

Finance and Audit Scrutiny Committee

Minutes of the meeting held on Tuesday 6 March 2018 at the Town Hall, Royal Leamington Spa at 6.00pm.

Present: Councillor Barrott (Chair), Cain, Davies, Gifford, Howe, Illingworth, Margrave, Noone, Quinney and Wright.

Also present: Councillors Butler, Coker & Mobbs.

117. Apologies and Substitutes

- (a) Apologies for absence were received from Councillors Davies and Gallagher; and
- (b) There were no substitute members.

118. Declarations of Interest

Minute 126 - Executive Agenda (Non-Confidential Items & Reports – Wednesday 7 February 2018)

During the course of the meeting, Councillor Illingworth declared an interest because his wife was a member of one of the clubs applying for a Rural and Urban Capital Improvement Scheme grant.

119. External Audit

The Committee considered a report from Finance and the Council's external auditors, Grant Thornton, which brought a number of matters to Members' attention.

The report advised that the auditors had not been able to conclude audits of the accounts since 2013/14. The reason for this was that the auditors had been unable to complete their consideration of two objections to the 2013/14 accounts. The auditors had now been able to complete their investigations and had duly responded to the objectors. In both cases, the auditors concluded that it would not be in the public interest for them to make a public interest report under Section 8 of the Audit Commission Act 1998.

The auditors responded separately to the two objectors. Due to the detailed content of these letters, with much information which was of a personal nature, the Council's lawyers confirmed the auditors' letters may be shared with Finance and Audit Scrutiny Committee on a totally confidential basis. The Council's auditors also agreed with this.

Therefore, copies of the two letters were included as confidential Appendices A and B to this report, as item 15 on this agenda. The details of the confidential discussion relating to Item 15 would be set out in confidential Minute Number 121.

Mr Grant Patterson and Ms Helen Lillington attended as representatives of Grant Thornton and presented the reports.

In response to questions from Members, the officers advised that:

- Whilst it was recognised that both organisations had incurred costs due to the outstanding issues with the accounts, the additional expenditure did not need approval because it had been budgeted for in the relevant years' finances;
- It was not possible to provide a breakdown of the costs of the individual objections to the accounts at the meeting but the costs had increased with the complexity of the objection;
- With regard to 'Group Accounts', work was being undertaken to monitor these and officers would know more at the start of the new financial year;
- The Head of Finance was in touch with our contact at PSP Warwick LLP but there was some unhappiness with the robustness of the data. A temporary post had been established in the team which would be dedicated to working only on final accounts but this was very much a work in progress;
- Officers were challenging the fact that Year End for PSP was different to the Council's and were looking at changing this next year.

Ms Lillington advised that there were still challenges to ensure officers met the end of year deadline but the Finance team had made substantial adjustments so far. With regard to the working papers, Grant Thornton were working hard to instil more discipline and it was recognised that officers needed to improve processes to make this a reality.

The Strategic Finance Manager advised that she had been working closely with Ms Lillington and had worked on examples of standard format and these had been explained to the team. However, it was noted that officers needed to reach a consistent stage with these.

Members agreed that this was a very good report and was easy to read. The Chair extended the Committees' thanks to Mr Patterson and Ms Lillington, and to all the officers involved, for their work. Special thanks were also given to the Exchequer Manager, Mr Leech and the Benefits and Fraud Manager, Mrs Wyatt.

Resolved that:

- (1) the conclusion of the 2013/14, 2014/15 and 2015/16 audits, be noted;
- (2) the findings within the auditor's letters in respect of the objections to the 2013/14 accounts, that in effect the Council had no case to answer with a considerable cost being incurred by the local taxpayer for no good reason, be noted;
- (3) the conclusion of the audit of the 2016/17 Benefits Subsidy, be noted;

- (4) the conclusion of the audit of the 2016/17 Pooling of Housing Capital Receipts return, be noted; and
- (5) the 2017/18 External Audit Plan and the supporting document, Informing the Risk Assessment, be approved.

120. **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 item 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.

121. **External Audit Update – Confidential section – Appendices A & B**

The discussion on this item would be detailed in the confidential minutes to the meeting; however, the appendices were noted.

122. **Executive Agenda (Non-Confidential Items & Reports – Wednesday 7 March 2018)**

The Committee considered the following non-confidential items which would be discussed at the meeting of the Executive on Wednesday 7 March 2018.

Item 5 – Newbold Comyn Golf Course – Proposed Next Steps

The Committee supported the recommendations in the report.

123. **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 item 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.

124. **Executive Agenda (Confidential Items & Reports – Wednesday 7 March 2018)**

The Committee considered the following confidential item which would be discussed at the meeting of the Executive on Wednesday 7 March 2018.

Item 14 – Newbold Comyn Golf Course – Negotiated Settlement with Mack Trading (Heaton Park) Limited

The Committee noted the appendix.

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

The Committee considered a report from Finance which provided information on the issues relating to the assigning of securities to the Council's contracts, with particular emphasis on parent company guarantees.

A report was issued by the Deputy Chief Executive (AJ) to Executive on 4 January 2018 detailing problems with the Golf Contract at Newbold Comyn Golf Course and the issues resulting from this. The report advised that the contractor, Mack Trading, had recently ceased its operation at the golf course and wanted to withdraw from the contract that it had with the Council. In order to do this, a negotiated settlement was being sought.

The report set out a number of options and presented various recommendations for dealing with the situation.

Discussions on the report revealed that, although there was a PCG within the contract, this could not be invoked as it became clear that the parent company of Mack Trading had changed its company structure as to render the security useless.

At the Finance & Audit Scrutiny Committee meeting of 3 January 2018, following their consideration of the Golf Contract report to Executive, Members asked for an urgent review of the assigning of parent company guarantees (PCGs) to contracts. The review had been extended to cover all types of securities as the processes for setting these up and monitoring them are the same. It would, therefore, have been negligent, and ultimately unhelpful, not to have included all types of securities within the review.

The Audit and Risk Manager presented the report and advised that the review had revealed a mixed approach to guarantees and securities across the Council's services. He had noted that there was a lack of guidance on the topic and a lack of ownership of securities in some areas. During the course of the review, some contract owners did not know about the guarantee or security associated with their contract or the information was not readily available.

The Audit and Risk Manager advised that the Senior County Legal Officer had suggested that the Council was no worse than any other local authority in this area.

The Audit and Risk Manager felt that there would be improvements in the Council's arrangements when the strategic element of procurement moved to the County Council in due course.

The Committee was advised that there was an update to paragraph 5.5 of the report in that Housing Services' Cleaning contract did have a bond attached to it.

Councillor Cain addressed the Committee and reminded them that the Council's policy stated that a bond or a PCG was recommended. He explained the advantages of securing a bond over a PCG, which he felt was "not always worth the paper it was written on". In his experience, PCG's should be avoided on large construction projects and if a company could not produce a bond, it said something about their finances. Councillor Cain recommended that a line should be drawn as to when a PCG was appropriate.

Councillor Illingworth highlighted that Finance & Audit Scrutiny Committee had commissioned the report and thanked the Audit & Risk Manager for the detail provided. He contended that it was important to get the processes right, as reflected in the report's recommendations, rather than be dogmatic about applying just the one type of security. He recommended that, alongside noting the recommendations, these should be forwarded to the Senior Management Team for consideration.

Councillor Noone suggested that, in light of Councillor Cain's comments, the recommendations should be revisited. She felt that it would negate a lot of the checks if officers sought to put Bonds in place on all contracts because they appeared to be more secure.

Following a question relating to the monitoring of the Leisure Centre contracts, the Head of Culture assured the Committee that officers had entered into the Everyone Active contract with detailed briefing notes from legal services at County Council. She raised a concern with the comments suggesting that there was a "one size fits all" solution and advised that discussions were ongoing in relation to PCG's.

The Cultural Services Programme Officer explained that there was no "one size fits all" solution and explained why a PCG had been applied in respect of the Leisure Contract.

Members agreed that it was important to keep a balanced view and weigh up the risks for each individual case.

The Head of Finance suggested that this report was a starting point and that officers could take it forward to the Senior Management Team for consideration. It would be a corporate decision to think through the recommendations, whilst working with legal services and the procurement team to draw up a framework. He highlighted that the issue often came back to contract management and ensuring that robust training had been rolled out.

It was recognised that PCG's were not always monitored as frequently as they could be and it would be ideal to have a system that alerted officers when necessary.

Councillor Quinney suggested that officers report back in the autumn of 2018, following submission of the recommendations to SMT. It was

agreed that the Head of Finance and the Audit and Risk Manager would present the report to SMT.

Resolved that

- (1) the report set out at Appendix A be noted; and
- (2) a further report be brought to the Committee in autumn 2018 on the progress in implementing the recommendations emerging from the PCG report following its submission to the Senior Management Team.

126. Executive Agenda (Non-Confidential Items & Reports – Wednesday 7 March 2018)

The Committee considered the following non-confidential items which would be discussed at the meeting of the Executive on Wednesday 7 March 2018.

Item 8 – Commonwealth Games 2022

The Committee supported the recommendations in the report.

Item 12A – Rural and Urban Capital Improvement Scheme (RUCIS) Application

The Committee raised concerns about these applications putting the fund into deficit and proposed the following recommendations:

- (1) The Committee is concerned that these bids are putting the RUCIS fund into deficit.

We understand that Kenilworth Town Council has reserves of more than £300k, and an annual surplus of about £60k. We are sure that Kenilworth Town Council would be willing to further support these causes based in Kenilworth. So we urge the Executive to talk to KTC about funding the £14k shortfall; and

- (2) The Committee ask the Executive to consider seeking a higher contribution from the London & North Western Railway Society and asks the Executive to question the appropriateness of the grant to Kenilworth Rugby Club due to their future vacation from the site.

Item 4 – Local Code of Corporate Governance

The Committee noted the recommendations in the report but noted that there was always room for improvement especially in the areas of transparency and respect.

127. Internal Audit Quarter 3 2017/18 Progress Report

The Committee considered a report from Finance which advised on progress in achieving the Internal Audit Plan 2017/18, summarised the audit work completed in the third quarter and provided assurance that action had been taken by managers in respect of the issues raised by Internal Audit.

The report outlined the role and responsibilities of Audit Committees and explained that guidance was available from a number of sources. However, that which related to audit committees' relationship with internal audit and in particular the type and content of reports they should receive from internal audit, was summarised in Appendix 1 to the report.

At the start of each year Members approve the Audit Plan setting out the audit assignments to be undertaken. An analysis of progress in completing the Audit Plan for 2017/18 was set out as Appendix 2.

Each audit report gave an overall opinion on the level of assurance provided by the controls within the area audited. The assurance bands were detailed at section 11.2 of the report.

Seven audits had been completed in the third quarter of 2017/18. Copies of all the reports issued during the quarter were available via the Council's website. 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. Members noted that responses had been received from managers to all recommendations contained in audit reports issued during the quarter in question.

Two audits completed in the quarter were awarded a lower than substantial assurance opinion. These were in respect of the Events Management audit and the Energy Management audit. In line with procedure, the reports relating to these audits were attached as Appendix 4 for specific scrutiny.

The Audit & Risk Manager outlined the report and advised that there were no outstanding responses from managers.

Members were concerned about the report relating to Events Management but recognised that there had been some extensive reorganisation within this area. It was also noted that a number of implementation dates had slipped and this would be fed back to officers. Members felt that it was taking a long time to get some issues resolved.

Resolved that the report be noted and its contents be accepted.

128. Internal Audit Strategic Plan 2018/19 – 2020/21 and Internal Audit Charter

The Committee considered a report from Finance which presented the Internal Audit Strategic Plan 2018/19 – 2020/21 and the Internal Audit Charter for consideration and approval.

The Internal Audit Strategic Plan is an important element in providing the required independent and objective opinion to the organisation on its control environment, in fulfilment of statutory duties.

Internal Audit provided an independent opinion to the organisation on the control environment by evaluating its effectiveness in achieving the organisation's objectives. It examine, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

The audits set out in the first year of the Plan were carried out throughout the year with timings (start dates) agreed with managers on individual audits, usually at the beginning of the year.

The Internal Audit Strategic Plan 2018/19 to 2020/21 comprising the planned reviews over this period was set out as the first Appendix to the report.

The compilation of the Internal Audit Charter is a requirement of the Public Sector Internal Audit Standards and this was attached at Appendix 2 to the report. This document explained the purpose and statutory basis of internal audit and detailed the role and responsibilities of the Finance and Audit Scrutiny Committee.

The Audit and Risk Manager outlined the report and following a question from Members, assured the Committee that his team had sufficient resources to carry out the plan as detailed.

Resolved that the Internal Audit Strategic Plan 2018/19 – 2020/21 and the Internal Audit Charter are approved.

129. **Annual Governance Statement Qtr. 3 Action Plan Report**

The Committee considered a report from Finance which reviewed the progress being made in addressing the 'Significant Governance Issues' facing the Council set out in its Annual Governance Statement 2016/17. The appendix accompanying the report set out the progress in addressing the Significant Governance Issues.

The report advised that the production of an Annual Governance Statement was a statutory requirement for local authorities (Regulation 6 of The Accounts and Audit (England) Regulations 2015).

The CIPFA Financial Advisory Network published an advisory document entitled "The Annual Governance Statement: Rough Guide for Practitioners". Its 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 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 Leader and Chief Executive of the Council as signatories to the Annual Governance Statement need to ensure that it accurately reflected the governance framework for which they are responsible.

The significant governance issues facing the Council had been identified from production of the Statutory Annual Governance Statement and these were summarised in the Action Plan element of the statement for 2016/17.

The Annual Governance Statement had been approved by Council.

The progress in addressing these governance issues was reported by the officers leading on them and had been endorsed by the Senior Management Team at a recent meeting.

With regard to procurement, the Head of Finance advised that the strategic lead would be taken by Warwickshire County Council but bulk-managed by the Council's Finance team.

Members were pleased that the conflict of interest issue had been taken on board.

Resolved that the Action Plan set out in the Appendix is noted and the Committee confirms that it is satisfied with the progress being made in addressing the significant governance issues pertaining to the Annual Governance Statement 2016/17.

130. **Review of Reserves**

The Committee were due to consider a verbal update from the Head of Finance in relation to Appendices 6a and 6b of the 2018/19 General Fund Budget and Council Tax report, which was agreed at Council on 21 February 2018. These appendices related specifically to budgeted reserves.

At its meeting on 6 February 2018, the Committee requested that these two appendices be scrutinised further to establish if the level of the reserve was appropriate and if the reserve itself was appropriate.

However, taking account of the late hour it was agreed that this item should be deferred until the April 2018 meeting, to allow sufficient time for consideration of the item.

Resolved that the update be deferred to the next meeting.

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

The Committee received a report from Democratic Services which informed the Committee of its work programme for 2018 and the current Forward Plan. Both of these documents were attached as appendices to the report.

The five main roles of overview and scrutiny in local government were: holding to account; performance management; policy review; policy development; and external scrutiny.

The pre-decision scrutiny of Executive decisions fell within the role of 'holding to account'. To feed into the pre-decision scrutiny of Executive decisions, the Committee needed to examine the Council's Forward Plan and identify items upon which it would like to have an impact.

The Council's Forward Plan was published on a monthly basis and set out the key decisions to be taken by the Council in the next twelve months. The Council only had a statutory duty to publish key decisions to be taken in the next four months. However, the Forward Plan was expanded to a twelve month period to give a clearer picture of how and when the Council would be making important decisions.

The Committee was mindful that any work it wished to undertake would need to be undertaken without the need to change the timescales as set out within the Forward Plan. The Committee may wish to give greater consideration to the reports in Section 2 of Appendix 1, to maximise the time available for Members to input into the process.

Resolved that

- (1) the Forward Plan be noted; and
- (2) the work programme be amended to include a review of reserves in April 2018; and a further report be brought to the Committee in autumn 2018 on the progress in implementing the recommendations emerging from the PCG report following its submission to the Senior Management Team.

132. Comments from the Executive

The Committee received a report from Democratic Services which summarised the Executive's response to comments given by the Finance & Audit Scrutiny Committee on reports submitted to the Executive on 7 February 2018.

The responses which the Executive gave to those items considered by the Finance & Audit Scrutiny Committee on 6 February 2018 were detailed in the appendix to the report.

Resolved that the responses made by the Executive, as set out in Appendix 1 to the report, be noted.

(The meeting ended at 9.17 pm)