

MINUTES of a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the Council Chamber, Council Offices, Coalville on WEDNESDAY, 23 SEPTEMBER 2015

Present: Councillor J Cotterill (Chairman)

Councillors R Adams, R Ashman, J Clarke, F Fenning, D Harrison, T Neilson and A C Saffell

In Attendance: Councillors R Johnson

Officers: Mr R Bowmer, Ms L Cotton, Mrs M Meredith, Mr P Padaniya and Miss E Warhurst

External Audit: Mr J Cornett and Mr S Gill

#### **10. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor K Merrie.

#### **11. DECLARATION OF INTERESTS**

There were no interests declared.

#### **12. MINUTES**

Consideration was given to the minutes of the meeting held on 24 June 2015.

Councillor A C Saffell made reference to the report he had requested be included in the work programme. It was noted that this report would be submitted to the Policy Development Group in accordance with the Terms of Reference.

It was moved by Councillor J Cotterill, seconded by Councillor R Adams and

RESOLVED THAT:

The minutes of the meeting held on 24 June 2015 be approved and signed by the Chairman as a correct record.

#### **13. STANDARDS AND ETHICS - QUARTER 1 REPORT**

The Head of Legal and Support Services presented the report to members, advising that there was one ongoing complaint this quarter which was currently undergoing the informal resolution process. She highlighted the reduction in Freedom of Information requests, which was likely to be attributable to the increase in the amount of information available on the council's website, as a result of which, more people were able to access the information themselves.

Councillor T Neilson made reference to the increase in corporate complaints and asked how much of the increase in total complaints was attributable to housing. The Head of Legal and Support Services agreed to provide this information to the Committee after the meeting.

Councillor F Fenning asked who determined the level of compensation in cases where fault had been found. He also requested an estimate of the cost of compensation in such cases. The Head of Legal and Support Services agreed to provide details of the total cost after the meeting. She advised that the amount paid was determined by the Chief Executive or Director as appropriate, and a formula and scale was utilised. She added that the total amount paid would depend upon the circumstances and nature of complaint.

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RESOLVED THAT:

The report be received and noted.

#### **14. ANNUAL GOVERNANCE STATEMENT 2014 - 15**

The Head of Finance explained that there were three reports on the agenda relating to the Statement of Accounts. He advised that the Chairman had agreed a revised agenda order to make the flow more natural and to ensure that members had the information they needed in order to sign off the Statement of Accounts.

The Head of Finance presented the report to members, bringing to their attention the post balance sheet event relating to the summer budget as outlined on page 26 of the agenda. He advised that the rent guidelines had an impact upon the housing revenue budget and business plan, as rents could not be increased over the next four years.

It was moved by Councillor R Ashman, seconded by Councillor D Harrison and

RESOLVED THAT:

The Annual Governance Statement be approved.

#### **15. REPORT TO THOSE CHARGED WITH GOVERNANCE 2014/15**

The Head of Finance introduced the report to members, drawing their attention to the recommendations on page 91 of the agenda which would need to be addressed prior to the preparation of the accounts for 2015/16.

The External Auditor presented the report to Members, drawing their attention to the headline messages which were summarised in the report. He advised that he proposed to issue an unqualified opinion on the accounts by the end of September. He highlighted the adjustments which were to be made to the accounts, most of which were presentational in nature, and the three key risks to the delivery of the audit which had been identified, two of which were standard risks in all external audits. The third risk identified was in respect of the valuation and privatisation of fixed assets.

The External Auditor stated that adequate support arrangements were in place in respect of the accounts. He added that officers had acted upon previous recommendations in respect of the quality of the papers, however there was still some room for improving this further. He explained that a short piece of work was also needed in respect of the whole of government accounts submission, however this fundamentally could not be completed until it was clear that the requisite adjustments had been made to the accounts as set out on page 85 of the agenda, most of which were misclassification issues with no impact on the financial outturn position of the council. He highlighted one misclassification issue which had been listed as an asset, when in fact it was a liability; however this would have no impact upon the outturn position. He advised that there were other adjustments to be made which were purely presentational and nothing of significance. He highlighted the recommendations on page 91 of the agenda and the indicative timetable, which officers were in agreement with. He stated that the recommendations would be monitored throughout the year to ensure that progress was being made.

Councillor T Neilson asked if there was any internal target completion date in respect of the three recommendations to ensure these were followed through. The Head of Finance advised that these recommendations would need to be acted upon before work was started on the accounts next year, and his target date would be the end of February.

Chairman's initials

In respect of the statement to be presented to government, Councillor F Fenning asked if there was any risk that the government might seek to claw back a surplus balance where a surplus was in place for more than 2 years. The Head of Finance explained that when the Revenue Budget was agreed by Cabinet and Council in February, an underspend of £1 million was projected. He advised that a level of reserves had been agreed taking into account of the risks facing the council in terms of income. He added that Council and Cabinet were happy to naturally allow the £1 million to be added to the reserves at year end, so that the reserves would rise to £2.24 million, which was considered prudent. He explained that when the accounts were closed, it was found that there was an additional £600,000 underspend, and therefore there would be an extra £600,000 in the reserves. Cabinet had agreed that this would be spent on special projects in the short term. He advised that there was currently nothing in law in respect of holding excessive reserves, however he was mindful that this might not always be the case. He explained that any funds in excess were earmarked and a reason was provided for holding the money.

Councillor F Fenning felt that stating that the funds were to be used for special projects was rather vague, and asked if they needed to be specified. The Head of Finance advised that there was no requirement to be specific, and referring to the Cabinet report, there was so much work to be done that it was hard to see how the money would not be spent.

It was moved by Councillor R Adams, by seconded by Councillor T Neilson and

RESOLVED THAT:

- a) The contents of the external auditor's report attached at Appendix A be noted.
- b) The letter of representation attached at Appendix B be approved.
- c) The external auditor's recommendations and management comments set out in Appendix 1 to their report be noted.

## **16. ANNUAL STATEMENT OF ACCOUNTS 2014/15**

The Head of Finance presented the report to members.

Councillor F Fenning asked what effect the significantly increased statistical projection in respect of pensions would have on the council and whether this was a risk. The Head of Finance advised that when the Medium Term Financial Strategy (MTFS) was compiled, assumptions were made in respect of the level of employer contributions to the pensions scheme. He added that there was very little the council could do to affect this as Leicestershire County Council were the pensions authority. He advised that the percentage of contributions had risen steadily over the last few years, however he reminded members that theoretically this could also decrease. He advised that in the MTFS an increase had been assumed for next year, but no subsequent increases had been assumed as no information was available from Leicestershire County Council.

Councillor F Fenning commented that local authorities must be one of the last bastions of the final salary pension scheme. He asked if there was any pressure to bring in a separate scheme for new employees. The Head of Finance advised that the pension scheme had been reviewed and had already been moved to an average salary scheme. He added that any new entrants would be on an average salary scheme from day one.

Councillor A C Saffell stated that he liked to be able to understand the overall opposition and he found the pie charts helpful. He noted from the report that 60% of the council's normal expenditure was spent on salaries and requested the number of full time

equivalent staff at the council, and the number of consultants. The Head of Finance agreed to provide an update to the information which he had previously circulated.

Councillor T Neilson referred to page 20 of the Statement of Accounts and noted that the total authority reserves had increased by £12,500 over the last two years and the total usable reserves had increased by over £9 million. He sought clarification on the figures and commented that this seemed to be a large increase over two years. The Head of Finance agreed to provide a written response.

In response to a question from Councillor F Fenning, the Head of Finance advised that the Corporate Leadership Team received information on the level of spend on consultants in order to monitor this. He explained that the recent trend had been moving away from temporary agency and consultancy work. He added that there was no evidence of staff leaving the authority and returning as consultants.

It was moved by Councillor T Neilson, seconded by Councillor J Clarke and

RESOLVED THAT:

- a) That the Annual Statement of Accounts be approved
- b) That the Chairman of the meeting be authorised to sign the accounts as approved
- c) Authority be delegated to the Chairman of the Committee and the Section 151 Officer to approve any minor non material amendments, as agreed with the auditor, to the accounts on behalf of the Committee

## **17. INTERNAL AUDIT PROGRESS REPORT - AUGUST 20**

The Senior Auditor presented the report to members, drawing their attention to the key points set out on page 43 of the agenda. She highlighted the audit plan at Appendix A and advised that progress in respect of the audit plan had been slower than anticipated due to sickness in the team. She added that this had been addressed by engaging some temporary resources and she was confident that this could be brought back up to date. She reported that two final audit reports had been issued this quarter in respect of aids and adaptations and HR and payroll, the executive summaries of which were included on page 48 of the agenda. She stated that there were a number of high priority recommendations made in respect of the HR and payroll audit, and as such it had been considered appropriate to follow these up formally at the next full audit later in the financial year. She added that the Head of Finance and Chief Executive were monitoring progress on these recommendations.

The Head of Finance drew members' attention to the information relating to the risk register and advised that there was a significant amount of project work coming forward, and therefore having recognised that risk, the Chief Executive had put in place plans to increase capacity.

Councillor T Neilson commented that it was difficult to ascertain which indicators were amber and green as the document was in black and white. He requested that a key be included.

Councillor T Neilson stated that he was aware of 2 serious breaches of data protection recently, and he asked whether the council was assessing itself against any standards as part of information security. He sought clarification on the policies and procedures that were in place, whether these were robust enough and whether any review had been undertaken. The Head of Legal and Support Services assured members that these concerns had been addressed, and the Corporate Leadership Team had been proactive

Chairman's initials

in requesting that a health check take place. She added that at the same time it was ensured that the health check would address any matters which would be raised by internal audit. She advised that the report was in the final stages and it would be appropriate to share more detail once the report was finalised.

The Senior Auditor advised that she had fed into the objectives which an internal audit would have sought to address. She added that she had reviewed the report and was satisfied that it met those objectives.

The Chairman highlighted an error in the recommendation and advised members were being asked to note the report only.

It was moved by Councillor T Neilson, seconded by Councillor D Harrison and

RESOLVED THAT:

The report be noted.

## **18. INTERNAL AUDIT CHARTER**

The Senior Auditor presented the report to members. She stated that the Public Sector Internal Audit Standards required every audit function to have a charter setting out the purpose and responsibilities of the audit function, and the standards required that the charter be reviewed and updated annually. She advised that other than changes relating to minor updates to legislation, a section had been added in respect of records retention, which addressed one of the recommendations from a previous external audit. She added that the charter itself had been reviewed and approved by the Corporate Leadership Team.

Councillor F Fenning commented on the cost of keeping paper records and how much the council was moving away from computerised records. He also expressed concern regarding external organisations coming into the building and emphasised the vitality of internal audit and the security of documents. The Senior Auditor advised that internal audit already worked electronically and did not retain any paper based records. She added that any ongoing work was locked away in a cupboard and electronic records were subject to the usual network security so could only be accessed by internal audit staff.

It was moved by Councillor R Adams, seconded by Councillor T Neilson and

RESOLVED THAT:

The internal audit charter be approved.

## **19. TREASURY MANAGEMENT ACTIVITY REPORT - APRIL TO AUGUST 2015**

The Head of Finance presented the report to members, highlighting that three technical breaches of the council's counterparty policy had occurred which he was required to bring to members' attention. He explained that one of the council's counterparties had returned monies a day early, and as a result of this, the council had deposited £0.9 million over the contractually agreed limit with Lloyds Bank. He added that as soon as this was discovered, the funds were moved. He concluded that clearly the limit to this counterparty needed to be reviewed as it was a very good counterparty, and was also the council's bank.

It was moved by Councillor T Neilson, seconded by Councillor R Ashman and

RESOLVED THAT:

The report be approved.

## **20. REVIEW OF CORPORATE GOVERNANCE POLICES**

The Head of Finance presented the report to members, highlighting the updated policies appended to the report.

Councillor T Neilson asked if, in cases which resulted in a conviction, there was any incentivisation to encourage people to report fraud.

The Head of Finance stated that he was not aware of any reward schemes. He added that ethics of this may be questionable as the Council would want any reports to be genuine.

Councillor J Clarke commented that in the National Health Service, there had been cases of disincentivisation in respect of whistleblowing. He asked if there was any structure in place at the Council to prevent this.

The Head of Legal and Support Services advised that the Council had a separate whistleblowing policy and there was a commitment that people would not be victimised for coming forward.

In response to questions from Councillor A C Saffell, the Head of Finance advised that the two policies appended were existing policies which had been updated. The Head of Legal and Support Services reassured members that all the policies and reports were considered by the Council's legal team who would ensure that any relevant legislation was complied with and any emerging government policies were considered.

Councillor T Neilson commented that he did not consider there to be an ethical dilemma with incentivising fraud reporting so long as controls were in place.

It was moved by Councillor D Harrison, seconded by Councillor R Ashman and

RESOLVED THAT:

The report be received and noted.

## **21. COMMITTEE WORK PLAN**

It was noted that there were no external audit reports on the work plan. The External Auditor to provide details of future reports to be included in the work plan.

RESOLVED THAT:

The Committee Work Plan be noted.

The meeting commenced at 6.30 pm

The Chairman closed the meeting at 7.42 pm

Chairman's signature