



AUDIT AND GOVERNANCE COMMITTEE

MEETING : Monday, 22nd July 2019

PRESENT : Cllrs. Melvin (Chair), Hampson, Lugg, D. Norman, Taylor, Wilson and H. Norman (ex-officio)

Others in Attendance

Corporate Director
Head of Policy and Resources
Accountancy Manager
Accountancy Manger
Group Manager, Audit, Risk and Assurance
Trainee Auditor
Deloitte Representative
Democratic Services and Elections Officer

APOLOGIES : Cllr. Brooker

1. APPOINTMENT OF CHAIR AND VICE-CHAIR

1.1 The appointments of Councillor Melvin as Chair and Councillor Brooker as Vice Chair were noted.

2. DECLARATIONS OF INTEREST

2.1 The Councillor D Norman declared an interest in agenda item 8 (Statement of Accounts) by virtue of him being Gloucestershire County Council Cabinet Member for Public Protection with responsibility for the Fire Service.

3. MINUTES

3.1 The minutes of the meeting held on the 11th March 2019 were approved as a correct record and signed by the Chair.

4. PUBLIC QUESTION TIME (15 MINUTES)

4.1 There were no public questions.

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5. PETITIONS AND DEPUTATIONS (15 MINUTES)

5.1 There were no petitions or deputations.

6. AUDIT AND GOVERNANCE COMMITTEE OUTSTANDING MATTERS

6.1 The Committee considered the outstanding matters.

6.2 The Chair confirmed that minute 52, review of the effectiveness of the Committee and scope for a study of members appointed to outside bodies, would be discussed as agenda items 15, 16 and marked complete.

6.3 In relation to minute 48, report on Disabled Facilities Grants (DFG), Councillor Wilson asked when this would be circulated. The Corporate Director reassured Members that he would write directly to Councillors to indicate when the report was likely to be ready for circulation.

6.4 **RESOLVED** that the Audit and Governance Committee note the Outstanding Matters.

7. STATEMENT OF ACCOUNTS

7.1 The Committee considered the Statement of Accounts. The Head of Policy and Resources presented the accounts and commented that the Finance Team had produced them in a timely manner with only minor amendments recommended by the auditors.

7.2 The Head of Policy and Resources informed Members that the final Statement of Accounts would not be ready for approval until the 31st of July when advice concerning the impact of the McCloud judgement had been received and the audit process finalised. He advised them that the McCloud judgement was a ruling of the High Court in December 2018 that found transitional protections in the Firefighters' pension scheme unlawful with as yet unconfirmed implications for the Local Government Pension Scheme and all local authorities that may require a contingent liability in their accounts. The Head of Policy and Resources stated that it was not expected for the impact on the Statement of Accounts to be material.

7.3 Councillor Wilson noted that the July deadline to finalise the accounts was tighter than it had been and sought reassurance that Members would receive the final Statement of Accounts in good time to examine in detail over the summer for discussion at the September meeting. The Head of Policy and Resources explained that the statutory deadline had been brought forward from September to July and assured Members that a briefing note would be given should there be any change to the documents before them.

7.4 **RESOLVED** that the Chair and Head of Policy and Resources are delegated to approve and sign the Statement of Accounts by the 31st July subject to any changes.

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8. TREASURY MANAGEMENT UPDATE - ANNUAL REPORT 2018/19

- 8.1 The Committee considered the report of the Cabinet Member for Performance and Resources that highlighted treasury management issues specific to the Council, interest rate forecasts and provided an overview of the Council's performance for 2018-19. The Head of Policy and Resources highlighted the key aspects of the report and reassured Members that the impact of interest rates on both long- and short-term borrowing were under close observation by officers through the treasury management advisors.
- 8.2 Councillor Wilson noted that the interest rate forecasts (Appendix 2) were based on a favourable Brexit outcome. He sought clarification on what the impact of a 'No Deal' Brexit would be and whether the Council had funds on deposit in a European bank. The Head of Policy and Resources confirmed that there was no money on deposit in a European bank and that there was no official guidance to take measures against an unfavourable Brexit. He advised Members that the impact was unknown and that undertaking action now to fix interest rates could be costly. The Head of Policy and Resources further stated that the treasury management advisors would keep officers aware of the situation.
- 8.3 The Chair asked if a special contingency account had been considered for the anticipated reduction in spending. The Head of Policy and Resources replied that spending was continually monitored as a whole and that reductions in spending in particular areas were used to offset challenges in other areas as they occurred.
- 8.4 Councillor Lugg enquired how the £300,000 withheld from the Council's environmental and waste services contractor Amey announced at the Council meeting of 11th July 2019 (Minute 17.9) was accounted for. The Head of Policy and Resources responded that the amount was held as a creditor on the account and would be managed when an agreement with the contractor had been reached.
- 8.5 **RESOLVED** that the Audit and Governance Committee note the Treasury Management Update.

9. DELOITTE EXTERNAL AUDIT REPORT 2018/19 (ISA 260 TO THOSE CHARGED WITH GOVERNANCE)

- 9.1 The Committee considered the Deloitte External Audit Report presented by the Deloitte representative. He commented that the accounts received were good and required only minor changes to wording. The representative drew Members' attention to the outstanding matters on page 3 of the report. Concerning the appropriateness of the implicit RPI rate applied to the Kings Walk Lease he stated that this had since been resolved. In relation to the pension matters he confirmed that these would be finalised by the 31st July. The Deloitte representative referred to the recommendation to improve

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internal IT controls on page 13 of the report and informed Members that a management response was still awaited.

- 9.2 Councillor Wilson asked for clarification of the Management Override of Controls identified as a `Significant Risk' on page 8 of the report and in particular whether this represented a standard finding. The Deloitte representative replied that this was a standard assumption in all audit reports and that in his opinion it did not represent a problem in this case.
- 9.3 The Chair thanked the Deloitte representative for presenting a comprehensive report. She further commented that presentation by video-link would be considered for future meetings as a measure to reduce negative impact on the environment.
- 9.4 The Head of Policy and Resources reassured Members that the outstanding pieces of work would be completed before the deadline for signing off the accounts on the 31st July.
- 9.5 **RESOLVED** that the Chair and Head of Policy and Resources are delegated to approve the Deloitte External Audit Report 2018-19 by the 31st July subject to any changes.

10. ANNUAL REPORT ON INTERNAL AUDIT ACTIVITY 2018/19

- 10.1 The Committee considered the Annual Report of the Chief Internal Auditor on Internal Audit Activity. The Group Manager Audit Risk Assurance Shared Service presented the report, gave the background and summarised the key findings.
- 10.2 Councillor Wilson asked if the internal audit activity during the last quarter would be considered at the next meeting. The Group Manager confirmed that the outcomes from seven 2018/19 activities were reported to Committee through appendix 1 of the report (report pack pages 52 to 65).
- 10.3 Concerning the finding that the Council's e-tendering system, ProContract, was not being used for quotations in the majority of Low and Intermediate Value Transactions (Appendix 2 p.24), Councillor Wilson sought confirmation that remedial actions by corporate management would be reported to Members. The Group Manager reassured Members that updates would be provided through internal audit follow up of the raised recommendations within quarter 4 2019/20.
- 10.4 Councillor Taylor commented that he was surprised at the finding that alternative quotes were not being obtained for the majority of Low and Intermediate Transactions (Appendix 2 p.24). He asked what steps had been taken to ensure this did not happen in future. The Head of Policy and Resources replied that training had been put in place for managers and team leaders together with a monthly monitoring reporting regime. He advised Members that the purchases in question were the cumulation of many small transactions to the same supplier rather than higher value purchases.

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Councillor Taylor requested that Members receive an update at the end of Quarter 4.

10.5 Councillor D Norman referred to the conclusion of the Health and Safety review (Appendix 2 p.23) that stated that the practical day to day application of arrangements were not fully understood. He expressed concern and asked by whom were these not fully understood. The Group Manager referred Members to the report statement that 'the majority of managers had not received relevant corporate health and safety training or...recent guidance' and that this area has been agreed by management for action. The Corporate Director reminded Members that the review had taken place during a period of great organisational change when many new people had joined the authority. He reassured them that the Audit Plan addressed the matter and a timetable had been established so that a report could be received at the next meeting and the relevant managers requested to attend if required.

10.6 **RESOLVED** that:

(1) Assess, from the findings set out in this Internal Audit Annual Report, whether it can take reasonable assurance that the internal control environment, comprising risk management, control and governance is operating effectively;

(2) Note that the performance of Internal Audit meets the required standards;

(3) Note the Council wide counter fraud activity during 2018/2019 which includes the fraud reporting requirements as mandated by the Local Government Transparency Code 2015 (paragraph ref 7b)

11. ANNUAL GOVERNANCE STATEMENT, LOCAL CODE OF CORPORATE GOVERNANCE AND COUNCIL WIDE ASSURANCE MAP 2018/19

11.1 The Committee considered the Annual Governance Statement (AGS) report. The Group Manager Audit Risk Assurance Shared Service placed it in context and summarised the report on behalf of the Chief Internal Auditor.

11.2 Councillor Wilson pointed out that the hyperlink to the Whistleblowing Policy in the Corporate Governance Framework at Appendix 2 did not work. The Group Manager assured Members that this would be corrected.

11.3 **RESOLVED** that the AGS 2018/19 (including the actions planned by the Council to further enhance good governance arrangements), as set out in Appendix 1 of the report, be approved.

12. STRATEGIC RISK REGISTER UPDATE AND RISK MANAGEMENT ACTION PLAN 2019/20

12.1 The Committee considered the Strategic Risk Register Update and Risk Management Action Plan. The Group Manager Audit Risk Assurance Shared Service presented the report of the Chief Internal Auditor and

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reminded Members that the Register represented the situation on 2nd July 2019 (as at one point in time, due to the deadline for Committee papers) and that subsequent changes had already been actioned by senior managers via the Pentana system.

12.2 Councillor Wilson referred to the risk concerning the ability to respond to unexpected events (Appendix 1 SRR9.1) and asked if the current score of amber correctly reflected the urgency of the risk. The Corporate Director confirmed that this was the current assessment since certain actions had been taken to reduce the risk such as improving business continuity measures. He informed Members that the risk would be kept under regular review.

12.3 **RESOLVED** that the Audit and Governance Committee recommend that both the Strategic Risk Register and the Risk Management Action Plan 2019/20 be noted and endorsed.

13. PROVISION OF AN INTERNAL AUDIT EXTERNAL QUALITY ASSESSMENT (EQA)

13.1 The Committee considered the Provision of an Internal Audit External Quality Assessment (EQA) report that recommended a way forward in relation to the provision of the independent quality assessment of Internal Audit. The Group Manager Audit Risk Assurance Shared Service gave an overview of the contents.

13.2 The Group Manager Audit Risk Shared Service advised that when the next EQA takes place in May 2020 Audit and Governance Committee Members will be selected for interview as part of the process. Councillor H Norman asked if the impact of Council elections in May 2020 had been considered. The Group Manager confirmed that this had been considered and that this would be communicated further with Members within the 2019/20 (e.g. as part of the EQA approach and timetable agreement with the Chief Internal Auditor).

13.3 The Chair reminded Members of the importance to good governance of seeking independent opinion to challenge the Council.

13.4 **RESOLVED** that it is noted that the Chartered Institute of Internal Auditors (CIIA) is engaged to carry out an independent assessment of the Internal Audit function.

14. THE REVIEW OF THE EFFECTIVENESS OF THE AUDIT AND GOVERNANCE COMMITTEE - ACTION PLAN

14.1 The Committee considered the report of the Chief Internal Auditor. The Group Manager Audit Risk Assurance Shared Service summarised the report. It was confirmed that the survey would be re-opened within 2019/20 to obtain further Member feedback and re-affirm the Audit & Governance Committee effectiveness position and action plan.

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14.2 **RESOLVED** that the action plan emanating from the effectiveness review is approved and any further training / developmental requirements to support Members in their role be considered.

15. MEMBERS APPOINTED TO OUTSIDE BODIES BY THE COUNCIL

15.1 The Committee considered the report of the Corporate Director that proposed the scope, content and timescales for an audit study of the contribution of Councillors appointed to outside bodies by the City Council.

15.2 The Chair reminded Members of the importance of establishing value of Council representatives on outside bodies both to the Council and the outside bodies themselves. Councillor Lugg commented on the difficulty of making an objective assessment of value.

15.3 Councillor D Norman noted the broad range of organisations and variation to be expected between those for whom a representative was essential and those for whom a representative was superfluous. He further emphasised the importance of making best use of Councillors' time.

15.4 Members were informed by Councillor D Norman that he considered the time frame proposed in the work plan (3.5) to be too tight for the quality of study required. The Corporate Director proposed that the reporting dates be advanced two months to November 2019 and January 2020.

15.5 Councillor Lugg sought clarification on what the study would achieve given that the representatives often volunteered their time and expenses with little or no cost to the Council. The Chair stated that as the Council was formally associated with these bodies it was prudent and represented good housekeeping to ensure that their operation was acceptable.

15.6 Councillor Taylor commented on the need to conduct the study correctly and proposed that it be revisited every 5 years.

15.7 Councillor Hampson highlighted the advantages of broadening the membership so that the study group encompassed a wider range of skills. The Corporate Director advised against this as broadening the scope would dilute the focus for the Audit and Governance Committee.

15.8 The question of how to capture the differing personal commitments by individual representatives to the same outside body was raised by Councillor Hampson. The Corporate Director highlighted the need to recognise that representatives' contribution to an outside body may be most valuable in personal capacity rather than as a councillor. Councillor Lugg commented on the need to write to every representative as a first step. The Chair reassured Members that this would be an integral part of the survey.

15.9 Councillor D Norman asked whether the study might ultimately require a report to the General Purposes Committee for the Council Constitution to be amended. The Corporate Director replied that he thought it unlikely the

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Council Constitution would need alteration, but that those of some outside bodies might.

15.10 **RESOLVED** that:

- (1) the content and scope contained in the report of an audit study into the contribution of Councillors appointed to outside bodies is agreed;
- (2) the audit study is conducted by an informal group consisting of Councillors D Norman, Wilson and Hampson with Councillor H Norman in an ex officio capacity.

16. AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME

16.1 The Committee considered the Work Programme. The Chair drew members' attention to forthcoming items.

16.2 **RESOLVED** that the Audit and Governance Committee note the Work Programme.

17. EXCLUSION OF PRESS AND PUBLIC

17.1 **RESOLVED** that the press and public be excluded from the meeting during the following item of business (Agenda item 19) on the grounds that it is likely, in view of the nature of business to be transacted or the nature of the proceedings, that if members of the press and public are present during consideration of this item there will be disclosure to them of exempt information as defined in Schedule 12A of the Local Government Act 1972 as amended.

18. AMENDMENT TO ANNUAL TREASURY MANAGEMENT STRATEGY

18.1 The Committee considered the report of the Head of Policy and Resources that sought approval to amend Treasury Management Practice 1 (TMP1).

18.2 **RESOLVED** as per the recommendations in the confidential report.

19. DATE OF NEXT MEETING

19.1 Monday 16th September 2019 at 6.30pm in the Civic Suite, North Warehouse.

Time of commencement: 6.30 pm hours
Time of conclusion: 7.45 pm hours

Chair