

Audit, Governance & Standards

Committee

Thursday, 2 February 2017

MINUTES

Present:

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

Dave Jones – Independent Member for Audit and Governance (non-voting co-opted member of the Committee)

Also Present:

Neil Preece and Richard Percival – Grant Thornton (External Auditors)

Officers:

Andy Bromage, Claire Felton, Sam Morgan, Amanda Singleton and Paul Stephenson

Democratic Services Officer:

Debbie Parker-Jones

25. CHAIR'S OPENING REMARKS - SAM MORGAN

The Chair informed Members that Sam Morgan, Financial Services Manager, was leaving the authority after in excess of 25 years' service at the Council. Members thanked Mrs Morgan for her work over the years and wished her well for the future.

26. APOLOGIES AND NAMED SUBSTITUTES

Apologies for absence were received on behalf of Councillor Rachael Smith.

27. DECLARATIONS OF INTEREST

There were no declarations of interest.

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28. MINUTES

The minutes of the meeting of the Audit, Governance and Standards Committee held on 22nd September 2016 were submitted.

RESOLVED that

the minutes of the meeting of the Audit, Governance and Standards Committee held on 22nd September 2016 be confirmed as a correct record and signed by the Chair.

29. MONITORING OFFICER'S REPORT - STANDARDS REGIME

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

Since the last meeting of the Committee in September 2016 two complaints had been received, both of which had been made against Borough Councillors by members of the public. Following investigation by the MO both complaints had been resolved locally, with one of the complaints having been based on information which was found to be factually incorrect.

Regarding Member training, the MO advised that Officers were continuing to populate the Member Training Programme for 2017/18. If Members wished for any training to be added to this they should pass their requests onto their Group Leader for consideration, or in the case of non-group Members direct to the MO.

A Member raised concerns at previous poor attendance by Members at Corporate Parenting training, and stated their view that this should be put out to Members again to attend. The MO stated that if Members wished to have attendance at particular training sessions made compulsory they should again route any such requests through their Group Leader.

RESOLVED that

the Monitoring Officer's report be noted.

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30. GRANT THORNTON - PROGRESS REPORT AND UPDATE

The Chair welcomed Mr Neil Preece, new Audit Manager at Grant Thornton, to his first meeting of the Committee. Mr Preece had replaced Suzanne Joberns.

Mr Preece presented the report and advised that progress was going well. A slightly different approach was being taken by Grant Thornton to audit work this year with joint interim visits, covering both Redditch Borough Council and Bromsgrove District Council, being carried out by a single audit team, rather than two separate teams as had previously been the case. Initial planning work had been carried out in January and interim audit work was due to be completed in March. Regular meetings were taking place with key Officers regarding progress and the majority of the Value for Money work had been completed.

The Chair queried whether, in light of the Financial Services Manager's impending departure from the authority, together with Mr Preece's recent appointment and the fact that Grant Thornton's contract as the Council's external auditors was due to cease in April 2018, the following year was something which the Committee needed to worry about. Mr Percival responded that Grant Thornton were keen to retain the Council as a client and hoped that they would be successful in their bid for this under the upcoming Public Sector Audit Appointments framework.

Mr Preece and Officers responded to Members' question in relation to the implications of the Apprentice Levy and salary sacrifice, as highlighted in the report. Members raised various questions on the possible impact of Brexit, and queried how many migrant workers (defined as those who did not hold a British passport) the Council employed. Officers agreed to find out the figure and to report this back to Members. Whilst the Committee agreed that it was not possible to ascertain the impact of Brexit at this stage, Officers confirmed that the Council did not receive any EU grants, nor did it have any foreign investments. EU procurement rules would be affected however no detail on this was known at present.

RESOLVED that

the Grant Thornton Progress Report and Update included at Appendix 1 to the report be noted.

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31. GRANT THORNTON - ANNUAL AUDIT LETTER 2015/16

Members were presented with Grant Thornton's Annual Audit Letter which summarised the key findings arising from the work which they had carried out at the Council for the year ended 31st March 2016.

Mr Percival stated that Grant Thornton had given an unqualified opinion on the Council's financial statements on 28th September 2016. Whilst Grant Thornton had not identified any issues that had required them to issue any new statutory recommendations, they had considered the Council's response to the statutory recommendations issued in 2014/15. In doing so they had qualified their Value for Money conclusion on matters relating to progress made by the Council in implementing the 2014/15 recommendations. Grant Thornton had set out four key actions that they expected the Council to take to address the recommendations, details of which were set out in the Audit Letter. Members queried whether progress on implementing the key actions for the recommendations was improving. Mr Percival stated that work was currently being undertaken on this and that he was satisfied the direction of travel was appropriate. It was however too early to say at this stage whether all issues had been resolved as it would take time to work through these.

Whilst there had been improvements in the accounts production, further improvements were needed in order to ensure that the accounts audit could be delivered by the earlier (statutory) closedown and audit timetable in 2018. Grant Thornton were currently working with Officers to support such improvements, in particular with the standard and delivery of working papers. Officers advised that they had drawn up a detailed plan for the closedown timetable of the final accounts, which they had recently shared with Grant Thornton and which was a changing model. Officers hoped to be in a position to close down the 2016/17 accounts on 31st May 2017, which would allow opportunity to consider any 'lessons learned' for 2018. Mr Percival stated that Members also needed to ensure that they had sufficient understanding of the Council's financial position. Regarding comments made in the report that there had been a failure in governance arrangements, a Member asked to see a copy of the accounts closedown timetable referred to by Officers and commented that they felt they were not always being sufficiently informed to be an effective Committee. Officers agreed to email the timetable to Members and to send a hard copy of this to Councillor Chalk.

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A query was raised in relation to implementation dates for the third statutory recommendation; that the Council should improve the reporting of the annual budget and Medium Term Financial Strategy to Members, specifically to make clear the impact of proposals on the level of reserves and balances. The Action Plan stated that the cross party member budget scrutiny group would be presented with the revised format for the Medium Term Financial Plan for 2017/18 to 2020/21 in October 2016 to ensure that this met with Member expectations, however it was queried whether this had in fact happened. Officers advised that as the budget had been challenging this year they had not been in a position to present this information to Members. They added that the Medium Term Financial Plan had now been issued, which had included some improvements.

A discussion ensued regarding Members' ability to see background / working papers. In terms of the Committee's role, Mr Percival stated that it was not appropriate for Members to review detailed working papers. The Committee's role was to ensure that it was satisfied that due processes had been put in place for the production of the final accounts, with 'governance of process' being the Committee's main function. He added that Officers' confirmation that action plans were in place should be sufficient, and that Members should seek to ensure that adequate progress was being made by Officers against plan delivery to ensure that any plans were being properly executed. It was also noted that, in relation to the Corporate Plan and monitoring of service performance, Grant Thornton had concluded that the arrangements in place for this were sufficient to demonstrate that the Council understood and was using performance information to support informed decision making and performance management.

The Chair questioned the role of the Committee and which elements Members could monitor as part of this. Officers advised that the Committee's Terms of Reference and Procedure Rules set out this information. Both documents formed part of the Council's Constitution and were referred to the Committee on an annual basis. Officers agreed to circulate a further copy of the documents for Members' information. The Chair added that both he and other Members of the Committee could meet with Grant Thornton when required to discuss relevant issues.

RESOLVED that

the Annual Audit Letter included at Appendix 1 to the report be noted.

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32. TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2017/18 TO 2019/20

The Committee considered, for recommendation to the Council, the strategy statement for treasury management and investments in order to comply with the Local Government Act 2003. It was noted that some interest rate information had been incorrectly set out in Treasury Management Strategy Statement and Investment Strategy 2017/18, attached at Appendix 1 to the report, which would therefore require minor amendment prior to Council.

Officers presented the report and highlighted some of the key elements of this. The Ratio of Financing Costs to Net Revenue Stream were noted, with it being estimated that in 2019/20 the Council would be paying back nearly 20% for capital expenditure. Officers advised that the Council only undertook external borrowing if it was unable to borrow from internal funds.

Regarding the Investment Objectives Strategy, Mr Jones stated, as he had the previous year, that he would like to have seen yield benchmark data for how the authority invested its funds. Officers stated they could look into this for the following year's report and also undertook to circulate to Members details of the current interest payments for the Housing Revenue Account.

RECOMMENDED that

- 1) subject to the minor interest rate amendment as detailed in the preamble above, the Strategy and Prudential Indicators at Appendix 1 to the report be approved; and**
- 2) the updated Treasury Management Policy Statement at Appendix 2 to the report be approved.**

33. COMPLIANCE TEAM UPDATE

Members were provided with the first update report on the work of the Compliance Team following the transfer of benefits fraud to the Department for Work and Pension Single Fraud Investigation Service (SFIS) in February 2016. Officers explained the background to the report and responded to Members' questions in this regard.

Following the transfer of benefits fraud various duties had remained within the Compliance Team and Officers had taken the opportunity

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to develop work for wider non-compliance issues around Council Tax and Business Rates. Members noted the work which had been undertaken by the Team and the positive results of this. The financial implications of this work, which were detailed throughout the report, included:

- reduction in long term empty properties which resulted in a net gain of New Homes Bonus income of £76.5k for 1 year and £306k over 4 years;
- identified overpayments in incorrectly claimed Council Tax discounts and exemptions of £143,344, plus £14k Council Tax Support overpayments and £11k of Housing Benefit overpayments; and
- identification of 7 missing properties (mostly annexes to existing properties, not Council properties).

Officers were currently in the process of recovering overpayments and incorrectly claimed discounts and exemptions. Where recovery action might result in financial hardship to residents this was being taken into account when agreeing repayment plans, with additional assistance such as money management advice being given to residents where relevant. Members queried the possible impact of the future rollout of Universal Credit. Officers stated that the key risks to the Council involved the direct payment of housing rents to claimants and the impact of this on the Council's ability to reclaim any overpaid housing benefits.

Officers advised that owing to other service changes during the preceding 12 months, the majority of the Compliance Team's costs had been absorbed within existing budgets. As a result of the work carried out Officers had been able to evidence financial benefits to the County Council and were currently working with County colleagues to agree funding to enable enhancement of the compliance work. The Team were also in the process of receiving training in order to identify missing or incorrectly rated premises.

Members commended the Compliance Team on the work which it had carried out over the preceding 12 months and the positive results this had seen. Members agreed that update reports should in future be referred to the Committee on a six-monthly basis. Whilst Officers were unable to confirm at this stage what monies had been recovered, and how long it would take for any overpayments to be repaid to the Council, they confirmed that they would look to see whether it was possible to include information on this in the next report.

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RESOLVED that

- 1) the report be noted; and**
- 2) Officers refer future update reports to the Committee on a six-monthly basis.**

34. INTERNAL AUDIT - PROGRESS REPORT

The Committee considered the Internal Audit Progress Report, which presented Members with progress in internal audit work for 2016/17. The Head of the Internal Audit Shared Service (HIASS) presented the report and responded to Members' questions on this.

Regarding overall delivery against the Internal Audit Plan it was noted that the number of days used to 31st December 2016 had, in some areas, exceeded the number of planned days. The HIASS explained the reasons for this and stated that he would be speaking with the s151 Officer at year end and would report back to the Committee. Whilst some areas had almost reached their number of planned days there were no major concerns with this and the HIASS did not envisage that the number of overall days would exceed the number of forecasted days.

Under Performance Indicators, the 59% Service Productivity figure was starting to show signs of recovery after the arrival of three new auditors in the first quarter, along with a further auditor towards the end of Quarter 2. Expectation was that productivity would continue to increase as the auditors became more familiar with Partner and Service requirements. In relation to Planned Follow Ups at Appendix 3 to the report, there were no exceptions to report.

A discussion ensued on Planned Follow Ups. Mr Jones asked whether there was enough emphasis by senior management to close down outstanding actions on recommendations early on. The HIASS stated that some areas did take longer than others and that there was not always a quick fix to an issue. He added that it was reasonable to say that when second and third follow up visits were required this took up additional resource and increased number of days. Mr Jones commented that there should not be third follow ups as this drove waste into the system and queried whether the scope of some audits should be changed, particularly given that the number of follow ups had increased significantly over the previous year. It was queried whether members of the Senior Management Team (SMT) at director level, and/or Portfolio Holders, should become involved in the process, particularly where outstanding

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actions were not being dealt with in a timely manner, resulting in additional Follow Ups

Mr Percival commented that Grant Thornton would expect Internal Audit to carry out their audit work, set recommendations and agree implementation dates with relevant service Officers for completion of required actions and to undertake required follow up on these. He added that if recommendations were not being implemented within agreed timeframes then there should be a clear escalation route, which would involve more senior managers. There should be a clear explanation from Officers as to why actions were not progressing, to ascertain whether the particular circumstances involved warranted any delays. If circumstances had changed this should equally be made clear and looked into, otherwise this would lead to a culture of non-compliance.

Members queried how the position would be reported back on and whether a formal request in this regard needed to be made to the Senior Management Team (SMT). As no members of SMT were present to respond in this regard Officers agreed to look into the position and report back on this at the next meeting. The HIASS confirmed that he did not have any strong views against the proposal for senior management involvement however he added that the Corporate Management Team (Heads of Service) would need to be engaged in any agreed process to ensure that there was a clear escalation route and engagement throughout.

RESOLVED that

subject to the required Officer action detailed in the preamble above in relation to Planned Follow Ups, the report be noted.

35. INTERNAL AUDIT - DRAFT AUDIT PLAN 2017/18

Members received the draft Internal Audit Operational Plan for 2017/18, together with the Key Performance Indicators for the Worcestershire Internal Audit Shared Service for the same period. It was noted that the Plan would be subject to final approval at the Committee's April.

The Head of Internal Audit Shared Service (HIASS) introduced the report and highlighted the key aspects of this. In doing so he referred to the discussion which had taken place under the previous agenda item in relation to Planned Follow Ups and the action arising from that discussion. The draft Plan included 5 additional days for follow up on recommendations owing to an increasing

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number of recommendations being revisited on more than one occasion.

He stated that audit demand could change in some instances and that he and the s151 Officer would discuss the position if that were the case. Some of the Performance Indicators had been changed slightly following discussions with the s151 Officer and Mr Jones, the Independent Member on the Committee, and these now provided additional information for the Committee's information.

In response to Members' questions the HIASS confirmed that the Corporate Risk Register was taken into consideration when drawing up the Plan. Officers also advised that the Committee received 6 monthly updates in relation to the Corporate Risk Register and that the Annual Corporate Risk Register was referred to the Committee in April each year. Mr Jones added that he was also working with the s151 Officer on the Corporate Risk Register. It was noted that the overall number of audit days for 2017/18 remained at 400; the same as for 2016/17.

RESOLVED that

the draft Internal Audit Operational Plan for 2017/18, which was subject to final approval at the Committee's April meeting, be noted.

36. APRIL - SEPTEMBER FINANCIAL SAVINGS MONITORING REPORT 2016/17

Members received the second of the 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 September 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.

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Officers explained that the savings were based on the previous year's base budget. The majority of the savings were projected savings to the end of the financial year and would be ongoing. It was noted that the lower election costs as a result of there being no local elections in 2017 was a one-off saving for the current year only.

RESOLVED that

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

37. COMMITTEE ACTION LIST AND WORK PROGRAMME

Action List

i) Ref 1 – Statement of Accounts 2014/15 – Inventories

Mr Jones confirmed that he had met with Officers from the Stores Team the previous April to discuss inventories and had undertaken an inventory risk analysis. He had looked at the Council's ordering process, which he had concluded was satisfactory. He stated that there were no optimum minimum or maximum order levels, no lean process in place and the Council did not have a formal inventory management policy. Mr Jones queried whether the Council needed to look at introducing such a policy. Officers advised that the issues raised would need to be looked at and it was agreed that Mr Kevin Hirons, Environmental Services Manager, be invited to the next meeting of the Committee for this item.

Action: item to remain on Action List for April meeting.

ii) Treasury Management Strategy Statement and Investment Strategy 2016/17 to 2018/19 – Liquidity risk

Mr Jones stated that he had not received any feedback from Officers on this matter.

Officers proceeded to circulate details relating to the Council's cash flow as at January 2017 and advised that ledgers for this were completed on a daily basis.

It was agreed that Officers would meet separately with Mr Jones to discuss this information further and that the item be removed from the Action List in the meantime.

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Action: subject to Mr Jones meeting with Officers to discuss any ongoing cash flow concerns, the item be removed from Action List.

iii) Debt Recovery Update – Quarters 1 and 3 2015/16 – Write-offs

Mr Jones confirmed that he had met with an Officer to review the corporate Dashboard. He stated that some elements within the Dashboard did not show hard or soft savings, and that some of the parameters had been changed with no comments or sign-off from service managers.

Mr Jones confirmed that he would arrange to meet with Jayne Pickering in order that the position could be looked into and reported on further at the April meeting of the Committee.

Action: item to remain on Action List for April meeting.

iv) Internal Audit – Progress Report – Key Performance Indicators (KPIs) / Measures Dashboard

As reported on earlier in the meeting under the Internal Audit draft Audit Plan 2017/18 (Minute No. 35 refers), it was noted that some of the Performance Indicators had been changed slightly following discussions with Jayne Pickering and Mr Jones. As a result of this the Performance Indicators now provided helpful additional information for the Committee.

Action: item to be removed from Action List.

Work Programme

The Work Programme was noted without comment.

RESOLVED that

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

38. CALENDAR OF MEETINGS 2017/18

Members were presented with the meeting dates of the Committee for the 2017/18 Municipal Year.

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It was anticipated that the Officer Briefing on the Statement of Accounts would take place on either 5th or 7th September 2017. Officers would confirm the date once this had been finalised.

RESOLVED that

the Calendar of Meetings 2017/18 be noted.

The Meeting commenced at 7.00 pm
and closed at 9.16 pm

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Chair