

# Audit, Governance & Standards Committee

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Thursday, 1 February 2018

## MINUTES

### Present:

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

### Also Present:

D Jones, R Percival and N Preece (Grant Thornton)

### Officers:

Andy Bromage, Chris Forrester and Jayne Pickering

### Democratic Services Officer:

Jess Bayley

## 78. APOLOGIES AND NAMED SUBSTITUTES

An apology for absence was received on behalf of Councillor Pat Witherspoon.

## 79. DECLARATIONS OF INTEREST

There were no declarations of interest.

## 80. MINUTES

The Chair explained that an issue had been raised by the external auditors in respect of the Minutes. To provide time for this issue to be addressed the Chair proposed that the Committee should postpone confirmation of the minutes until the following meeting.

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Chair

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**RESOLVED that**

**the minutes of the meeting of the Audit, Governance and Standards Committee should be re-submitted for consideration at the following meeting of the Committee.**

**81. MONITORING OFFICER'S REPORT - STANDARDS REGIME**

The Executive Director of Finance and Corporate Resources presented the Monitoring Officer's report and in so doing highlighted that no complaints had been received since the last meeting of the Committee. Training was in the process of being delivered to Members at political party group meetings in respect of Social Media and Data Protection and the non-aligned Member had been offered this training on a one-to-one basis. Members could request further training though were advised to refer this to the Member Support Steering Group for consideration.

**RESOLVED that**

**the Monitoring Officer's report be noted.**

**82. INDEPENDENT MEMBER APPOINTMENT - VERBAL REPORT**

The Committee noted that Mr Jones's tenure as the non-voting co-opted Independent Member of the Audit, Governance and Standards Committee was due to end shortly. Following his appointment as the Lead Risk Member for the Committee for a further 12 months, and confirmation that he was willing to remain, Members concurred that Mr Jones should be reappointed as the Independent Member of the Committee for a further four year term.

**RESOLVED that**

**Mr Dave Jones be reappointed as the Independent non-voting co-opted Member of the Audit, Governance and Standards Committee for 2018 – 2022.**

**83. EXTERNAL AUDIT - ANNUAL AUDIT LETTER 2016-17**

The Annual Audit Letter 2016/17 was presented for Members' consideration by Mr Richard Percival from Grant Thornton. Members were advised that this had been produced in October 2017, following decisions made at the previous meeting of the Committee.

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A number of points were highlighted in this report for Members' consideration:

- The annual audit letter provided a commentary in respect of the Council.
- In terms of the Value for Money (VfM) conclusion the auditors were satisfied with the Council's arrangements except in respect of financial reporting and financial sustainability.
- As a consequence the VfM conclusion had been qualified in the Audit Opinion.
- Financial reporting and financial sustainability had also been identified as risks due to identified weaknesses.
- The VfM conclusion applied to 2016/17 and significant improvements had been achieved in both areas since then.
- In some cases the external auditors had identified good financial planning, such as the £480,000 savings identified for Leisure and Cultural Services. However, in other areas there remained the need to deliver savings, such as in respect of the proposed Management Review.
- The government had requested extra work in respect of Housing Benefit Grant Certification and this was reflected in the fees that had been recorded for Members' consideration.

Following the presentation of this report Members discussed some further points in detail:

- The potential for reassurance to be provided in respect of improvements to financial reporting and financial sustainability. Members were advised that this had improved, with managers undertaking in-year monitoring of budgets and improvements in the reconciliation of budgets.
- The changes to monitoring arrangements at quarter three of the financial year, which entailed challenging Heads of Service to consider budget levels alongside savings.
- The work of the Senior Management Team (SMT) in reviewing the Council's budgets on a line-by-line basis.
- The suggestion from Grant Thornton for a RAG rating system to be introduced for monitoring savings. Members were advised that this had not yet occurred, though Officers were intending to do so in 2018/19.
- The unidentified savings that remained in the budget and the action that had been requested from Heads of Service to address this. The Committee was informed that Heads of

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Service were required to submit business cases justifying the need for additional budgets where funding was considered insufficient.

- The improvements that had been made to Performance Monitoring. The first Performance Monitoring report, focusing on the strategic purposes and measures, had recently been presented for the consideration of the Executive Committee and it was intended that these would be presented on a bi-monthly basis.
- The delays in respect of the Management Review, which was scheduled to achieve £250,000 savings. Members were advised that this would still take place though later than anticipated due to unforeseen circumstances.
- The progress that had been achieved with providing managers with direct access to budget reports. Members were advised that this was not possible as the Financial Service Team's software was not user friendly. However, Officers were intending to address this in the long-term.
- The potential for Heads of Service to attend meetings of the Audit, Governance and Standards Committee to explain any overspending and / or poor forecasting for budgets within their remit as well as to discuss unidentified savings.
- The ongoing provision of monthly budget updates to managers and the option for managers to meet with their accountants where necessary.
- The availability of appropriate resources to enable Officers to submit the Council's accounts by the new deadline in the summer in 2018. Officers advised that appropriate resources had been obtained and Members were reassured that the deadline would be met.
- The internal control weakness that had been identified by the external auditors and what this entailed. The Committee was informed that this related to PSN forms which previously had not been submitted on time, though adjustments to the system meant that deadlines were now met.

Members noted that budget reports continued to include gaps where savings had not been realised as anticipated. Budget reports were presented for consideration at meetings of the Corporate Management Team (CMT) to ensure continuing awareness and to provide an opportunity to identify action that could be taken to address any gaps. However, Members commented that further action was needed to enhance the resilience of the Council's financial management processes. In this

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context Members suggested that CMT should be encouraged to develop a clear action plan to deliver the unidentified savings.

## **RECOMMENDED that**

**the Corporate Management Team put together a clear action plan to deliver the unidentified savings in 2017/18.**

## **RESOLVED that**

**the Annual Audit Letter 2016/17 be noted.**

### **84. EXTERNAL AUDIT PLAN**

Mr Neil Preece, from the external auditors Grant Thornton, presented the Audit Opinion Plan 2017/18. In presenting this report a number of matters were emphasised for the Committee's consideration:

- The main consideration when working on the Audit Opinion Plan was materiality. A benchmark was utilised to enable the external auditors to focus on the bigger items and the same methodology had been used for this as in the previous year.
- There were a number of key challenges and risks that had been identified for the Council.
- There were four key risks that had been identified for the authority including; valuation of Council House properties, pension fund liabilities (a common risk for most Councils), employee remuneration and operating expenses.
- The external auditors would pick up on some of the issues raised in the VfM conclusion for 2016/17.

After the report had been presented Members requested clarification on a number of areas:

- The potential for the Council to improve in year financial reporting and the robustness of the authority's Medium Term Financial Plan, in line with the external auditor's VfM recommendations.
- The significant proportion of operational costs for the Council and the reasons why these were higher than employee remuneration. Members were advised that operational costs included expenditure on the Housing Revenue Account (HRA) and housing benefits.

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- The authority's ability to meet the early close timeframe for publication of the audited local government accounts. Officers advised that the Council had a timetable in place and was aiming to meet the new deadline.
- The pension fund for Council staff and the extent to which the Council's contribution could be calculated given that the authority participated in the Worcestershire pension fund alongside other Councils in the county. Members were advised that the actuary calculated contributions based on the number of employees and other key variables.
- The use of FRS 19 to calculate pension contributions.
- The need to take into account not just existing employees but previous employees who had paid into the pension fund when calculating the Council's pension liabilities.
- The risks that had been identified for the Council in the VfM audit. Members were advised that two of these risks followed recommendations that had been made the previous year and a further risk related to recent developments in the Housing Department.
- The VfM audit was conducted by the external auditors in accordance with guidance from the National Audit Office (NAO).
- The potential for assurance to be provided to Members at this stage in the year. Members were advised that it would not be possible for the external auditors to provide assurance until the end of the process when a VfM conclusion would be issued.
- The reason why any misstatements were considered trivial when valued at under £66,000 and how this figure had been identified. Members were advised that the figure was selected based on a calculation of 1 per cent of the Council's gross overall expenditure.
- The extent to which errors involving figures valued at £500 or £1,000 would be identified by the external auditors. The Committee was informed that testing was undertaken based on random sampling. As such, if errors were not identified in one year it was likely they would be identified in a subsequent year.
- The review of the installation of IT software for the Payroll system. Officers explained that currently staff had to undertake work manually, though Officers were working with the software provider in an attempt to streamline this.
- The length of time that it was taking to review this IT software, which had been scheduled for completion by September 2017.

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Members were advised that this was a problem with the system which was also impacting on other local authorities.

- The £66 million gross expenditure on revenue for the Council. Officers clarified that this did not include capital costs and were figures for Redditch Borough Council only, rather than shared costs.
- The size of the HRA account. Officers clarified that this was £26 million.

**RESOLVED that**

**the 2017/18 Audit Opinion Plan be noted and agreed.**

## **85. INTERNAL AUDIT PROGRESS REPORT**

The Head of the Internal Audit Shared Service presented the Internal Audit Progress Report for Members' consideration and in so doing highlighted that the report had been written in December 2017 and therefore there might have been further developments in some areas since then. During the presentation a number of points were highlighted:

- There were a number of high priorities detailed within the appendices to the report. For all of these high priorities action plans had been produced to enable officers to address key issues.
- A number of the recommendations that had been made in respect of Environmental Waste had been addressed through corrective action before the final report was published.
- Cash collection had been identified as a high priority that had been rolled over from the previous year.
- There was a high priority in terms of resilience for St David's House. There was a clear action plan in place to address some of the issues that had been identified in this audit.
- A number of follow up actions were being undertaken by the Internal Audit team to ensure that recommended actions were being implemented.
- There was a clear escalation process in place which was enacted where recommendations were not implemented.

Following presentation of the recommendations Members discussed various issues in further detail:

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- The number of high priority recommendations and the extent to which this number was acceptable for a local authority. Officers advised that this did not cause undue concern.
- The number of recommendations per audit. Members were advised that this varied according to the focus of the audit.
- Progress with recommendations that had been made in respect of CCTV. Officers advised that Internal Audit had felt that a manual system was not appropriate and officers had since found a way of automating the system.
- The Council's work on a skills matrix for staff and the implications for use of agency staff by the authority in the long-term.
- The content of the suspense account and the need for transparency to achieve assurance that significant funding would not be held in this.
- The changes that had been recommended in relation to business waste charges and the extent to which this had been addressed properly. It was agreed that this should be added to the action plan.
- The continuing receipt of cash payments by the Council and action that could be taken to encourage customers to pay for services in other forms.
- The future introduction of a Local Authority Trading Company (LATC) and the need for robust audit systems to be in place in order to assess the performance of this company compared to the existing service.

**RESOLVED that**

**the report be noted.**

## **86. INTERNAL AUDIT - DRAFT AUDIT PLAN**

The Head of the Internal Audit Shared Service presented the 2018/19 provisional Internal Audit Plan. The Committee was advised that a different approach had been adopted to developing the plan this year. The content of the plan was risk oriented, taking into account both corporate and service risks. The Internal Audit team had consulted with both the Senior Management Team (SMT) and Heads of Service about the content and time had been taken to ensure that the content related to the Council's strategic purposes. The content of the plan would be reviewed six months after its adoption and would be amended if adjustments were found to be needed. This would ensure that the plan was flexible and

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responded to changing circumstances. Any proposed changes to the plan would be reported for the Committee's consideration.

The same number of days, 400, had been allocated by Internal Audit to auditing the Council's services as in previous years. Work would be prioritised in accordance with whether issues were considered to be low, medium or high priority issues. The content was linked closely to that of Bromsgrove District Council due to the close working relationship of the two authorities in respect of shared services. Where there were shared services attempts had been made to share the allocated budget between the two Councils fairly. However, in some cases more time would be allocated to the internal audit at one Council than at another where a particular service was more prevalent for that authority and this would be reflected in the costs. For example more days had been allocated to auditing car parks in Bromsgrove than in Redditch due to different arrangements being in place in the two districts.

A number of performance indicators had been identified for inclusion in the plan. These were the same as those in place in 2017/18. Reports would be provided to the Committee in terms of performance in relation to these indicators on an ongoing basis.

Members noted that the stores had been identified as a potential risk for the Council and this would be subject to an internal audit during the year. The Committee was advised that the stores were used by Housing and Environmental Services and this was a relatively complex area for review.

The Committee also noted that four days had been allocated to an internal audit of the bus operator's grant. Questions were raised as to why time had been allocated to this following the decision in 2016/17 to end financial support from pre 9.30am travel. Officers advised that this was required to help process grant claims and sign off previous arrangements. Members requested that officers investigate whether this would be needed for inclusion in subsequent plans.

## **RESOLVED that**

- 1) the content of the provision Internal Audit Plan be noted;  
and**
- 2) the Key Performance Indicators be noted.**

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## **87. TREASURY MANAGEMENT STRATEGY, PRUDENTIAL INDICATORS AND MINIMUM REVENUE POLICY PROVISION 2018/19**

The Executive Director of Finance and Corporate Resources presented the Treasury Management Strategy 2018/19. During the presentation of this report the following matters were highlighted for Members' consideration:

- The Council had adopted CIPFA's code of practice in respect of treasury management eight years previously.
- The Capital Financing Requirement (CFR) underlined the Council's need to borrow for capital purposes.
- The local authority, like most Councils, tended to borrow from the Public Loans Works Board (PLWB).
- Due to risks of exposure in respect of liquidity the Council had to ensure that it had access to £3 million in cash within three months.
- Like many local authorities the Council had authorised limits for borrowing as well as operational limits for officers.

After the report had been presented Members discussed a number of areas in detail:

- The reasons why the investments on new borrowing requirements were increasing and what this entailed. Officers explained that this was the Council's forecast borrowing which was needed to support the capital programme. There was an assumption being made that borrowing would need to increase.
- The levels at which the costs of borrowing could fluctuate over time.
- The potential to use the Council's capital receipts to invest in capital spending.
- The potential for Members to be provided with more information about the contents of the Council's Capital Programme.
- The arrangement whereby funding was borrowed from the Housing Revenue Account (HRA) by the General Fund and the potential need to borrow from other sources in the long-term.
- The arrangements by which officers built calculations around sustainability into the Council's Medium Term Financial Plan (MTFP).

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- The need for more borrowing in the long-term to help accommodate the costs arising from the housing growth programme.

## **RECOMMENDED that**

- 1) **the Strategy and Prudential Indicators at Appendix 1 to the report be approved; and**
- 2) **the Treasury Management Policy at Appendix 2 to the report be approved.**

## **88. CORPORATE GOVERNANCE AND RISK UPDATE (INCLUDING S11 ACTION PLAN MONITORING)**

The Executive Director of Finance and Corporate Resources explained that the report had been provided to ensure Members received overarching information in respect of corporate governance and risks.

Information had been provided about the Council's accounting policies. Within this policy it was proposed that the minimum limit for accruals would be £5,000. It had been agreed with the Council's external auditors that this would be a reasonable level.

Members were advised that action was being taken to improve on the Council's monitoring of savings. This included taking into account assumption about local demographics. Heads of Service were also being encouraged to review fees and charges on a line by line basis, rather than to impose a standard increase across all services, as well as to undertake benchmarking when setting fees.

## **RESOLVED that**

**the Accounting Policies be approved for use for the closure of the 2017/18 accounts and production of the 2017/18 Statement of Accounts.**

## **89. FINANCIAL SAVINGS MONITORING REPORT**

The Executive Director of Finance and Corporate Resources explained that the report detailed the savings that had been achieved by the Council compared to the aims that had been recorded in the Efficiency Plan. The Council was performing better than had been anticipated in the Efficiency Plan in terms of

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delivering savings. However, some of the predictions detailed in that plan had been very different to the actual savings achieved and improvements needed to be made in forecasting.

Shortfalls had been recorded for Leisure and Cultural Services, the Management Review that had featured in the previous Medium Term Financial Plan and Business Rates.

Questions were raised as to why the Council's income and savings were different to predictions detailed in the Efficiency Plan. To an extent it was noted that this was because the Efficiency Plan had had to be finalised in October 2016 four months before the Council had set its budget. In addition the delay with the Management Review had been unforeseen, but had had to be postponed due to issues that had arisen in respect of the Housing Department.

**RESOLVED that**

**the financial position for savings in the period April to December 2018 be noted.**

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

The Committee was advised that the representatives from the external auditors, Grant Thornton, would be presenting three reports at the following meeting, rather than the two listed in the work programme. The following reports would be presented by the external auditors:

- External Audit – Update Report.
- External Audit – Informing the Risk Assessment.
- External Audit – Housing Benefits Grant Report.

The Meeting commenced at 7.00 pm  
and closed at 8.40 pm