

# AUDIT AND GOVERNANCE COMMITTEE

**MINUTES of the meeting of the Audit and Governance Committee held on Friday 27 July 2018 commencing at 10.00 am at the Cabinet Suite - Shire Hall, Gloucester.**

## **PRESENT MEMBERSHIP:**

Cllr Kevin Cromwell	Cllr Loraine Patrick
Cllr Colin Hay	Cllr John Payne
Cllr Jeremy Hilton	Cllr Keith Rippington
Cllr David Norman MBE	Cllr Brian Tipper
Cllr Brian Oosthuysen (Chairman)	

## **Substitutes:**

**Apologies:** Paul Blacker, Cllr Shaun Parsons, Cllr Nigel Robbins OBE and Cllr Will Windsor-Clive

## **15. ELECTION OF VICE- CHAIRPERSON**

Nominations were called for the appointment of a Vice-Chair. Councillor Robbins was proposed by Councillor Hay, this was seconded by Councillor Hilton, and there being no other nominations for the Vice-Chair. It was therefore:

### **Resolved**

**That Cllr Robbins was duly appointed as Vice-Chair for the Committee.**

## **16. MINUTES**

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

### **Resolved**

**That the minutes of the Audit and Governance Committee held on 6th April 2018 be approved as a correct record and signed by the Chairman.**

## **17. GRANT THORNTON AUDIT FINDINGS REPORT**

Pete Barber, Engagement Lead, Grant Thornton presented the report which informed the Committee of the key matters arising from the audit of Gloucestershire County Council's financial statements for the year ended 31st March 2018.

The earlier production of the accounts had enabled a smoother audit process and allowed time for officers to provide detailed explanations when applicable. It was noted that there were very few amendments to the accounts, which were deemed

to be good and a positive step forward. As such Grant Thornton was in a positive position to sign the accounts.

Members appreciated the expertise, hard work and effort of the finance team in compiling the early accounts and agreed they should be congratulated on their exceptional effort. The Chief Financial Officer explained her team's position in preparing a complex set of accounts and the effort that had gone into producing the earlier set of accounts. The Chairman reiterated members' appreciation and also wished to extend thanks to Grant Thornton on behalf of the Committee.

Mr Barber explained that Grant Thornton was still unable to issue a value for money conclusion at this stage until they had concluded an objection relating to the energy from waste scheme from the 2016/17 accounts. Grant Thornton would finalise the Value for Money Opinions for 2016/17 and 2017/18 once the work on the objection had been concluded.

Members were informed that overall materiality was determined to be £17.469m. The Committee discussed the Audit Findings in relation to the significant risks. It was explained that there were no issues identified that would change the presentation of the local authority statements. Members were advised that Grant Thornton did encounter issues in their testing of revaluations to ensure that they have been input correctly in to the Council's asset register. This was due to a system limitation not allowing the Council to reproduce a report as at 1st April 2017 when the revaluations were entered into the system. The extrapolated differences identified were below triviality. Grant Thornton made a recommendation for management regarding this to ensure the council was able to maintain a robust audit trail which provided appropriate audit evidence for the revaluation movements.

It was noted that the Council continued to experience significant demand pressures particularly in Children and Families and Adult Services. These areas continued to be a focus for the Council. It was reported that the Children and Families service area had a net overspend of £6.37million in 2017/18, with continued increasing demand for social care and actions required following the Ofsted Inspection placing further strains on the services budget.

It was noted that the cost of implementing the Children's Improvement Plan totalled £2.68million in 2017/18, of which £1.47million was funded from within the service area using one-off funding and £1.21million funded from the transformation reserve. The Adults service area reported an underspend of £2.63million in 2017/18, with a resulting £0.71million transfer into a new people services reserve given the volatility in demand for both Adults and Children's social care.

In response to a question, Mr Barber explained that Grant Thornton would continue to monitor and review the situation after the Ofsted Inspection.

The narrative report for the 2017-18 financial statements was comprehensive and met the requirements of the code. The report was deemed to be clear and informative.

The Committee was informed that Internal Audit and Grant Thornton had ongoing dialogue throughout the financial year. Grant Thornton confirmed that the accounts had been prepared in accordance with the accounting code of practice. The total indicative fee for the audit for 2017/18 was £98,010.

In response to a question, it was noted that the Authority had not prevented Grant Thornton from accessing any information they required, in their efforts to investigate the objection to the accounts. The External Auditor explained they were disappointed that they had not been able to conclude the objection at this stage, as further legal advice was required. The Committee noted that Grant Thornton would work tirelessly to conclude the objection. It was noted that the delay was due to the objector's concern relating to their own access to the information.

Mr Barber informed the Committee that in terms of reserves, every council set their own figures in relation to risk assessment and that there was lots of commonality between councils. As such, Grant Thornton had concluded that the level of reserves for GCC were appropriate.

In response to a question, Mr Barber informed the Committee that business rates were an area of uncertainty and only one form of council funding. Officers explained that the volatility of business rates was included on the Risk Register.

At this point, there was an outburst from a member of the public.

## **RESOLVED**

**That the report be noted.**

## **AUDIT FINDINGS: PENSION FUND REPORT**

Peter Barber, Engagement Lead, Grant Thornton presented the report. The report highlighted the key issues arising from the audit of Gloucestershire Pension Fund financial statements for the year end 31st March 2018.

Members were informed that Grant Thornton had identified no adjustments that affected the Funds reported financial position. It was anticipated that an unqualified opinion would be issued on the funds financial statements. It was noted that the overall materiality for the Pension Fund audit for 2017/18 was £23,799.

The performance of the fund was the responsibility of the Pensions Committee. It was noted that the auditors did not provide a separate value for money conclusion on the Pension Fund.

The Director of Strategic Finance added she had great pride in the Finance and Pensions teams and their ability to achieve the challenge set in producing an earlier set of accounts for the County Council and the Pension Fund. Members also wished to record their appreciation and congratulated the team on their hard work and efforts.

**Resolved**

**That the report be noted.**

**18. GRANT THORNTON AUDIT FEE LETTER**

Peter Barber, Grant Thornton presented the report, which informed the Committee of the audit work to be undertaken for the 2018/19 financial year for Gloucestershire County Council and the fee involved. It was noted that the Council's scale fee for 2018/19 had been set by the Public Sector Audit Appointments (PSAA) at £75,468 and the Pension Fund Audit would be £18,325.

**Resolved**

**That the report be noted.**

**19. ANNUAL STATEMENT OF ACCOUNTS**

Jayne Fuller, Corporate Finance Manager presented the report in detail. It was explained that the draft accounts were produced and presented for audit on 31st May 2018. The Director of Strategic Finance approved this Statement of Accounts for 2017/18. By doing so the Director of Strategic Finance confirmed the accounts presented a true and fair view of the Council's financial position as at 31st March 2018 and the income and expenditure for the year.

In accordance with the Accounts and Audit Regulations 2015, the draft accounts were available for public inspection for 30 working days, which was required to include the first two weeks of July. The inspection period for 2017-18 was from 1st June 2018 to 12th July 2018. It was noted that this included access via the Council's website.

A number of minor changes and updates agreed with Grant Thornton have been incorporated into the statement of accounts. It is important to emphasize that these amendments did not change the Council's outturn position approved by Cabinet in June 2018 or the level of usable reserves or balances reported in the balance sheet.

Members were provided with a detailed accounts training session on 18th July 2018, which provided members with an opportunity to ask detailed questions about the accounts.

The summary report was intended to draw members' attention to the key pieces of financial and accounting information contained within the Council's Statement of Accounts. Therefore, this information should be considered in conjunction with the explanatory foreword of the 2017/18 Statement of Accounts.

During the discussion, a member requested that in relation to the income and expenditure statement, it would be beneficial to see what amount each service received for its initial budget on a year on year basis, including fees, income

generated, etc. It would assist members with their understanding and inform their questioning around the budget process and any trends e.g. income increases and decreases. The Director of Finance explained this point had been raised at OSMC and the request was being actioned as part of the MTFS process.

In response to a question, the Director of Strategic Finance referred members to Pages 150 - 153 of the report, which detailed the breakdown of salaries and staffing costs for senior officers. In response to a further question, Members were advised that the previous Director of Children's Services had reached the retirement age and decided to retire as per her entitlement. A footnote on page 151 of the report, detailed the retirement in the accounts provided transparency. It was explained that a member of staff who reached the statutory retirement age was entitled to retire if they wished to. In response to a further question, it was noted that the appointments committee purely dealt with appointments and dismissals of the council's most senior officers.

It was noted that officers should be congratulated on their efforts to produce the accounts in a timely manner, whilst responding to a shorter deadline. It was noted that all the issues had been publicly spoken about and the Authority was open and transparent.

It was agreed that the Committee formally approved the Statement of Accounts and the Chairman of the Audit and Governance Committee signed the letter of representation on behalf of the Authority and Gloucestershire Pension Fund.

### **Resolved**

**That the Committee formally approved the statement of accounts year ending 31st March 2018.**

**That the Chairman of the Audit and Governance Committee and the Director of Strategic Finance signed the letter of representation on behalf of the Authority and Gloucestershire Pension Fund**

## **20. ANNUAL GOVERNANCE STATEMENT 2017/18/LOCAL CODE OF CORPORATE GOVERNANCE 2017/18/COUNCIL WIDE ASSURANCE MAP 2017/18**

Theresa Mortimer, Chief Internal Auditor (CIA), presented the report. It was explained that the Council was required under the Accounts and Audit Regulations 2015 to produce an Annual Governance Statement (AGS) which was a public statement, detailing how the Council directs and controls its resources, which is signed by the Leader of the Council, Chief Executive and Director of Strategic Finance. It was noted that the AGS was published alongside the Annual Statement of Accounts.

Members were informed that GCC operate through a governance framework that had been summarised within a revised Local Code of Corporate Governance 2017/2018 and a Council Wide Governance Assurance Map, which was consistent

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

with the seven core principles of the CIPFA/SOLACE Delivering Good Governance in Local Government framework, 2016 edition.

The CIA explained the Council's Local Code of Corporate Governance was a public statement of the Council's commitment to these principles and specifically identified the key actions taken by GCC in relation to each of the core principles. It was noted that the code was reviewed and updated annually and should be read in conjunction with the AGS.

The CIA explained that to enable the development of the AGS, an embedded assurance framework was required, that not only provided the relevant assurances, but also a framework that underpinned and evidenced the statements made within the AGS.

A strengthened governance assurance process was implemented and provided a framework for the annual assessment of the effectiveness of the governance arrangements operating within the Council. This included the relevant Lead Cabinet Member overview and oversight, governance assurance statements obtained from Directors and Heads of Service

The CIA referred the Committee to page 233 of the report, which detailed the Council's Governance Assurance Framework i.e. the three lines of defence model, which supports effective governance arrangements. In response to a question, it was noted that Cabinet Members were a key part of the governance assurance arrangements i.e. the second line of defence, providing oversight of governance arrangements.

Members were informed that the key 2017/2018 improvement areas identified to further enhance the governance arrangements, related to:

1. Future Financial Sustainability;
2. Ofsted Inspection of Children's Services;
3. Contracting / Commissioning Care Services; and
4. New CIPFA guidance on Audit Committees.

It was noted that new CIPFA guidance was due to be published and the CIA would review the guidance and would support the Audit and Governance Committee to evaluate itself against the revised guidance and make recommendations for improvements where necessary.

The CIA explained that the Committee would receive management updates on actions taken to address the governance issues identified to the January 2019 Committee meeting.

Members were reminded that the CIA had provided a detailed presentation on the AGS and the Local Code of Corporate Governance at the training session on 18th July 2018.

In response to a question, members were informed that whilst there were generic principles/assessments that were required to be covered within the statement, the

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

AGS included reference to all the key governance issues that were identified as part of the 2017/2018 annual review.

The Director of Strategic Finance added that since the signing of the AGS, a whistle blowing allegation covering probity issues in the Gloucestershire Fire and Rescue Service had been received by the Council. This has resulted in an investigation by Internal Audit. On completion of this investigation, Internal Audit will report to management outlining recommendations, which will form the basis of an action plan. This action plan and progress against it will be overseen by the Audit and Governance Committee, thereby providing the relevant assurances that these recommendations are being addressed in a timely manner.

This report and action plan will be presented at the October 2018 Audit and Governance Committee. The Committee agreed that this action should be included within the AGS action plan. (Action – TM)

The Committee referred to the Council Wide Assurance Map and the red, green, amber indicators. Some members questioned the reliability of the management assessments provided. Members felt that lessons needed to be learnt and it was essential that officers were open and transparent when completing the Assurance Statement questions.

The Committee discussed the gaps in service as recognised by the Ofsted inspection, members felt if all the areas were marked as green then it would present an untrue and unrealistic picture of the service and could raise serious questions, particularly in terms of safeguarding. The Director of Strategic Finance added that not all areas in terms of Children's services were green and the Authority was on a journey to improve.

In response to a question, it was noted that the assurance map questions were not in a hierarchical order, the CIA added that it was not within her remit to prioritise the principles as they are based on CIPFA/SOLACE guidance and all had equal status.

The CIA explained that Internal Audit would include within the annual audit plan 2019/2020 an audit on testing the adequacy of the statements made within a selected sample of the assurance statements, to provide the Committee with the independence assurance on their integrity. Members welcomed this approach proposed. (Action – TM/JW)

The CIA reaffirmed that the AGS was a high level statement of the governance arrangements operating within the Council and that the AGS and associated action plan is underpinned by a governance assurance framework i.e. the three lines of defence model. In respect of children services, the Committee's attention was referred to Page 246 of the report, which provided detailed information in relation to the actions taken in relation to the Ofsted report.

In response to a question, the CIA explained that the AGS interlinked with the Risk Management activity arrangements, which would highlight any red residual risks.

The risk register was being monitored by the Overview Scrutiny Management Committee.

During the discussion, a member asked if the Council had cultural issues in one service area, how officers/members would know if the Council had similar cultural issues within other service areas. Discussions were then held in relation to the whistle blowing policy. The Director of Strategic Finance explained that whistle blowing forms part of the Council's governance arrangements and enables employees to speak up if they feel something is not right. The Monitoring Officer added that all whistle blowing allegations were taken seriously and acted upon swiftly.

The Committee was reminded that the Statement of Accounts and AGS should be read in conjunction to give a balanced view.

During the discussion, members agreed that the Committee would receive updates on the AGS actions taken to address the issues identified, at the January 2019 Committee meeting.

It was agreed, to accept the Annual Governance Statement and Local Code of Corporate Governance 2017/18, subject to the inclusion of the additional GFRS action as agreed, within the AGS Action Plan.

### **Resolved**

**That the Committee reviewed and approved the Annual Governance Statement and Local Code of Corporate Governance 2017/18, and the inclusion of the GFRS action as agreed, within the AGS Action Plan.**

**That the Committee would receive an update on actions taken to address the governance issues identified, at the January 2019 Committee meeting.**

## **21. ANNUAL REPORT TREASURY MANAGEMENT**

Kathy Oakey, Finance Manager, explained that each year the Council produced an Annual Report covering its Treasury Management activities for the financial year ending 31st March. The annual report for 2017/18 was submitted to the Audit and Governance Committee to allow greater scrutiny under the Treasury Management Code.

The Committee were advised that the Treasury Management Strategy and the Annual Investment Strategy were agreed by full Council as part of the annual budget setting process. The Committee discussed the report in great detail.

It was explained that significant amounts of money were involved in Treasury Management with a borrowing and investing programme in excess of £300m. Despite turbulent and uncertain market conditions and a low interest rate environment, the Council had managed to maintain a good level of interest return on investment, achieving £3.9m (1.18%).

This has been partly achieved by diversifying the investments and reviewing the duration of investments. The Council has locked into longer term deals, made use of two Housing Association counterparties, which pay at a higher rate than other local authorities, and opened several funds which offer a greater return whilst diversifying financial instrument exposure. Despite these changes the Council has still maintained liquidity, with the percentage invested for over 12 months being 37%. In addition, the Council continued to reduce the risk of “bail-in” exposure to unsecured bank and building society deposits with levels falling from 28% to 21%.

On the borrowing side it was reported that early redemption still remained expensive, so the Council had not been able to redeem any loan early during the year other than maturing loans. All the maturing loans had been repaid in full (£8.34m) during the year and the overall borrowing requirement had been reduced to £302.1m.

It was noted that the Council complied with all the limits set for borrowing and investment as laid down by the prudential indicators as stated in Appendix E.

## **RESOLVED**

**That the Committee considered and noted the Treasury Management Annual Report for 2017/18.**

## **22. ANNUAL REPORT ON RISK MANAGEMENT ACTIVITY 2017/18**

Theresa Mortimer, Chief Internal Auditor detailed the Risk Management (RM) activities undertaken during 2017/2018. The key activities to highlight were summarised which included the revision of the RM strategy, guidance toolkit, training, and project management support.

Members were informed that the requirements of the strategy was that Risk Management continued to be fully integrated into key business systems and processes such as performance, option appraisals, business planning, financial planning and decision making processes. It was essential that Risk Management continued to be one of the key mandatory standards within the Council’s corporate programme and project management governance arrangements.

The CIA explained that a risk appetite model was used as part of the risk and opportunity decision making processes to help the Council be less risk averse and enable the Council to understand which risks it could be willing to accept. In addition, the leadership behaviours also encouraged calculated risk taking.

The report demonstrated that CoMT continued to take ownership of the strategic risk register, with each of the strategic risks being owned by a CoMT member. The Committee noted that the Strategic Risk Register was dynamic with quarterly strategic risk management reports provided to CoMT, Overview and Scrutiny Management Committee and Cabinet, to enable challenge and to gain ongoing assurance that the Council’s strategic risks were being effectively managed.

It was noted that the CIA facilitated risk workshops with CoMT to review the Strategic Risk Register to ensure it reflected the Council's current risk profile. Member's attention was drawn to a summary of the Strategic Risk Register attached to the report.

**Resolved**

**That the Committee noted the Annual Report on the Corporate Risk Management arrangements in place during 2017/18.**

**The Committee endorsed the proposals for future improvement and development as set out in the report.**

**That the Committee concluded that the arrangements for managing risk within the Council were sound.**

**23. ANNUAL REPORT ON INTERNAL AUDIT ACTIVITY 2017/18.**

Theresa Mortimer, Chief Internal Auditor (CIA) presented the Committee with an annual report on Internal Audit activity, which met the CIA annual reporting requirements as set out in Public Sector Internal Audit Standards 2017 (PSIAS).

The report provided an annual opinion on the overall adequacy and effectiveness of the Council's Internal Control environment comprising risk management, control and governance, this opinion supported the Council's Annual Governance Statement. Members felt the report displayed the wide remit of activities that Internal Audit covered.

Members were referred to page 324 of the report, where a 'Satisfactory' opinion was provided by the CIA. It was explained that the report provided information on what was taken into account to arrive at the opinion. It was confirmed that there had been no limitations on internal audits scope. The CIA provided a summary of IA activity undertaken, with the net affect being that 92% of the overall revised plan had been delivered. Members were advised that the key changes were as a result of the number of irregularity work undertaken.

Member's attention was drawn to page 329 of the report, which provided the Committee with a pie chart summary of the overall opinions given during 2017/2018. The CIA demonstrated that 82% of audited activity received a substantial or satisfactory opinion on control and 86% received on risk. The Committee noted the spreadsheet which provided a summary of the activity undertaken from which the CIA's opinion was derived.

The Committee were referred to the summary of counter fraud activity undertaken during the year, such as work on special investigations, participation in the National Fraud Initiative Data matching exercise, update and review of the Council's anti fraud polices and compliance with the Local Government Transparency Code 2015

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

fraud and irregularity reporting requirements and working with Gloucestershire Fraud Hub to support counter fraud work.

In terms of Internal Audit Effectiveness, the CIA explained that the PSIAS required the CIA to annually report on conformance with the PSIAS, reporting any non conformance and to summarise the performance of the Internal Audit function. The CIA was pleased to report that following an external quality assessment by the Chartered Institute of Internal Auditors (national standard setters) the Authority received 100% conformance.

On a positive note, it was reported that at the end of each audit review Internal Audit request customer feedback. Members were referred to the overview of customer satisfaction survey results, all categories of assessment exceeded Internal Audit's target of 80% as good or excellent. It was noted that the positive comments received could be found on pages 337 – 339 of the report.

The CIA added there were always lessons to be learned and customer feedback was used to ensure that Internal Audit fully considered where improvements could be made. As such, individual staff targets had been set to assist with achieving any improvements identified.

The Committee was provided with a progress report in relation to those audits undertaken during the period April – June 2018. Members' attention was drawn to limited assurance opinions provided on control relating to Schools. It was noted that whilst management had accepted and responded positively to the recommendations made, Internal Audit would continue to monitor their implementation. In response to a question, it was noted that five out of the seven schools referred to were maintained primary schools.

During the discussion, one member made reference to the ICT disaster recovery audit being deemed as satisfactory, it was noted that some members disagreed strongly with this statement given the audit findings. The CIA explained that there was a positive direction of travel and had agreed with management a timeline and a deadline for improvement actions to be completed by. Some members questioned this decision, as they felt at the time of writing the report it should have been deemed as limited assurance as the actions had not yet been completed. The CIA recognised their concerns and it was recommended that management attend the next meeting of the Committee to provide an update on the actions taken in relation to the recommendations made. The Committee welcomed this approach. (Action – TM)

### **Resolved**

**That the Committee assessed, from the findings set out in the report that it could take reasonable assurance that the internal control environment, comprising of risk management, control and governance was operating effectively.**

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

**That senior management attend the next meeting of the Committee to provide an update on the actions taken in relation to the recommendations made in the ICT Disaster Recovery audit report.**

**That the Committee noted that the performance of Internal Audit met the required standards.**

**24. EXCLUSION OF THE PRESS & 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 26 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.**

**25. EXEMPT LIMITED ASSURANCE REPORT**

The Committee received and discussed the report in detail.

**Resolved**

**That the report be noted.**

**CHAIRPERSON**

Meeting concluded at 11.47 am