

Audit and Risk Committee

Minutes - 13 March 2017

Attendance

Members of the Audit and Risk Committee

Cllr Craig Collingswood (Chair)
Cllr Christine Mills (Vice-Chair)
Cllr Harbans Bagri
Cllr Mary Bateman
Cllr Philip Bateman
Cllr Jasbir Jaspal
Cllr Andrew Wynne
Mike Ager (Independent Member)

Employees

Ian Cotterill	Client Lead Auditor
Peter Farrow	Head of Audit
Dereck Francis	Democratic Services Officer
Alexandra Jones	Assistant Director - School Standards
Hayley Reid	Senior Auditor
Mark Taylor	Director
Mark Wilkes	Client Lead Auditor

External Auditors – Grant Thornton

Mark Stocks

Part 1 – items open to the press and public

Item No. Title

1 **Apologies for absence**
Apologies for absence were submitted on behalf of Cllr Martin Waite.

2 **Declaration of interests**
The following declarations were made:

Attendee	Item	category	Reason
Cllr Christine Mills	11	Non-pecuniary	Member of a secondary pupil referral unit

Cllr Mary Bateman	11	Non-pecuniary	School Governor - Ashmore Park St Albans
Cllr Phi Bateman	11	Non-pecuniary	School Governor - Ashmore Park St Albans
Mike Ager, Independent Member	9 and 11	Non-pecuniary	Governor - Coppice Performing Arts School and Highfields School

3 **Minutes of the previous meeting - 12 December 2016**

Resolved:

That the minutes of the previous meeting held on 12 December 2016 be approved as a correct record and signed by the Chair.

4 **Matters arising**

With reference to Minute 4 (Matters arising) and in response to Cllr Andrew Wynne, Mark Stocks from the Council's external auditors, Grant Thornton reiterated the response given at the last meeting. The external auditor remained comfortable with the assumptions the Council was making on its plans to address the budget deficit. The assumptions were kept under review and the Council's audit plans and risk register were consulted. There were no issues that they needed to bring to the Committee's attention.

With reference to Minute 6 (Strategic Risk Register and Strategic Assurance Map), it was confirmed that the owner of risk 21 (Transforming Adult Social Care Programme) would be attending the next meeting to provide a detailed update on how the risk was being managed.

5 **Audit and Risk Committee - Terms of Reference**

The Committee was invited to undertake the annual review of its terms of reference, based on the Chartered Institute of Public Finance and Accountancy (CIPFA) model.

Resolved:

That the terms of reference for the Audit and Risk Committee, that were last reviewed and approved in March 2016 and which continue to be in line with recognised best practice be approved for 2017/18.

6 **External Audit Plan**

Mark Stocks from the Council's external auditors, Grant Thornton highlighted the key points from the report on their audit plans for the Council for the year ended 31 March 2017.

Referring to the Chancellor's comment in his Spring Statement about social care funding, Mike Ager, Independent Member said he anticipated that the Chancellor's statement would be taken into account in the external audit plans. He also asked the external auditors whether they were in contact with external auditors for other local authorities regarding the West Midlands Combined Authority (CA) risk. Mark Stock reported that Grant Thornton was the external auditor for the CA. There were only

two West Midlands Councils for whom they were not the external auditors. They would only share as much information with other external auditors as the Council allowed.

Mark Taylor, Director of Finance added that the seven West Midlands District Councils and the CA had asked Public Sector Audit Appointments (PSAP) Limited (the body responsible for appointing auditors as set out in section 3 of the Audit Commission Act 1998), that they all have the same external auditor given that they all work closely together.

Responding to Cllr Jasbir Jaspal on the progress with Integrated Health Care, Grant Thornton reported that nationally it was poor. However, there was a will within the West Midlands area for organisations and care professionals to work together and the Better Care Fund as an example of this integrated approach.

The Chair reported that he looked forward to the issue 'related party transactions', which had been highlighted in previous audit plans being fully addressed this year. The Chair also reported that it was good to see that the value for money (VFM) risk areas identified in the external audit plan, i.e. Medium Term Financial Strategy, OFSTED inspection of children's services, and the Combined Authority, were also included in the Council's strategic risk register. He asked that the results from the external audit work be fed into the reports to the Committee on the strategic risks through the Assurance Map. Peter Farrow, Head of Audit confirmed that would happen.

Resolved;

That the external audit plan be received and noted.

7

Grant Certification Work

Mark Stocks from the Council's external auditors, Grant Thornton presented the outcome of their work to certify the Council's Housing Benefit Subsidy Claim on behalf of the Department for Work and Pensions; on Homes and Communities Agency compliance work; and to certify the Pooling of Housing Receipts Return. The Council had been issued an unqualified opinion by the external auditor. Mark Stock reported that this year was the only year when he had issued an unqualified opinion in a certification letter. Only three minor points had been picked up in the external auditors report and they did not result in any amendments being made to the claim. The external auditor commended the Council for its work in this area.

The Committee placed on record its congratulations to the Council employees involved in the submission of the claim for their efforts in achieving the pleasing result of an unqualified opinion from the external auditor.

Resolved:

That the Certification Work Letter from the Council's external auditors Grant Thornton be noted.

8

External Audit Communication

Mark Stocks from the council's external auditors, Grant Thornton presented a paper 'Informing the Audit Risk Assessment'. It set out some of the potential areas of risk for the external audit together with a management response to a number of questions posed by the auditor. The views of the Committee were invited on the management responses.

The Chair observed that reports on Counter Fraud Activities, Fraud Related Policies and Procedures and the publication from TEICCAF (The European Institute for Combating Corruption and Fraud) were all included on the agenda for the meeting. This supported the Council's management response to the external auditor's question on the processes the Council had in place to identify and respond to the risks of fraud. The Chair also welcomed that the council had systems in place to identify, account for and disclose, related third party transactions and relationships.

Resolved:

That the report from the external auditors, Grant Thornton be noted.

9

Strategic Risk Register and Strategic Assurance Map

Mike Ager declared a personal interest in the report in so far as it referred to Highfields School where he is a Governor.

Alex Jones, Assistant Director School Standards was in attendance for this item. She updated the Committee on the action taking place to manage risk 14 - School Improvement as well as the achievements arising from those actions. The Committee had called in the risk area for detailed consideration at the last meeting.

Cllr Phil Bateman welcomed the report and action the Local Authority (LA) had taken through the Managing Director of the Council to write to the Regional Schools Commissioner requesting that they re-broker Wednesfield School as soon as possible in order to achieve rapid improvement in the performance of the academy. Cllr Bateman went on to asked whether contacting the Regional Schools Commissioner was the only tool available to the LA to intervene where it had concerns about the standards of education at an academy. The Assistant Director School Standards advised that practically it was the only recourse available to a LA. However, the Council's Schools Standards Service Improvement Plan (SIP) made clear how the LA would hold academies to account for their performance. An annual desk top data analysis was completed in respect of all academies and they received a letter on where the LA viewed the school's position. The letter would include an offer of support where the LA had concerns about an academies performance. Where the LA felt that an academy was not engaging or if the Service felt it necessary it would write to the Regional Schools Commission about its concerns. In response to a further question, the Assistant Director School Standards undertook to make enquiries as to whether a copy of the letter to the Regional Schools Commission and any response received could be shared with the Committee via a briefing note.

Mike Ager, Independent Member queried the direction of travel on risk 14 – School Improvement. The Assistant Director School Standards informed the Committee that the score had been adjusted to 8 by the Strategic Executive Board (SEB) but was still lower than previously recorded. The Director of Finance confirmed that SEB had challenged the score as it felt it was too low and did not reflect the ongoing challenges in this area.

Mike Ager also stated that in his view the big problem facing schools in the coming year would be financial and this would not help with school improvement. He also suggested that there was little contact between the School Improvement Service and school governors. In response the Committee was informed of the engagement that took place with governors and schools. This included half termly governors' forums;

policy meetings with Head Teachers and Chair of Governors to discuss best practice and where schools are in terms of performance; the production of monthly newsletters; and an invitation to Governors to attend Service Improvement Board (SIB) meetings.

Cllr Mary Bateman requested an update on the position at St Albans CoE Primary School. She was advised that a new Interim Head Teacher had been appointed. A SIB was in place and meeting and the LA was confident that the Head Teacher had the capability to move the school forward.

In response to other issues raised by the Committee on risk 14, it was reported that:

- The national average for pupils achieving A*- C in both in English and maths was 59%. Wolverhampton was in line with the national average at 58%. Over the next three years Wolverhampton's schools would need to improve upon this.
- Wolverhampton was the second best performing LA within the West Midlands region at the end of key-stage 2.
- Safeguarding falls within the remit of Dawn Williams, Head of Safeguarding. The School Performance Service does provide a safeguarding offer that schools could procure.
- Comparisons with the performance of academies and free schools, are made, however such comparisons in the primary sector make little difference because there are so few academies in the sector.
- Her Majesty's Inspectors hold the LA to account for performance across all schools within the city not only the maintained schools.

Hayley Reid, Senior Auditor, outlined the salient points of the rest of the report on the key risks the Council faced and how the Committee could gain assurance that the risks are being mitigated.

Cllr Christine Mills asked whether the Council was sure that risk 22 (Skills for Work and Economic Inclusion) would move to RAG rated amber in three months. The Assistant Director School Performance advised that a lot of the risk was tied into the Skills and Employment Action Plan. The majority of the actions within the plan were due to be completed by the end month at which time the position would be reviewed to determine whether the risk area was on target.

The Chair commented that some of the key risks were 'ongoing' and he queried whether target dates had been set for them. The Senior Auditor reported that where risks were recorded as ongoing the position with regards to them being mitigated down to a certain level was still under consideration. The Audit Team could go back to the risk owners and seek a more accurate indication of the target score and date for completion.

At the end of the discussion the Chair invited the Committee to decide if there were any risks it wished to consider in more detail at the next meeting.

Resolved:

1. That the strategic risk register at Appendix A to the report be noted.
2. That the identification of the following two new risks be noted;
 - Risk 23 - Cyber Security.

- Risk 24 – Maximising Benefits from West Midlands Combined Authority (WMCA).
3. That it be noted that following discussions with the risk owner, risk 2 – Skills for Work and risk 10 – Economic Inclusion have been reviewed and combined to create a new risk, risk 22 – Skills for Work and Economic Inclusion.
 4. That the increase in risk 14 – School Improvement to reflect on-going challenges in this area be noted.
 5. That it be noted that risk 1 – Looked after Children and risk 7 – Safeguarding would be reviewed again following the current Ofsted inspection.
 6. That the main sources of assurance available to the Council against its strategic risks at Appendix B to the report be noted.
 7. That risk 23 - Cyber security be considered at the next meeting and the risk owner be invited to attend.

10 **Progress Update on the Action Plan Arising from the Local Government Association Peer Review**

Mark Taylor, Director of Finance presented the report on progress made against the action plan from the Local Government Association (LGA) Finance Peer Review carried out in June 2016.

The Chair welcomed that the Council was on track with the implementation of the agreed actions. Responding to the Chair the Director of Finance reported that the Financial Strategy working group was a sub group of the Confident, Capable Council (3Cs) Scrutiny Panel. It had held one meeting to agree the scope for the planned work and the outcomes were reported to the 3Cs Scrutiny Panel. The first piece of work on the Financial Strategy was complete and Keren Jones, Service Director Economy was now working on the next phase, the Strategic Economic Plan for the City. The Director of Finance undertook to provide details of the membership of the Financial Strategy working group to the Chair.

Peter Farrow, Head of Audit reported that the Audit and Risk Committee received a good mention from the Peer Assessors for its work in calling in strategic risk areas for detailed consideration.

Resolved:

That the progress and actions arising from the recommendations within the Local Government Association Finance Peer Review final report of June 2016 be noted.

11 **Internal Audit Update - Quarter Three**

Peter Farrow, Head of Audit presented the update report on progress made against the 2016/17 audit plan and on recently completed audit work.

Responding to questions on the limited assurance reports for three schools, the Head of Audit reported that the audit reviews at the schools had taken place during the last 12 months as part of the rolling programme of visits to schools and that key issues raised would be followed up as appropriate within the agreed timescales. A member of the Audit team was working closely with the schools to address the

issues highlighted in the audit reports. He also advised the Committee that, excluding where schools convert to academies, his team had a strong presence in maintained schools across the city and visited them on a regular cycle. The School Improvement Service also made recommendations to Audit Services for his team to investigate.

Resolved:

That the contents of the latest internal audit update as at the end of quarter three be noted.

12

Internal Audit Plan 2017/18

Peter Farrow, Head of Audit presented the proposed internal audit plan for 2017/18.

Cllr Christine Mills noted the volume of work included within the plan and asked the Head of Audit if he had the resources to complete the work. The Head of Audit reported that he had enough resources to deliver the audit plan and was confident that the reviews would be undertaken and the outcomes reported to Committee. If he felt that he did not have sufficient resources to complete the work he would speak to the Director of Finance and inform the Committee accordingly.

Referring to the auditable area 'Use of Pharmacy outcomes (a review of the new electronic system for the payment of prescriptions to pharmacies), Cllr Phil Bateman asked whether the work would consider the national loss of payments made to our pharmacies and encourage pharmacies in the city to deliver on the Council's key public health performance management indicators. The Head of Audit reported that the audit review would where appropriate consider that.

Referring to the list of organisations the Council's Audit Service's support, the Chair asked whether audit reports are submitted to the Committee on the support delivered to the organisations. The Head of Audit advised that the West Midlands Combined Authority and Wolverhampton Homes both received Audit Service reports at their own Audit Committee, and that the Pensions Committee received the Audit reports on the West Midlands Pension Fund. On the latter, if anything significant came out of the audit work it would be reported to the Audit and Risk Committee. The other organisations on the list were relatively new in their existence. The Head of Audit added that the outcomes of the audit work on the activities for the other organisations could be reported to the Committee.

Resolved:

That the risk based internal audit plan for 2017/18 be approved.

13

Audit Services - Counter Fraud Update

Mark Wilkes, Client Lead Auditor, outlined the salient points of the latest update on current counter fraud activities undertaken by Audit Services.

Responding to questions the Client Lead Auditor advised that further results from the latest National Fraud Initiative data matching exercise would be included in the report to the next meeting of the Committee. He confirmed that the Council was compliant with all that was asked of it from the recommendations check list in the TEICCAF (The European Institute for Combatting Corruption and Fraud) report. Feedback on how the recommendations were being addressed would be included in the report to a later meeting.

Cllr Phil Bateman commented that the TEICCAF report was valuable source of information for the work of councillors and members of the Audit and Risk Committee.

Peter Farrow, Head of Audit also reported that last year TEICCAF had produced a local level report comparing the Council's local data with the national picture. If a similar report is produced for the current year he undertook to forward a copy to the Committee.

Resolved:

That the contents of the latest Audit Services Counter Fraud Update be noted.

14 **Review of Fraud Related Policies and Procedures**

Peter Farrow, Head of Audit presented for review and approval the Council's fraud related policies and procedures. No major changes were being proposed to the policies as approved in 2016.

In response to questions from the Chair, it was reported that:

- The fraud related policies and procedures were promoted to all council employees via the Council's website, on the Intranet and through City People.
- The suspected cases of money laundering reported to the Council tended to relate to land and property transactions. Checks were carried out by the Counter Fraud Team.
- In certain parts of the Council employees with interests in private enterprises, land or property had to declare the interest. Rules on officer declarations were in place but it was unclear how widely they were known. The Head of Audit undertook to check and report back in a later Counter Fraud report.
- Any issues arising or activity undertaken relating to the fraud related policies and procedures had been reported piecemeal to the Committee throughout the year within the Counter Fraud report.

Resolved:

That the following Council fraud related policies and procedures be approved:

- Anti-fraud and corruption policy and procedure
- Whistleblowing policy and procedure
- Anti-money laundering policy and procedure
- Raising fraud awareness guide

15 **Payment Transparency**

Peter Farrow, Head of Audit updated the Committee with the current position regarding the Council's publication of all its expenditure activity since the last meeting of the Committee in September 2016. No requests for information from the public (as an 'armchair auditor') had been received since the last report.

Resolved:

That the Council's current position with regards to the publication of all its expenditure be noted.

16

EU Funding

Further to the request at the last meeting (see Minute 9 of meeting on 12 December 2016), Heather Clarke, Service Development Manager presented a report on projects currently being funded by the European Structural and Investment Fund (ESIF), those in the pipeline and the potential impact of Brexit on projects.

Responding to questions the Service Development Manager explained the rationale for the delay on the Black Country Blue Network EU funded project. The project had been approved by the Department for Communities and Local Government.

The Chair stated that it was reassuring that a lot of the EU funding had been secured. He asked whether the Council had a plan post Brexit if the funding position were to change. The Service Development Manager reported that it had been suggested that EU funded projects should be made up by national resources but no detail had been issued.

Resolved:

That projects currently being funded by European Structural and Investment Funds, those in the pipeline and the potential impact of Brexit be noted.

17

Exclusion of Press and Public

Resolved:

That in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business as it involves the likely disclosure of exempt information falling within paragraph 3 of Schedule 12A of the Act.

Part 2 - exempt items, closed to press and public

18

Audit Investigations Update

Mark Wilkes, Client Lead Auditor presented the update report on current audit investigations.

Members of the Committee expressed concern at the financial practices of the organisation referred to in the report and on the effects the organisation was having on local residents.

Resolved:

That the update on the internal audit investigation be noted and a further update on the investigation be submitted to the next meeting.