

Finance and Audit Scrutiny Committee

Minutes of the meeting held on Tuesday 30 July 2019 at the Town Hall, Royal Leamington Spa at 6.00pm.

JWN **Present:** Councillor Nicholls (Chair); Councillors; Bartlett, J Dearing, Jacques, Kennedy, Leigh-Hunt, Syson, Tracey and Wright.

33. Apologies and Substitutes

- (a) there were no apologies; and
- (b) Councillor Kennedy substituted for Councillor Tangri.

34. Declarations of Interest

There were no declarations of interest made.

35. Minutes

The minutes of the meeting held on 9 July 2019 were taken as read and signed by the Chairman as a correct record.

36. Statement of Accounts and Audit Findings Report 2018/19

The Committee received a report from Finance that sought approval of the 2018/19 Audited Statement of Accounts and presented the External Auditor's Audit Findings Report.

The draft 2018/19 Statement of Accounts was published on the 31 May, in line with the official deadline. The accounts had been subject to audit by Grant Thornton, the Council's external auditors.

The Audit Findings Report from Grant Thornton detailed that the audit of the accounts had gone well. The working papers were subject to review and authorised by Principal Accountants prior to submission to the auditors in accordance with agreed deadlines. The responses to subsequent questions from the auditors were given priority.

There had been some minor changes to the accounts proposed by Grant Thornton, as detailed within their report. The most significant of these changes was the categorisation of the Community Infrastructure Levy income received in 2018/19. Last year was the first that this income was received by the Council. Officers recognised the incorrect categorisation of this income and alerted the auditors to this. It had been agreed that this should be adjusted before the accounts were finalised, but it did not have any impact on the Council's overall resources.

At the Finance and Audit Scrutiny Committee meeting on 9 July, there was discussion on two outstanding pensions rulings, the McCloud judgment and GMP indexation, that could impact on the 2018/19 accounts. These were both discussed in more detail within the Audit Findings Report. Based on

the figures from the actuary, the pensions liability within the Accounts of £48m (as reflected in the Pensions Reserve) was understated by £1.089m.

The pensions fund was undergoing the triennial revaluation as at 31 March 2019. The results of this revaluation would inform the Council's pension fund contributions for the next three years. In common with many funded pension schemes, there was a deficit on the Warwickshire Local Government Pension Scheme. As the liabilities on the scheme would not all materialise for many years (notably when current employees eventually draw their pension), a "recovery period" of 25 years was agreed with the actuaries. This meant that the additional contributions were made over future years to meet the deficit. Authorities had been making additional contributions towards the deficit for some years. The Council's Medium Term Financial Strategy allowed for increases in the pension contributions (on top of inflationary increases) of an additional £84,000 per annum.

The extra liability from the recent pensions rulings would be taken into account as part of the triennial revaluation. Accordingly, this increase would be spread over many future years. It would not present an additional revenue burden to the Council in one year.

As part of the audit, the auditors had agreed a materiality threshold of £1.2m. The pension adjustment was the only proposed "unadjusted misstatement", this being £1.089m. If the adjustment were to be made, more detailed additional information would be required from the actuaries, so requiring additional work by accountants and auditors, with some additional costs. Due to the accounting treatment for pensions, any adjustment to the service accounts within the Comprehensive Income and Expenditure Statement within the accounts would be reversed out. It would not impact on the sums due to be paid to the pension fund.

For the above reasons, it was proposed not to adjust the pensions figures within the accounts which auditors would accept at this time. Many other local authorities were understood to be taking this stance. Therefore, the Committee was recommended to approve non-adjustment in respect of the McCloud judgment and GMP indexation.

The Council's Constitution stated that the Finance and Audit Scrutiny Committee would be the Council's audit committee. In November 2016, the Constitution was updated so that this Committee had authority to approve the Council's Statement of Accounts each year.

The audit of the accounts was virtually complete, with the Audit Findings Report from the external auditors having been issued. Consequently, Members were asked to approve both the letter of representation and the Audited Statement of Accounts.

A review of the closedown and production of the 2018/19 Accounts was currently on-going. Details of this, and planned actions for the 2019/20 Accounts, was due to be reported to members in November.

Having the audited accounts signed off by the 31 July deadline was a major achievement. This had entailed hard work by the Accountancy Team and from officers across the Council, and from the external auditors. The close working from all involved had been important in enabling the Council to get to this position.

The Committee welcomed the comments from Grant Thornton on the accounts and working relationship with all officers. The Committee commended clear presentation of information when requested. The Committee also commended the team for recovery from failing to close the accounts on time in 2018.

In response to questions from the Committee, it was confirmed that:

- both the accounts and value for money statement were unqualified;
- all outstanding work on the accounts had been completed;
- there were some recommendations on the valuation timing and methodology which officers would be taking forward;
- new procedures and processes had been introduced within the team to share the work load more effectively;
- additional training had been provided for all officers on the closure of accounts;
- in respect of succession planning, the two officers who would be retiring had been shadowed by their replacements and combined with the new procedures and action plan should see accounts completed on time;
- a project manager role would be introduced to assist with the close down of accounts process;
- on materiality values, the Council was not out of step with other Councils but the value had been reduced this year because of the issues with the accounts last year. As a result of this year it was expected the value would increase again next year;
- officers agreed to look at how debtors were reported because a significant proportion of the £6.2million debtors were largely due to new commercially sensitive agreements to enable investment within the District; and
- officers would also reflect on the assessment of each of these agreements annually to consider if the people the money had been loaned to retained the capacity to repay the individual loan.

Resolved that the

- (1) 2018/19 Audit Findings Report, be noted;
- (2) Accounts are not adjusted in respect the McCloud judgment and GMP indexation for pensions;
- (3) the letter of representation on behalf of the Council, be approved; and
- (4) the 2018/19 Audited Statement of Accounts, be approved.

37. Finance – Service Area Update

The Committee received a report from Finance that presented the Finance Risk Register, Contract Register, Budget, and service initiatives.

The latest version of the Finance Risk Register was set out as Appendix 1 to the report. The register was last reviewed by Finance Management Team and Portfolio Holder in June 2019. The register was annotated according to

the key on the final page of the register and reflected the fact that the register was a working document.

The scoring criteria for the risk register were subjective and were based on an assessment of the likelihood of something occurring, and the impact that might occur.

In line with the traditional risk matrix approach, greater concern should be focused on those risks plotted towards the top right corner of the matrix whilst the converse was true for those risks plotted towards the bottom left corner of the matrix. If viewed in colour, the former-described set of risks were within the area shaded red, whilst the latter-described set of risks were within the area shaded green; the mid-range were in the area seen as yellow.

Finance was responsible for a wide range of services. There were 34 risks contained in the risk register. These had been categorised as generic or service specific risks. However, as a support service many of the risks were effectively council-wide, reflecting how the function could be primarily managed by Finance on behalf of the rest of the Council.

There were two risks that were shown in the "red" Loss / shortage of staff (leading to loss of skills, knowledge & capacity and Qualified opinions; Late accounts; Late Government Returns).

In respect of the Loss / shortage of staff (leading to loss of skills, knowledge & capacity), this risk was high due to the turnover within the Accountancy Team over the last two years following two retirements. Whilst the retirements had been actively planned for, the situation had been exacerbated by the shortage of suitable candidates. The Register showed measures taken to manage this risk, with a view to reducing it. All posts had now been filled, with a new Apprentice post currently being recruited to. Until all staff were more established in their new roles, it was prudent to retain the likelihood of this risk occurring.

In respect of Qualified opinions; Late accounts; Late Government Returns, the Committee was aware of the problems in signing off the audited accounts for 2017/18 and the subsequent actions being taken. Whilst the audit of the 2018/19 Accounts had been progressing well, it was considered premature to reduce this risk score.

Most of the risks were "amber" in accordance with the Council's risk scoring matrix. As with all the risks in the register, it was the controls and mitigations that were being undertaken to control the risk that were of importance. These reflected the tangible actions over which there was more control.

The latest version of the Finance Contract Register was set out in Appendix 2 to the report that detailed 23 live contracts for Finance.

Two of the most significant of these contracts related to the Council's integrated Financial Management System (Total Mobile) and the Revenues/Benefits Systems (Civica). The contracts for both systems were due to come to an end in 2021 and 2022 respectively. A project team was in place to consider the options for re-procuring the Financial Management System. Following a recruitment process, a Project Manager was due to

commence with the Council by August. Public sector frameworks were also being investigated for the procurement of the Revenues/Benefits systems.

The Council's insurance contracts were due to be replaced by November 2019. In accordance with the procurement plan for this contract, this contract was currently out to tender as part of the OJEU process.

Details of Finance budgets were included as Appendix 3 to the report. This was based on the relevant pages of the Base Budget report that was considered by Members in January 2019. With the Council's accounts now closed (subject to the current on-going audit), the opportunity had been taken to include the 2018/19 Actual Expenditure alongside the Budget for the current year.

The figures for Treasury Management and Investment had not been considered in detail here. However, these were considered in more detail as part of the Treasury Management Annual Report to Finance and Audit Scrutiny Committee at their meeting on 9 July 2019.

Details of the performance of Finance against the 2018/19 Service Plan included as Appendix 4 to the report. The 2019/20 Service Plan was included within the reports to the Executive on 10 July 2019.

In response to questions from the Committee, the Head of Finance confirmed that:

- the movement of risks should have been highlighted and had not been;
- soft market testing was under way for new Financial Management System and a project initiation document would be brought to the Executive in due course, with Shadow Portfolio Holders being updated monthly;
- there were vacancies for an apprentice and a project manager within the accountancy team; and
- it was recognised that there needed to be a discussion on investment with fossil fuel companies and this would form part of the Treasury Management Training in October.

The Head of Finance agreed to investigate the terms of insurance for cultural and arts assets and would inform the Committee via email.


Resolved that the report and appendices be noted.

38. **Review of the Work Programme and Forward Plan**

The Committee received a report from Committee Services that detailed its work programme for 2019.

Resolved that the Work Programme be amended to include quarterly reports on the introduction of the new Financial Management System following the approval of its Project Initiation Document.

(The meeting ended at 7.22 pm)

 CHAIR
Signature redacted 20 August 2019