

# Causeway Coast and Glens Borough Council

Audit Committee Meeting Monday 29<sup>th</sup> June 2015

## Key Decisions

No	Item	Decision
2.	Declarations of Interest	<i>None</i>
3.	Draft Terms of Reference	<i>Approved</i>
4.	Risk Matrix	<i>Risk Management Strategy to be presented to the Audit Committee in October 2015</i>
5.	Audit Strategies – Northern Ireland Audit Office	<i>Noted</i>
6.	Annual Governance and Accounts Statement Report  6.1 Annual Governance Statements  6.2 Annual Accounts	<i>Approved and signed by the Chair and the Chief Executive</i>  <i>Approved and signed by the Chair and the Chief Executive for submission to the DoE</i>
7.	Annual Assurance Reports 2014-15	<i>Assurances Noted</i>
8.	Causeway Coast and Glens Borough Council – Draft Annual Internal Audit Plan	<i>Approve and Adopt</i>
9.	Policy Documents  - Draft Anti-Fraud and Corruption Policy - Draft Whistleblowing Policy	<i>Adopt</i> <i>Adopt</i>
10.	Internal Audit – Benefits of Co-sourcing Report	<i>Approved</i>
11.	Whistleblowing Incidents	<i>3 Incidents Reported. Investigated and no further action required</i>
12.	Northern Ireland Local Government Report 2015	<i>Noted.</i>
13.	Any Other Relevant Business	<i>None</i>
14.	Date of next meeting	<i>20 October 2015</i>

## **Audit Committee**

Minutes of the Meeting of Causeway Coast and Glens Borough Council Audit Committee, held in the Council Chamber, on Monday 29<sup>th</sup> June at 7.00 pm.

In the Chair: Councillor C McShane

Present: Aldermen J Finlay, T McKeown and A Robinson.  
Councillors W Blair, T Clarke, B Fitzpatrick, R Loftus and P McShane.

In attendance: D Jackson, Clerk and Chief Executive  
M Quinn, Director of Performance  
D Wright, Head of Finance  
S Bradley, Internal Auditor  
R Cox, Assistant Director Finance and Support Services  
E McCaul, Democratic Services Officer  
G McCourt, Legacy Council  
L Clyde, Legacy Council  
I Cleary, Legacy Council

### **1. Apologies**

Apologies were recorded from Councillors J Baird, O Beattie, R Holmes, S Hunter, S McGlinchey and I Stevenson.

Apologies were also recorded from Mr A Knox, Local Government Auditor, Mr J Pool and C Dowds, KMPG External Auditors.

### **2. Declarations of Interest**

There were no declarations of interest expressed.

### **3. Draft Terms of Reference**

The Director of Performance presented a draft Terms of Reference report previously circulated and as undernoted:

***Causeway Coast and Glens Borough Council decided to utilize the traditional committee system as its preferred form of governance and, as a result, it has created a number of Committees to progress the work of the new Council from 1<sup>st</sup> of April 2015. This report proposes Terms of Reference for one of these Committees; the Audit Committee.***

***The Audit Committee (“the Committee”) will be responsible for recommending to Council the key decisions and actions required to be taken specifically in relation to the work of the Audit function within Council.***

***This will include:***

- ***To consider the internal audit annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance indicated in relation to the Council’s corporate governance arrangements***
- ***To consider summaries of specific internal audit reports as requested***
- ***To consider reports dealing with the management and performance of the providers of internal audit services***
- ***To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale***
- ***To consider the external auditor’s annual letter, annual reports and the report to those charged with governance***
- ***To consider specific reports as agreed with the external auditor.***
- ***To comment on the scope and depth of external audit work and to ensure it gives value for money***
- ***To liaise with the Audit Commission over the appointment of the Council’s external auditor***
- ***To commission work from internal and external audit.***

***Regulatory Framework***

- ***To maintain an overview of the Council’s constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour***
- ***To review any issue referred to it by the Chief Executive or a director or any council body***
- ***To monitor the effective development and operation of risk management and corporate governance in the Council***
- ***To monitor council policies on ‘Raising Concerns at Work’ and the anti-fraud and anti-corruption strategy and the council’s complaints process***
- ***To oversee the production of the Council’s Annual Governance Statement and to recommend its adoption***
- ***To consider the Council’s arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice***
- ***To consider the Council’s compliance with its own and other published standards and controls.***

***Accounts:***

- ***To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council***
- ***To consider the external auditor’s report to those charged with governance on issues arising from the audit of accounts.***

***The Committee is comprised of the sixteen Elected Members and they were appointed to the Committee at the Annual General Meeting of Council on 26th March 2015.***

***Members may be required to represent the Committee and Council at pertinent consultation and capacity building events.***

***The Committee will be chaired in the first instance for 2015/16 by Councillor Cara McShane (SF).***

***In the absence of the Chairperson, the Committee will be chaired by the Deputy Chairperson, Councillor Sean McGlinchey (SF).***

***In the absence of the Deputy Chairperson, a chair for the meeting will be agreed by the Members present.***

***The first meeting of the Committee will be held on Monday 29<sup>th</sup> June 2015, when the Terms of Reference will be agreed.***

***The Audit Committee will normally meet quarterly, on the third Tuesday of each month at 7.00 pm except when this falls within a recess period agreed by Council.***

***All meetings of the Committee will be governed by the Council's Standing Orders and the Local Government Code of Conduct for Councillors.***

***The Committee has the facility, if it so wishes, to establish and appoint any number of Sub-Committees and Working Groups it deems necessary to consider in more detail the work of the Committee concerning specific issues related to the work of the Audit function of the Council.***

***The Minutes of the Committee will be noted and confirmed at each meeting of Causeway Coast and Glens Borough Council by the Chair of the Committee.***

**It is recommended** that the Audit Committee approve the Terms of Reference as set out in the report.

It was agreed on the proposal of Councillor McShane, seconded by Alderman Robinson **that the Terms of Reference would be approved by the Audit Committee.**

#### **4. Risk Matrix**

The Chief Executive presented a risk matrix in which 16 risks had been identified as being of low, medium or high likelihood of occurring and low, medium or high impact on Causeway Coast and Glens Borough Council. He said that following the merge of the four councils, all risks had been reviewed and the main risk identified was pressure on financial resources and impact on core services if grants were no longer available or if funding cuts were implemented.

The Chief Executive advised that a Risk Management Strategy would be presented to the Audit Committee for approval at the next meeting being held in October 2015.

\* Alderman McKeown joined the meeting at 7:20 pm.

Councillor Clarke referred to the risk of the Enterprise Zone project not being progressed on agreed timeframe. The Chief Executive responded that the timescale was a guide to make sure that the necessary arrangements were in place to progress the project. He added that to date the financial position of the investment company had been confirmed and the lease of the land from the University agreed.

## **5. Audit Strategies – Northern Ireland Audit Office (NIAO)**

The Director of Performance gave an overview of the NIAO strategies for the 4 legacy councils. The strategies set out the audit approach; significant risks; the audit timetable; scope of the audit; respective responsibilities and other matters. It was noted that the strategies had been presented to the Audit Committees of the legacy Councils earlier in the year.

## **6. Annual Governance and Accounts Statement Report**

The Head of Finance outlined that Councils and other public bodies were required to prepare and submit to the Department of the Environment (DoE) by 30 June each year their annual accounts for the previous financial period(s). He said that under DoE regulation and Guidance (7 bodies) North East Peace III Partnership; Causeway Coast and Glens Statutory Transition Committee; Causeway Coast and Glens District Council (Operating in Shadow Form); Ballymoney Borough Council; Coleraine Borough Council, Limavady Borough Council and Moyle District Council were required to submit to the DoE 2 signed copies of their financial statements for the period ended (16 June 2014 in the case of the Statutory Transition Committee) 31 March 2015.

The Head of Finance stated that as part of this process, each of these documents were to be approved by a Committee or Council meeting in advance of submission. These were not the final published accounts but rather draft accounts until after the Northern Ireland Audit Office (NIAO) completes their audit work on each set of accounts and gives their audit opinion at which point they become final and are ready to be published. It was noted that this must be completed by 31 October 2015, however, in future years the Council Committee approval would take place after the completion of the audit and not at this stage.

The Head of Finance pointed out that the format, layout and content of the statements of accounts were prescribed in the Direction issued by DoE and each of the documents circulated to the committee had been compiled in accordance with this Direction. He also pointed out that as there were 7 sets of accounts, some of which in their entirety extended to over 100 pages and therefore it had not been practical to include each of these in the body of the report.

**It is recommended** that the governance statements previously circulated be approved and signed by the Chair of the Audit Committee and the Chief Executive for inclusion in the annual statement of accounts for each body.

It was agreed on the proposal of Alderman Robinson, seconded by Alderman Finlay: **that the governance statements would be approved and signed by the Chair of the Audit Committee and the Chief Executive for inclusion in the annual statement of accounts for each body.**

The Head of Finance circulated extracts of the key information from the annual statement of accounts for the 7 bodies. He said these must be approved by the Council/Committee in advance of submission to the DoE by 30 June 2015.

The summary table below sets out the combined financial position of the four legacy councils which transferred to Causeway Coast and Glens Borough Council as the opening balance at 1<sup>st</sup> April 2015.

<b>Summary Financial Information from draft Financial Statements at 31 March 2015</b>					
	<b>Ballymoney</b>	<b>Coleraine</b>	<b>Limavady</b>	<b>Moyle</b>	<b>TOTAL</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Fixed Assets</b>					
Property, Plant & Equipment	27,739,543	86,348,626	27,390,232	33,246,677	<b>174,725,078</b>
<b>Loans</b>					
Short Term Borrowing i.e loans to be repaid within 1 year.	895,425	1,866,577	506,408	495,241	<b>3,763,651</b>
Long Term Borrowing	13,882,432	31,445,313	14,514,239	9,201,424	<b>69,043,408</b>
<b>Provisions</b>					
Provisions - for landfill sites	3,550,290	3,394,676	6,978,402	0	<b>13,923,368</b>
Landfill Regulation & Discount Rate Reserves	435,000		3,119,010	0	<b>3,554,010</b>
<b>USABLE RESERVES:</b>					
Capital Receipts Reserve	263,485			519,960	<b>783,445</b>
Sinking Fund		2,628,884			<b>2,628,884</b>
General Fund	1,203,143	4,051,580	1,292,166	313,684	<b>6,860,573</b>
<b>Total to transfer to CC&amp;G</b>	<b>1,466,628</b>	<b>6,680,464</b>	<b>1,292,166</b>	<b>833,644</b>	<b>10,272,902</b>
					-
<b>Net Expenditure</b>	<b>8,286,266</b>	<b>19,529,840</b>	<b>9,934,403</b>	<b>6,215,336</b>	<b>43,965,845</b>
General Fund as a % of Net Expenditure (DOE guidance on level of reserves is 5% - 7.5%)	15%	21%	13%	5%	

The Head of Finance drew members' attention to DoE guidance on level of reserves and that all four councils General Fund as a % of Net Expenditure was over the recommended 5 –

7.5%. He also stated that total reserves for Causeway Coast and Glens Borough Council was £6.86 million.

**It is recommended** that the annual statements of accounts for the seven bodies would be approved and signed by the committee chair and the Chief Executive, together with the annual governance statements for submission to the DoE.

It was agreed on the proposal of Councillor Loftus, seconded by Councillor Fitzpatrick: **that the annual statements of accounts for the seven bodies would be approved and signed by the committee chair and the Chief executive, together with the annual governance statements for submission to the DoE.**

The Head of Finance thanked staff from the legacy councils for their assistance in finalising the accounts.

\* Staff from the legacy councils left the meeting at 7.30 pm.

## **7. Annual Assurance Reports 2014-15**

The Annual Assurance Reports for 2014-15 for the four legacy councils were circulated to members and the following audit opinions were noted:

Ballymoney Borough Council – Limited level of assurance  
Coleraine Borough Council – Substantial level of assurance  
Limavady Borough Council – Substantial level of assurance  
Moyle District Council – Satisfactory level of assurance.

## **8. Causeway Coast and Glens Borough Council – Draft Annual Internal Audit Plan 2015/16**

The Director of Performance presented the draft Annual Internal Audit Plan for 2015/16 previously circulated and as undernoted:

***The Local Government (Accounts and Audit) Amendment) Regulations (NI) 2006 requires councils to maintain an adequate and effective system of internal audit. Internal Audit operates to standards set out in the PSIAS (Public Sector Internal Audit Standards) which came into force with effect from April 2013. The PSIAS for Internal Audit sets out standards which establish how a professional internal audit service should operate in local government. Internal audit provides an independent and objective opinion to the organisation on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.***

***The purpose of this brief report is to present an overview of our Internal Audit Plan for the 2015/16 financial year to the Audit Committee.***

***The PSIAS mandate the periodic preparation of a risk-based plan, which outlines the assignments to be carried out and their respective priorities. The plan is drawn***

*up taking into account the Departmental/Corporate Risk Registers which assist in identifying high, medium and low risk areas. The plan is sufficiently flexible to reflect the changing risks and priorities of the Council.*

*The annual risk-based audit plan is detailed below and outlines the assignments to be carried out, their respective priorities and the estimated resources needed. The risk-driven internal audit plan provides a continuous programme of review of corporate governance and risk management arrangements, together with the audit of the systems of internal control, including the accounting systems. This will enable audit to provide an overall assurance statement on the Council's system of risk management and internal control to inform the annual Governance Statement.*

*Following initial consultation with senior officers and review of relevant documentation, the proposed Audit Plan for the period 2015/16 is detailed below:*

AUDIT AREA	DAYS	SCHEDULE
Leisure & Sports Centres	40	Q1
Tourism/Seasonal Facilities/Harbours & Marinas	45	Q2
Cultural Facilities & Heritage/Waste Management - Recycling Centres	43	Q3
To be allocated	44	Q4
Audit Management (Quarterly/Annual Reporting, Audit Committee, Risk Management & Governance, Training, Investigations, NFI and Contingency)	45	Ongoing
<b>Total</b>	<b>217</b>	

Note:                      Quarter 1 – April-June    Quarter 2 – July-September  
                                     Quarter 3 – October-December    Quarter 4 – January-March

**It is recommended that** the Causeway Coast and Glens Borough Council approves and adopts the Internal Audit Plan as presented.

It was agreed on the proposal of Alderman Finlay, seconded by Alderman Robinson that: **Causeway Coast and Glens Borough Council approves and adopts the Internal Audit Plan as presented.**

The Director of Performance informed members that Internal Audit Reports would be presented to the Audit Committee at their next meeting being held in October 2015.

## 9. Policy Documents

The Director of Performance advised that Causeway Coast and Glens Borough Council was committed to sound governance arrangements and in managing those arrangements, the Council as a public body accountable to the taxpayer, was determined to ensure proper accountability and probity in delivering the Council's business aims and objectives.

The Director of Performance stated that in pursuance of the Council's Audit and Governance objectives, an Anti-fraud Bribery and Corruption Policy and a Whistleblowing Policy had been developed. It was noted that the policy document, which were circulated to members provided an introduction to the policies; a policy statement; definitions and associated legislation; accountability and responsibilities and guidelines governing the issues.

**It is recommended that** that Causeway Coast and Glens Borough Council approves and adopts the above named Policies.

It was agreed on the proposal of Alderman Finlay, seconded by Councillor Fitzpatrick that: **Causeway Coast and Glens Borough Council approves and adopts the Anti-fraud and Corruption Policy and the Whistleblowing Policy.**

## 10. Internal Audit – Benefits of Co-sourcing Report

The Director of Performance presented a report on Benefits of Co-sourcing previously circulated and as undernoted:

***The Institute of Internal Auditors (IIA) defines Internal Audit as "... an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes." Internal Audit is recognised by the Northern Ireland Audit Office and by Local Government as a key part in a Council's lines of defence in relation to risk management.***

***There are 3 primary options for how internal audit services are provided within organisations:***

- 1. Internal service***
- 2. External, out-sourced service***
- 3. Co-sourced service – partnership approach which teams an in-house internal service with out-sourced provision to build a full internal audit service.***

***The former 3 Councils Ballymoney, Limavady and Moyle Council operated a model of external, out-sourced internal audit provision. This would have cost approximately £28,000 for 91 days, whilst the former Coleraine Borough Council operated with a dedicated Internal Auditor. It is expected that the existing in-house arrangements will remain in place in the Causeway Coast and Glens Borough***

**Council but may require supplementation through a co-sourced service. This paper sets out the rationale for and benefits of such an approach.**

**As the four Councils have now merged and new functions and services are joined to the new Council (eg Planning Service), the breadth of areas to be covered by an internal audit service will significantly increase over and above those currently delivered by the former Coleraine Borough Council. In line with the Public Sector Internal Audit Standards, all audit work should be undertaken using a risk-based approach (as opposed to the older method of cyclical audit testing that tended to focus on financial controls only). Given the challenges that will be faced by the Causeway Coast and Glens Borough Council in terms of merging functions and cultures and taking on new functions and staff, the level of risk will be high. All legacy Councils have risk management processes in place however there is nonetheless a challenge in ensuring that risk management processes are operating effectively in the new environment post April 2015.**

**The change management process will also lead to increased need to focus on governance and control processes, particularly in the transition period as the new Council beds in to new ways of working.**

**Given this, there is a strong case for augmenting the capacity currently available in-house to ensure that there is sufficient focus across the breadth and depth of the new Council's activities to enable the Head of Internal Audit to provide the necessary level of assurance to the Council Chair and Chief Executive. To increase the number of audit days will require either the direct employment of additional internal audit staff or supplementation of the existing internal audit staff through a co-sourced arrangement. The primary rationale for a co-sourced arrangement (and the reason that this paper focuses on this) is that the arrangement gives the new Council immediate flexibility in its operations whilst it determines and finalises its operating structures and locations. In particular, a contract arrangement ensures that the new Council is not tied in to an indefinite fixed number of audit days or requirement for audit staff (as would be the case if the Council were to employ staff directly) and does not have to bear any associated employer's costs. It also provided additional skills and knowledge to help the existing staff immediately.**

**The benefits of a co-sourced arrangement are as follows:**

- **Retains knowledge and skills of existing internal audit staff**
- **Enables the Council to increase the number of internal audit days provided in the year at a scale that is based solely on requirements, rather than having to ensure staff utilisation**
- **Can provide specialist knowledge and skills through co-sourced auditors who have worked on areas that may not exist within the current staff team (eg IT auditing)**
- **Can bring additional perspective to audit work through the co-sourced auditors' experience of working for a range of clients**

**Co-sourced provider can deliver a level of independence to the audit assurance and opinions given – recognising that it can be difficult for staff who are to**

***highlight unacceptable or limited risk management, governance and control practices***

- ***Can help to build and develop the expertise and skills of existing internal audit staff through knowledge sharing and transfer with the co-sourced provider***
- ***Co-sourced provider likely to offer opportunities for training and development of Council staff and elected members.***

***The traditional model for Councils in Northern Ireland has been to employ either an in-house internal audit team or to out-source the function completely. In the rest of the UK however, co-sourcing arrangements are more common, with the IIA's Governance and Risk Report 2014 showing that approximately 56% of public sector internal audit functions engage in co-sourcing arrangements (based on a survey of Heads of Internal Audit affiliated with the IIA). . The following lists some of the Councils who are currently engaged in a co-sourced internal audit arrangement:***

- ***The City of Edinburgh Council***
- ***Isle of Wight Council***
- ***Dundee City Council***
- ***Staffordshire County Council (for particular audit assignments).***

***In terms of the future development of internal audit services within the Causeway Coast and Glens Borough Council, there are likely to be opportunities to build on the learning and experience of a co-sourced arrangement. A number of English Councils have moved to develop shared services, whereby one Council acts as the lead and internal audit services are moved into one shared unit. Such units have also extended to provide contracted services to other public sector agencies in the relevant districts (such as Fire Services). It is not likely however that internal audit services within local government in Northern Ireland will be in a position to move to such an arrangement in the short to medium term and co-sourcing therefore is likely to offer the best value (in terms of effectiveness, efficiency and economy) at this time.***

**It is recommended** that the Audit Committee progress with supplementing the existing Internal audit function through a co-sourced service. This service would be procured in line with Councils procurement policies and procedures.

The Chief Executive and Director of Performance answered a number of questions on how the service would operate and to the current role of the Internal Auditor. Members were advised that due to the size and scale of work activities in a larger council area, the co-sourcing service would provide flexibility and the ability for Council to provide a more cost effective service.

It was agreed on the proposal of Councillor Fitzpatrick, seconded by Councillor Loftus that: **the Audit Committee progress with supplementing the existing Internal Audit function through a co-sourced service and that this service would be procured in line with Councils procurement policies and procedures.**

## **11. Whistleblowing Incidents**

The Chief Executive updated member with regard to 3 whistleblowing incidents. It was noted that all incidents had been investigated and that appropriate action had been taken to prevent the incidents recurring.

## **12 Correspondence – The Northern Ireland Audit Office, Local Auditors Report**

The Northern Ireland Audit Office, Local Government Auditors Report 2015 was tabled for information.

Reference was made to page 38 of the report in which absenteeism figures for the 26 former Northern Ireland Councils were compared for 2012/13 and 2013/14. It was pointed out that absenteeism figures for Coleraine Borough Council were one of the highest in the league table.

The Chief Executive indicated that absenteeism was improving and that it was those sick long term impacted on the statistics. He said he was taking a robust approach to absenteeism and that the Health & Wellbeing Committee would be implementing initiatives to encourage staff to eat well and to be proactive in health checks in an attempt to minimise sickness levels. He added that he would be leading by example as he had not been absence from work through sickness in over 25 years.

The Chair pointed out that elected members also had a role to play in providing a positive culture around absenteeism.

## **13. Any Other Relevant Business**

None.

## **14. Date of Next Meeting**

Tuesday 20<sup>th</sup> October 2015 at 7 pm.

**This being all the business the meeting closed at 8:00 pm.**