

AUDIT AND MEMBER STANDARDS COMMITTEE

24 JULY 2019

PRESENT:

Councillors Greatorex (Chairman), Ho (Vice-Chair), Checkland, Grange, A Little, Norman, Robertson, Spruce and White

Observer: Councillor Strachan (Cabinet Member of Finance & Procurement)

Officers In Attendance: Mrs K Beavis, Miss W Johnson, Mrs A Swift, Mr A Thomas, Ms C Tims and Mrs D Tilley

Also Present: Ms Laurelin Griffiths (Grant Thornton UK LLP) (External Auditor) and Mr Phil W Jones (Grant Thornton UK LLP) (External Auditor)

1 APOLOGIES FOR ABSENCE

No apologies for absence were received.

2 DECLARATIONS OF INTEREST

Councillor Grange declared a personal interest in agenda item no 4 as she had been the complainant before she was an elected member.

Councillor Checkland declared a personal interest as he was a Governor at Friary Grange School.

3 MINUTES OF THE PREVIOUS MEETING

The Minutes of the Meeting held on 24 April 2019, as printed and previously circulated, were taken as read and approved as a correct record.

4 MINUTES OF THE ASSESSMENT SUB-COMMITTEE MEETING - 01.07.19

The Minutes of the Assessment Sub-Committee meeting held on 1 July 2019, as printed and previously circulated, were taken as read and approved as a correct record.

5 ANNUAL TREASURY MANAGEMENT REPORT

Cllr Strachan, as Cabinet Member for Finance and Procurement, introduced the Annual Treasury Management Report for the financial year 2018/19. He said the headlines were in the Executive Summary of Mr Thomas's report and as members

had previously found presentations a useful way to explain the finances, he introduced the Head of Finance & Procurement, Mr Thomas, who delivered a presentation.

Mr Thomas explained the purpose of the report and explained the overall responsibility remained with the Council. Mr Thomas summarised the Capital Programme which showed the original, revised and actual figures with spend on non-current assets. Examples were of property and Revenue Expenditure Funded from Capital under Statute (REFCUS), which was mainly Disabled Facilities Grants. The main variances to the budgets were illustrated, such as acquiring the Police Station. Under performance on Disabled Facilities Grants and the “no spend” on the Property Investment Strategy were the main reasons for slippage over the year. Mr Thomas said the capital receipts were higher than planned predominantly due to our share of extra receipts from Bromford for Right to Buy. Mr Thomas highlighted the balance sheet, trends, the level of investments and sources of cash and the borrowing need and it’s financing. It was noted that the balance sheet had reduced on total assets less liabilities and reserves due to an increase in the pension liability and the statutory reserve.

The Internal borrowing need was explained and the investments could be seen as spread across banks and diversified funds.

The Property Fund investment was our first higher risk, higher return investment. The value had increased to approach that of the initial investment, due to underlying property asset values increasing.

The yield of our investments were comparable to other authorities and an independent review of treasury management by Internal Audit of the systems and processes used had received “substantial assurance” at the highest level. Mr Thomas said there had also been a temporary increase to the Operational Bank Account Limit during 2018/19 – by £65,288 for one day. This had been due to the limited options available and Council approved the increase to a Treasury Management limit, which enabled increased investment diversification in higher return investments whilst providing future options with a UK domiciled Money Market Fund.

Mr Thomas said the report confirmed the Council was compliant with all treasury limits and prudential indicators for 2018/19.

A number of questions were raised by Members and answered focusing on leases and debt, investments and the actual Balance Sheet compared to the Budget.

RESOLVED:- (1) The Committee reviewed the report and issues raised within;

(2) The Committee reviewed the actual 2018/19 Prudential Indicators contained within the report.

6 STATEMENT OF ACCOUNTS

Members considered the Statement of Accounts and Mr Thomas delivered a presentation to explain the report in more detail. He said for the benefit of all new members, the Statement of Accounts has to be produced in line with the Code of Practice on Local Authority accounting in the UK. The Accounts and the Audit (England) Regulations now required a Local Authority to certify its set of accounts by 31 May and publish an audited set of its accounts by 31 July each year. Mr Thomas explained that the Constitution assigns the responsibility for considering and approving the Annual Statement of Accounts to this Audit & Member Standards Committee to enable sign-off by the Chairman and said this committee had a specific role outlined in the CIPFA publication "Audit Committee: Practical Guidance".

Mr Thomas said that really we are trying to satisfy two financial reporting requirements; financial performance based on both accounting standards and legislation. He added that the previous committee, under last year's Council, had already approved the Annual Governance Statement together with the accounting policies in the accounts and this was felt appropriate as they had been in office at the end of the financial year.

The Financial reporting timeline and responsibilities at the Council were graphed to show the Audit & Member Standards committee's responsibilities.

The Revenue Financial Performance in 2018/19, under both accounting standards and legislation, was explained and the differences and the reasons why they occurred were explained.

The need for the Letter of Representation was explained as the External Auditor was required to obtain written confirmation from the Council's Management that we had disclosed all matters that could affect the Council's position. This confirmation was in the form of a letter which is approved by the Audit & Member Standards Committee and is signed by the Chairman, Chief Executive and Section 151 Officer.

Mr Thomas talked through the initiatives, looking forward to 2019/20 and beyond. Particular attention was drawn to the establishment of a Local Authority owned company.

The External Auditors advised that with their Audit Findings, there were aspects of work to be completed but these were very close to being finished.

- RESOLVED:-**
- (1) The Committee approved the Letter of Representation;
 - (2) The Committee approved the Council's Statement of Accounts for 2018/19.

7 AUDIT FINDINGS REPORT FOR LICHFIELD DISTRICT COUNCIL 2018/19

Grant Thornton (External Auditors) presented the Audit Findings for Lichfield District Council and detailed the key findings and other matters arising from the statutory audit in the preparation of the Council's financial statements for the year ended 31 March 2019.

The report detailed the audit risks and the work performed to address these. The commentaries were discussed and Grant Thornton stated that the only non-trivial adjustment to the financial statements related to the valuation of pension fund's net liability. They explained that the adjustment to the pension liability on the balance sheet had been a culmination of three issues:-

1. The initial actual valuation was based on an estimated asset return at December 2018 as provided by the pension fund officers. The actual asset return for the pension fund for the year to 31 March 2019 was significantly different;
2. The impact of the McCloud judgement, a legal ruling around age discrimination in the police force and fire service. As at the end of the financial year there was still uncertainty: the Council's actuary had omitted this from their valuation but, in fact, at the end of June, the Government's application to appeal the ruling was denied;
3. Liabilities for guaranteed minimum pensions relating to gender discrimination.

Grant Thornton explained that none of these issues individually were material but the three added together had a material impact on the Council's liability.

They also highlighted their assessment and comments related to the property fund investment and IFRS9. It was explained that this was the first year of IFRS9 and the Council had elected to present changes in fair value in other comprehensive income. Grant Thornton, as a firm, did not agree with this approach. However, the difference was trivial at this stage: it amounts to a very small figure in the accounts (circa £45,000) although it needed highlighting in case it became material in the future.

Mr Thomas agreed that it was seen to be a technical accounting matter and not all audit firms were taking the same approach. Grant Thornton assured the committee that significant discussions were being held between the finance team and themselves on this issue. It was immaterial at the moment but could become material in time. In the meantime, it was shown in the report as an agreed difference.

The Committee indicated that they would like to see a resolution to the issue before the next set of Financial Statements were completed.

The reference to "going concern" in the Audit Findings Report was queried and Grant Thornton explained that this had become an area of greater focus in recent years following issues experienced by some bodies in the sector. They also explained that it was different to the assessment made in the private sector, as the focus of the assessment was on any possible risks to the continued delivery of service.

Mr Thomas stated that the Strategic Plan looked four years ahead at self-sustainability, the Council had a healthy position and were addressing the funding gap. He explained that most authorities had a gap, and we attempted to be proactive.

Grant Thornton said the Value for Money assessment came out unqualified and they wanted to highlight a couple of points:-

1. On Friarsgate, Grant Thornton will monitor the scheme going forward, as part of their value for money;

2. While it was positive in analysis of financial sustainability, it was important that the Council carried out appropriate diligence on plans relating to the property investment strategy, including the company progressing to ensure that financial risk was minimised and advantages to the local community were maximised.

Grant Thornton thanked Mr Thomas and the finance team for their hard work and this reassured the committee. However, additional time had been needed for further discussions with the finance team especially around pensions and this may involve an increase in the audit fee for 2018/19, which the committee noted.

8 PLANNED AUDIT FEE 2019/20

Grant Thornton (External Auditors) presented the Planned Audit fee letter for 2019/20 which the committee agreed to sign-off. The scale fee had been set by PSAA at £35,412, the same as that for the previous year. It was confirmed there were no changes to the new work programme and the scale fee covered the outline audit timetable in the letter.

9 ANNUAL REPORT FOR INTERNAL AUDIT

Mrs Kerry Beavis, Interim Audit Manager, presented the Internal Audit Annual Report including Progress Report for January to March 2019, which reported on the activity and performance of the Internal Audit section for the 2018/19 financial year. The conclusions were that Internal Audit staff had worked with staff of the Council to ensure internal control was properly maintained and that systems were appraised, and where appropriate, improved. Mrs Beavis advised that the Internal Audit section had made good progress this year in relation to achieving all of the targets, which were monitored. She said they had achieved 96% of the revised Internal Audit programme and 94 recommendations had been made during the year, 95% of which have been agreed by management for implementation. She said this exceeds the performance indicator included in the services performance targets (90%). Mrs Beavis explained that Annex A illustrated the Audit Plan 18/19 status and Annex B illustrated the implementation reviews status 18/19.

Discussions took place around the audit reports and the customer satisfaction questionnaires return. There was a little unease on the latter, as only 8 were returned and conversations took place around a desire to improve the reply rate.

It was asked how many recommendations had dropped off the system after a second follow-up audit had been carried out and the recommendations had not been implemented and if this was acceptable. Mrs Beavis explained that the recommendations do not drop off the system but the internal audit protocol only requires two follow-up reviews to be undertaken. Mrs Tilley gave assurance that she did not let any disappear but there were some recommendations made where management decide not to take any action.

(Mrs Beavis agreed to report back on this issue).

Members asked about Internal Audit Reports going to the portfolio holder in the first instance. Mrs Beavis confirmed that the portfolio holder did get a copy of the final Internal Audit reports, as did all the Audit & Member Standards committee members, but it was up to those individuals to discuss with the relevant managers how they dealt with them. Mrs Beavis advised that when a follow-up report identified an assurance level of limited or no assurance, further consideration was recommended to be carried out by this committee.

RESOLVED:- That the Annual Report of Internal Audit for 2018/19 be noted.

10 RISK MANAGEMENT UPDATE

Mrs Beavis, Interim Audit Manager, updated members on the management of the Corporate Risk Register and she highlighted the 8 corporate risks in the report. The details of these risks including the potential causes, consequences and the risk treatments measures in place were detailed in an appendix.

The Interim Audit Manager advised that there was only one corporate project risk now. The end of the ICT Support Contract had previously been identified as a project risk, but now the ICT Support had been transferred to an in-house service, the project had been completed and the risk had been removed from the register. As such, the one project risk remaining was the Friary Grange Leisure Centre and she recommended that this was monitored through this committee.

Discussions took place around peer support and whether the LGA or neighbouring authorities could be consulted. Mrs Diane Tilley, Chief Executive, advised that we had had a recent peer review which did not significantly change our approach and that we do work with many of our neighbouring authorities, especially as our Interim Internal Audit Manager also worked as Principal Auditor at Tamworth Borough Council. Mr Thomas also advised that he observed a number of other authorities and he saw that a lot of the risks were consistent across all councils, especially financial sustainability.

RESOLVED:- The Committee noted the work being undertaken to ensure the Risk Management Policy was adhered to and the actions taking place to manage the Council's most significant risks.

11 COUNTER FRAUD UPDATE REPORT INCLUDING COUNTER FRAUD & CORRUPTION AND WHISTLEBLOWING POLICIES

Mrs Beavis, Interim Audit Manager, provided members with an update on the counter fraud work completed to date during the financial year 2018/19. She advised that all amendments had been highlighted and said that there were only minor amendments recommended, the main one being the change to the definition of corruption in the counter fraud and corruption policy.

RESOLVED:- (1) The Committee approved the Counter Fraud and Corruption Policy Statement, Strategy & Guidance Notes as drafted;
(2) The Committee approved the Confidential Reporting (Whistleblowing) Policy as drafted;
(3) The Committee endorsed the Fraud & Corruption Risk Register.

12 OVERVIEW OF THE COUNCIL'S CONSTITUTION IN RESPECT OF CONTRACT PROCEDURE RULES

Ms Tims, Interim Monitoring Officer, advised that in spring 2019 the Council appointed the Wolverhampton City Council Procurement team to provide procurement support and advice to increase efficiency and value for money across the Council.

As a result of this support and an internal assessment of procurement procedures, a review of Part 4 Section 7 of the Constitution – Contract Procedure Rules had been undertaken and the changes recommended to these procedures were detailed in the report and appendix. This would go forward to the next meeting of the Full Council for adoption.

A concern was raised as to whether there would be an inherited risk of duplicated spend. Mr Thomas said this had been taken into account in the support provided by Wolverhampton, which was to be more proactive and would consolidate spending, where appropriate. He also added that Internal Audit could look at this aspect at any time.

Members also expressed concern regarding the extending of existing contracts, which could amount to a very large amount of money but where the Constitution specified only to “notify” to Cabinet. Ms Tims advised that such extensions would only be possible within existing budget and member approvals to the overall contract spend limit were still in place.

The Constitution wording was recommended to be amended to make the requirement to notify Cabinet clearer in contract extension.

RESOLVED:- The Committee approved and recommended to full Council the adoption of the updated Contract Procedure Rules as Part 4 Section 7 of Lichfield District Council’s Constitution with an amendment to Section T – Changing and Extending Contracts as suggested above.

13 WORK PROGRAMME

The Chairman introduced the Audit & Member Standards Committee Work Programme for 2019/20 and asked for comments as this was a rolling programme for this committee. As there seemed to be a lot on the programme for the next meeting, the Chairman agreed to meet with the Vice-Chairman to review whether anything could be removed or rescheduled.

(The Meeting closed at 7.40 pm)

CHAIRMAN