

# AUDIT AND GOVERNANCE COMMITTEE

**MINUTES of the meeting of the Audit and Governance Committee held on Friday 25 January 2019 commencing at 10.00 am at the Cabinet Suite - Shire Hall, Gloucester.**

## **PRESENT MEMBERSHIP:**

Cllr Andrew Gravells	Cllr Shaun Parsons
Cllr Colin Hay	Cllr Nigel Robbins OBE
Cllr Dr Andrew Miller	Cllr Brian Tipper
Cllr Brian Oosthuysen (Chairman)	Cllr Will Windsor-Clive

**Substitutes:** Cllr Andrew Gravells & Cllr Dr Andrew Miller

**Apologies:** Cllr John Payne, Cllr Alan Preest and Cllr Keith Rippington

**Officers in attendance:** Jane Burns, Paul Blacker, Theresa Mortimer, Jon McGinty, Kathy Oakey & Andrea Griffiths

## **1. CHAIRPERSON**

The Chairperson wished to pay tribute to Jo Walker on behalf of the Committee, he expressed his thanks for her continued support over the years. The Chair felt Jo would be a great loss to GCC but wished her every success in her new role.

## **2. DECLARATIONS OF INTEREST**

Councillor Parsons declared he was a member of Cotswold District Council, a member of the Pensions Committee and a member of the GFRS Task Group.

Councillor Windsor Clive also declared he was a member of the GFRS Task Group.

## **3. MINUTES**

All matters arising had been dealt with and communicated to members of the committee.

### **Resolved**

**That the minutes of the meeting held on 12th October 2018 be approved as a correct record and signed by the Chairman.**

## **4. GRANT THORNTON AUDIT PLAN**

Peter Barber, Grant Thornton presented the Council Audit Plan in detail. This covered the planned approach to the 2018/19 financial statements and value for money audit.

It was noted that in terms of value for money arrangements, Grant Thornton's risk assessment regarding GCC arrangements to secure value for money had identified two VFM significant risks, these being future financial sustainability and responses to the Ofsted inspection of children's services.

The External Auditor advised the Committee of the key matters impacting the audit process. During the presentation it was noted that Local Government funding continued to be stretched with increasing cost pressures and demand from residents, the Council were forecasting a £2.22 million overspend.

In response to a question, it was noted that Grant Thornton discharged a substantive approach to audit and undertook a clear understanding of key systems and were assured in their approach. Members were advised that External Audit had regard for anything that was brought to their attention by officers. In response to a question relating to GFRS and given that a Police investigation was underway, it would not be appropriate to comment further at this stage. External Audit would look at impropriety issues, whether that be a one off issue or a wider culture issue.

Members were informed that there was a clear difference between Internal & External Audit's roles. Officers explained that Internal Audit's role was to test and ensure systems that were operating effectively.

During the discussion, members questioned what value could Grant Thornton offer in respect to the Ofsted value for money risk. The Engagement Lead explained that Grant Thornton's role was to offer an opinion on the accounts and the delivery of value for money. It was explained that Ofsted had recently undertaken a visit and the outcome letter was yet to be published. In terms of lessons, it was explained that external audit would look at what & how things were being done, and whether it was in the right way and manner.

Members felt it was difficult to know the true valuation of property, plant and equipment until the asset had been sold. The Engagement Lead explained that specific audit procedures were undertaken on the valuation of land and buildings. This includes evaluating management's processes and assumptions for the calculation of the estimate, discussions with management to confirm the basis on which the valuation was carried out and the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

It was noted that the fee charged for the audit was £75,486 which was a decrease of approximately 23% compared to the previous year.

Katie Whybray, Audit Manager presented the Pension Fund Audit Plan report in detail. The Committee noted that the fee charged for the audit was £18,325 which was also a decrease of approximately 23% compared to the previous year. The Committee welcomed the significant reduction in fees.

**Resolved**

**That the report be noted.**

## **5. GRANT THORNTON AUDIT PROGRESS REPORT**

Peter Barber presented the report, which detailed the progress Grant Thornton had made in delivering their responsibilities as the external auditors. Members were informed that accounting, audit and emerging issues would be flagged up as part of the regular report. Members were informed that internal and external auditors met on a regular basis to discuss any issues that may arise

It was noted that due to the outstanding 2016/17 objection, Grant Thornton had not issued a value for money opinion and Audit Certificates for GCC for 2016/17 & 2017/18. Grant Thornton were continuing to work towards resolving this complex objection as quickly as possible, whilst ensuring that the process is fair to both parties. Members were advised that Appendix A of the report provided a more detailed position regarding the objection. It was explained that the total cost of the objection to date was £32,120.

Members questioned the time delay in resolving the objection, officers explained that the objectors had brought about legal challenge, so it would be inappropriate to comment at this stage. The Engagement Lead informed the Committee that he did not know when the objection would be concluded as Grant Thornton were also seeking further legal advice on the current position.

It was explained that the Medium Term Financial Plan looked at assumptions and totality, and it may be necessary to re-assess the plan, in terms of financial sustainability.

In response to a question, the Head of Financial Services clarified the different roles of Ernst & Young and Grant Thornton. Members requested that the link to Grant Thornton public sector publications be included in Members Matter for information.

It was noted the Grant Thornton provided a long range of workshops along with network events for members and publications to support the Council. The next event was the Chief Accountants workshops for key officers which was taking place in February.

**Resolved**

**That the report be noted.**

## **6. CAPITAL, TREASURY AND INVESTMENT STRATEGY**

Paul Blacker, Head of Financial Services presented the proposed Capital Strategy, Treasury Management Strategy Statement and Investment Strategy for 2019/20, which met the CIPFA Code of Practice, and governed how the Authority undertook Treasury Management activities. It was noted that the Committee was required to

*Minutes subject to their acceptance as a correct record at the next meeting*

consider and comment on the proposed strategies for 2019/20, including the Minimum Revenue Provision Policy.

It was noted that the strategy would be approved by full Council as part of the Medium Term Financial Strategy (MTFS) and was being submitted to the Audit and Governance Committee in accordance with its terms of reference to regularly monitor the Council's Treasury Management policy and practices.

It was noted that details of the Investments within the strategy were covered in detail at the Treasury Management training session provided by Arlingclose earlier in January 2019. Members appreciated the detailed training session, which was well attended.

It was suggested that the reporting function of the Audit & Governance Committee should be discussed in the OSMC Scrutiny Review. Members were advised that the Audit & Governance Committee reported to the Annual Council meeting and reported annually to the OSMC.

### **Resolved**

**That the Capital Strategy, Treasury Management Strategy Statement and Investment Strategy 2019/20 be commended for approval by Council.**

## **7. ANNUAL GOVERNANCE STATEMENT IMPROVEMENT PLAN 2017/18 UPDATE**

Theresa Mortimer, Chief Internal Auditor (CIA) presented the report. The report provided assurance to the Audit and Governance Committee that the improvement actions identified as part of the annual review of the governance arrangements operating within GCC had been/were being addressed. It was recommended that the Committee reviewed and considered the actions taken to address the governance improvement areas identified.

The Committee were advised the key improvement areas were identified to further enhance the governance arrangements and documented within the Annual Governance Statement (AGS) action plan. These were:

1. Future Financial Sustainability;
2. Ofsted Inspection of Children's Services;
3. Contracting / Commissioning Care Services;
4. CIPFA Audit Committees, self assessment against revised CIPFA guidance;
5. Gloucestershire Fire & Rescue Service (GFRS).

Members were referred to page 103 of the report, which provided the progress to date, as at December 2018 with the actions taken to address the internal audit recommendations made in relation to the independent investigation of the GFRS. It was explained that the audit completion date of 31st March 2019, may be subject to some slippage as the CIA wanted to work closely with the newly appointed Chief Fire Officer on the action plan delivery.

*Minutes subject to their acceptance as a correct record at the next meeting*

In response to a question, it was noted that the GFRS Governance Position Statement set out the current strategic governance framework operating within GFRS and GCC. The effectiveness of these arrangements would be tested as part of the reviews/audits outlined in the action plan.

A member suggested issues facing GFRS were being used as a tool to question GCC's ability to manage the service. The Committee were advised that the GFRS Task Group were looking carefully at the relationship between GCC and GFRS and whether this could be strengthened. The CIA advised the committee that a key element of the Council's governance framework i.e. the whistleblowing policy was invoked enabling prompt action to be taken in relation to the governance allegations made. Updates on progress with the action plan would continue to be presented to the Audit & Governance Committee.

One member questioned this, he felt that governance arrangements were failing and that the management process should have picked up on the issues beforehand.

It was explained that the GFRS Task Group had undertaken detailed interviews with GFRS staff and were compiling a report to document its findings, once completed the report would be available to the Committee for its consideration.

During the discussion, one member suggested that the County Council should state what went wrong, how it was fixed, in order to reflect a positive message.

Members of the task group appreciated Councillors' comments but reiterated the committee should await the Task Group Report before making further comment at this stage.

### **Resolved**

**That the report be noted.**

## **8. INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2018/19**

Theresa Mortimer, CIA presented the report which informed members on the progress of the internal audit activity in relation to the 2018/2019 Internal Audit Plan and provided a progress report on the internal audit outcomes from the period October to December 2018 including the opinions provided on risk and control. Members were pleased to note that no limited assurance opinions on control or risk had been provided during this period.

The report included a graphical summary that highlighted the opinions provided for the 2018/19 year to December 2018.

The CIA informed the committee that internal audit made two recommendations to improve the control environment, these were both deemed as medium priority and were both accepted by management.

*Minutes subject to their acceptance as a correct record at the next meeting*

The Committee discussed the Disabled Facilities Grant (DFG) in considerable detail, particularly around the underspend position. The CIA explained that the audit was a grant certification audit which verified that the expenditure was in accordance with the terms and conditions of the grant criteria. It was noted that consideration could be given to the Health Overview Scrutiny Committee discussing this issue further, whilst considering the time it takes to complete the process for adaptations to an individual's home. The Committee asked the Commissioning Director to look at the DFG in his district capacity role.

One member suggested that it would be beneficial to look at ways in which the audit committees across the county could work together more effectively.

Members wished to know who had the authority to cancel or defer an audit, they were concerned that individual managers could prevent or influence an audit from taking place. The CIA advised the Committee that in her role as the Council's Chief Internal Auditor, she had a cancellation / deferral process in place which is based on current risk, reaffirming that the audit plan is a dynamic and living plan based on in year risk and changes to the Council's risk profile. The CIA is required to provide an opinion on the control environment under the Public Sector Internal Audit Standards and is required to be independent in her decision making, with the ability to report to the Audit and Governance Committee if it is felt that she has been unduly influenced. This reporting on 'limitations on the scope of activity' statement is provided to the Audit and Governance Committee in the Annual Report on Internal Audit activity.

The CIA stated that she would review the plan and reprioritise accordingly and assured the Committee that she would be compromising her professional standards if she was influenced in any way. All changes to the plan are discussed with and reported to the Director of Strategic Finance. Members requested that the terminology for cancelled be amended to deferred/postponed.

The CIA explained that the team was working closely with Directors to devise the Internal Audit Plan for 2019/20, and any items which had been deferred / cancelled would be viewed and re risk assessed against the long list of other identified activities. The CIA explained that many of her team were heavily involved in the GFRS audits and resources had to be re-allocated accordingly. The Head of Financial Services added that new risks arise during the course of the year and it was not always possible to plan for these situations, therefore there needed to be room for the plan to adapt appropriately.

## **Resolved**

**That the report be noted.**

## **9. OPEN CONTRACTING REPORT**

Jane Burns, Director of Strategy and Challenge and Monitoring Officer presented the report in detail. The Committee were advised that the report was in accordance with the decisions of the Constitution Committee to report on the Council's

*Minutes subject to their acceptance as a correct record at the next meeting*

compliance with the Local Government Transparency Code, Contract Spend Software and Procurement Portal. Members were advised that the Authority was not yet fully compliant but was actively working towards compliance and were investing in a new procurement system.

The Committee were asked to identify any issues and to consider any actions they wished to take.

Members appreciated that the Authority was not fully compliant at this stage but didn't feel there were any major issues that would impact the public. Some concern was raised over the portal, it was suggested that it would be better for more businesses to bid, especially those smaller more local businesses. The committee questioned the contract software and asked for further clarification, the Director of Strategy & Challenge agreed to circulate further information.

It was suggested that contracts over a certain amount should have to bid via the portal and should be open for public scrutiny. Members were advised that contracts were for goods and services and to change the council's approach and publish the estimated 3,000 plus contracts let per annum, would require a significant injection of resources, calculated to be in the region of £750K.

Some members raised concern over the amount and questioned the technology being used, it was suggested that perhaps the system being used should be challenged. The Committee were advised that it was not just a question of the uploading costs, other costs involved included storage, legal, finance, etc.

### **Resolved**

**That the report be noted and there were no recommendations to Council.**

## **10. EXCLUSION OF THE PRESS AND PUBLIC**

THAT in accordance with Section 100 A (4) of the Local Government Act 1972 the public be excluded from the meeting for the business specified in minute 12 because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraph 3 of Part 1 of Schedule 12 A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

## **11. MANAGEMENT UPDATE**

The Committee received and discussed the report in detail. It was explained that this area would be discussed in detail by the Children & Families Scrutiny Committee at its March meeting.

The Committee agreed to receive an update at its April meeting.

### **Resolved**

*Minutes subject to their acceptance as a correct record at the next meeting*

**That the report be noted.**

**CHAIRPERSON**

Meeting concluded at 11.37 am