

AUDIT AND MEMBER STANDARDS COMMITTEE

25 JULY 2018

PRESENT:

Councillors Tittley (Chairman), Hoult (Vice-Chair), Mrs Boyle, Marshall, Strachan, Mrs Tranter and Mrs Woodward

Observer: Councillor Spruce (Cabinet Member for Finance & Democratic Services)

Officers In Attendance: Ms Jane Irving, Ms B Nahal, Mrs A Struthers, Mr A Thomas and Ms W Johnson

Also Present: Mr John Gregory (Grant Thornton UK LLP) (External Auditor) and Ms Laurelin Griffiths (Grant Thornton UK LLP) (External Auditor) and Ms Kirsty Lees (Grant Thornton UK LLP) (External Auditor)

1 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Rayner and Councillor Mosson.

2 DECLARATIONS OF INTEREST

Councillor Tittley and Councillor Mrs Woodward declared disclosable pecuniary interests in relation to Friary Grange Leisure Centre (Agenda item no. 8 – Risk Management Update) as both are Members of Staffordshire County Council and left the room when this item was discussed.

3 MINUTES OF THE PREVIOUS MEETING

The Minutes of the Meeting held on 22 March 2018, as printed and previously circulated, were taken as read and approved as a correct record.

4 ANNUAL TREASURY MANAGEMENT REPORT

Mr Thomas delivered a Presentation on the Annual Treasury Management report and explained that this was the end of year report covering all treasury activity and prudential indicators for 2017/18. A summary of the capital programme performance from the original budget to the actual was explained and reasons were given for the budget reductions from Original to Approved budget together with actual performance to Approved Budget – Affordable Housing projects, Friarsgate projects and the Leisure outsourcing. The Burntwood Leisure sinking fund had now been superseded by the Leisure outsourcing and members were advised the Approved Budget reflected more current circumstances - £759,515 less than the Approved Revised Budget of £3,368,000. The capital receipts comparisons were presented and Mr Thomas explained that the turmoil in the financial markets in May 2018 caused by the results of the Italian election meant we were able to borrow the £1.395m to be used to fund the capital works at Burntwood Leisure Centre at a rate lower than had been provided in the Approved Budget. The level of investments had been pretty consistent to previous years. The Capital Financing Requirement (Borrowing Need) was in line with the Approved Budget, however, this was likely to increase in future years due to the Property Investment Strategy being funded by borrowing and the new leasing standard where more leases will appear on the Council's Balance Sheet. The liquidity of our investments were

highlighted as we had not had to temporarily borrow during 2017/18 to ensure there is sufficient cash available to pay for goods and services and the investments by type were illustrated. Mr Thomas said there were new accounting procedures (IFRS9) that had come in to force on 1 April 2018 whereby the new standard would see us having to set money aside to reflect any reduction in value of the investment and there was a difference of opinion between the Council and its Treasury Advisors (Arlingclose) and the External Auditors in relation to the accounting treatment for the Property Fund Investment under the new standard. The balance sheet and cash flow statements were presented and explanations provided for significant differences between 31 March 2017 and 31 March 2018.

Concerns were raised around the right to buy receipts in relation to reducing the access to affordable housing by people within the district. Mr Thomas explained that the Council had transferred the former Council Housing in 1997 to a Housing Association and therefore it no longer had any control over the policy on sales. However, the Council still had a role in terms of Strategic Housing through the Local Plan.

The LDC Average Yield figure of 4.8% was questioned as it looked quite high and it was explained that this related solely to the investment in the Property Fund.

The risk section of the report detailed the Council's plans to dispose of the Bore Street Shops yet it was assumed this was an error and it was agreed to amend this statement because the Council had decided to retain this asset.

Discussions then took place and reassurance was sought about the impact of IFRS9. Mr Thomas said there was a difference of opinion at the moment although it should have no impact in 2018/19 due to the possibility of a Statutory Override (subsequent to the meeting a consultation has been issued). Revised guidance clarifying the accounting treatment and the earmarked reserve that had been set up previously to manage this type of risk. If the standard is applied in a way that is different to that the Council has assumed then any impact on the 2018/19 financial position will be mitigated by the earmarked reserve. However, the election in our accounts this year is a prudent measure that keeps all options open moving forward. The External Auditor advised that this came in to effect on 1 April 2018 and in her opinion the issue has no impact on the Council's position for the 2017/18 financial year and so has not affected their opinion.

It was asked if the impacts of the outsourcing of the Burntwood Leisure Centre were presumed for 18/19 and Mr Thomas advised that it was decided to invest in the Burntwood building and to use public sector borrowing to improve the building i.e. improve energy efficiency/expand the size of the health spa. A question was raised regarding why the Council's average credit score at 31 March 2018 was higher than other Arlingclose clients. Mr Thomas confirmed that Lichfield's position has always been quite prudent/conservative when comparisons are made with other Authorities but always these figures are done at a spot in time and things could always change the very next day. He said our objective was always where we approve a relatively higher risk investment to have risk mitigation in place as was the case with the Property Fund having an earmarked reserve in place. This was reassuring the members felt.

It was asked what the level of external borrowing was now and Mr Thomas said due to the funding of the capital investment in Burntwood Leisure Centre it would be £1.4m higher than that quoted at 31 March 2018 on page 16.

- RESOLVED:** (1) The report was reviewed and issues raised within discussed;
- (2) The actual 2017/18 prudential indicators contained within the report were also reviewed and discussed.

5 STATEMENT OF ACCOUNTS

Members considered the Statement of Accounts 2017/18 and Mr Thomas delivered a Presentation to explain the report in more detail. Mr Thomas explained that The Accounts and Audit (England) Regulations now require a Local Authority to certify its set of Accounts by 31 May and publish an Audited set by 31 July each year and the Council's Constitution assigns responsibility for considering and approving the Statement of Accounts to the Audit & Member Standards Committee to enable the Chairman to sign them off. Mr Thomas explained that part of the findings were in Agenda item no. 6 – External Auditors Audit Findings Report but Mr Thomas said there were no significant issues of concern for the Committee to consider.

Mr Thomas summarised the main reasons why the general fund deficit (expenditure greater than income) of £450,000 becomes greater deficit on provision of services in the comprehensive income and expenditure statement (CIES) of £3,181,000. He explained that the Council prepared its Money Matters Reports during the year on a Statutory Funding Basis (excluding items such as depreciation and the full cost of pensions) and the CIES was prepared using accounting standards as if the Council was a Company. The movement in reserves statement showed how usable unusable (accounting reserves such as the pensions reserve) reserves has changed during the financial year. The balance sheet for 2017/18 was explained as being a snapshot of the Council's assets, liabilities, cash balances and reserves at the year-end date. The major changes in the balance sheet during the financial year were explained and the cashflow statement shows why the level of cash and cash equivalents had increased by £864,000 during the financial year.

Members asked questions on the Annual Governance Statement including the statement “we ensure that communication methods are effective and that members and officers are clear about their roles with regards to community engagement” – this was challenged as a member said they had never been asked within their role to take place in any community engagement. It was agreed that this was interpretation - it related to the training members were offered which enabled them to engage within their constituents in their wards – the statement was more aspirational than mechanical.

Comments were made that the budget consultation was far too short;

The triangulation meetings with Cabinet members was queried as some members were not aware of these and had not been invited to any. Councillor Spruce said he was aware of 3 members of Cabinet who did have triangulation meetings and it was felt this needed to be more visible to Chairmen and Vice-Chairmen. Ms Bal Nahal explained to the committee that if triangulation meetings are required by an Overview & Scrutiny Chairman then it is an option and these meetings had taken place in the past but Chairmen did not always feel them necessary.

Members queried why the Council had spent £103,000 more on additional bin purchases in the joint waste service. Mr Thomas explained that this was due to the joint waste service arrangements with Tamworth Borough Council – he explained that it was not unbudgeted – it was included in the revenue budget. However, from an accounting perspective these were related to the purchase of assets and needed to be shown on the Council's balance sheet and therefore the cost and funding had been transferred to the Capital Programme.

Members congratulated Mr Thomas and his team for the well-presented Statement of Accounts 2017/18 and report and his clear explanation.

RESOLVED: The Committee:

- (1) Noted the External Auditor's Audit Findings Report at Agenda item no 6;
- (2) Approved the Letter of Representation at Appendix A; and
- (3) Approved the Council's Statement of Accounts for 2017/18 at Appendix B.

6 AUDIT FINDINGS REPORT FOR LICHFIELD DISTRICT COUNCIL 2017/18

Mr John Gregory, External Auditor, presented Grant Thornton's Audit Findings Report for year ending 31 March 2018 and explained that under the International Standards of Auditing they were required to report whether in their opinion the Council's financial statements give a true and fair view of the Council's position and Council's expenditure and income for the year have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. Also, whether other information published is materially inconsistent with the financial statements or their knowledge obtained in the audit or otherwise to be materially misstated.

Mr Gregory said this was the first year that all local authorities have been asked to publish their Statement of Accounts with Auditor's findings by 31 July and only 85-90% will have met this deadline but Lichfield District Council had met this deadline which was a good thing. Mr Gregory focussed on the key points within the report. Minimal amendments had been made to the financial statements as a result of the audit. Work had still been ongoing at the time of writing the report to determine whether the Council's approach to accounting for the pension liability relating to the staff that transferred under TUPE for the outsourcing of the Leisure Services was appropriate. Mr Gregory explained that the Statement of Accounts had been prepared on the basis that the actuarial risk for the individuals had transferred to the provider along with the employees and so it was no longer the Council's risk and so no longer a Council liability for their pension. Mr Gregory was now able to confirm to the committee that after very careful consideration of this, the External Auditor's view was that this had been treated correctly in the Statement of Accounts and no changes were to be made, the issue had been satisfactorily resolved and they were happy with how this matter had been recorded.

The Value for Money key findings was discussed as the Friarsgate Development had now been discontinued and the External Auditors had reported that they were satisfied that the Council had a clear chain of reporting and governance in place regarding the Friarsgate development and that regular updates had been provided. They felt the Council's forward financial planning was not reliant on the success of this and so the decision to not continue had no detrimental effect on the Council's financial plans. They therefore concluded that for the 2017/18 year the risk had been sufficiently mitigated and Lichfield District Council had proper arrangements to secure value for money.

Members were relieved on this opinion and asked if the report would be updated to reflect this new verbal opinion around pensions. Mr Gregory said the neatest way to deal with this update would be to update the Annual Audit Letter to reflect these new findings and opinion and this was noted.

Members felt a lot was to be learnt from the Northamptonshire Report distributed some time ago about visibility of audit and audit trails. The Chairman said he was very keen to examine anything with limited assurance so something can be done before it is too late. The Minutes of the Audit & Member Standards meetings were felt to be very important to show the lines of accountability and it was confirmed that the Minutes were now more detailed and presented to Council as well as on the website for the general public. Councillor Spruce commented that the reduced timescales within which to produce this detail had been very demanding and congratulated Mr Thomas and his team who had dealt with a lot of change so late in the day. Councillor Spruce felt the clean Audit Statement was something everyone should be incredibly proud of and the committee wholeheartedly agreed.

RESOLVED: The Committee noted the External Auditor's Audit Findings Report.

7 ANNUAL REPORT FOR INTERNAL AUDIT

Members considered the Internal Audit Annual Report and Progress Report December 2017 to March 2018 from Mrs Struthers (Audit Manager). Mrs Struthers said the report showed activity and performance for the 2017/18 financial year and the outcome of the Internal Audit's Review of the internal control, risk management and governance framework for the period December 2017 to March 2018. Mrs Struthers explained that the Internal Audit section had made good progress in the year in relation to its targets, achieving all of the targets and no limited assurances were given to the Audit Reviews completed during December 2017 to March 2018. The Chairman said this was pleasing and gave credit to Mrs Struthers and her team for achieving this. The overall opinion was discussed and the committee were happy with the progress made and there being no high priority actions outstanding.

RESOLVED: (1) The Annual Report of Internal Audit for 2017/18 be noted;
(2) The performance report for Internal Audit activity from December 2017 to March 2018 be noted.

8 RISK MANAGEMENT UPDATE

Members considered the Risk Management Update from Mrs Struthers (Audit Manager). Mrs Struthers advised that the corporate risks are reviewed by Leadership Team and updated regularly and two new project risks had been identified – Friary Grange Leisure Centre (planned or unplanned closure) and the forthcoming end of the ICT Support Contract. Both Heads of Service had been asked to attend to explain to the committee the reasons why these risks had been added:-

Mr Richard King (Director of Place & Community) was introduced to speak on behalf of Mr Christopher Cook who was Head of Leisure & Operational Services responsible for the Friary Grange Leisure Centre.

Mr King explained that the 45 year old building at The Friary Grange Leisure Centre was in a poor state of repair and in urgent need of remedial works including a roof replacement. However, at the moment Lichfield District Council had a different view to Staffordshire County Council about the responsibility of the building. Mr King advised that members and officers were currently meeting to try to agree a maintenance programme and so Mr Cooke had felt it necessary to add this on to the corporate risk register as if no investment was given to the building it could result in closure. Mr King said Lichfield District Council had already commissioned a condition survey to determine the level of investment required and the survey had identified an investment of £1.7m was required to enable the short term serviceability of the building.

Ms Christie Tims (Head of Corporate Services) was then introduced to the committee as she was responsible for managing the end of the ICT support contract. Ms Tims explained that the ICT support contract had been outsourced 14 years ago and the current contract was due to expire 1 October 2018. Ms Tims said it was felt to be a risk as we move to in-house support, bringing in-house three existing employees who deliver the contract for Northgate and recruit two new members of LDC staff to help facilitate this. She said the existing contract with Northgate was no longer fit for purpose to support our digitalisation agenda and our move towards cloud based systems. The contract has been split into several smaller support contracts alongside the development of a support desk and the project was currently progressing well and on-track. Ms Tims said she was confident the risk would decrease once new staff were employed and in her opinion this risk would be bridged quite quickly.

Members discussed the first risk of "failure to respond to changing demographics" at length as it was known that Lichfield had a more rapidly ageing population than other areas. Councillor Spruce (Cabinet Member for Finance & Democratic Services) was asked if there was any way

we could add “active planning” to our assessments, plans and policies. The committee felt a failure to respond to changing demographics was hard to quantify as it was the unknown yet everyone agreed the means testing of older people was inevitable.

The inadequate office support was also a concern when discussing the Financial Sustainability of the Council risk. Councillor Spruce confirmed that the Cabinet were spending a lot of time discussing how to take commercialisation forward and were again meeting on 24 August 2018. Councillor Spruce said they were concentrating on non-property streams of income rather than the property ones. Members asked if all councillors could feed in to this meeting as it was recognised that the government had lessened funding and we needed to either find new streams of income or reduce services. Councillor Spruce advised that the meeting on 24 August was to look at the legal pitfalls and strategic side of commercialisation and it would be open to everyone in due course. He was asked if he could perhaps brief this committee at the next meeting on 14 November and this was agreed.

The Government had recently issued a consultation on the Local Government Finance Settlement for 2019/20 that included a preferred approach for removing Negative Support Grant and the prospect of changes in the New Homes Bonus regime for both 2019/20 and 2020/21 onwards. In addition the prospectus for groups of authorities wishing to be a Business Rates Pilot for 2019/20 had also been issued and it was likely that the Council would be part of a pilot bid for Staffordshire and Stoke on Trent.

9 RIPA REPORTS POLICY AND MONITORING

Members considered the RIPA (Regulation of Investigatory Powers Act 2000) Report from Ms Bal Nahal, Head of Legal, Property & Democratic Services, Solicitor and Monitoring Officer together with the Office of Surveillance Commissioner (OSC) Inspection Report and findings. Ms Nahal advised that over the last 7 years there has been no RIPA Investigations at Lichfield District Council but the OSC had recently carried out an inspection. The inspection report was tabled for members’ comments and Ms Nahal highlighted that the only recommendations made were for refresher training for all key personnel (including both the Senior Responsible Officer and Authorising Officers) and a small amendment to the RIPA Policy and Procedure only. The OSC had felt that despite the fact that Lichfield District Council had not been the subject of an inspection for a long period, there was in place a comprehensive RIPA Policy and Procedure which provided a helpful guide for any Council Investigator considering the use of covert surveillance or CHIS. Ms Nahal explained that the only amendment to the RIPA Policy and Procedure recommended was the amendment on the top of page 5 of the policy (page 262 of the agenda pack) which referred to “covert profiles” being used to undertake surveillance. Discussions took place around observations on line and utilising social media and other sites and it was agreed that Lichfield District Council does not really do enough to reach the magistrates’ threshold now as Benefit Fraud Investigations have been moved to the Department of Works & Pensions.

RESOLVED: That the Audit & Member Standards Committee:

- (1) Endorse the recommendations of the Office of Surveillance Commissioner;
- (2) Note the findings of the report and changes to the RIPA Policy to Council for ratification;
- (3) Endorse the RIPA monitoring report for the last financial year.

10 PLANNED AUDIT FEE 2018/19

Grant Thornton (External Auditors) presented the Planned Audit fee letter for 2018/19 which the committee agreed to sign off as the scale fee for 2018/19 had been set by PSAA at

£35,412. It was confirmed that there were no changes to the overall work programme and the scale fee covered:-

- Grant Thornton's audit of financial statements;
- Grant Thornton's work to reach conclusions on the economy, efficiency and effectiveness in Lichfield District Council's use of resources (the value for money conclusion); and
- Grant Thornton's work on Lichfield District Council's accounts return (if applicable).

It was explained that the scale fee excludes any work requested by Lichfield District Council that may be agreed to be undertaken outside of the Code Audit and each additional piece of work will be separately agreed.

11 WORK PROGRAMME

A revised Work Programme was circulated as an additional meeting on 24 April 2019 had been added for the Annual Governance Statement to be discussed.

(The Meeting closed at 7.40 pm)

CHAIRMAN