



SPECIAL AUDIT COMMITTEE

**MINUTES OF THE SPECIAL MEETING HELD AT PENALLTA HOUSE, TREDOMEN,
YSTRAD MYNACH ON TUESDAY 25TH JULY 2017 AT 10.00 AM**

PRESENT:

Councillor M.E. Sargent – Chair
Mr N. Yates – Vice Chair

Councillors:

Mrs E.M. Aldworth, D.T. Davies, C. Elsbury, Ms. J. Gale, Mrs T. Parry, G. Simmonds and J. Simmonds.

Together with:

B. Morris (Grant Thornton) and G. Hawkins (Grant Thornton)

N. Scammell (Acting Director of Corporate Services and S151), S. Harris (Interim Head of Corporate Finance), R. Harris (Internal Audit Manager), A. Southcombe (Finance Manager - Corporate Finance) and C. Evans (Committee Services Officer).

1. APOLOGIES

Apologies for absence were received from J. Bevan, A. Gair, B. Miles and A. Whitcombe.

2. DECLARATIONS OF INTEREST

There were no declarations of interest made at the beginning or during the course of the meeting.

REPORTS OF OFFICERS

Consideration was given to the following reports.

3. LOCAL GOVERNMENT FINANCIAL STATEMENTS AND THE ROLE OF THE EXTERNAL AUDITOR – PRESENTATION BY GRANT THORNTON

B. Morris and G. Hawkins from Grant Thornton provided the Audit Committee with a presentation on Assurance and the role of External Audit.

Members were made aware that Grant Thornton were appointed by the Wales Audit Office (WAO) and have been undertaking external audits in Local Government since 2007. Since 2015, Grant Thornton have been undertaking Financial Statement Audits at Caerphilly CBC.

The role of the External Auditors is to provide an opinion on the Council's Financial Statements, undertake certification of grant claims and returns, provide a view on the Whole of Government Accounts submission, provide an opinion as to whether the accounts give a true and fair view of the financial position of the Council at the year end and of its expenditure and income for the year; and have been properly prepared in accordance with CIPFA's Code of Practice on Local Authority Accounting.

Other duties of the External Auditor include correspondence with the public and managing objections – there are rights to inspect local authority records, to ask questions of the auditor and to object to items in the accounts.

Members were asked to note that the External Auditors are required to be, and be seen to be independent from the Council. External Audit are not able to prepare accounting records and financial statements, advise on or model PFI Contracts or Tax Services. Any "non-audit" services provided must comply with ethical standards and be agreed by the Wales Audit Office.

The Committee noted that External Audit would bring a number of reports to the Audit Committee for consideration and approval; these include the Audit Plan, the Audit Findings Report (ISA260), Audit Opinion on Accounts, Annual Audit Letter (summarising results of audit work against the plan) and the Certification report.

Grant Thornton provided details of how the Financial Statements Audit is conducted and it was noted that "Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements." Based on this, the External Auditor determines what is 'trivial', from a financial statements perspective. It was noted that for Caerphilly CBC, materiality is determined as £5.5m as the WAO has mandated that the maximum materiality is 1% of gross expenditure. In addition, it was noted that £100,000 is determined as 'trivial' from a Financial Statements perspective.

Members noted that, during an audit, the main focus is to assess where the risks are in any set of Financial Statements, items that are large or vulnerable to misstatement due to their complexity, items that involve a high degree of estimation or judgement, items where there is a potential for manipulation or fraud, items that are large or vulnerable to misstatement due to their complexity e.g. employee remuneration or PFI, items that involve a high degree of estimation or judgement e.g. PPE valuations, items where there is a potential for manipulation e.g. cut-off testing.

Finally, Members noted that Caerphilly CBC and Grant Thornton have been working towards a faster close of accounts this year and have brought forward the production and audit of the Financial Statements, as a result Council approval has been moved forward by 2 months and the Provided Audit Opinion should be received in early August, over a month earlier.

The Committee thanked Grant Thornton for the presentation and discussion ensued.

A Member queried the "trivial" amount of £100,000 and expressed concern that this amount was deemed to be trivial. It was noted that all errors identified during the auditing process are discussed with Officers but errors under £100,000 are not flagged with the Audit Committee. Larger discrepancies are brought to Committee for consideration in the ISA260 Report.

In noting the faster close dates, a Member sought further information on how well the process went. The Auditors and Officers explained that the process went very well, there were some teething problems, which have been resolved and Officers were keen to complete the process earlier. In addition, it was noted that Caerphilly CBC are one of the first Councils in Wales to complete early.

The Audit Committee thanked the External Auditors for the report and expressed their gratitude for the hard work of both the finance staff and External Auditors for the early completion of the financial accounts.

4. AUDIT ASSURANCE OVER MANAGEMENT PROCESSES AND ARRANGEMENTS

The report provided the Audit Committee with the Chair's responses to the External Auditor, Grant Thornton, on how the Committee gains assurance over management processes and arrangements.

It was noted that as part of their audit planning and to comply with International Accounting Standards the External Auditor needs to gain an understanding of how the Audit Committee gains assurance over management processes and arrangements.

A list of questions was sent to the Chair of the Audit Committee, the response to which was appended to the report.

Following consideration and discussion, the Audit Committee thanked the Officer for the report and noted its contents.

5. FINANCIAL STATEMENTS FOR 2016/17

The report provided Audit Committee with the External Auditor's Audit of Financial Statements Report (ISA260 Report) and sought a recommendation from the Audit Committee that Council approve the 2016/17 Financial Accounts at the Special Council meeting on 31st July 2017.

The 2016/17 Draft Financial Statements were prepared and submitted to the External Auditor, Grant Thornton, on the 19th June 2017 in accordance with the agreed timetable.

The Draft Financial Statements have been subject to External Audit review and this work is substantially complete with only final testing in a small number of areas currently outstanding. Members noted that, other than as outlined within the report, no further significant issues were identified during the Audit, as a result, it is anticipated that the final version of the accounts be approved at a Special Meeting of Council on 31st July 2017.

The ISA260 Report provided details of misstatements identified during the audit process which have subsequently been corrected by management. It was stressed by Officers that none of these agreed adjustments have an impact on cash or General Fund balances.

The ISA260 Report also included details of one uncorrected misstatement. Members noted that, whilst conducting work on the cash balances within the accounts, the Auditors identified an issue that arose when the Council transferred its banking activities from the Co-Operative Bank to Barclays Bank via the transfer of some cash and investment balances with the Royal Bank of Scotland in 2013-14. At the conclusion of the transfer, a net difference of £629,000 was identified that has been held as a reconciling item within the bank reconciliation. Members noted that, in the opinion of the Auditors, this does not represent a cash balance and further investigation should be conducted into this issue to correctly account for the transactions and remove this as an ongoing reconciling item. It has been agreed with the Auditors that the necessary accounting adjustments will be identified and actioned during the 2017/18 financial year.

Members were pleased to note that, other than this issue, the audit work to date has not identified any other misstatements within the Financial Statements, which remain uncorrected and there were no significant matters discussed and corresponded upon with management which need to be reported to Audit Committee.

Members thanked the Auditors and Officers for the detailed report and discussion ensued.

Queries were raised in terms of some discrepancies in terms of payment of exit packages and the number of amendments to the Financial Statements. Members were assured that the number of amendments identified was fairly typical and some of the minor discrepancies were simply where figures were entered into an incorrect field in the accounts.

Members discussed the £629,000 as identified in the cash accounts and sought further information from Officers as to when this will be resolved. Officers explained that this is being looked into and that a report will be prepared for the next Audit Committee providing details of the accounting entries that will be required to rectify this matter.

Following consideration and discussion it was moved and seconded that the recommendations in the report be approved. By a show of hands this was unanimously agreed:

RESOLVED that for the reasons outlined in the Officers report:

- (i) the External Auditor's Audit of Financial Statements Report be received;
- (ii) the management responses to the Auditors recommendations arising from the 2016/17 financial audit work be noted;
- (iii) it be recommended to Council that the 2016/17 Financial Accounts be approved subject to any changes that may be required as a result of ongoing audit work.

6. UPDATED ANTI-FRAUD, BRIBERY AND CORRUPTION POLICY AND UPDATED ANTI-MONEY LAUNDERING POLICY

The report sought the approval of the Audit Committee for the updated Anti-Fraud, Bribery and Corruption Policy and the Anti-Money Laundering Policy, prior to consideration by Cabinet.

The Authority has strived to maintain a high level of probity and integrity when carrying on its business and with corporate governance continuing to become a key business driver the need to maintain, review and update key priorities is as ever an important part of the governance toolkit.

Both the Anti-Fraud, Bribery and Corruption Policy and the Anti-Money Laundering Policy are key elements within a suite of policies that focus on the prevention of fraud and wrong doing and set out the standards by which the organisation operates.

The existing policies were last reviewed in 2011 and have now been updated to account for operational changes and to reflect best practice and ongoing compliance with current legislative requirements.

It is unlikely that the Anti-Money Laundering Policy will be particularly relevant to our day to day activities but as a complimentary policy sitting alongside the Anti-Fraud, Bribery and Corruption Policy it will increase awareness and provide guidance to both Members and Officers should a potential situation arise with large sums of cash.

Both policies act as statements of the Council's attitude towards fraud and corruption and contain the following key elements: -

- They will apply to Members and Officers;
- They will apply to third parties who have dealings with the Authority;
- They will underpin the culture of the Authority;
- The role and responsibilities of Members and Officers in contributing to a culture of honesty and openness are laid out; and
- Training and awareness are key contributing factors.

A Member queried whether any referrals were made to the Gwent Police Anti-Fraud Unit. Officers confirmed that nothing has been received to warrant a referral.

Following consideration and discussion it was moved and seconded that the recommendation in the report be approved. By a show of hands this was unanimously agreed:

RECOMMENDED that for the reasons outlined in the Officers report, the updated Anti-Fraud, Bribery and Corruption Policy and updated Anti-Money Laundering Policy be approved by Cabinet.

7. DATES AND TIMES FOR FUTURE MEETINGS

At the previous meeting of the Audit Committee, held on Wednesday 14th June, the Committee requested a change in the day and times of future meetings. Following discussion, it was agreed that future meetings will be held at 2pm on Tuesday afternoons.

The meeting closed at 10.40pm.

Approved as a correct record and subject to any amendments or corrections agreed and recorded in the minutes of the meeting held on 17th October 2017, they were signed by the Chair.

CHAIR