

# **Audit, Governance & Standards Committee**

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Thursday, 26 April 2018

## **MINUTES**

### **Present:**

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

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

### **Also Present:**

Richard Percival (Grant Thornton)

### **Officers:**

Andy Bromage, Lisa Devey, Claire Felton, Chris Forrester and Jayne Pickering.

### **Democratic Services Officers:**

Jess Bayley and Louise Morris

## **91. APOLOGIES AND NAMED SUBSTITUTES**

Apologies were submitted on behalf of Councillor Natalie Brookes and by Feckenham Parish Councillors Alan Smith and Slade Arthur.

## **92. DECLARATIONS OF INTEREST**

There were no declarations of interest.

## **93. MINUTES**

Reference was made to the following comment in the 1 February 2018 minutes;

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Chair

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*'The number of high priority recommendations and the extent to which the number was acceptable for the local authority. Officers advised that this did not cause undue concern.'*

Members felt that this wording was slightly dismissive as the Committee did have concerns and monitored the response. Following discussion it was confirmed that whilst the matter was still important for the local authority to address, the minutes had reflected the discussion that had taken place and were therefore accurate.

## **RESOLVED:**

**That the minutes of the Audit, Governance and Standards Committee held on the 21 September 2017 and the minutes of the Audit, Governance and Standards Committee held on the 1 February 2018 be confirmed as a correct record and signed by the Chair.**

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

The Head of Legal, Equalities and Democratic Services and the Monitoring Officer introduced the report. It was confirmed that a number of enquiries that had been received regarding the role of Members on the Planning Committee and the rules around Declaring an Interest and issues of biased and/or predetermination. There had been no complaints as there had been no breach in the code of conduct by Members. There had been no further training undertaken but there would be a programme of Member training activity post elections. Members' advice on any training needs was sought. Regarding the issue of substitutes the Head of Legal, Equalities and Democratic Services and the Monitoring Officer referred to conversations about the constitution and potentially the need to ensure that substitutes be named from the outset as this would be more professional and transparent for the public.

Members suggested that the Group whips would be able to arrange this.

## **RESOLVED:**

**That the Monitoring Officer's Report – Standards Regime, be noted.**

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## 95. GRANT THORNTON - UPDATE REPORT

Mr Richard Percival, Grant Thornton, presented the Audit Progress Report and Sector Update. The report provided a summary of progress to the end of March 2018. It was highlighted that;

- A pre-audit visit had been undertaken and the outcomes were included.
- Work had been completed as had been planned at this stage.
- There were no concerns raised by auditors in their initial work.
- Conversations had been held with The Executive Director Finance and Resources and information was being assimilated.
- Housing Benefit matters would be discussed later in the meeting.
- The National Audit Office had considered the financial sustainability of local authorities. It was reported that the future was now less certain than the review in 2014.
- There had been interesting consideration of the variation in local authority reserves. Reference was made to the Section 144 notice issued at one local authority which indicated that it was at risk of failing to balance its books this financial year.
- The Department for Communities and Local Government advice to ministers in 2015 drew on more comprehensive evidence and multiple short term funding had been announced, there was not a long term funding plan for Local Authorities.
- The Public Sector Audit Appointments Report had highlighted that delivering an audit opinion by the 31 July was the biggest challenge. Seventeen percent of local authorities had unqualified accounts by the 31<sup>st</sup> July and a significant proportion of local authorities had work completed past this deadline. There was still work to be undertaken to ensure a seismic shift in the timeframe.

Mr Jones, the Independent Member for Audit and Governance, sought reassurance that the Council would be compliant with the General Data Protection Regulation (GDPR).

Mr Percival explained that this had not been directly considered by External Audit, however the Executive Director Finance and Resources confirmed that the Head of Business Transformation had done significant work on this area. The Corporate Management Team had undertaken training and training was now being rolled out to every member of staff. There was a clear plan in place.

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Reference was made to the need for Members to register as Data Processors and Officers were asked if they had all done so.

The Senior Democratic Services Officer confirmed that not all Members had registered but this was being promoted and Data Protection would be part of Member Induction training sessions. The training would include consideration of the new legislation and how to register. Members were advised to contact Democratic Services for advice on the matter and support, if needed, in completing their registration.

Following further discussion the Executive Director Finance and Resources confirmed that registering was the approach being advised and encouraged by the Monitoring Officer at Redditch Borough Council.

## **RESOLVED:**

**That the Audit Progress Report and Sector Update be noted.**

### **96. GRANT THORNTON - AUDITING STANDARDS - COMMUNICATING WITH THE AUDIT, GOVERNANCE AND STANDARDS COMMITTEE**

Mr Percival introduced the report detailing the communication with the Audit, Governance and Standards Committee during the Audit year 2017/18. The Committee was invited to consider the management responses and confirm satisfaction with the arrangements and that they fitted with Members' knowledge of what had taken place.

The Chair raised concerns about what had occurred in respect of Housing Capital and further assurances were sought.

The Executive Director Finance and Resources explained that this was a sensitive issue with Officer employment implications. An internal audit report would be presented to a future meeting of the Committee detailing the various improvements that had been made. The report was currently in draft form and a specific date for when the Committee would receive it could therefore not be provided.

Mr Percival confirmed that the external auditors were aware of the approach taken in relation to dealing with the issue and the progress that had been made.

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Following requests from Members for further assurances, Mr Percival confirmed that the external auditor's responsibility was to ensure that the Council's financial statements were free from material fraud.

The Executive Director Finance and Resources confirmed that the amount was approximately £900k. Reassurance was provided that the report from the internal audit team would be comprehensive. This was given by internal audit and the Executive Director of Finance and Resources.

The Independent Member, referred to the onus on internal audit. The procedures for reporting irregularities and assessing the effectiveness of the system were queried and the Head of Internal Audit confirmed that the internal auditors were attuned to potential fraudulent activity and the risks associated. The internal auditors were looking at specific areas and possible trends. The National Fraud Initiative had clear policies and procedures around for example whistleblowing and anti-fraud and corruption. Areas would be assessed for risk as part of the overall review. The risks were higher in certain areas. Any identified concerns would be highlighted to management and then to the Committee. The case was a good example of an issue being picked up during routine audit. Senior management had been involved in discussions.

The Executive Director Finance and Resources referred to the irregularities in the letting of contract. The contract and procurement rules had been revised and there had been training for staff around ordering and purchasing. Controls to identify and mitigate possible fraud were put in place but it was important to note that the audit report did not say that fraud had taken place.

The Independent Member queried the process if fraud did occur and how this would be escalated up and the Executive Director Finance and Resources explained that if any irregularity was identified the internal auditor would raise this directly with herself or the Chief Executive.

In response to a query regarding the savings that had not been identified in a high level of detail, it was clarified that this had been resolved and External Audit had been provided with a full breakdown.

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## **RESOLVED:**

**That the Committee note the Auditing Standards report for 2017/18 from the Councils External Auditors, Grant Thornton and management responses.**

### **97. GRANT THORNTON - CERTIFICATION WORK REPORT 2016/17 (HOUSING BENEFIT SUBSIDY AUDIT)**

The Executive Director Finance and Resources introduced the Assistant Financial Support Services Manager responsible for Quality and Improvement and Welfare Support Development and clarified that the Housing Benefit Subsidy claimed for 2016/17 totalled £23.2 million and over twelve thousand transactions had taken place. The Department for Work and Pensions had no level of materiality so there was no margin for error within the system and through the audit process key actions were identified each year. If there was evidence of error in one case it was assumed all other cases could be wrong. There had been a full system conversion as the Bromsgrove and Redditch claims systems had been brought together providing more functionality. There was a ninety three percent accuracy rate and no concerns. A number of improvements had been made for example more staff training and flagging up staff weaknesses and providing training to specific members of staff when required. Financial support to implement changes in the system had been provided by the Department of Work and Pensions.

The Assistant Financial Support Services Manager confirmed that the extra resource enabled more checks to be conducted. Over four hundred checks had been completed during 2017/18.

Mr Percival referred to the snowball effect of the audit process. If in year one an error was identified this would lead to further testing. It would take three years to work the errors out of the system. It was hoped that the volume of work would reduce and the audit fee could come down.

Members' queried the impact of universal credit and it was confirmed by Mr Percival that there was no indication that Housing Benefit subsidy would disappear from local authorities' responsibilities and no indication that Universal Credit would replace Housing Benefit in its entirety.

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In response to the Chair's query it was confirmed by the Assistant Financial Support Services Manager that Civica was the system used by the Council to process Housing Benefit claims.

The Chair sought reassurances that the higher number of errors than expected would improve.

Mr Percival explained that he could not give false assurance that the number of errors would go down, improvements would take time to work through the system.

In response to the Independent Member's question regarding the cost of additional auditing Mr Percival explained that estimates based on other local authorities of a similar size with a housing benefit revenue account demonstrated that the costs for Redditch Borough Council were comparatively high and he was keen for these costs to come down. Although there may be failures in the audit testing, there was not a failure to act on the issues raised but this took time to work through the system. In response to further questioning it was clarified by Mr Percival that there was always a risk of human error as individuals had to input data, although he was keen to see errors come down. It was important to recognise that the Accessors were often working in difficult circumstances, managing people in distress.

The Assistant Financial Support Services Manager gave the example of somebody inputting 23p rather than 32p creating a 9p error. Forty cases had been checked and no significant errors had been discovered.

Mr Percival emphasised that of the £23.2 million Housing Benefit Subsidy, a total of £538 in errors had been identified. An error of a few pence meant that auditors were obliged to test a sample of forty cases.

Members referred to the time spent on this work and Mr Percival explained that there was strict compliance required and the Department for Work and Pensions left very little to discretion. If there was an isolated incident, further testing might show the situation was acceptable but further testing could show more errors which would mean the audit would be ongoing.

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## **RESOLVED:**

**That the Committee note the Audit Letter and the ongoing plans to continuously improve the quality and accuracy of assessment and data input.**

### **98. COMPLIANCE TEAM UPDATE REPORT**

The Executive Director Finance and Resources provided the Compliance Team update to the Committee. The news was positive. Following the transfer of benefit fraud to the Department of Work and Pensions in 2016, the Council had decided to keep the Compliance Team. The team was self-funding and had generated income of £938,934, with a percentage going to the Borough Council, fire, the police and the County Council. The role of the team had developed to include verification of on-going entitlement to Council Tax discounts, exemptions and reductions and the use of data and intelligence to identify missing and undervalued business premises. There had been discussion about what other areas the Compliance Team could investigate going forward to generate income and find people liable.

The Chair congratulated the team on the work undertaken.

In response to Members queries regarding the financial support for the Compliance Team, the Executive Director Finance and Resources confirmed that the County Council provided £50K to support the Compliance Team and there would be more money allocated from central government which would secure extra staffing for the team.

Members suggested the team should look at the issue of subletting and The Executive Director Finance and Resources explained that this was an area the team were interested in exploring going forward.

In response to a question from the Independent Member, the Assistant Financial Support Services Manager clarified that Housing Benefit Subsidy allowed the Council to claim an additional forty percent or one hundred percent on Housing Benefit overpayments collected, meaning income of £1.40 or £2 was generated for the authority per pound.

Members asked if there would be a rolling programme of work and how the team would broaden its work to achieve maximum income.



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The Assistant Financial Support Services Manager explained that this work was in development and could include student exemption and Council Tax disregards. There were two specialist fraud investigators who could look at housing tenancy fraud and subletting.

The Executive Director Finance and Resources confirmed that thirty percent of Council Tax payers were claiming single person discount which was a comparatively high proportion so there was a potential to identify fraud in this area.

In response to Members' questions it was explained that the District and Borough Councils had agreed to waver Council Tax for care leavers and were waiting for the County Council to advise who these young people were and where they were living.

## **RESOLVED:**

**That the Compliance Team Update report be noted.**

## **99. INTERNAL AUDIT PROGRESS REPORT**

The Head of Internal Audit explained that there had been a number of Audit Summary updates reported. The Committee's attention was brought to page 94 of the agenda which discussed the Records Management review which had received a limited level of assurance. Page 115 of the agenda discussed the recommendations and provided an update on progress made. A number of audit days had not been delivered against the overall Audit Plan target but this had had no effect on the overall coverage of the Plan for 2017/18. A number of areas would be reported on in due course. Other areas would be followed up to ensure the findings were fully addressed and the recommendations implemented. A couple of areas had progressed since the report was written, for example regarding the Palace Theatre due to the number of staff that were volunteers, a possible resilience issue had been identified and there were still some challenges that needed to be addressed. Regarding Pitcher Oak Golf Course the two priority areas had now been improved. St David's House, which had received moderate assurance, had addressed the high priority and four medium priority recommendations. There was still some work undergoing to ensure appropriate staff induction training. Action plans agreed to address risks identified were summarised from page 110 of the agenda.

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In response to a question from the Chair it was confirmed that the Matrix contract had been extended for 12 months, therefore the follow up would be scheduled for towards the contract expiry date in April 2019, rather than in April 2018 as stated in the report.

The Chair queried why there had not been follow up on Worcester Regulatory Services since August 2017 and the Head of Internal Audit confirmed that an audit was currently taking place and the outcome would be reported back to the Committee in due course

In response to Members' queries it was confirmed by the Head of Internal Audit that;

- When there was satisfaction that the points had been addressed the entry would come off the matrix.
- The team aimed to deliver ninety percent of the 2017/18 Internal Audit Plan but this had not been achieved as four staff had left which had had an impact on delivery. Staff had since been recruited and the team was now fully staffed and would therefore hopefully hit the target set going forward.

## **RESOLVED:**

**That the Internal Progress Report be noted.**

### **100. INTERNAL AUDIT - FINAL AUDIT PLAN 2018/19**

The Head of Internal Audit shared the 2018/19 Internal Audit Plan report. There had been an explanation of the Plan and how it would be delivered over the next twelve months at the February 2018 Committee meeting. There had been no material changes to the plan and it picked up the key risks. It had been discussed by the Senior Management Team. There could be a requirement to revisit the plan in six months' time to make sure that it continued to be fit for purpose. Any changes to address any emerging risks would be brought to the Committee. The Key Performance Indicators were included.

The Director of Finance and Resources confirmed that the Plan had been brought to the Committee in February 2018 and shared with the Corporate Management Team.

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## **RESOLVED:**

**That the Committee approve the 2018/19 Audit Plan and the Key Performance Indicators.**

### **101. CORPORATE GOVERNANCE AND RISK UPDATE REPORT (INCLUDING SECTION 11 ACTION MONITORING)**

The Executive Director Finance and Resources introduced the Corporate Governance and Risk report which provided an update on the S11 recommendations. The preparation of accounts recommendations had been resolved however there remained a couple of improvements identified in relation to budget monitoring. Officers were implementing improvements and it was anticipated that these would address the auditor's recommendations. This would be included in the Audit Opinion to the Committee in July 2018. In relation to the risk register, Members were advised that as the Executive had approved the risk management strategy at their latest meeting, the corporate risk register was under development and the Committee would receive this at the next meeting.

## **RESOLVED:**

**That the Committee note the progress to the S11 recommendations.**

### **102. FINANCIAL SAVINGS MONITORING REPORT**

The Executive Director Finance and Resources, presented the monitoring of the savings for 2017/18. The Council had been required by the External Auditors to monitor the savings better going forward. An efficiency plan was agreed in October 2016 and the budget set in February 2017. The efficiency plan was therefore superseded by the budget set for 2017/18. It was anticipated that the Council would achieve an extra £266k in addition to what had been predicted in the savings plan for 2017/18. Quarter 3 monitoring however did not show a favourable position for the local authority overall but officers had been working to reduce the impact of the overall cost pressures.

It was suggested that the Committee should be monitoring savings against the total budget.

The Executive Director Finance and Resources confirmed that monitoring of savings was being delivered in the way expected. It

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was advised that in future reports a table could be added in the report which showed the overall picture for the Council. In response to further questioning it was confirmed that the Committee received similar information as the Executive but the Executive did not have a detailed savings plan.

In response to a question from the Independent Member, the Executive Director Finance and Resources clarified that in 2016/17 there had been a significant underspend. In 2017/18 budgets had been overestimated. Savings had been drawn down and budgets would be reset going forward.

## **RESOLVED:**

**That the Committee note the Projected Financial Savings Monitoring Report 2017/18.**

## **103. COMMITTEE WORK PROGRAMME**

The Senior Democratic Services Officer alerted the Committee to the intention to combine the Committee training session with the Statement of Accounts Briefing on the 9<sup>th</sup> July 2018 as the Statement of Accounts would need to be considered at the first Committee meeting of the new municipal year.

The Independent Member queried if the feedback from the Risk Management Group and an update on the Crossgates Depot could be included on the Work Programme and the Executive Director Finance and Resources confirmed that the Corporate Risk Register and updates would be included at the next meeting.

The Chair thanked all for attending the meeting and for their support during the year.

## **RESOLVED:**

**That the Work Programme be approved by the Committee subject to the following that;**

- **An update on the Risk Management Group to be brought to the next meeting.**
- **The Corporate Risk Register to be brought to the July meeting.**
- **An update on the Crossgates Depot to be programmed.**

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The Meeting commenced at 7pm  
and closed at 8:17pm