

# Finance and Audit Scrutiny Committee

Minutes of the meeting held on Tuesday 27 November 2018 at the Town Hall, Royal Leamington Spa at 6.00pm.

**Present:** Councillor Quinney (Chair); Councillors Barrott, Cain, Day, Gifford, Illingworth, Margrave, Murphy, Noone and Wright.

**Also present:** Councillors Coker, Phillips, Rhead, Thompson and Whiting.

## 82. Apologies and Substitutes

- (a) Apologies for absence were received from Councillor Murphy; and
- (b) Councillor Barrott substituted for Councillor Mrs Knight.

## 83. Declarations of Interest

Minutes 93 & 95 – Items 3 and 13 – Europa Way Progress Update and Next Steps, Executive Agenda (Non-Confidential & Confidential Items & Reports – Wednesday 28 November 2018)

Councillor Gifford declared a pecuniary interest because he was a Warwickshire County Councillor and left the room whilst the item was discussed.

Minute 93 – Item 7 – Whitnash Community Hub, Executive Agenda (Non-Confidential Items & Reports – Wednesday 28 November 2018)

Councillor Margrave declared a pecuniary interest because he was a Whitnash Town Councillor and left the room whilst the item was discussed.

## 84. Statement of Accounts

The Committee received a report from Finance which presented the 2017/18 Audited Statement of Accounts to be agreed by the Committee. It also presented a change to the 2017/18 Annual Governance Statement and the External Auditor's Audit Findings Report was presented.

In July the Committee had received a report explaining how it had not been possible for the 2017/18 Statement of Accounts and audit thereof to be completed by the new statutory deadline of 31 July.

Draft accounts were published by the 31 May deadline, however, there were two notes within the accounts that were incomplete. In addition, the Accountants had concerns as to the accuracy of some of the figures within that draft, for which shortage of time had prevented them being corrected.

As previously reported to the Committee, in seeking to make the corrections needed, further significant errors had been discovered. The cause of these errors and related issues had already been reported to Members.

The changes to the four main statements were shown in Appendices 1-4. Most of these changes related to the capital accounting requirements. Within these appendices, "V1" referred to the original Statement of Accounts published in draft on the Council's website on 31 May 2018 and "V2" was the amended version, taking into account primarily capital accounting changes, as presented to the auditors at the commencement of the audit. The table at section 3.5 in the report summarised the impact of these changes.

As reported previously to the Committee, the original Statements included Group Accounts in respect of the PSP Warwick LLP. This was the first year for which Group Accounts had been included. In discussion with the auditors, it had been agreed that Group Accounts were not necessary for 2017/18, with the figures being non-material. In place of the Group Accounts, an extended Related Party Transaction Note (31) had been included. Based on the expenditure of the LLP during this year, it was likely that Group Accounts would be required for the 2018/19 Statement of Accounts.

In May 2018, the Finance and Audit Scrutiny Committee agreed the Annual Governance Statement for 2017/18. Within that Statement there were no significant governance issues identified. However, the subsequent failure of the Council to meet the statutory deadline for the publication of its audited financial statements had been identified as a significant governance issue and the Annual Governance Statement within the Statement of Accounts attached to the report had been updated to reflect this point. The report therefore asked Members to approve the amended Annual Governance Statement.

As previously agreed, regular reports would be brought to the Executive and the Finance and Audit Scrutiny Committee on the progress of the recommendations contained within the Audit Findings Report, as well as the progress of the overarching action plan presented to the Executive on 31 October.

The audit of the accounts was now complete, with the Audit Findings Report from the external auditors having been issued and attached to the report. The Audit Findings Report included an Action Plan, attached as Appendix A to the report.

The auditors anticipated issuing an unqualified opinion of the Statement of Accounts. In terms of the Value for Money Conclusion, they would issue a "qualified 'except for' conclusion" in respect for securing economy, efficiency and effectiveness in the Council's use of resources. As explained in the Audit Findings Report, the Value for Money Conclusion had to be partly qualified due to the issues identified in respect of timely financial reporting.

Members were requested to agree the Statement of Accounts and the Letter of Representation.

The report advised that there was the potential that the auditors may discover further issues which may not be possible to resolve prior to the meeting. Therefore, the recommendations in Section Two would need to be amended to enable delegation to the Head of Finance, in consultation with

the Finance Portfolio Holder and Chairman of Finance and Audit Scrutiny to sign off the Accounts and the Letter of Representation.

Members were reminded that the last few months had been extremely difficult for the Accountants in producing updated accounts. This involved contending with staff shortages whilst continuing to provide on-going service to officers and Members. The period had also been very difficult for the auditors but there had been an on-going dialogue with the auditors throughout the process.

Consequently, the auditors had to be extremely flexible in the timing of the audit and the scheduling of their resources. It was suggested that the Council's thanks be passed to the Accountants and the Auditors for their hard work and commitment throughout the last few very difficult months.

Representatives from Grant Thornton introduced the report and signposted Members to the main highlights of the report. Although it was disappointing that the signing of the accounts had been delayed, the auditors had extended their testing mechanisms to ensure the process was robust.

In addition, whilst the wording of the audit opinion would alter slightly as a result of the issues raised, Members were assured that the significant message would not change.

The Head of Finance introduced a new member of staff, Ms Bamber, Principal Accountant (Revenue) who had played a large part in helping the Accountants to move forward with the action plan and ensured progress received regular monitoring.

In response to questions from Members, the Head of Finance advised that the Council would not be penalised financially for the delay in closing the accounts but that the additional staff time resulted in additional costs and would be included in the Budget report.

Members did not feel that it was unreasonable to request details of the increased cost to the finance department, even if this was covered in a broad report to the Finance & Audit Scrutiny Committee.

It was proposed by the Chairman that a quarterly report be submitted to the Committee on the implementation of all of the outstanding issues raised in the Audit Findings report. However, on reflection, it was agreed that these could be incorporated into the monthly Action Plan update report, submitted by the Chief Executive.

The Portfolio Holder, Councillor Whiting, addressed Members and stated that there needed to be cultural changes in the department and his challenge was how to ask the right questions to ensure the appropriate steps were being taken.

The Committee thanked the Auditors, Grant Thornton, for their work and for attending and

**Resolved** that

(1) the 2017/18 Audit Findings Report, is noted;

- (2) the changes to the Annual Governance Statement, are approved;
- (3) the letter of representation on behalf of the Council, is approved;
- (4) the 2017/18 Audited Statement of Accounts, is approved and authority is delegated to the Head of Finance in conjunction with the Portfolio Holder for Finance and the Chairman of Finance & Audit Scrutiny Committee to sign off the Accounts and the Letter of Representation should further issues be raised by the auditors;
- (5) the recommendations contained within the Audit Findings Report are endorsed; and
- (6) the outstanding issues raised in the Audit Findings report be incorporated into the monthly Action Plan update report from the Chief Executive.

**85. Minutes**

The minutes of the meeting held on 30 October 2018 were taken as read and signed as a correct record.

**86. Treasury Management Activity Report for the period 1 April 2018 to 30 September 2018**

The Committee received a report from Finance which detailed the Council's Treasury Management performance for the period 1 April 2018 to 30 September 2018.

The Council's 2018/19 Treasury Management Strategy and Treasury Management Practices (TMP's) required the performance of the Treasury Management Function to be reported to Members on a half yearly basis in accordance with the Treasury Management Code of Practice.

A detailed commentary of the economic background surrounding the report and conducted by the Council's Treasury Consultants, Link Asset Services, was attached as Appendix C to the report.

The report explained the Interest Rate Environment and highlighted that one of the major influences on the Council's investment was the bank rate. The Council's Treasury Management Advisors, Link Asset Services, had provided a forecast as at October 2018 for future Bank Rates and this was detailed at section 9.1 of the report.

The Council aimed to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. The Annual Investment Strategy 2018/19 was approved by Council on 21 February 2018. This approved the current lending criteria which reflected the level of

risk appetite of the Council. However, the Council continued to review its Standard Lending List as a result of frequent changes to Banking Institutions' credit ratings, to ensure that it did not lend to those institutions identified as being at risk. A copy of the current lending list was shown as Appendix D to the report.

Section 10 of the report related to Investment Performance and included details on Core Investments, Cash Flow Derived Funds and Accounts. The Committee thanked the officers for the report and for attending and Call Accounts. A table detailing the Investment Return was provided at section 10.13 of the report, along with an analysis of the overall in house investments held by the Council at the end of September 2018.

The report also provided information relating to Corporate Equity Funds, Counterparty Credit Ratings, Benchmarking, Borrowing and Prudential Indicators.

Work was about to commence on preparing the 2019/20 Treasury Management and Investment Strategies. Whilst security of the funds would be paramount, it was intended that the Council would continue to achieve the best returns possible. Details would be included within the forthcoming Treasury Management report in February.

**Resolved** that the report be noted.

**87. Annual Governance Statement 2017/18 Action Plan: Review of Progress**

The Committee received a report from Finance which reviewed the progress that was being made in addressing the 'Significant Governance Issue' facing the Council, set out in its Annual Governance Statement 2017/18. The appendix accompanying the report set out the progress in addressing the Significant Governance Issue.

This report was produced to help fulfil Members' responsibility for effective corporate governance within the Council. In addition, it provided assurance that the governance issue identified as part of the compilation of the Annual Governance Statement was being addressed.

In relation to Corporate Governance in Local Authorities, the report provided a definition of corporate governance as stated by the Chartered Institute for Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE). This was detailed at section 8.1 of the report. CIPFA/SOLACE had issued a framework and guidance, as set out in the Good Governance Standard for Public Services. The principles in relation to local government as set out in the framework were detailed at 8.2 of the report.

The production of an Annual Governance Statement was a statutory requirement for local authorities (Regulation Six of The Accounts and Audit (England) Regulations 2015). CIPFA Financial Advisory Network's advice was that the Annual Governance Statement was a key corporate document and the most senior Member and the most senior Officer (Leader and Chief Executive respectively) had joint responsibility as signatories for its accuracy and completeness. It advised that it should be owned by all senior

members and officers of the authority and that it was essential that there was buy-in at the top level of the organisation. It advised that the work associated with its production should not be delegated to a single officer.

The governance issue facing the Council had been identified from the production of the statutory Annual Governance Statement and was summarised in the Action Plan element of the Annual Governance Statement for 2017/18.

The governance issue had not been identified at the time the accounts were initially approved by Finance & Audit Scrutiny Committee on 30 May and so did not feature in the Annual Governance Statement that accompanied those sets of accounts. Since then, errors had been found in the accounting statements and the statements had to be re-presented to the Committee. This had led to the identification of a governance issue concerning production of the accounting statements. Further information was provided in another report on the Committee's agenda entitled the "2017/18 Statement of Accounts and Audit Findings Report".

The appendix accompanying the report set out the progress in addressing the Significant Governance Issue. Progress in addressing it was reported by the officer leading on it and had been endorsed by the Senior Management Team at a recent meeting. Further information in respect of progress in addressing the governance issue was set out in the "Update on Action Plan following Review of Closure of Accounts" report being considered by Executive on 29 November 2018.

The Audit & Risk Manager outlined the report and reminded Members that they should have received this report one quarter ago but no issue had been reported at that stage.

The Committee thanked the officers for the report and for attending and

**Resolved** that the Action Plan set out in the Appendix to the report is noted and Members are satisfied with the progress being made in addressing the Significant Governance Issue pertaining to the Annual Governance Statement 2017/18.

#### 88. **Internal Audit Quarter 2 2018/19 Progress Report**

The Committee received a report from Finance which advised on the progress in achieving the Internal Audit Plan 2018/19, summarised the audit work completed in the second quarter and provided assurance that action had been taken by managers in respect of the issues raised by Internal Audit.

At the start of each year, Members approved the Audit Plan setting out the audit assignments to be undertaken. An analysis of progress in completing the Audit Plan for 2018/19 was set out as Appendix 2 to the report.

With regard to internal audits, six assignments had been completed in the second quarter of 2018/19 and copies of all the reports issued during the quarter were available for viewing on the online agenda for the meeting.

The action plans accompanying all Internal Audit reports issued in the quarter were set out as Appendix 3 to the report. These detailed the recommendations arising from the audits together with the management responses, including target implementation dates.

Responses had been received from managers to all recommendations contained in audit reports issued during the quarter in question. No audits completed in the quarter had been awarded a lower than substantial assurance opinion.

Managers were required to implement recommendations within the following timescales:

- (a) Recommendations involving controls assessed as high risk to be implemented within three months.
- (b) Recommendations involving controls assessed as low or medium risk to be implemented within nine months.

The state of implementation of low and medium risk recommendations made in the third quarter of 2017/18 was set out in Appendix 5 to the report. There were no high risk recommendations issued in the first quarter of 2018/19 so none had been included in the appendix.

Responses had been received from all managers in order to provide the state of implementation of recommendations issued in this earlier quarter.

Members were reminded that they could access any files produced by Internal Audit that may help to confirm the level of internal control of a service, function or activity that had been audited or that would help to verify the performance of Internal Audit.

Councillor Barrott raised a query with regard to recommendation 4.2.6 of the report, issued following an internal audit report issued in Quarter 2, 2018/19 relating to Corporate Governance: Ethics. This was detailed in Appendix 3 to the report. The target implementation date was stated as 1 October 2019 but should have read 2018. The Head of Finance agreed to raise the issue at the next Corporate Management Team meeting.

The Committee thanked the officers for the report and for attending and

**Resolved** that the report should be noted and its contents be accepted or, where appropriate, acted upon.

## 89. **Corporate Fraud Team Update**

The Committee received a verbal update report from Finance along with copies of statistical data which were circulated at the meeting.

The Benefits & Fraud Manager addressed Members and reminded them that Oxford City Council provided the corporate fraud service which included prevention, detection and investigation of fraud. Reporting on this issue started in February 2017 so the figures did not match the financial year dates.

In total, 187 staff had been trained in data matching and three cases were currently out for investigation. Members were advised that there were no figures available for New Homes Bonus for 2018/19 and that Visiting teams provided a back-up resource to existing staff numbers.

The statistics circulated provided details on the number of cases with a financial outcome in 2017/18 and 2018/19 and the total value for both years.

Members raised a number of points with the officers and were advised that some of the savings were theoretical and non-cashable. It was suggested that a key against the savings would be useful or clarity as to what funds had been recovered or lost.

The Committee thanked the officers for the report and for attending and

**Resolved** that the Corporate Fraud Team Update be noted.

90. **Review of the Assigning of Parent Company Guarantees and Other Types of Securities to Council Contracts**

The Committee received a report from Finance which provided an update to Members on the progress being taken in managing securities within contracts following the report to Finance and Audit Scrutiny Committee in March 2018.

Following the difficulties earlier in the year with one of the Council's contractors ceasing to trade, a review was undertaken by the Council's Internal Audit Section entitled "The Assigning of Parent Company Guarantees and Other Types of Securities to Council Contracts". This review was reported to this Committee in March.

It was agreed that a further report would be brought to the Committee in the autumn on the progress in implementing the recommendations. The recommendations and progress to date were detailed in Appendix 1 to the report. This appendix showed that progress had been made with the most notable changes detailed below:

- The financial standings of all contractors were now actively monitored using "Credit Safe".
- Credit checks continued to be carried out for new contracts and renewals, now using Credit Check.
- In addition to Credit Check, the Accountants would review contractors for high value or high risk contracts.
- Contract Management Training being rolled out included a section on securities.
- Alongside the update to the Code of Procurement Practice, supporting guidance was available to officers.
- WCC Legal services had advised upon and assisted with updating the guidance and new contract templates.
- Further reviews of the Procurement function were proposed, including benchmarking, and a review by Internal Audit of the Council's approach to contract management.



Councillor Cain reiterated his concerns regarding PCG's and felt that a bond was a safer mechanism to use.

In response, Councillors Illingworth and Gifford felt that it was positive that action was being taken on the issues raised by the Finance & Audit Scrutiny Committee and were delighted that work was being undertaken to reduce risks.

The Chairman proposed that the report and progress being made be noted and advised that a larger review would be taking place in due course.

**Resolved** that the actions being taken within Appendix 1 to the report in respect of the Managing Securities audit reported to the Committee in March 2018, are noted.

#### 91. **Scrutiny of Service Area Performance – Development Services**

The Committee received a report from Development Services which brought together the contract register, risk register and budget for the Development Portfolio.

It had been requested by Members that the service contract and risk registers be considered together, along with details of the budget and performance for the relevant service.

The report highlighted that Development Services also encompassed the Business Portfolio, however, updates relating to this would be the subject of a separate report to the Committee in February 2019.

The Risk Register was last reviewed in October 2018 and the latest version was set out at Appendix A to the report. There were 30 risks contained in the risk register. There were five risks rated "green", 24 rated "yellow", and one rated "red", in accordance with the Council's risk scoring matrix. The risk rated red was the risk of "*Failure to secure sufficient or timely infrastructure funding through CIL/Section 106*".

The latest version of the contract register relating to the Development Portfolio was set out in Appendix B. There were nine live contracts listed, along with three service level agreements with Warwickshire County Council. Currently three of the live contracts were being re-procured.

Management of the budget set out in Appendix C to the report was part of the ongoing process which ensured that significant variances were discussed with finance. The budgets were devolved to budget managers who were responsible for the delivery of specific services and each budget manager was trained on their responsibilities. Those responsibilities included regular liaison with the relevant accountant in finance to discuss and resolve issues and variances associated with the budget.

The report advised that a more challenging aspect of the Development Services budget was monitoring and managing income. Both Development Management and Building Control generated significant amounts of income for the Council. Income from Planning Applications was budgeted to

generate £1.56m during 2018/19 whilst income from pre-application advice for the year, to date, had been £47,340 against an original budget of £50,000 for the whole of the 2018/19. The Building Control income was budgeted to generate £720,000 during 2018/19 and income from the first seven months of the financial year was £472,873.

Income from CIL and Section 106 agreements was not part of the Development Services budget because it was passed on to infrastructure providers on receipt.

The Portfolio Holder for Development Services and the Head of Development Services introduced the report. In response to questions from Members, they advised that:

- With regard to resourcing, the Council was investing in the service, assisted by an increase in planning fees and budget revision;
- There was a recruitment issue at senior officer level and the Council needed to look at the market supplements and private sector offerings;
- The Council was aiming to 'grow its own' officers and would be creating three new posts at higher levels;
- The impact on the service area would be greater due to the District handling more development but the Monitoring Officer would look at the trigger points;
- The 40% affordable housing policy was often report incorrectly in the Media resulting in members of the public receiving incorrect information; and
- The working group for the Infrastructure Delivery Plan was on track.

The Committee thanked the officers for the report and for attending and

**Resolved** that the Development Portfolio contract register, risk register and budget are noted.

92. **Review of the Work Programme, Forward Plan Comments from the Executive**

The Committee received a report from Democratic Services that set out its current work programme, the Forward Plan and responses from the comments made by the Committee to the Executive.

A request was made that the work at the Royal Pump Rooms be added to the work programme for the January 2019 meeting. This was with a view to the potential of financial risk to the Council. Councillor Quinney suggested that Councillors considered providing officers with their questions before the meeting.

**Resolved** that

- (1) the work at the Royal Pump Rooms be added to the work programme for 8<sup>th</sup> January 2019 meeting; and
- (2) the report be noted.

93. **Executive Agenda (Non Confidential Items & Reports – Wednesday 28 November 2018)**

The Committee considered the following items which would be discussed at the meeting of the Executive on Wednesday 28 November 2018.

Item 4 – Budget Review

The Finance & Audit Scrutiny Committee supported the recommendations in the report.

Item 5 – Covent Garden Displacement Plan

The Finance & Audit Scrutiny Committee supported the recommendations in the report.

Item 11 – 10, 12 & 14 Chapel Street, Warwick

The Finance & Audit Scrutiny Committee supported the recommendations in the report.

Item 7 – Whitnash Community Hub

The Finance & Audit Scrutiny Committee supported the recommendations following a robust discussion of the project.

(Councillor Margrave left the room whilst this item was discussed)

Item 3 – Europa Way Progress Update and Next Steps

The Finance & Audit Scrutiny Committee supported the recommendations in the report whilst noting that marketing of the consultation was key and needed to be persuasive and well explained. In addition, Members highlighted the importance of setting up the capital accounting to avoid future complexity of year end processes and requested that resources were investigated to ensure this happened.

(Councillor Gifford left the meeting prior to discussion of this item)

94. **Public & Press**

**Resolved** that under Section 100A of the Local Government Act 1972 that the public and press be excluded from the meeting for the following items by reason of the likely disclosure of exempt information within paragraph 3 of Schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006.

95. **Executive Agenda (Confidential Items & Reports – Wednesday 28 November 2018)**

The Committee considered the following items which would be discussed at the meeting of the Executive on Wednesday 28 November 2018.

Item 16 – Victoria Park Café

The Finance & Audit Scrutiny Committee supported the recommendations in the report.

Item 13 – Europa Way Progress Update and Next Steps

The Finance & Audit Scrutiny Committee supported the recommendations in the report.

(The meeting ended at 9.18 pm)