars LLP, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the LGA with delegated authority from the Secretary of State CLG. Over recent years we have benefited from reduction in fees in the order of 50% compared with historic levels. This has been the result of a combination of factors including new contracts negotiated nationally with the firms of accountants and savings from closure of the Audit Commission. The Council's current external audit fees are £58,000 per annum.
- 1.3. When the current transitional arrangements come to an end on 31 March 2018 the Council will be able to move to local appointment of the auditor. There are a number of routes by which this can be achieved, each with varying risks and opportunities. Current fees are based on discounted rates offered by the firms in return for substantial market share. When the contracts were last negotiated nationally by the Audit Commission they covered NHS and local government bodies and offered maximum economies of scale.
- 1.4. The scope of the audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Not all accounting firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council. The registration process has not yet commenced and so the number of firms is not known but it is reasonable to expect that the list of eligible firms may include the top 10 or 12 firms in the country, including our current auditor. It is unlikely that small local independent firms will meet the eligibility criteria.

2 The Report

2.1 Options for local appointment of External Auditors

- 2.1.1 There are three broad options open to the Council under the Local Audit and Accountability Act 2014 (the Act):

Option 1 To make a stand-alone appointment

2.1.2 In order to make a stand-alone appointment the Council will need to set up an Auditor Panel. The members of the panel must be wholly or a majority independent members as defined by the Act. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Council's external audit. A new independent auditor panel established by the Council will be responsible for selecting the auditor. *(assuming there is no existing independent committee such as the Audit Committee that might already be suitably constituted).*

Advantages/benefit

2.1.3 Setting up an auditor panel allows the Council to take maximum advantage of the new local appointment regime and have local input to the decision.

Disadvantages/risks

2.1.4 Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £15,000 plus on going expenses and allowances.

2.1.5 The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.

2.1.6 The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.

Option 2 Set up a Joint Auditor Panel/local joint procurement arrangements

2.1.7 The Act enables the Council to join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees (members). Further legal advice will be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council need to liaise with other local authorities to assess the appetite for such an arrangement.

Advantages/benefits

2.1.8 The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities.

2.1.9 There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

Disadvantages/risks

2.1.10 The decision making body will be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used or possible only one elected member representing each Council, depending on the constitution agreed with the other bodies involved.

2.1.11 The choice of auditor could be complicated where individual Councils have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for the Council. Where this occurs some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint auditor panel choose a firm that is conflicted for this Council then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

Option 3 Opt-in to a sector led body

2.1.12 In response to the consultation on the new arrangement the LGA successfully lobbied for Councils to be able to 'opt-in' to a Sector Led Body (SLB) appointed by the Secretary of State under the Act. An SLB would have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.

Advantages/benefits

2.1.13 The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities

2.1.14 By offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation

2.1.15 Any conflicts at individual authorities would be managed by the SLB who would have a number of contracted firms to call upon.

2.1.16 The appointment process would not be ceded to locally appointed independent members. Instead a separate body set up to act in the collective interests of the 'opt-in' authorities. The LGA are considering setting up such a body utilising the knowledge and experience acquired through the setting up of the transitional arrangements.

Disadvantages/risks

2.1.17 Individual elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.

2.1.18 In order for the SLB to be viable and to be placed in the strongest possible negotiating position the SLB will need Councils to indicate their intention to opt-in before final contract prices are known.

The way forward

2.1.19 The Council have until December 2017 to make an appointment. In practical terms this means one of the options outlined in this report will need to be in place by spring 2017 in order that the contract negotiation process can be carried out during 2017.

2.1.20 The LGA are working on developing a Sector Led Body. In a recent survey, 58% of respondents expressed an interest in this option. Greatest economies of scale will come from the maximum number of councils acting collectively and opting-in to a SLB. In order to the strengthen the LGA's negotiating position and enable it to more accurately evaluate the offering the Council is asked to consider whether it is interested in the option of opting in to a SLB. A formal decision to opt-in will be required at a later stage.

3. Risk Management

3.1 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.

3.2 Providing the LGA with a realistic assessment of our likely way forward will enable the LGA to invest in developing appropriate arrangements to support the Council.

4 Legal/Financial Controls and other Policy matters

Legal Issues

4.1 Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant authority is a local authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements;

4.2 Section 12 makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.

4.3 Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.

5. Financial Issues

- 5.1 Current external fees levels are likely to increase when the current contracts end in 2018.
- 5.2 Should the Council wish to consider appointing a panel, the cost of establishing a local or joint Auditor Panel outlined in options 1 and 2 above will need to be estimated and included in the Council's budget for 2017/18. This will include the cost of recruiting independent appointees (members), servicing the Panel, running a bidding and tender evaluation process, letting a contract and paying members fees and allowances.
- 5.3 At this stage future audit fees cannot be confirmed but opting-in to a national SLB provides maximum opportunity to limit the extent of any increases by entering in to a large scale collective procurement arrangement and would remove the costs of establishing an auditor panel.

6. Conclusion

- 6.1 The Council will need to take action to implement new arrangements for the appointment of external auditors from April 2018. In order that more detailed proposals can be developed the Committee is asked to give early consideration to the preferred approach.
- 6.2 Given the advantages and disadvantages of each option the preferred approach is to opt-in to the appointment via a sector led body. Subject to the views of the Audit and Governance Committee and confirmation of the proposals by the LGA, a report will be submitted to full Council in September 2016 to seek formal approval to this approach to enable the LGA to begin the formal process of tendering the audit contracts.
- 6.3 The LGA is strongly supportive of the SLB approach as it believes this offers best value to Councils by reducing set-up costs and having the potential to negotiate lowest fees.

7. Background Documents

See LGA website.

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Appendices:

None