

# Audit, Governance & Standards Committee

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Thursday, 22 September 2016

## MINUTES

### Present:

Councillor David Thain (Chair), Councillor Jane Potter (Vice-Chair) and Councillors Tom Baker-Price, Natalie Brookes, Michael Chalk, Andrew Fry and Mark Shurmer

Parish Councillors Alan Smith and Slade Arthur – Feckenham Parish Council Representative and Deputy Representative for Standards (non-voting co-opted members of the Committee) (during Minute No.'s 13 to 17)

### Also Present:

Suzanne Joberns and Richard Percival – Grant Thornton (External Auditors)

### Officers:

Andy Bromage, Kevin Dicks and Sam Morgan

### Committee Services Officer:

Debbie Parker-Jones

## 13. APOLOGIES AND NAMED SUBSTITUTES

Apologies for absence were received from Borough Councillors Rachael Smith and Pat Witherspoon, Dave Jones (Independent Member for Audit and Governance) and Megan Harrison (Independent Person for Standards and unofficial Observer).

## 14. DECLARATIONS OF INTEREST

There were no declarations of interest.

## 15. MINUTES

The minutes of the meeting of the Audit, Governance and Standards Committee held on 7th July 2016 were submitted.

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Chair

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**RESOLVED that**

**the minutes of the meeting of the Audit, Governance and Standards Committee held on 7th July 2016 be confirmed as a correct record and signed by the Chair.**

## **16. MONITORING OFFICER'S REPORT - STANDARDS REGIME**

Members received a report from the Monitoring Officer outlining the current position in relation to standards regime matters.

No complaints against Members had been received since the previous meeting of the Committee in July 2016. The Member training information detailed in the report was noted, in particular the county-wide Grant Thornton Governance training event on 11th October 2016 which was being hosted by Redditch Borough Council.

It was noted that any standards-related updates from the Feckenham Parish Council Representatives would now be included within the Monitoring Officer's report. Feckenham Parish Councillor Alan Smith advised that the Parish Council currently had 2 vacancies.

**RESOLVED that**

**the Monitoring Officer's report and Feckenham Parish Council Representative's update be noted.**

## **17. GRANT THORNTON - AUDIT FINDINGS REPORT 2015/16**

Members were presented with Grant Thornton's Audit Findings Report in relation to the final accounts for 2015/16. Report appendices 1 and 2 – Audit Findings Report and management's Letter of Representation – had been circulated under cover of Additional Papers in advance of the meeting.

Mr Percival provided a general overview of the report. As the Council's external auditors Grant Thornton were required to report whether, in their opinion, the financial statements gave a true and fair view of the financial position of the Council and its income and expenditure for the year, and whether they had been properly prepared in accordance with the Code of Practice on Local Authority Accounting. Grant Thornton also needed to satisfy themselves as to whether the Council had made proper

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arrangements to secure economy, efficiency and effectiveness in its use of resources; the 'value for money' conclusion.

Whilst the audit was almost complete some procedures were currently in the process of being finalised, including clearance of audit queries and final review of audit work relating to consideration of investment properties and PPA (purchase price allocation) disclosure of Threadneedle House. Work was currently being undertaken on certification of the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. This was due to be finalised at the end of November and the outcome of this would therefore be reported via a later report to Committee.

Mr Percival stated that the Council was a long way ahead of where it had been this time last year with the 2014/15 accounts. However, whilst there had been improvements in the quality of the financial statements and supporting working papers, further improvements were still needed in this area, specifically:

- working papers to support entries in the accounts to be available at the start of the audit, which should clearly link to items in the financial statements; and
- audit queries needed to be resolved in an efficient and timely way to support delivery of the audit.

Significant governance issues relating to Grant Thornton's statutory recommendations had not been adequately explained in the draft version of the Council's Annual Governance Statement, and it had been agreed with Officers that amendments would be made to give more information regarding the responses to the recommendations. Control issues had also been identified as part of the testing process in relation to:

- complexity of the ledger coding structure;
- inaccuracies in payroll payments; and
- supporting evidence for charges.

No new issues had been identified which required Grant Thornton to apply their statutory powers and duties for 2015/16. At the end of the 2014/15 audit four recommendations had been issued under section 11 of the Audit Commission Act 1998. Whilst it was Grant Thornton's overall view that improvements had been made since they had issued their recommendations, further progress on these was needed. The key actions they expected the Council to take were to:

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- improve the quality and timeliness of financial statements production and the supporting working papers and resolution of audit queries, to ensure the deadline for both accounts production and audit completion is achieved;
- improve the reporting of the annual budget and Medium Term Financial Strategy to Members, specifically to include the impact of future spending plans on reserves and balances; and
- improve the clarity and consistency of in-year reporting of budget variances and forecasts of year-end outturn, including the actions to address adverse budget variances.

Whilst Grant Thornton would be giving an unmodified opinion on the financial statements, a qualified 'except for' value for money conclusion was being issued due to the need to implement improvements in budget monitoring and financial planning. It had been concluded that there were weaknesses in the Council's arrangements for:

- reliable and timely financial reporting that supported the delivery of the strategic purposes;
- planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions; and
- governance arrangements.

Mr Percival made clear that they were not saying that Officers did not have a grasp on the Council's financial position as it was felt the Council had good arrangements at an Officer level to manage the budgets, however the in-year reporting to Members was inconsistent and difficult to follow. Grant Thornton had therefore concluded that there were weaknesses in the Council's arrangements to demonstrate that it could produce reliable and timely financial reporting which supported the delivery of the strategic purposes.

Ms Joberns spoke on the audit findings against significant and other risks sections of the report, and on issues surrounding long term debtors and legal charges on properties, the testing of journals, recharges for income and expenditure and employee remuneration. Officers confirmed that actions were currently being undertaken to address some of the issues highlighted, which included a full review of long term debtors with legal charges on properties to ascertain the legal status of all such charges. In response to a Member's question as to whether the Member who had received the duplicate mileage payment had been asked to pay back the additional

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payment, Officers stated that they would speak with the Democratic Services Manager in this regard.

Ms Joberns spoke on the outstanding valuation of investment properties element of the report and the required amendment which had been agreed with Officers to the previous year's accounts in this regard. Members approved management's course of action in relation to the unadjusted misstatements relating to long term debtors and valuations disclosure.

Grant Thornton's Action Plan at Appendix A to the report was noted. Mr Percival stated that the external auditors would work with Officers on the recommendations to ensure that a plan to address these was put in place. Officers advised that they would be working through implementation dates shortly, details of which it was anticipated would be made known to Members via the Budget Scrutiny Working Group by the end of October.

Mr Percival highlighted the reduced fees for the 2015/16 accounts and brought to Members' attention the representation letter appended to the report, which the Committee was asked to approve.

Members requested that their thanks to the Council's Finance Team for their work on the 2015/16 accounts be formally recorded. Whilst it was noted that there were still improvements to be made in some of the accounting processes, Members congratulated staff on the significant improvements which had been made since the closedown of the 2014/15 accounts.

## **RESOLVED that**

- 1) the Audit Findings Report 2015/16, as circulated under cover of Additional Papers, be noted; and**
- 2) the draft Letter of Representation, as circulated under cover of Additional Papers, be approved.**

## **18. STATEMENT OF ACCOUNTS 2015/16**

The Committee was asked to approve the Council's Statement of Accounts for 2015/16. A copy of the Statement of Accounts had been circulated under cover of Additional Papers in advance of the meeting and Officers tabled four replacement pages to this at the meeting, relating to Additional Papers pages 64, 65, 95 and 96.

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Officers explained the Investment Property revisions to the Balance Sheet at page 64, as referred to under the previous agenda item, which included restated amounts for 2014/15. Adjustments to the Cash Flow Statement at page 65 were also highlighted.

**RESOLVED that**

**subject to the adjustments detailed in the replacement pages circulated by Officers at the meeting, as detailed in the preamble above, the 2015/16 Statement of Accounts be approved.**

## **19. INTERNAL AUDIT - PROGRESS REPORT**

The Committee considered the Internal Audit Progress Report, which presented Members with progress on internal audit work for 2016/17 and the residual 2015/16 audit work.

The Head of Internal Audit Shared Service presented the report and highlighted the outcomes of the Allotments and Consultancy and Agency audits, both of which had resulted in Limited Assurances. Both areas were implementing changes as a result of the findings and Internal Audit Officers were working with service managers on improvements to ensure that Audit's recommendations were implemented. The Allotments Team in particular were ahead of schedule and would be implementing the majority of their changes by the end of September.

Delivery against the Internal Audit Plan for 2016/17 as at 31st July 2016 was noted. There had been some natural turnover of staff within Internal Audit towards the end of the 2015/16 financial year. Three new replacement members of staff had been appointed, which constituted 50% of the Internal Audit Team.

Members noted the ongoing issues concerning the monitoring and reconciliation of income relating to Worcestershire Regulatory Service (WRS) activities, with there being no centralised control to ensure the financial information held by the shared service accurately represented the actual transactions that were taking place within each authority. In response to a Member's question, Officers advised that the Council was receiving the appropriate level of income from WRS however work was required to enhance the internal controls for this.

**RESOLVED that**

**the report be noted.**

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## **20. RE-APPOINTMENT OF LEAD FRAUD AND RISK MEMBERS ON THE COMMITTEE**

The Committee was asked to consider whether it wished to re-appoint to the roles of Lead Fraud Member and Lead Risk Member on the Committee; positions which were currently held by Borough Councillor David Thain and Mr Dave Jones, Independent Member for Audit and Governance, respectively. If agreeing to continue with these roles, Members were also asked to determine how long they wished to appoint to the positions for given that no local elections would be taking place in 2017.

Officers advised that as Mr Jones had tendered his apologies in advance of the meeting, Mr Jones had been asked whether he would be willing to continue as Lead Risk Member should the Committee determine that it wished to continue with this role. Mr Jones, whom it was noted had been very proactive in the role, had confirmed that he would be happy to continue with this.

Notwithstanding the changes which had taken place in relation to housing benefit fraud investigations following the transfer of this work to the Single Fraud Investigation Service in February 2016, Members felt that it was important for both Lead Member roles to continue and that these should be appointed to for a further year.

It was noted that Officers would be bringing the first of a new style 'Fraud Compliance Update' report to the Committee's next meeting in February 2017. The report would set out details of the work carried out by the Fraud Investigation Team over the previous year, together with the outcomes and findings in this regard.

### **RESOLVED that**

- 1) Councillor David Thain continue as the Committee's Lead Fraud Member for a further 12 months; and**
- 2) Mr Dave Jones continue as the Committee's Lead Risk Member for a further 12 months.**

## **21. S11 RECOMMENDATIONS UPDATE**

Members were presented with the latest update on progress against the external auditors Section 11 recommendations, which had first been reported to Committee on 28th January 2016.

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Whilst unqualified opinions had been given on the accounts for 2014/15, the S11 recommendations covered Grant Thornton's concerns in relation to financial accounting and budget monitoring which needed to be addressed for the 2015/16 closedown and financial management of budgets for 2016/17.

The Council had now successfully completed all of the recommendations relating to the closedown of the final accounts and the 2015/16 Statement of Accounts had been signed off by the statutory deadline on 30th June 2016. There were two further recommendations relating to financial management of budgets which were ongoing, as detailed in the appendix to the report.

Officers proposed that the cross-party working group which had been established by the Committee in January 2016 to monitor the Section 11 Recommendations Action Plan in future form part of the Budget Scrutiny Working Group, which Members agreed to.

**RESOLVED that**

- 1) **the report be noted; and**
- 2) **the cross-party working group established by the Audit, Governance and Standards Committee in January 2016 to monitor the Section 11 Recommendations Action Plan in future form part of the Budget Scrutiny Working Group.**

## **22. CORPORATE GOVERNANCE AND RISK**

Members were asked, as part of the Corporate Governance and Risk report, to consider a 6 monthly review of the Corporate Risk Register.

The Corporate Risk Register had been developed by the management team to address issues of a strategic nature which were seen as areas that had potential to impact on the delivery of the Council's Strategic Purposes. The Register, which had been approved by the Committee in April, was appended to the report. Updates to this to September had been included against each Corporate Risk and there were no issues to report in relation to actions that had not been progressed.

**RESOLVED that**

**the position following the 6 monthly review of the Corporate Risk Register be noted.**



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## **23. APRIL - JUNE FINANCIAL SAVINGS MONITORING REPORT 2016/17**

Members received the first of a new style report which had been established to monitor savings for 2016/17, and which included the delivery of savings and additional income for the period April to June 2016.

The report provided a statement to show the savings against the Council's Strategic Purposes and the delivery of savings for the financial year. The report was separate to the main financial monitoring report that was presented to the Executive Committee as it focused on the delivery of savings rather than the overall financial position of the Council. For 2016/17 the report also presented other savings and additional income that had been generated across the Council.

Grant Thornton, the Council's external auditors, had recommended that the delivery of savings be monitored more closely to ensure the Council was meeting savings in the way that was expected when the budget had been set. Appendix 1 to the report confirmed that for April to June 2016 savings to budgets had been delivered, together with additional savings/income that had not been included in the original budget projections. Officers highlighted that the £139k savings generated from a service review of Environmental Services was in addition to the £190k of savings identified in the 2015/16 budget round for 2016/17 onwards as a result of the service review.

### **RESOLVED that**

**the financial position for savings for the period April 2016 to June 2016, as presented in the report, be noted.**

## **24. COMMITTEE ACTION LIST AND WORK PROGRAMME**

Officers advised that there were not many updates to the Action List at this stage as a number of these involved Mr Dave Jones, the Independent Member for Audit and Governance, who wished to update the Committee at the next meeting in February 2017.

Officers confirmed that Action Reference 5 was now complete as an Action Plan had been included in the Annual Governance Statement. It was agreed that this item could therefore be removed from the Action List.

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The Committee's Work Programme was noted without amendment.

**RESOLVED that**

**the Committee's Action List and Work Programme be noted  
and the amendments and updates highlighted be agreed.**

The Meeting commenced at 7.00 pm  
and closed at 8.15 pm

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Chair