

# **Audit & Governance**

**Committee**

**26th September 2013**

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## **MINUTES**

### **Present:**

Councillor Derek Taylor (Chair), Councillor Roger Hill (Vice-Chair) and Councillors Roger Bennett, John Fisher, Yvonne Smith and Pat Witherspoon

### **Also Present:**

Phil Jones and Zoe Thomas (Grant Thornton – External Auditors)

### **Officers:**

A Bromage, T Kristunas and S Morgan

### **Committee Services Officer:**

D Parker-Jones

### **13. APOLOGIES**

An apology for absence was received on behalf of Councillor Mark Shurmer.

### **14. DECLARATIONS OF INTEREST**

There were no declarations of interest.

### **15. MINUTES**

#### **RESOLVED that**

**the minutes of the Committee held on 27th June 2013 be confirmed as a correct record and signed by the Chair.**

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Chair

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## 16. AUDIT & GOVERNANCE COMMITTEE - ACTION LIST AND WORK PROGRAMME

### Action List

#### (i) Ref 1 – National Fraud Initiative

Officers confirmed that whilst a feasibility study had not been undertaken data matching work was continuing and was being managed. This would be reported on to Members at a later stage as part of the normal reporting arrangements. Work on this was also being carried out nationally, as part of the National Fraud Initiative, which would involve working with the Audit Commission.

Action: It was agreed that this item be removed from the Action List.

#### (ii) Ref 2 – Training dates for lead risk and fraud monitoring Members on the Committee

One of the lead Members responsible for fraud monitoring on behalf of the Committee advised that he and the second lead Member for fraud monitoring were, subject to both Members' availability, due to meet with Officers on 4th October for relevant training.

Regarding the lead Members responsible for risk monitoring on behalf of the Committee, a date which had been planned for one of the Members to meet with Officers was in the process of being rearranged. Officers agreed to contact the second lead Member for risk monitoring to make suitable arrangements for them to meet with Officers.

Action: It was agreed that this item be removed from the Action List.

#### (iii) Ref 3 – Delays in raising Council invoices for community meeting rooms and refreshments

The Chair stated that he had spoken with Officers on this matter and had requested that the issue of invoices being raised and payments having to be made at the point of booking be investigated.

Officers reported that they had raised this issue with the relevant Head of Service who had confirmed that this was

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being looked at as part of transformation and that the situation had improved.

It was noted that whilst the individual amounts of monies involved were often relatively small, when added together these could be more significant, with all monies constituting revenue for the Council.

When asked for their views on this issue, the external auditors commented that one of the key questions to consider was the amount of money involved and whether, based on the figures in question, it was worth reviewing the current processes.

Members requested therefore that Officers bring back to the next meeting details of the figures concerned, following which the Committee would determine whether any further action was required.

Action: Officers to report back at the 16th January 2014 meeting on the figures involved.

(iv) Ref 4 – Audit management software system

The written update in relation to the audit management software system included in the Action List was noted.

Action: It was agreed that this item be removed from the Action List.

(v) Ref 5 – Paolazzi murals

The external auditors stated that they had raised the issue of the ownership and trust arrangements of the murals as part of their audit as these had been designed by a well-known artist. It was therefore appropriate for these to be valued and the arrangements determined.

Officers advised that the authority's legal department had ascertained that the Council did not own the murals and that it had an option for the authority to own these in 2024.

Action: It was agreed that this item be removed from the Action List.

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(vi) Refs 6 to 9

It was noted that Officers were due to provide updates on these items at the 16th January 2014 meeting.

(vii) Ref 10 – Effectiveness of controls for monies collection and use for stated purposes

Officers queried the origin of this item and what information Members wished to receive in this regard.

It was agreed that a written report would be brought to the next meeting of the Committee on the recovery of debts.

Action: Officers to bring a written report on debt recovery to the 16th January 2014 meeting of the Committee.

(vii) Ref 11 – Future monitoring of use of balances to support expenditure

It was noted that Officers would be providing periodic updates to the Committee on information referred to the Executive Committee as part of the quarterly budget monitoring reports.

Action: to remain on Action List as an ongoing item.

## Work Programme

In addition to the report noted at (vii) above, Officers advised of two further reports which would be referred to the 16th January 2014 meeting, namely:

- Financial Resilience Report; and
- Annual Governance Statement 2013/14 – Progress/Update Report.

The Chair advised that the Annual Governance Statement Progress/Update Report would appear as a regular item on all future meetings in order that the Committee could monitor and have input into the development of this.

## **RESOLVED that**

**subject to the comments detailed in the preamble above, the Committee Action List and Work Programme be noted and the amendments and updates in relation to these be agreed.**

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## 17. RISK MONITORING & REPORTING

The Committee received a presentation from the Head of Finance & Resources on the Operational Risks identified within her service area, which covered:

- Finance & Resources;
- Benefits Services;
- Financial Services;
- Human Resources & Organisational Development;
- Property Services; and
- Revenue Services.

Officers responded to questions from Members on various aspects of the presentation.

The key factors noted during the course of the discussion were:

- the shortage of trained benefits staff nationally and the length of time it took to train staff to an appropriate level, bearing in mind that the cost of any financial losses as a result of staff errors in dealing with benefit claims had to be met by the authority;
- the need for a single ledger system and managing the change for this; and
- the requirement for the introduction of a Council Tax Discount Scheme by January 2014.

**RESOLVED that**

**the presentation be noted.**

## 18. FRAUD MONITORING & REPORTING

The Committee received a report which advised on the performance of the Benefits Services Fraud Investigation Service from 1st April 2013 to 31st August 2013.

Members were pleased to note that the overall amount of overpaid Housing Benefit and excess payments of Council Tax Benefit was a small percentage of the overall entitlement for such benefits.

**RESOLVED that**

**the report be noted.**

### 19. APPOINTMENT OF AN INDEPENDENT MEMBER

Further to Minute No. 6 of the 27th June 2013 meeting (Co-option of Independent (non-elected) Members on the Committee), Members received a report on a proposed process for the recruitment and selection of an independent member on the Committee.

Officers advised that, if agreeing to the suggested process, there would be an additional recommendation that authority be delegated to the interview panel to finalise recruitment following interviews.

Members considered the suggested criteria for appointment and debated whether the requirement for the independent member not to be a member of a political party should remain, or whether this might place too great a restriction on any interested candidates. The Committee determined that this requirement should remain to ensure the independence of the independent member.

Membership of the interview panel was discussed and it was agreed that the panel would comprise Councillors Bennett, Fisher, Hill and Witherspoon. It was further agreed that the interview panel would undertake the shortlisting process for candidates for interview.

Officers confirmed their understanding that the post would likely be advertised both on the Council's website and in the local press, at no financial cost to the authority. Officers added that they would make the necessary arrangements to proceed with the appointments process and would liaise with the interview panel, in consultation with the Chair of the Committee, to progress this.

#### **RESOLVED that**

- 1) the format of the recruitment and selection process and interview panel, as detailed in the report and in the preamble above, be approved;**
- 2) the interview panel comprise Councillors Bennett, Fisher, Hill and Witherspoon; and**
- 3) authority be delegated to the interview panel to finalise recruitment following the interview process.**

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## 20. GRANT THORNTON - PROGRESS REPORT

The external auditors advised that, in view of the following item on the agenda (Grant Thornton – Audit Findings Report), no separate progress report was necessary on this occasion.

**RESOLVED that**

**the position be noted.**

## 21. GRANT THORNTON - AUDIT FINDINGS REPORT

Members were asked to consider Grant Thornton's Audit Findings report for the Council for the year ended 31st March 2013.

An updated Audit Findings report was tabled by the external auditors at the meeting. This provided a full and up to date picture of the findings as the audit had not been finalised at the time the original report was issued. Officers further advised that paragraph 3.4 of the covering report contained in the agenda papers was not applicable and should be deleted, and that the figure quoted at paragraph 3.5 should read 3 and not 2 recommendations proposed by Grant Thornton.

The external auditors confirmed that they would be issuing unqualified opinions on the financial statements and value for money (VFM) by the statutory deadline of 30th September 2013.

A £1.3m adjustment had been made to the accounts as a result of double counting of the revaluation loss on the Housing Revenue Account. This was a human accounting error which had had no effect on the final reported financial position. The external auditors commented that this was a fairly common accounting error which related to a complex area.

Members noted the audit findings against significant risks and the external auditors stated that no particular issues had arisen around these. No new risks had been identified during the year.

Regarding internal controls relevant to the preparation of the financial statements, some minor IT audit deficiencies were noted which Officers had given assurances had been addressed.

In relation to VFM, the external auditor's key findings highlighted that whilst the Council currently had adequate levels of balances, these would not be sufficient should the Council be unsuccessful in plugging the gap in financial plans from 2014/15 onwards. It was

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therefore suggested that, as part of the 2014/15 budget setting process, the Council should review whether its minimum level of balances was sufficient. Whilst the Council was taking significant steps to achieve recurring savings the savings required to achieve financial balance were challenging. The external auditors had therefore assessed the Council as having significant risk in relation to its medium term financial plans. Officers stated that the Council's current minimum level of balances was set at £750,000 and that this level was due to be reviewed.

The external auditors felt that improvements to the Council's forecasting and a more robust review of achievement of savings plans would help the Council to manage its financial position. A further £1.4m of savings were required in 2014/15, meaning significant savings had to be delivered. There should be no last minute surprises regarding savings and the external auditors recommended that savings be continually monitored, with transparent reports clearly evidencing how savings were being made.

A Member queried whether regular budget monitoring reports in relation to identified savings and how identified savings were progressing should be referred to the Committee. Officers advised that the Executive Committee received quarterly budget monitoring reports and that Heads of Service continually monitored their budgets with finance Officers to see whether identified savings were being achieved.

The Portfolio Holder for Corporate Management stated that he had agreed with Officers that he would be going through the Executive reports in detail and that there was a balance to be had with such monitoring. It was agreed that the Portfolio Holder would provide an oral update on 'Financial Budget Monitoring', based on the quarterly reports referred to the Executive Committee, to each meeting of the Committee. On this point, it was noted that all members of the Council had access to the Executive Committee papers and that these would not therefore be reproduced for the Audit & Governance Committee, with members of the Committee being responsible for reading any such papers independently in advance of the Portfolio Holder's quarterly updates to the Committee. The Portfolio Holder added that if members had any questions on the quarterly monitoring reports they could address these to him.



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**RESOLVED that**

- 4) the Audit Findings Report 2012/13 from Grant Thornton be approved; and**
- 5) in accordance with the terms detailed in the preamble above, the Portfolio Holder for Corporate Management provide an oral update to each meeting of the Committee on Financial Budget Monitoring.**

## **22. STATEMENT OF ACCOUNTS 2012/13**

The Committee received the Council's Statement of Accounts 2012/13 for approval, which it was noted had to be approved by the statutory deadline of 30th September 2013.

Members commented on certain aspects of the Statement. In relation to the estimated savings quoted on page 6 (Explanatory Foreword – Shared Services) of in excess of £300k savings for shared services for the year, it was queried whether the savings related to Redditch or Bromsgrove. Officers advised that this sentence had been removed from the final Statement as it was difficult to substantiate this and to show whether the savings were as a consequence of staff changes/vacancies or other factors. It was noted that the further wording at the top of page 7 (Explanatory Foreword – Economic Outlook) stating that sharing services with Bromsgrove District Council had generated over £1m during the last 4 years had also been moved from the final version of the Statement for the same reason.

Members felt that it was necessary to have a clear picture of any savings made through shared services and that figures which had been quoted in the draft Statement should not simply be removed. Officers responded that this issue had been raised fairly late in the audit process and that given the limited time available to substantiate the figures it had been agreed with the external auditors that the figures be removed. The Chair commented that the agreed future quarterly Portfolio Holder Financial Budget Monitoring oral updates for the Committee, as referred to in the previous agenda item, would assist in showing the reality of any savings.

Members debated the appropriateness of the wording relating to current balances at the top of page 7 of the Statement (Explanatory Foreword – Economic Outlook), which stated: “The current balances position of £1.0m is in excess of the prudent level

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recommended and if required could be utilised to fund the current projected shortfalls in budget to 2014/15.”

Officers confirmed that the current recommended prudent level for minimum balances stood at £750k, and that as the authority had £1.0m of balances a review of the Council’s minimum level for balances was merited. Any such review of balance levels might see the minimum figure either remain the same or increase, but would not see this fall. Discussions in this regard would therefore take place between Officers and the external auditors.

Whilst it was noted that the wording in relation to the current balances position was factually correct as at March, concern was expressed by some Members as to the appropriateness of the wording in relation to the projected shortfalls in the budget to 2014/15. Given the need to review the Council’s balance levels in the future, and in view of some of the major issues facing the Council as detailed in the Operational Risks presentation given by the Head of Finance & Resources earlier in the meeting, Members felt that the wording suggested the Council could fund the projected budget shortfall with balances. This was felt to be inaccurate and somewhat misleading given that in order to remain at a prudent level for balances only a maximum of £250k of current reserves could be utilised towards any budget shortfall.

It was therefore agreed, and after telephone consultation with the S151 Officer, that the latter part of the wording be removed and that the statement be amended to read: “The current balances position of £1.0m is in excess of the prudent level recommended.”

## **RESOLVED that**

- 1) as detailed in the preamble above, the wording of the third paragraph of the Economic Outlook section of the Explanatory Foreword of the Statement of Accounts be amended to read: “The current balances position of £1.0m is in excess of the prudent level recommended”;**
- 2) subject to the amendment detailed at 1) above, the 2012/13 Statement of Accounts be approved; and**
- 3) a copy of the amended Statement of Accounts be signed at the meeting by the Chair.**

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## **23. INTERNAL AUDIT - MONITORING REPORT**

Members considered the Internal Audit Monitoring Report as at 31st August 2013.

Officers highlighted the fact that the Limited Assurance Level given for Regulatory Services – Licensing Income was for Members' information only as the service was hosted by another authority.

Officers added that, in the usual manner, any exceptions arising from audit reviews and/or any follow-up monitoring work would be reported to the Committee.

In relation to the weaknesses identified as part of the control environment for the One Stop Shop and Cash Collection review, which were increasing the financial and reputational risk to the Council, the Chair commented that he hoped planned improvements would ultimately lead to a Significant Assurance Level.

**RESOLVED that**

**the report be noted.**

The Meeting commenced at 7.00 pm  
and closed at 9.05 pm

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Chair