

AUDIT COMMITTEE

28 June 2016

Attendance:

Councillors:

Cutler (P)

Ashton (P)
Burns
Huxstep (P)

Prince (P)
Stallard (P)
Weir (P)

Others in attendance:

Councillor Godfrey – Leader and Portfolio Holder for Finance and Corporate Policy.

1. **DISCLOSURES OF INTERESTS**

Councillors Huxstep and Stallard both declared a disclosable pecuniary interest in respect of items under consideration which may have a Hampshire County Council involvement due to their roles as County Councillors. However, as there was no material conflict of interest regarding these items, they had a dispensation granted on behalf of the Standards Committee to participate and vote in all matters which might have a County Council involvement.

2. **APPOINTMENT OF VICE-CHAIRMAN FOR THE 2016/17 MUNICIPAL YEAR**

RESOLVED:

That Councillor Weir be appointed Vice-Chairman for the 2016/17 Municipal Year.

3. **FUTURE MEETING DATES AND TIMES**

RESOLVED:

That the timetable of meetings for 2016/17 be agreed as set out on the agenda and that the 23 February 2017 meeting be rescheduled to the alternative date of Tuesday 7 March 2017.

4. **MINUTES**

RESOLVED:

That the minutes of the previous meeting held on 10 March 2016 be approved and adopted.

5. **RISK MANAGEMENT POLICY 2016**
(Report AUD156 Refers)

The Head of Policy and Projects introduced the Report. In addition to the risks within the Council's Risk Register, as set the out in the report, reference was also made to the recent outcome of the referendum to leave the European Union. In respect of this, the Senior Management Team would keep a watching brief on developments, with daily updates on possible impact, and it was anticipated that once the initial volatility in the financial markets had receded, the potential impact could be more fully understood.

In reply to Members' questions, the Head of Policy and Projects explained that the Policy was set at a high level and that details on the financial impact of projects were held in the individual project risk registers. It was also explained that Cabinet also had a Programme Risk Register where the combined knock-on effect and impact over several projects was considered.

Further to debate, Members suggested items for further consideration to help towards the future improvement of the Risk Management Policy. These included the introduction of a 5x5 risk matrix to give greater granularity; analysis of estimated risks and how they turned out to help judge the quality of the initial risk forecasting, and providing more precise definitions of risks so it was clear what was under consideration. The officers stated that these suggestions would be considered for inclusion within future policy reports.

RESOLVED:

1. That Cabinet be informed that the Committee supports the Risk Management Policy 2016.

2. That the risks included in the draft Corporate Risk Register in Appendix 2 of the Report be monitored and that no risks be notified to Cabinet for further exploration or to receive detailed reports at future meetings.

TO CABINET:

That Cabinet be recommended to approve the Risk Management Policy 2016, its Risk Appetite Statement for 2016/17, and the Corporate Risk Register.

TO THE OVERVIEW AND SCRUTINY COMMITTEE:

That the Committee notes the Policy and the specific reference to its role in Risk Management.

6. **CORPORATE GOVERNANCE REPORT AND ANNUAL GOVERNANCE STATEMENT 2015/16**
(Report AUD157 Refers)

The Head of Legal and Democratic Services introduced the Report.

In answer to Members' questions, it was explained that the Committee's role in governance was informed by principles largely obtained from external guidance, but the Committee could add to these if it wished to do so. For example, there could be outcomes from the Audit Sub-Committee's conclusions that could be added to the Local Code of Corporate Governance.

Members of the Committee enquired how possible changes that arose from the Audit Sub-Committee or the Silver Hill Independent Review Informal Policy Group could be captured in relation to the Annual Governance Statement. In response, the Head of Legal and Democratic Services clarified that some of these potential issues were addressed within the section of the report referring to current issues and the action to be taken and also the progress and comments as set out within the Report, such as in the case of Procurement and Contract Management on page 18 of the Report. Wording could be added to the Annual Governance Statement under Procurement and Contract Management to take into account future issues arising, for example referring to governance and particularly issues arising from the Silver Hill Independent Review Informal Policy Group, so that the Statement could be approved with that caveat. Furthermore, Members were reminded that the Annual Governance Statement was a snapshot of governance at a given point in time and the additional wording would recognise that there were ongoing issues that would need to be addressed during the year.

The Committee approved the approach to add additional wording to the Statement under Procurement and Contract Management to approve the principle as set out above, knowing that modifications might be made later. Delegated authority was granted to the Head of Legal and Democratic Services to make these changes in consultation with the Chairman.

In terms of the detail of the Report, it was commented that the Good Governance Principles could be considered by the Audit Sub-Committee and it would be helpful if they were numbered, rather than bullet points, and be cross-referenced against the Constitution or other documentation.

Members also questioned the status of some actions within the Self Assessment, such as re-communicating the Employee Code of Conduct to existing employees, and it was agreed that in future reports, where such comments were made in italics, the lead officer should be identified, which in this case was the Head of Organisational Development. It was also agreed that under the Corporate Governance Self Assessment, the Compliance

Commentary (italicised areas for improvement) could be included as part of the six monthly Annual Governance Statement Monitoring Update report to track progress and that answers to these questions should be reported to the Committee's next meeting.

In conclusion, the Committee agreed to the changes to the Statement as outlined above.

RESOLVED:

1. That subject to the inclusion of additional wording to recognise that there were ongoing governance issues that would need to be addressed during the year, and that the Head of Legal and Democratic Services be granted delegated authority to make these changes in consultation with the Chairman, the Annual Governance Statement for 2015/16 as set out in Appendix A be approved.

2. That the issues arising and proposed actions identified in Section 5 of Appendix A to the report be noted, and that a monitoring report be brought back to the Audit Committee in six months' time.

3. That the Local Code of Corporate Governance in Appendix B be approved, and;

4. That the Corporate Governance Self Assessment in Appendix C be noted.

7. **ANNUAL FINANCIAL REPORT 2015/16**
(Report AUD159 refers)

The Head of Finance introduced the report and highlighted the process for auditing, approving and publishing the Annual Financial Report.

The Head of Finance made reference to the previous report (AUD143) which detailed the implications of the adoption of the IFRS13 accounting standard for the measurement of some assets and liabilities. As anticipated, the adoption of IFRS13 did not have a significant impact on the value of assets. However, a substantial amount of work had been done to value to the Council's entire portfolio of assets for 2015/16.

RESOLVED:

That the requirement for the Annual Financial Report and the key issues arising in the Accounts for 2015/16 be noted.

8. **INTERNAL AUDIT PROGRESS REPORT 2015 - 2016**
(Report AUD162 refers)

Mr Harvey from the Southern Internal Audit Partnership presented this item.

Mr Harvey reported that the number of overdue management actions had now been reduced and that following feedback from Members at previous committees, a narrative on the overdue, high priority actions had been provided by officers and included within the report. Reference was also made to Business Continuity Planning as a new issue arising. Mention was also made to the potential impact of the actions arising from the audit on Fieldfare Leader Funding 2015/2021 following the outcome of the referendum to leave the European Union, as this was an EU initiative.

In response to a Member's question, officers agreed to check whether the review of the E-learning and Development Portal had been re-launched in November 2015, or was an action for 2016 [Note: subsequent to the meeting, the Corporate Business Manager advised Members that the Portal had been relaunched in November 2015.]

The Chairman commented that the Committee had the ability to invite to its meetings responsible officers with longstanding outstanding management actions that still required completion to provide an explanation to Members.

RESOLVED:

That the Internal Audit Progress Report 2015 – 16, attached as Appendix 1 to the Report, be noted.

9. **ANNUAL INTERNAL AUDIT REPORT AND OPINION FOR 2015/16**
(Report AUD161 refers)

Mr Harvey from the Southern Internal Audit Partnership presented this item.

The Chairman commented on page 10 of the report (Anti Fraud and Corruption) and the 204 occurrences of fraud/areas identified for single person discount, which had had a fraud/error value of zero. It was asked that if in cases such as this whether the cost of an investigation was worthwhile. Following debate, it was agreed that in this case, and in others where Members had concerns over the detail, the relevant officer should email committee members with answers to these questions, with Members having the option to refer the matter back to Committee if required.

Some Members stated that there were comments within the Report that raised concerns to themselves and it would be of benefit to have the Chief Executive and/or the relevant Portfolio Holder present to answer questions from the Committee. The Chairman added that the next Internal Audit Progress Report should include an update on the progress made to resolve outstanding high risks, and that officers and Portfolio Holders would be asked to come to the Committee to provide an explanation if members of the Committee provided sufficient notice of their wish for attendance.

A Member commented that in future years it would be of benefit to have the agenda order revised, with the Annual Internal Audit Report and Opinion to precede the Internal Audit Progress Report, with the Annual Report's

introduction to highlight significant issues and to make the connection and cross referencing between the two papers.

RESOLVED:

That the Chief Internal Auditor's Annual Report and Opinion for 2015-2016 be approved and that in future years, the Internal Audit Annual Report precedes the Progress Report on the agenda.

10. **ANNUAL AUDIT FEE 2016/17**
(Report AUD158 refers)

Mrs K Handy from Ernst and Young was in attendance and presented this item.

RESOLVED:

That the indicative Annual Audit Fee for 2016/17 be approved.

11. **LOCAL APPOINTMENT OF EXTERNAL AUDITORS - UPDATE**
(Report AUD163 refers)

The Committee gave consideration to the options outlined in the Report.

The Head of Finance stated that Hampshire Chief Finance Officers' Group was giving consideration to option (c), to explore the establishment of local joint procurement arrangements with neighbouring authorities. It was noted that some other Hampshire local authorities were also looking at this option in conjunction with the option (a), supporting the Local Government Association (LGA) in setting up a national Sector Led Body.

Following debate, it was agreed that the Head of Finance report the views of other Hampshire's local authorities and the Hampshire Chief Finance Officers' Group to the Committee's next meeting in order to aid decision-making on the options available.

RESOLVED:

That the Head of Finance report the view of other Hampshire local authorities and the Hampshire Chief Finance Officers' Group to the Committee's next meeting.

12. **AUDIT COMMITTEE WORK PROGRAMME 2016/17**
(Report AUD160 refers)

The Committee agreed that the report on Gifts and Hospitality to be presented to the September meeting of the Committee.

RESOLVED:

That subject to the inclusion of the report on Gifts and Hospitality to be presented to the September meeting of the Committee, the Audit Committee Work Programme for 2016/17 be approved.

13. **TREASURY MANAGEMENT OUTTURN 2015/16**

(Report AUD155 refers)

Mr Andrew Bouflower, Deputy Investments and Borrowing Manager from Hampshire County Council, was in attendance and presented this item. He confirmed that the County Council delivered the service in accordance with the strategy and prudential indicators set by the City Council.

Mr Bouflower answered questions from a Member on the structure of the investments made on behalf of the Council, which included cash (low risk) and a direct investment in a property fund (higher risk) and whether there were any opportunities in-between that should be given more prominence.

RESOLVED:

That the Annual Treasury Outturn Report 2015/16 and the actual Prudential Indicators provided at pages 10 to 12 be approved.

14. **INDEPENDENT REVIEW REPORT ON SILVER HILL – UPDATE ON PROGRESS**

(Oral Report)

The Head of Legal and Democratic Services provided an update to the Committee on progress of the Independent Review Report on Silver Hill.

It was noted that the Silver Hill Independent Review Informal Policy Group had met on 16 June 2016 and had looked at the progress being made on the eight recommendations of the review.

The Committee agreed to hold its next meeting of the Audit (Governance) Sub Committee on Tuesday 19 July 2016 to consider matters within its remit. In advance of this meeting, the Head of Legal and Democratic Services agreed to email to all Audit Committee members a note of the roles of the statutory officers, to help inform questions and debate. The outcomes of the Sub-Committee would need to be reported to Audit Committee, Cabinet and Council.

RESOLVED:

That the update be noted and that a meeting of the Audit (Governance) Sub Committee be held on Tuesday 19 July 2016.

The meeting commenced at 6.30pm and concluded at 9.00pm.

Chairman