

Audit, Governance & Standards Committee

Thursday, 21 April 2016

MINUTES

Present:

Councillor David Thain (Chair), Councillor Jane Potter (Vice-Chair – during Minute No's 48 to 64) and Councillors Natalie Brookes, Michael Chalk, John Fisher (during Minute No's 46 to part of 52 and part of 55 to 64), Gareth Prosser and Pat Witherspoon (during Minute No's 46 to 56)

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

Also Present:

Richard Percival – Grant Thornton (External Auditors)

Officers:

Andy Bromage, Sam Morgan and Jayne Pickering

Committee Services Officer:

Debbie Parker-Jones

46. APOLOGIES AND NAMED SUBSTITUTES

Apologies for absence were received on behalf of Borough Councillors Andrew Fry and Rachael Smith.

Feckenham Parish Councillors Alan Smith and Slade Arthur also tendered their apologies owing to a Parish Council meeting which was taking place the same evening.

47. DECLARATIONS OF INTEREST

There were no declarations of interest.

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Chair

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48. MINUTES

The minutes of the meeting of the Audit, Governance and Standards Committee held on 28th January 2016 were submitted.

RESOLVED that

the minutes of the meeting of the Audit, Governance and Standards Committee held on 28th January 2016 be confirmed as a correct record and signed by the Chair.

49. MONITORING OFFICER'S REPORT - STANDARDS REGIME

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

It was noted that no complaints against Members had been received since the last meeting of the Committee in January, and that dates had been arranged for a number of induction and training events after the local elections in May. Councillor Chalk requested that Officers provide him with a hard copy of any upcoming training information.

RESOLVED that

the report be noted.

50. FECKENHAM PARISH COUNCIL REPRESENTATIVE'S REPORT - STANDARDS REGIME

As advised under Apologies, the Parish Council Representatives were not present owing to a Parish Council meeting which was taking place the same evening.

Officers advised that they had contacted the Parish Representatives to query whether there was anything that they wished to have reported at the meeting, which they had confirmed there was not.

RESOLVED that

the position be noted.

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51. GRANT THORNTON - PROGRESS REPORT AND UPDATE 2015-16

Members received an update report from Grant Thornton on progress they had made in delivering their responsibilities as the Council's external auditors. The report also provided an insight into emerging national issues and developments which might be of relevance to, and impact on, the Council in the future.

Richard Percival stated that good progress had been made with audit work since the last meeting of the Committee, details of which were set out in Grant Thornton's report along with planned dates for upcoming work.

The emerging national issues were noted. These included a newly introduced IFRS 13 'Fair Value Measurement' and a requirement for local authorities to estimate provision for unlogged non-domestic rate appeals. Mr Percival responded to Members' questions on these issues.

RESOLVED that

the report be noted.

52. GRANT THORNTON - AUDIT PLAN 2015/16

Members were presented with the Grant Thornton Audit Plan 2015/16. The external auditors were required to give an opinion on the Council's financial statements and to satisfy themselves that the Council had made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Richard Percival provided an overview of the planned scope and timing of the audit, the key elements considered in identifying the Plan, and the developments and requirements that informed and shaped the audit. He also explained the reasoning behind the £983k materiality and £49k trivial misstatements levels and the workings of these.

The significant risks of material misstatement which the external auditors had identified were outlined. Two of these – The revenue cycle includes fraudulent transactions and Management over-ride of controls – were presumed risks applicable to all audits under national auditing standards. The third and fourth risks – Production of the 2015/16 financial statements and Accounting for recharged income and expenditure – were specific to the Council and based on issues encountered during the previous year's audit. The

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substantive audit procedures and work planned by Grant Thornton to address these risks were noted. The Value for Money ('VfM') element and new VfM sub-criteria determined by the National Audit Office were noted.

A Member raised concerns regarding a recent issue which had arisen with one of the Council's contractors, which could have led to possible action being taken against the Council by the contractor in question and the Council being held to account. Members felt that this was something which needed to be considered in the future; from both a contractual drafting and partnership working (i.e. how the Council interacted with its contractors and relevant procurement aspects) perspective. Where this issue stood in terms of the Corporate Risk Register and whether the risk management process was to pick up on such issues, together with any impact on the broader process, were all elements to be considered. Later in the meeting Members requested a legal review of all relevant contracts (Minute No. 59 below refers).

The 2015/16 audit and grant certification fees, which were determined by Public Sector Audit Appointments Limited, together with the additional fee required for the 2014/15 audit work, were noted. Following the closure of the Audit Commission in March 2015, responsibility for external auditor appointments would devolve to local authorities after the 2017/18 audits. A tendering process for external audit services would take place meaning local authorities could then appoint their chosen auditors.

RESOLVED that

the 2015/16 Grant Thornton Audit Plan be noted and agreed.

53. GRANT THORNTON - AUDIT FEE LETTER 2016/17

Members were presented with the planned audit fee letter for 2016/17 from the Council's external auditors Grant Thornton, and were asked to approve the level of fee.

Richard Percival advised that the fee for the main audit work for 2016/17 had remained the same as for 2015/16, and that the fee for the Grant Certification work had yet to be confirmed. This was the final time that the audit fee letter would be received in its present format, as from 2017/18 external audit work would be subject to tender and it would be for the Council to determine who would carry out this work.

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RESOLVED that

the audit fee for 2016/17 be agreed.

**54. GRANT THORNTON - AUDITING STANDARDS 2015/16 -
COMMUNICATION WITH THE AUDIT, GOVERNANCE AND
STANDARDS COMMITTEE**

Members were presented with the Auditing Standards – Communication with the Audit, Governance and Standards Committee report from the Council’s external auditors Grant Thornton. The aim of the report was to ensure that there was effective two way communication between the Committee, who were “Those Charged with Governance”, and the external auditor.

Richard Percival advised that in planning and performing their audit of the Council’s financial statements, Grant Thornton needed to understand how the Committee, supported by the Council’s management, met its responsibilities in the following areas:

- Fraud;
- Law and regulation;
- Going concern;
- Accounting for estimates; and
- Relates Parties.

RESOLVED that

the report and management responses be noted.

55. ACCOUNTING POLICIES 2015/16

The Committee were presented with the Council’s Accounting Policies for 2015/16.

It was noted that the Policies were currently at draft stage and could be subject to change prior to the final Policies being presented to Committee in September along with the Statement of Accounts. Officers advised that some changes were required to the Policies, which they were currently discussing with the external auditors.

Regarding the new IFRS ‘Fair Value Measurement’ and how assets were valued, Officers advised that the Council would have one surplus asset this year; a piece of land at Upper Norgrove House. A note regarding Materiality and the £250k materiality level had been added to the Policies. Notes below this amount had been removed from the accounts statements where they were not

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considered to add value to the Officer statements. Officers added that the Council had one heritage asset valued at less than £50k, namely the needles at the Forge Mill Museum. Officers and Mr Percival also provided further clarification in relation to depreciation, as detailed in the Policies.

RESOLVED that

the draft Accounting Policies attached at Appendix 1 to the report be approved.

56. INTERNAL AUDIT - PROGRESS REPORT

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

Officers presented the report and stated that at the previous meeting Members had requested that details of the percentage of critical review audits, as opposed to programmed (formal) audit work, be included in future progress reports. These details had been included in the report, with 37% of the eight finalised reviews having been critical reviews. Officers advised that this figure would fluctuate over the year and that updated details would be included in future reports. Delivery against the Internal Audit Plan was noted, together with the Performance Indicators data.

Regarding the Planned Follow Ups information detailed in the report, the following issues arose:

- i) DFGs and HRA grants – a typographical error on the move to the Parkside office;
- ii) Rent Arrears – it was queried whether the workings of Universal Credit had impacted on rent arrears. Officers advised that only a small number of new claims were assessed under Universal Credit but they would aim to review the link between the two issues and update Members on any impact identified;
- iii) Delays in follow up action – concerns were expressed on delays with some follow up actions, some of which were significant and resulted in three follow up dates which it was felt introduced waste into the process. Officers agreed that there was potential waste and that whilst there could be legitimate circumstances which might lead to delays, implementation could, on occasion, be more swift. Officers added that it was for the Committee, as part of its monitoring role, to determine when and if there was justification with

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delays, which was the reason for bringing the progress updates back to Members. It was agreed that Officers would take the Planned Follow Ups report to the next Corporate Management Team meeting and to Heads of Service to see where outstanding actions should be closed down. Any outstanding second and third follow ups would be taken to CMT and then to the Committee if the required actions were not completed; and

- iv) Measures Dashboard – following a request from Members, Officers agreed to include Measures Dashboard information in future reports as the strategic and operational measures' information was deemed key for monitoring purposes. It was also noted that the Measures Dashboard information might extend to data for external agencies data in the future.

A Member stated that at the previous meeting a request had been made for audit work to be carried out on the budget. Officers responded that on the back of the external auditor Section 11 Recommendations, it had been agreed that there would be an audit of the budget for this year and that time for this would be included in the Audit Plan.

Regarding the Stores Intervention Critical Review, it was noted that Dave Jones, the Independent Member and Lead Risk Member for the Committee, was due to meeting with relevant Officers the following week to discuss the outstanding issues in relation to inventories (Action List Ref 1 at Minute No. 62 below refers). It was agreed that Mr Jones would report back to the Committee at the next meeting on his discussions in this regard.

RESOLVED that

- 1) subject to the required follow up actions as detailed in the preamble above, the report be noted; and**
- 2) the Committee request that the Section 151 Officer take the Planned Follow Ups report appendix to the next Corporate Management Team meeting and report back to the Committee on the outcome of this.**

57. INTERNAL AUDIT - AUDIT PLAN 2016/17

Further to referral of the draft Internal Audit Operational Plan for 2016/17 at the previous meeting, Members received the final Plan for approval.

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Officers reminded Members of the increased number of days in the Plan for the Main Ledger, Budgetary Control and Bank Reconciliation audit work for 2016/17. The reasons for any increase or reduction in days were now detailed in a justification column which had been added to the report. The total number of audit days for 2016/17 remained the same as for 2015/16. As agreed at the previous meeting, the final Plan would also include audit time associated with the external auditor Section 11 budgetary recommendations.

Regarding the Performance Indicators (PIs) for 2016/17, it was noted that Mr Jones, Independent Member on the Committee, had met with the Internal Audit Manager earlier in the evening to discuss some areas where there might be a possibility of bringing forward more meaningful information to Members. Further discussions were due to take place with the S151 Officer in this regard, details of which would be brought to the Committee over the coming months. Officers would continue to work with the same PIs for the time being whilst developments were being considered.

RESOLVED that

subject to the Officer updates detailed in the preamble above, the Internal Audit Operational Plan 2016/17 be approved.

58. SECTION 11 RECOMMENDATIONS UPDATE

Members were presented with an update on progress against the external auditor Section 11 (S11) recommendations, as noted by the Committee at its January meeting. Officers advised that one meeting of the cross-party monitoring group which had been established in January to monitor the S11 Action Plan had taken place, which had proven to be successful.

Officers updated Members on progress against the S11 recommendations. At this stage the Action Plan was mostly on target. The only outstanding action related to the second recommendation – the need for the Council to develop a comprehensive project plan for the preparation of the accounts – as Officers were currently awaiting a full set of working paper requirements from Grant Thornton in order for the required templates to be compiled. A meeting with the external auditors was to be arranged shortly, the aim of which was to agree the working paper templates. Members requested that where actions were listed on the Action Plan as ongoing an anticipated completion date be given, which Officers agreed to include from the next update report.

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A day's staff training had taken place with a Chartered Institute of Public Finance and Accountancy (CIPFA) consultant to ensure that any issues in the software were eliminated, with another day's training planned for May. Officers were further forward with the accounting arrangements this year. Heads of Service and budget holders had updated Pressures/Savings/Bids forms and budget monitoring processes were being reviewed. A new Financial Planning module was also due to be implemented which would give managers more control and flexibility of their budgets. The detailed Memorandum to Officers setting out the process and requirements for completion of the 2015/16 accounts, as appended to the report, was noted.

Officers provided an explanation of the Risk Log appended to the report, the shaded entries for which had been completed. Since the Log had been produced on 7th April a further four entries had been completed, namely:

- Place Partnership – R&M/Capital invoice;
- Place Partnership – pensions figures;
- System – Aged Debt on AR system; and
- Reconciliations – Stores system.

Officers added that the remaining entries were due for completion within the following 1-2 weeks and that the Finance Team was working extremely hard to ensure that all deadlines within the Action Plan were met. Members expressed their thanks to staff for their hard work.

RESOLVED that

the Section 11 Recommendations Action Plan as appended to the report be noted.

59. CORPORATE GOVERNANCE AND RISK

Members received a report which presented for consideration the draft Corporate Risk Register for 2016/17, and which also updated Members on the Annual Governance Statement 2015/16 and other current Governance issues. The management team had reviewed the draft Register earlier that week and Members were asked to make any proposed changes to this. The Register would then be reviewed by the Committee on a 6-monthly basis.

Officers presented the Risk Register. Members were advised that the first six risks listed had been carried over from the 2015/16

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Register. Additional risks had been included for 2016/17 in relation to the Financial Management arrangements and the potential risk of non-adherence with statutory inspections policies. Also, a risk associated with non-compliance with statutory requirements on health and safety replaced the previous risk of fatalities within provision service. Officers advised that the second Risk – Snap / poorly informed decisions made on savings / cuts – required some slight re-wording to make clear that this related to decisions being made where there was a lack of data/evidence to support such decisions.

Regarding the Non-adherence with Statutory Inspection Policy risk, Officers advised that they had spoken with the Head of Legal Services on this and that risks could arise from a number of issues in relation to the drawing-up of contracts and associated clauses within them. Councillors felt that existing contracts might be an issue and requested that there be a legal review of all relevant contracts, which Officers agreed to update the wording on the Risk Register for. This tied in with the contractor issue raised earlier in the agenda (Minute No. 52 refers).

A Member queried whether the lack of robust financial accounting and monitoring arrangements risk, which was scored a 9 medium Inherent and Residual Risk, should now be scored lower given the work which was being carried out in this area following the Section 11 Recommendations Action Plan and monitoring of progress against the Plan. Officers undertook to review the risk ratings as currently shown on the report to ensure they reflected the position following the controls being in place.

RESOLVED that

- 1) the draft Risk Register be updated in accordance with the comments/actions detailed in the preamble above; and**
- 2) the Annual Governance Statement and other Governance issues detailed in the report be noted.**

60. PORTFOLIO HOLDER UPDATE - QUARTERLY BUDGET MONITORING

The Portfolio Holder for Corporate Management began by reiterating his support for the Section 11 (S11) Recommendations Action Plan following the issued raised by the external auditors, and thanked staff for their efforts in this regard.

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The latest Finance Monitoring report for Quarter 3 of 2015/16 (April to December 2015) had been referred to Executive Committee in March. The position was reassuring with projected savings having been achieved. There was an overall underspend for the period of £303k and further projected savings by the end of the financial year. It was hoped that by the end of the financial year General Fund balances would stand at approximately £2.4m; an increase of £400k on previously budgeted figures.

In light of the Grant Thornton S11 recommendations it was clear that there were some improvements to be made in the budget monitoring processes and arrangements, which Officers were duly addressing in order to ensure that the Council was more resilient in the future. There was a balanced budget for 2016/17 and both Officers and Members would continue to work hard on driving out any system waste.

RESOLVED that

the update be noted.

61. PROPOSED SAVINGS REPORT 2016/17

Members were asked to approve the format of a future report to the Committee for monitoring approved financial savings for 2016/17, which had been recommended as part of the external auditor Section 11 Recommendations.

Officers advised that it was important to capture savings and to start updating Members on these. A draft report template to reflect the revenue savings was appended to the report for Members to consider. Any agreed report template would be taken to each meeting of the Committee from July onwards. Officers explained the process for how the table would be populated and updated throughout the year. For comparison purposes, a request was made for the equivalent overall Strategic Purpose savings for 2015/16 to be included in the report, which Officers agreed to.

RESOLVED that

subject to the addition of a column setting out the 2015/16 savings as detailed in the preamble above, the format of the savings report be approved.

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62. COMMITTEE ACTION LIST AND WORK PROGRAMME

Action List

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

It was noted that Mr Jones, Independent Member, was due to meet with the relevant service managers the following week to discuss inventories.

Action: item to remain on Action List as Mr Jones to report back to Committee at July meeting.

ii) Ref 2 – Treasury Management – Liquidity Risk

Mr Jones stated that he could only see details of borrowing in the response provided by Officers, when he had also requested details of both cash flow forecast and cash flow output, as detailed in the Action List. Officers stated that they had been unsure as to exactly what was required in this regard and agreed to provide the relevant information.

Action: item to remain on Action List until Officers have provided all required information.

iii) Ref 2 – Benchmark borrowing yield

Mr Jones commented that he felt it was a good idea for a benchmark to be provided against other clients and requested that this information be presented to Members, together with the criteria to be met in this regard. Officers advised that they were working with Arlingclose Limited on this and that the Council did not have any investments as at 31st March. There would hopefully be some investments during the next quarter. Officers stated that the requested benchmark data could be reported to Members and that this information would need to be confidential.

Action: item to remain on Action List until Officers have referred benchmark data to Committee.

iv) Ref 4 – Internal Audit – Draft Audit Plan 2016-17

Action: remove from Action List as required action completed.

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v) Ref 5 – Debt Recovery Update – Quarters 1 and 2 2015/16

Whilst it was noted that Officers had emailed Members with the requested write-off data immediately after the last meeting, Mr Jones requested that some context be given to the figures provided. This information should possibly include details of the whole of the Council's debt (for debts over 30 days where no prior agreement/arrangement was in place), together with debt comparisons against similar sized authorities.

Action: item to remain on Action List until Officers have provided additional information.

vi) Ref 6 – Future Reports to Committee / Work Programme updates

Action: remove from Action List as for information only.

Work Programme

Members noted the Statement of Accounts information detailed on the first page of the Work Programme and that, as in recent years, details of the draft accounts would be sent to Committee members once these had been lodged with the external auditors. It was anticipated that Members would receive this information on 3rd July 2016. This would allow Members time to look at these and to raise any queries with Officers prior to approval of the final Statement at the 22nd September meeting. An Officer Briefing on the Statement of Accounts was also scheduled to take place on 8th September to assist with any Member queries in this regard.

RESOLVED that

subject to the comments detailed in the preamble above, the Committee's Action List and Work Programme be noted and the amendments and updates highlighted be agreed.

63. ANNUAL REVIEW OF THE OPERATION OF THE COMMITTEE AND THE COMMITTEE'S TERMS OF REFERENCE AND PROCEDURE RULES

Members were asked to review the operation of the Audit, Governance and Standards Committee during the 2015/16 Municipal Year to date, and to review the Committee's Terms of Reference and Procedure Rules.

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The Chair thanked Members and Officers for their input into the Committee, in particular Finance Officers for their hard work over the preceding year. Thanks was also expressed to Mr Jones, Independent Members and Lead Risk Member on the Committee, for his proactiveness in role.

No comments or suggestions were made by the Committee in relation to the workings of the Committee, the Committee's Terms of Reference or the Committee's Procedure Rules.

RESOLVED that

the position be noted.

64. CALENDAR OF MEETINGS 2016/17

Members noted the agreed meeting dates for the 2016/17 Municipal Year.

RESOLVED that

the meeting dates be noted.

The Meeting commenced at 7.00 pm
and closed at 8.45 pm

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Chair