

Audit Committee

Minutes - 21 September 2015

Attendance

Members of the Audit Committee

Cllr Christine Mills (Vice-Chair)
Cllr Harbans Bagri
Cllr Philip Bateman
Cllr Keith Inston
Cllr Jasbir Jaspal
Cllr Patricia Patten
Cllr Stephen Simkins
Mike Ager
Terry Day

Employees

Emma Bennett
Peter Farrow
Katy Morgan
Richard Morgan
Claire Nye
Mark Taylor
Mark Wilkes
Narinder Phagura
Robert Spence

Service Director - Children and Young People
Head of Audit
Client Lead Auditor
Senior Audit Manager
Chief Accountant
Director of Finance
Client Lead Auditor
Strategic Risk Manager
Finance Manager

External Auditors – PricewaterhouseCoppers

Richard Bacon
Sophia Mouyis
Maya Price

Part 1 – items open to the press and public

Item No. *Title*

- 1 **Apologies for absence**
No apologies for absence were received for the meeting.

- 2 **Declaration of interests**
Mike Ager, Independent Member declared a personal interest in items 8 and 15 (Internal Audit Updater Quarter One) in so far as it relates to Coppice Community School where he is a Governor.

Cllrs Jasbir Jaspal and Stephen Simkins also declared a personal interest in item 5 (Audited Statement of Accounts 2014/15) in so far as they are members of the Pensions Committee and the Pensions Board respectively

3 **Minutes of previous meetings (6 July 2015)**

Resolved:

That the minutes of the meeting held on 6 July 2015 be approved as a correct record and signed by the Chair.

4 **Matters arising**

There were no matters arising from the minutes that were not otherwise included on the agenda for the meeting.

5 **ISA 260**

Richard Bacon and Sophia Mouyis from PricewaterhouseCoopers (PwC), the Council's External Auditor presented their annual report to the Committee on the audit for the year ended 31 March 2015. In doing so they informed the Committee that they had completed the majority of their work. Aspects relating to property valuations and the Council's savings plans remained outstanding. These areas of work had no impact on the overall financial standing of the Council and PwC anticipated making the 30 September 2015 deadline for publishing the statement of accounts.

Cllr Phil Bateman commented that the last five year had been difficult for both Councillors and employees and that PwC's work had been a beacon for the Council. He welcomed the positive comments PwC had made in presenting their report and noted with concern the comment made that after the Local Government Settlement Statement is announced towards the end of the year, the Council in all likelihood would have to look at its non-statutory services.

Referring to Minimum Revenue Provision (MRP) policy and PwC's conclusion that the Council's revised MRP policy does not comprise any illegal act based on the legal advice provided, Mike Ager, Independent Member asked whether the change in policy might rebound on the Council in years to come. PwC reported that the MRP was drawn by law and regulation. The Council had concluded that its revised policy to be more prudent than the previous method; the key word being prudent. The legal advice provided to the Council said that the approach the Council had taken on its MRP to be prudent.

Cllr Stephen Simkins asked how exposed the Council was to interest rate rises. He was informed that the Council's Treasury Management Strategy was predicated on internal borrowing which had saved the Council a lot of money. The Council's Medium Term Financial Strategy (MTFS) took into account the best offers available on interest rates, this was all hotwired into the MTFS. If interest rates increase there is flexibility in the MTFS to take out short term borrowing to meet these costs. Any such changes would be included in the budget setting process and communicated via briefings and in the report to Cabinet in November 2015 on the Council's Draft budget 2015/16. Since the Council would not receive its Settlement Statement from Central Government until just before Christmas, it would not know the full impact of changes. Joint briefings would go out as soon as the impact was made clear.

Terry Day, Independent Member queried whether PwC's comment on 'lack of leaver's forms for staff using the Care First System' highlighted a significant control problem or whether it should be seen as operational issue. PwC explained that because they could not get full compliance with the test they had to undertake the audit work. PwC undertook to consider the point made and make adjustments were appropriate.

Cllr Phil Bateman asked about the 'Airport valuation' and whether the drop in the estimated valuation of the Council's investment was significant. PwC reported that there was no change to the holdings. They briefly explained the process of an annual review of the valuation of the investment and its apportionment across the Councils and that PwC had to check the value the Council had placed on the assets. The valuation was a book entry. It was not significantly different from the previous year's valuation.

On the area 'Compliance with Related Party Declarations', Alison Dennant, Interim Democratic Support and Scrutiny Manager informed the Committee that the Director of Governance was working on actioning the Auditor's recommendation to provide refresher briefings to Members' on the requirements for related party declarations and on reviewing the declaration to ensure that it was compliant with the accounting standard. Councillor Collingswood, the Chair of the committee asked if this could be further picked up outside of the meeting

On PwC's recommendation, the Committee queried whether the relevant Councillors had been made aware of the Auditor's statement prior to the report being published.

At the end of the discussion, the Chair thanked PwC for their report and for responding to the Committee's questions. On behalf of the Committee he placed on record his thanks and appreciation to the Team at PwC for the expert work and advice and professionalism they had showed during their many years as the Council's External Auditors.

Resolved:

That the 2014/15 report to those charged with governance from the Council's External Auditors PricewaterhouseCoopers be noted.

6 **Audited Statement of Accounts 2014/15**

Claire Nye, Chief Accountant presented the report which updated the Committee on the latest position on the audit of the 2014/15 Statement of Accounts.

In response to a question from the Chair on whether it was prudent for the Council to have £81.5 million in reserves, the Director of Finance explained that the Council had to hold £10 million in General Fund balances; £5 million was for the Housing Revenue Account and £15 million related to school balances. Also a significant amount was earmarked for the Council's budget challenge and specific reserves. These reserves were annually reviewed by the Confident, Capable Council (3Cs) Scrutiny Panel to consider whether the reserves were relevant and if so at an appropriate level. Their findings are reported to Cabinet.

On a question of if the provision for Equal Pay claims was sufficient, the Director of Finance reported that the Council's External Auditor scrutinise the adequacy of the provision and the Council has to demonstrate to them that the provision is at the right level. If the External Auditor did not believe that it was at the right level they would inform the Council. He informed Committee that he was as satisfied as he could be that the Council had set aside a sufficient provision.

Resolved:

1. That the formal publication of the 2014/15 Statement of Accounts, as required by the Accounts and Audit Regulations 2011, which require publication by 30 September 2015 be approved
2. That authority be delegated to the Chair of the Committee to agree subsequent changes to the Statement of Accounts in consultation with the Director of Finance should there be any audit adjustments.
3. That it be noted that the council's external auditors intend to issue an unqualified opinion on the Statement of Accounts 2014/15, subject to the outcomes of remaining elements of audit work.
4. That it be noted that the external auditors had identified no material errors which are expected to remain unadjusted in the amended Statement of Accounts.

7 **Internal Audit Charter - Annual Review**

Peter Farrow, Head of Audit submitted the internal audit charter for annual review and approval. The charter was a formal document which defined the activity, purpose, authority and responsibility of internal audit and its position within the Council. The only change to the Charter since it was approved by the Committee in September 2013 related to the Head of Audit now being lined Managed by the Council's Director of Finance/Section 151 Officer.

In response to a question from the Chair, the Head of Audit reported that the new line management arrangement was consistent with the arrangements in place for his opposite numbers across other council's where the Heads of Audit report to their Section 151 Officer.

Resolved:

That the internal audit charter be approved

8 **Internal Audit Update**

The Committee considered the report on the latest internal audit update as at 30 June 2015 (quarter one).

In response to questions from the Committee, Peter Farrow, Head of Audit reported that as the managed and related audit work is undertaken, this would be reported back to the Committee; the results would be fed back, where appropriate, on the underlying trends on Agresso and the outcomes of the Agresso Benefits Realisation audit.

In response to a question from the Chair regarding the delivery of the audit plan, he reported that he was confident that the 2015/16 internal audit plans would be delivered by the end of the municipal year. The Council had also been in correspondence with Grant Thornton, its new external auditors. Once the Council had a named contact a meeting would be arranged between the Chair of the Committee, the Head of Audit and the Grant Thornton lead.

Resolved:

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

9 **Audit Services - Counter Fraud Update Report as at August 2015**

Peter Farrow, Head of Audit outlined the salient points of the latest update on current counter fraud activities undertaken by Audit Services.

In response to questions from the Chair, the Head of Audit reported that the proposed council counter fraud app for use by the public was being piloted. Once the pilot is successful and the app had been tailored to the Council's requirements it would be launched, possibly in two/three months. He undertook to notify the Committee when the counter fraud app was ready.

On a question from the Chair on the relationship with the Department for Work and Pensions (DWP) following the transfer of the Council's Benefit Fraud Team staff to DWP, the Head of Audit reported that there was now a single point of contact at DWP for dealing with all communications with DWP's new Single Fraud Investigation Service. Whilst it was early days the relationship was going well and he did not feel there was a knowledge gap.

On the extension of the partnership arrangements with Sandwell Metropolitan Borough Council to include tackling fraud, the Head of Audit also reported that three Sandwell Council employees would be working part time from Wolverhampton Civic Centre in the next few days. Hopefully he would be able to report back positively to the Committee on how this arrangement is developing.

Resolved:

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

10 **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.

Resolved:

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

11 **Audit Committee - Self Assessment of Good Practice and Effectiveness**

Peter Farrow, Head of Audit reported that in light of the changes to the membership of the Committee since the April 2015 meeting, he proposed to restart the process of Committee carrying out a review of its performance and effectiveness alongside a number of other self-assessment activities. The first part of what would

be a three stage review was for members of the Committee to individually complete a self-assessment of good practice, based on the model provided by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Chair asked members of the Committee to support the exercise and complete the self-assessment and return it to the Head of Audit or the Democratic Support Officer over the next few weeks

Resolved:

That members of the Committee complete the CIPFA self-assessment of good practice and effectiveness exercise and return it by the end of October

12 **Strategic Risk Register and Strategic Assurance Map**

Narinder Phagura, Strategic Risk Manager, presented a report on the key risks the Council faced and how it could gain assurance that these risks are being mitigated.

James Howse Project Manager for the West Midlands Combined Authority (WMCA) and Emma Bennett, Service Director Children and Young People were in attendance and presented an update on two of the strategic risks 'Combined Authority' and 'Looked After Children as requested at the last meeting..

In response to the Committee's questions on the Combined Authority, the Project Manager for the WMCA reported:

- In respect of engagement, he was aware that the Governance and communications workstreams included various engagement activities involving Leaders of the constituent councils, district councils, business leaders, the three Local Enterprise Partnerships, the voluntary sector and other key partners. He undertook to check that the results of that activity could be shared with the Committee.
- In terms of further engagement, it was reported that if all of the constituent councils involved in the WMCA approve the Scheme there would then be a public engagement exercise on the proposal to establish a WMCA.
- The Leader of the Council and the Managing Director were at the centre of the WMCA process and were leading on this with the Managing Director being the WMCA programme director..
- In terms of timescales for setting up the WMCA the proposals if approved by the Constituent Councils will be submitted to DCLG towards the end of October and this enables the statutory process to begin, with the aim to establish the Combined Authority in April / May 2016.
- The Department for Communities and Local Government had received 34 proposals in total from across the country and this could impact timescales depending on the DCLG resources available to consider each of the proposals.
- In developing the WMCA proposal, the Council and constituent councils have used specialists and also engaged with other councils who have already set up a CA to take account of any lessons learned from their work.
- It was noted that devolution deal negotiations are taking place in parallel to the creation of a CA and that at this stage an Elected 'Mayor model is being promoted by central government. It was emphasised that it is early days any proposals would need to be subject to democratic approval processes undertaken locally (i.e. agreement sought from each of the Local Authorities).

- The risks associated with the WMCA are have been identified and suitable mitigations continue to be considered. The issues raised by the Committee on engagement with Councillors would be taken back for the team at the programme office to consider.

In response to the Committees questions on LAC, the Service Director Children and Young People reported that:

- Over the last 18 months all the hard work on LAC was coming to fruition. As at 21 September, the number of LAC had reduced to 714.
- On the timescale of the adoption process, the council placed children for adoption as quickly as it could ensuring all processes are adequately addressed and risks considered. The Council has experienced fewer adoption disruptions because of the approach and processes it has in place. It was confirmed that the process involved centres around what is in the best interests of the child rather than the meeting timescales for completing adoptions.
- The work and investment to improve the recruitment and retention of social workers was noted and welcomed and resulted in Children's Services being at the most stable point it had ever been in terms of staffing. The Service was in a better position and had received extra funding to increase capacity. There had been an issue regarding middle management roles but a new structure was being embedded into the Service that would address that.
- The working relationship with Police and the Royal Wolverhampton Trust, particularly regarding the annual health checks for looked after children was good. The Service also linked well with the Clinical Commissioning Group and GP's
- The Service has a designated LAC nurse which ensures there are no issues of getting appointments with a GP for our LAC.
- Staffing wise the Service was in a better position and had received extra funding to increase capacity. There had been an issue regarding recruiting to middle management roles but a new structure was being embedded into the Service that would address that.

Members of the Committee welcomed the reduction in the numbers of LAC and noted that the council was good at getting adoptions through.

Cllr Phil Bateman suggested that the next report to include and update on the Multi Agency Safeguarding Hub in order that the Committee could continue to monitor the way it is developing.

The Chair asked the Committee whether it wished to select one of the red risk areas for discussion at the next meeting.

Resolved:

1. That the strategic risk register be noted.
2. That the reduction in the assessment of Risk 19 - Combined Authority be noted.

3. That it be noted that although some progress had been made in the mitigation of risk 17 – Employee Management, further actions are being implemented to ensure this risk is mitigated to an acceptable level. As a result the target date had been amended to reflect this.
4. That the main sources of assurance available to the Council against its strategic risks be noted.
5. That a report on the risk 2 – the skills for work be submitted to the next meeting.

13 **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(s) of business as they involve the likely disclosure of exempt information falling within the paragraph 3 of Schedule 12A of the Act.

14 **Audit Investigations Update**

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

Members of the Committee reported that one of the audit updates suggested that there was potentially a training issue for managers regarding the time off in lieu (toil) arrangements. If this was the case an article in a newsletter or on the Council's intranet site for employees, would help put the arrangements on a sounder footing. The Chair asked that the suggestion be considered by the officers. In response to some of the points made by the Committee, the Client Lead Auditor reported that a spread sheet for recording hours worked would be amended to allow toil accrued/taken to be recorded.

Peter Farrow, Head of Audit informed the Committee that an Audit investigation case which had been monitored by the former Audit (Monitoring of Investigations) Sub Committee had been featured on the BBC TV programme 'Saints and Scroungers'. In response to the Chair, the Head of Audit confirmed that measures had been put in place to tighten up on the areas where the fraud had occurred. On a separate question he reported that there were other ongoing reviews not included in the update report. Once the audit investigation work on these reviews was complete the outcomes would be reported to the Committee.

Resolved:

That the current position with regard to audit investigations be noted

15 **Internal Audit Update - Quarter One**

Peter Farrow, Head of Audit presented a report on the progress made against the 2015/16 audit plan and on recent audit work that had been completed.

Members of the Committee expressed concern that Disclosure and Barring Service (DBS) checks had been highlighted as an issue during two separate pieces of audit work. They suggested that the requirement for DSB checks to be undertaken and received before new staff commences employment be flagged up with school

governors via their regular newsletters. It was also suggested that the Cabinet Member for Schools could be contacted to use her personal influence to highlight the matter the schools for them to address the issues highlighted during the audit work. It was also suggested that the Chair of the School Governing Bodies concerned be written to about the findings of the audit work. On this point it was confirmed that the Chair of a School Governing Body would receive a copy of the report on Internal Audit work undertaken in their school.

The Chair also referred to poor control issues operating in some schools and asked what could be done to improve the situation. Katy Morgan, Client Lead reported that it was down to training and was possibly a resource issue. The Audit Team would continue to work closely with School Head Teachers to improve matters.

The Head of Audit also reported that a cycle of audit visits to schools was in place. He also advised that the Audit Service had started offering schools enhanced services to schools for a small annual fee.

Resolved:

That the contents of the latest internal audit update as at 30 June 2015 (quarter one) be noted.