

Audit and Risk Committee

Minutes - 12 December 2016

Attendance

Members of the Audit and Risk Committee

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

Employees

Peter Farrow	Head of Audit
Dereck Francis	Democratic Support Officer
Hayley Reid	Senior Auditor
Mark Taylor	Director of Finance
Mark Wilkes	Client Lead Auditor
Helen Winfield	Head of Service, Community Financial Support

External Auditors - Grant Thornton

Nicola Coombe

Part 1 – items open to the press and public

Item No. *Title*

- 1 Apologies for absence**
Apologies for absence were submitted on behalf of Cllrs Harbans Bagri and Martin Waite and Terry Day (Independent Member).
- 2 Declaration of interests**
Cllr Christine Mills declared a non-pecuniary personal interest in item 7 (Internal Audit - Quarter Two Update) in so far as it related to a secondary pupil referral unit where she is a member.

Cllrs Mary Bateman and Phil Bateman also declared a non-pecuniary personal interest in item 7 in so far as it related to Phoenix School where they had recently been appointed Governors.
- 3 Minutes of previous meeting - 19 September 2016**
Resolved:
That the minutes of the previous meeting held on 19 September 2016 be approved as a correct record and signed by the Chair.

- 4 **Matters arising**
With reference to Minute No. 5 (Annual Report to those Charged with Governance - ISA 260), and in response to Cllrs Andrew Wynne and Phil Bateman, Nicola Coombe from the Council's External Auditors, Grant Thornton reported that they were comfortable with the assumptions the Council was making on its plans to address the budget deficit.
- 5 **Annual Audit Letter for City of Wolverhampton Council**
Nicola Coombe, Grant Thornton presented the Annual Audit Letter for City of Wolverhampton Council. It was a mandatory document which the External Auditor was required to bring to the Audit and Risk Committee's attention. The document had been agreed with the Council's Director of Finance in October 2016 and was a summary of the audit work undertaken by the External Auditor and previously reported to the Committee. Grant Thornton also reported that since the report had been agreed with the Director of Finance things had moved on in a number of areas. The work to certify the Council's housing benefit subsidy claim on behalf of the Department for Work and Pensions had now been completed along with work related to certification grants. The report from the External Auditor would be presented to the Committee early in the New Year on certification of grants in their Annual Certification Letter. The Committee's attention was also drawn to an error on page 14 of the Audit Letter where the word 'underspend' should be substituted for the word 'overspend' in the last sentence of the second paragraph of the findings and conclusions section. She undertook to forward an updated Annual Audit Letter with the correction. She also advised that it was no longer a requirement of their audit work to undertake work relating to highways network assets. It was however proposed to front load a lot of the work during 2016/17 to ease the burden before the requirement comes on stream in 2017.
- Cllr Phil Bateman commented that he was pleased with where the Audit Letter showed that the Council was. To get such a clean opinion from the External Auditor reflected well on the Council and was something it should be proud of and should publicise. On the key finding within the Management Letter concerning 'Schools effectiveness and attainment', Cllr Phil Bateman expressed his concern at the progress being made in this area and indicated that he was not persuaded that the Council was 'out of the woods' in terms of improvement in school attainment. He reported that he had seen a piece of work in relation to the whole of the West Midlands region and he was uneasy about the attainment of Wolverhampton's schools, both academies and maintained schools. In response Peter Farrow, Head of Audit advised that school improvement had been identified as a risk and was included in the Council's risk register as Amber as it was felt the risk was being well managed. He suggested, and the Committee agreed that the Director for Education be asked to attend the next meeting to give an update on progress in this key risk area.
- Cllr Jasbir Jaspal asked whether the work on income generation was complete. The Director of Finance reported that the Council's Strategic Executive Board would be receiving an update on the piece of work from Grant Thornton at its meeting on 13 December 2016. Depending on their findings, the outcomes would be fed into the Council's budget report for February 2017.

Responding to a question from the Chair regarding the method for the valuation of property, plant and equipment, the Director of Finance confirmed that in line with the recommendation from Grant Thornton, the 2016/17 valuation would include site visits as part of the valuation process.

The Chair also referred to the risk area 'Group accounts', within the Audit Management Letter, particularly the reference to housing services income and expenditure being overstated by £98 million. Grant Thornton advised that this related to an error in the spreadsheets and it had no net impact on the Council's finances.

Resolved:

1. That the annual audit management letter for City of Wolverhampton Council for the year ended 31 March 2016 be received and noted.
2. That the Director for Education be asked to attend the next meeting to give an update on progress in this key risk area 'Schools effectiveness and attainment'.

6 **Strategic Risk Register and Strategic Assurance Map**

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

Cllr Christine Mills commented that there had not been any movement in the score and RAG rating for risk 2 – 'Skills to Work' during the quarter August to November 2016 yet it was anticipated that the risk score would be reduced by March 2017. She sought assurance that the anticipated reduction in the risk score would be justified and not merely achieved following a proposed combining of the risk with risk area 10 - Economic Inclusion. She requested a full account on how the two risks would be merged and the position of the risk scores pre and post-merger.

Mike Ager, Independent Member also commented that Adult Social Care was a high-profile area nationally. He asked the Senior Auditor whether she was satisfied that Amber was a correct reflection as to where the Council was for risk 21 – Transforming Adult Social Care programme. The Senior Auditor advised that the programme was meeting its targets. Peter Farrow, Head of Audit suggested that the Risk Owner be invited to attend a future meeting of the Committee to report in detail on this risk area and the work taking place to mitigate the risk.

Responding to the Chair's questions, the Head of Audit confirmed that the Audit team continued to monitor the Equal Pay risk via the operational risk register. The risk could be transferred back onto to the strategic risk register if the position changed. The Head of Audit also explained how target dates were set for each risk area and reported that where targets scores and dates were not met, a reason would be given in the risk register.

Mark Taylor, Director of Finance gave a brief overview in respect of strategic risk 4 - Medium Term Financial Strategy (MTFS) and how the risk was being managed. Responding to the Committee's questions he reported that:

- The period of the Local Government Association (LGA) Finance Peer Review was a positive experience and the outcome was what the Council had hoped for. The recommendations from the Peer Review were included in an action plan which had been scrutinised by the Council's Confident, Capable Council Scrutiny Panel and approved by Cabinet. An update on progress with the action plan

would be made for the Corporate Peer Review Challenge in 2017 and would be shared with the Committee.

- One of the recommendations from the Finance Peer Review related to making the Council's approach to capital programming more robust. Generally there tended to be slippage in capital programmes. The profile of expenditure was the issue as the Council's figures in the capital programme did not tie up with the programme delivery. Measures to respond to the recommendation were included in the review action plan which included bringing finance and project management information together.
- The Public Health (PH) grant was a separate grant which the Council received. It was part of the Council's MTFS. The PH grant does not feature in the Council's four year financial settlement from Central Government so the Council was not aware at this stage how much PH grant it would receive over the next four years. The grant was ring fenced and protected. It had to be spent on public health and public health outcomes.
- It is anticipated that the Council's Financial Settlement letter would be received from the Government earlier than in previous years and was expected within the next few weeks.
- The Council has recently undergone the LGA Finance Peer Review and two years prior to that also undergone external evaluation. On average the Council had undertaken some form of external assurance work every two/three years. In terms of external assurance moving forward it was most likely that with this would come from the Peer Challenge in 2017 and the Council's External Auditors Grant Thornton. If further assurance was required it would be obtained. In addition, probably within the next 12 to 18 months the Peer Review team would be invited back to review progress made against the action plan. Audit Services also reviewed the Council's plans and assumptions for its MTFS based on a risk based assessment.

Resolved:

1. That the strategic risk register be noted.
2. That the identification of a new risk - risk 21 in relation to the Transforming Adult Social Care (TASC) programme be noted and the risk owner be invited to a future meeting of the Committee to give a detailed update on how the risk is being managed.
3. That the reduction and transfer of risk 16 – Equal Pay from the strategic risk register to operational risk register, reflecting the agreement with the Trade Unions on how to deal with second generation claims be noted.
4. That the reduction in the assessment of the following risks be noted:
 - Risk 1 – Looked After Children (LAC), as a result of continued progress and the fall in LAC numbers.
 - Risk 3 – Information Governance, reflecting performance in this area.
 - Risk 8 – Business Continuity Management (BCM), due to the progress made against the Resilience Board work plan.
5. That it be noted that the Council has considered the implications of Brexit. Grant Thornton recently facilitated a session with the senior leadership team to discuss any risks, opportunities and mitigations arising from Brexit. It had been decided that no new risks require inclusion in the strategic risk register at

this time. The Council would continue to monitor the situation and any new risks or changes to the assessment of current risks would be reported to a future Audit and Risk Committee meeting.

6. That it be noted that following consideration by the Strategic Executive Board it has been agreed that risk 2 – Skills for Work and risk 10 – Economic Inclusion would be reviewed and combined to reflect the Council’s current priorities and work programmes within the Place Directorate.
7. That a full explanation on how risks 2 and 10 are to be combined and the position of the risks prior to and post-merger be submitted to a future meeting.
8. That the main sources of assurance available to the Council against its strategic risks at Appendix B to the report be noted.
9. That an update on progress with the LGA Finance Peer Review action plan be shared with the Committee.

7 **Internal Audit Update - Quarter Two**

Peter Farrow, Head of Audit presented the update report on progress made against the 2016/17 audit plan and on recently completed audit work. Two limited assurance reports had been issued during the quarter. He informed the Committee that if progress remained on track between now and the year-end he would be able to issue an unqualified opinion.

The Chair queried the ten Amber recommendations from the ‘Section 17 Payments’ Audit review. The Head of Audit acknowledged that the number was high. Some of the recommendations related to teams getting used to using the Agresso system for making payments and some related to where payments had not been authorised. The Audit team would follow up on the recommendations to check that they had been actioned and report back to Committee on the progress made at a future date.

Resolved:

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

8 **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.

In response to questions raised by the Committee about the Single Person Discount matching exercise, the Client Lead Auditor confirmed that the Council does track back as far as it feels it is able to validate whether there was evidence that more than one person was living in a property at the time council tax single person discount was being claimed. He anticipated that it would not take long to investigate the 1,350 accounts from the discount matching exercise identified as having a high probability that more than one person was resident. The Council Tax team would write to all the individuals and they would need to confirm that they are the only person resident at the property. If they are unable to do so and where appropriate the discount would be removed. The Client Lead Auditor undertook to report back to a future meeting on the outcome of the investigations into the 1,350 council tax accounts.

In response to a question regarding the Council's response to cyber and data security, the Client Leaf Auditor advised that the Council had firewalls in terms of its IT systems to protect it from cyber-crime. The Council was also a member of the Government's Connect Accreditation which gave a high level of protection and assurance. In terms of data security, this was covered by the Council's Information Governance team. Any issues or data breaches were investigated by the Team and reported back and they undertook work to improve controls.

Referring to the data matches being investigated by the West Midlands Pension Fund, the Client Lead Auditor reported that the Pension Fund was taking action to recover overpayments identified through the Pensions/Pension Gratuity to Department for Work and Pensions Deceased matching exercise. The Client Lead Auditor also reported on how Audit Services was taking forward the recommendations within the National Fraud Initiative Report 2016. He undertook to look into and if possible report back with an explanation for the variation in the aggregate amount of fraud, error or overpayments identified by the NFI in Scotland, Wales, England and Northern Ireland for the period 1996 to 2016.

Resolved:

1. That the contents of the latest Audit Services Counter Fraud Services update be noted.
2. That an update on the outcome of the investigations into the 1350 council tax accounts identified from the Single Person Discount matching exercise be submitted to a future meeting.
3. That the next update on counter fraud activity include, if possible, an explanation for the variation in the aggregate amount of fraud, error or overpayments identified by the NFI in Scotland, Wales, England and Northern Ireland for the period 1996 to 2016.

9

Annual Governance Statement Action Plan Update

Peter Farrow, Head of Audit presented the report on progress made in addressing the key improvement areas identified in the 2015/16 Annual Governance Statement action plan. Following a suggestion from the Director of Finance, future updates on the action plan would be RAG (Red, Amber, Green) rated to enable the Committee to more effectively monitor progress being made on the implementation of the actions.

Referring to the 'partnership governance' key improvement area and action for implementation, the Chair asked whether European Regional Development Fund (ERDF) funding was under threat post Brexit and whether there were any other projects or grants linked in with European funding that could similarly be at risk. Mark Taylor, Director of Finance advised that work was being undertaken to establish how much funding within the West Midlands region came from Europe with a view to the West Midlands Combined Authority lobbying Government. ERDF and European funding was a risk so the Council would be keeping it under review. Where EU funded projects were up and running they should not be impacted by Brexit. However, new funding for projects that the Council was on the cusp of bidding for could be.

Cllr Phil Bateman added that the implications of Brexit on ERDF funded projects in progress and others awaiting approval was a big issue for Wolverhampton. He requested an update report on ERDF funded schemes with the City of

Wolverhampton and the West Midlands region that could potentially be affected by Brexit. The Director of Finance undertook forward the request to the Head of City Economy, Keren Jones.

Resolved:

1. That the progress made in addressing the key improvements areas identified in the 2015/16 Annual Governance Statement action plan be noted.
2. That the Head of City Economy, Keren Jones be requested to submit to the next meeting a report regarding ERDF schemes with the City of Wolverhampton and the West Midlands region that could potentially be affected by Brexit.

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 in September 2016. Since the last report there had been no requests for information from the public (as an 'armchair auditor').

Resolved:

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

11 **Audit and Risk Committee Knowledge and Skills Framework**

Peter Farrow, Head of Audit reported that the knowledge and skills framework exercise was the second of a three-part process for the Committee to carry out a review of its performance and effectiveness. Prior to the meeting he had received a further completed self-assessment exercise form from a member of the Committee. He undertook to incorporate the survey responses into the overall scores within the exercise and to report back to the Committee if it significantly altered the results. The Head of Audit also reported that it was pleasing to see the Committee members now ranking themselves in the key core areas. He indicated that the survey results were a fair reflection of where he felt the Committee were and that the results showed that the Committee was a strong Committee and compared well with others. He proposed to present the final phase of the assessment to the Committee at its first meeting in the 2017/18 Municipal Year.

The Chair informed the Committee that the results from the knowledge and skills framework exercise would be fed into its future training plan.

Resolved:

That the results of the recent knowledge and skills framework exercise, and the plan to move on to the final stage of the process be noted.

12 **Exclusion of the 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 the paragraph 3 of Schedule 12A of the Act.

Part 2 - exempt item, closed to press and public

13 **Audit Investigations Update**

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

Helen Winfield, Head of Service, Community Financial Support was also present for this item. She responded to the issue raised at the previous meeting on restrictions placed on the usage of pre-paid card accounts for the payment of Direct Payments in Social Care. The restrictions included usage for gambling. In the main cash withdrawals from the card account were also prohibited as a default and was only made available on an individual basis if the care needs assessment required this. Use of the pre-paid cards was also a much safer payment method than the one previously adopted. It provided better control over the Direct Payment and enabled the Service to detect and deal with any misuse or fraud. Regarding whether there were any data protection issues with the Service being able to access details on the usage of the pre- paid cards, it was reported that since the account was a joint contract between the Council and the individual there were no data protection issues.

Cllr Phil Bateman welcomed the assurance given by the Head of Service that, in terms of the ability to detect fraud, the use of the pre-paid cards was a safer system than the one previously in place.

In response to questions from the Chair, the Client Lead Auditor reported that an audit report had been produced in relation to audit investigation IL153W. The recommendations from the audit work and their implementation would be followed up as a separate piece of work, a report on which would be submitted to the Committee. Regarding audit investigation IL158W, the Client Lead Auditor also reported that the Council's IT section were responsible for the disposal of IT equipment. The computers in question would have been wiped prior to disposal to ensure that no personal data remained on them.

Resolved:

That the update on the audit investigations be noted.