



## **AUDIT AND GOVERNANCE COMMITTEE**

**MEETING** : Monday, 13th March 2017

**PRESENT** : Cllrs. Gravells (Chair), Melvin (Vice-Chair), Stephens, Wilson, Taylor and Pullen

**Others in Attendance**

Darren Gilbert, KPMG LLP

Shirin Wotherspoon, Solicitor and Deputy Monitoring Officer

Theresa Mortimer, Head of Audit, Risk and Assurance

Andrew Cummings, Management Accountant

Atika Tarajiya, Democratic and Electoral Services Officer

**APOLOGIES** : Cllrs. Patel

### **65. DECLARATIONS OF INTEREST**

There were no declarations of interest.

### **66. MINUTES**

**RESOLVED:**

That the minutes of the last meeting held on the 23<sup>rd</sup> January 2017 and 21<sup>st</sup> February 2017 be confirmed as a correct record.

### **67. PUBLIC QUESTION TIME (15 MINUTES)**

There were no public questions.

### **68. PETITIONS AND DEPUTATIONS (15 MINUTES)**

There were no petitions or deputations.

### **69. AUDIT AND GOVERNANCE COMMITTEE ACTION PLAN**

The Committee considered the action plan.

Councillor Stephens questioned whether there had been any progress on the outcome of the claim to the Election Claims Unit in respect of the EU Referendum and requested details of royalty payments the City Council had received.

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The Management Accountant confirmed that a breakdown of the royalty payments and an update with regards to the EU referendum Claim would be provided to the Committee.

**RESOLVED: That the action plan be noted subject to the suggested amendments.**

**70. KPMG - EXTERNAL AUDIT PLAN 2016/17**

The Committee considered the report of KPMG outlining the External Audit Plan for 2016/17.

Mr Gilbert highlighted key areas of the report noting that two areas that had been identified as requiring significant audit attention were changes in the pension liability due to LGPS Triennial Valuation and the new core financial system. He explained that additional areas of focus also included the Together Gloucester Organisational Change project and fixed asset valuations. He acknowledged that a greater number of value for money audits had been identified for the forthcoming year noting that this was due to the volume of work the City Council were currently undertaking.

Councillor Stephens welcomed the comprehensive and detailed report. Noting the “clearly trivial” threshold had been set at £80,000 he questioned the reporting mechanism for any inaccuracies or errors that fell below this threshold, commenting that this represented a significant amount of public investment.

Mr Gilbert explained that in instances similar to that described by Councillor Stephens, KPMG would alert the Finance Team and continue to liaise closely with them. The Management Accountant assured the Committee that the Finance Team continued to carry out quarterly budget monitoring which aimed to identify any errors or inaccuracies including those under £80,000. He went on further to explain the Overview and Scrutiny Committee received quarterly budget monitoring reports.

In response to Councillor Pullen’s concerns regarding the new core financial system being unable to work in parallel with the old system and thereby affecting individuals’ benefits claims, the Management Accountant explained that revenues and benefits were operated on a separate system to that of the new financial system. He would therefore not expect any issues with any benefits claims but assured the Committee that checks would be undertaken to ensure the two systems worked in conjunction each other.

In response to the Chair’s query regarding the timeline for the value for money and performance monitoring audits, Mr Gilbert explained that exact timeline had not yet been determined. He explained that it was likely that the results of majority of the audits would be reported to the Audit and Governance Committee in September 2017 and if appropriate, an interim report would be presented to the Committee in June 2017.

**RESOLVED: That the report be noted.**

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**71. INTERNAL AUDIT PLAN 2016/2017 PROGRESS REPORT**

The Committee considered the report of the Head of Audit Risk Assurance updating Members of the Internal Audit activity progress in relation to the approved Internal Audit Plan 2016/17.

In response to Councillor Stephen's query regarding appendix 2 of the report being classified as exempt, the Head of Audit Risk Assurance advised Members that the report had been deemed to be exempt as it contained information relating to staff that would make it possible for individuals to be identified.

Councillor Stephens expressed concern that members of the public were being excluded from discussions relating to Marketing Gloucester Limited (MGL) that were of public interest and queried whether a revised version of appendix 2, excluding information relating to staff could be made public.

The Council Solicitor and Deputy Monitoring Officer confirmed that the Committee were able to debate the content of Appendix 2 of the report in public session provided that information relating to staff was not disclosed. She reported that a public version of Appendix 2 would be appended to the minutes of the meeting.

Councillor Stephens expressed disappointment at the lack of progress made with implementing the recommendations as set out in the original MGL audit. Referencing the loan of £97,000, Councillor Stephens queried the purpose and terms of agreement for the loan and questioned whether it was appropriate for the Council to subsidise a private company.

The Head of Audit Risk Assurance advised Members that since the publication of the agenda the Memorandum of Articles of Association, Members Agreement and the Contract for Services had been signed and sealed by both parties. She commented that the secondment agreement for the relevant staff members was currently being drafted and results of the MGL Value for Money (VFM) would aim to be shared with the Committee at the September 2017 meeting.

The Management Accountant confirmed that MGL had access to external funding generated from a number of sources, including entry fees for events like the Tall Ships Festival. He noted that the loan to MGL had been granted to help cover the company's initial start-up costs.

In response to Councillor Stephens' query, the Management Accountant and Council Solicitor confirmed that formal clarification on the purpose and terms of agreement for the loan to MGL would be provided to the Committee.

The Chair noting the Head of Audit Risk Assurance's comments, requested that the MGL VFM Audit be scheduled into the Audit and Governance Work Programme for the September 17 Committee meeting. The Head of Audit Risk Assurance reported that Internal Audit team aimed to report back to the Committee at September 2017 meeting but acknowledged that appropriate time needed to have passed, post implementation of the recommendations, before the audit could be conducted.

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Councillor Wilson expressed disappointment that the Memorandum of Articles of Association and other agreements had only been agreed and signed the previous week. Referencing performance monitoring of the MGL governance arrangements within the report, he queried whether the VFM audit would also review progress in relation to this. The Head of Audit Risk Assurance advised that the VFM audit would review progress against all the recommendations put forward within the original audit report.

The Chair requested that the Committee's request for a review of the MGL governance arrangements as part of the MGL VFM audit be recorded in the Audit and Governance Committee Work Programme.

**RESOLVED:**

1. Progress against the Internal Audit Plan 2016/17 be accepted;
2. Current progress taken to date in relation to the recommendations made within the Marketing Gloucester Ltd audit review (Appendix 2) be noted; and
3. Assurance opinions provided in relation to the effectiveness of the Council's control environment comprising risk management, control and governance arrangements as a result of the Internal Audit activity completed to date be noted.

**72. INTERNAL AUDIT PLAN 2017/2018**

The Committee considered the report of the Head of Audit Risk Assurance providing the Committee with a summary of the proposed 2017/2018 Risk Based Internal Audit Plan 2017/2018 as required by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS) 2016.

The Head of Audit Risk Assurance summarised key areas of the report commenting that the plan included an audit of the Councillors Community Fund following a suggestion from the Cabinet Member for Performance and Resources.

The Chair encouraged Members of the Committee to continue to put forward any areas of work that they considered appropriate for the Internal Audit function to review.

Councillor Stephens welcomed the report and the inclusion of the Complaints Policy as an area of focus. He commented that it would be useful if the Internal Audit team were able to explore the use of multiagency working and the role of Members within the feedback process. He suggested that it would also be helpful if a review of the implementation of the business rates reform were conducted to ensure that this was being applied correctly.

The Management Accountant explained that following the announcement of the business rates reform by the Government in the Spring 2017 budget, Civica had begun promptly to identify and write to all business affected.

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In response to Councillor Melvin's query whether the press had been approached to help advertise the changes to Business Rates, the Management Accountant explained that this had not been explored. He confirmed that the finance team would continue to liaise with Civica on the most appropriate way to alert affected businesses to the changes.

The Cabinet Member for Performance and Resources (Councillor David Norman) congratulated officers on their prompt action following the announcement by the Chancellor of the Exchequer on the 8<sup>th</sup> March 2017. He considered that it would be appropriate to continue to allow Civica to contact all affected businesses and if necessary advertise using the media after an allotted period.

The Chair requested that a management update of the progress of implementation of Business Rates reform be timetabled into the Audit and Governance work programme. He congratulated officers from the Civica revenues and benefits for the speed in which the implementation had been progressed.

**RESOLVED:**

1. Agree that the Internal Audit Plan for 2017/2018 reflects the risk profile of the Council;
2. Approve the Internal Audit Plan 2017/2018 as detailed in Appendix 1.
3. A progress update of the business rates reform be timetabled into the Audit and Governance Work Programme.

**73. ANNUAL RISK MANAGEMENT REPORT**

The Committee considered the report of the Head of Audit Risk Assurance which provided Members with an update on the Council's risk management activities from 2016/17 and also confirmed future planned actions.

**RESOLVED that:**

1. The following be noted and endorsed:
  - a) The risk management arrangements in place for the past year;
  - b) The proposals for future development of risk management; and
  - c) The strategic risk register (Appendix 1).
2. Arrangements for managing risk within the Council are sound.

**74. TREASURY MANAGEMENT STRATEGY**

The Committee considered the report of the Cabinet Member for Performance and Resources which formally recommended that Council approved the attached Treasury Management Strategy, the prudential indicators and noted the Treasury activities.

**RESOLVED to RECOMMEND:** That the Treasury Management Strategy be approved.

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**75. AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME**

The Committee noted the Audit and Governance Work Programme 2017.

**76. DATE OF NEXT MEETING**

Monday 19<sup>th</sup> June 2017 at 6:30pm in the Civic Suite, North Warehouse.

The Chair thanked the Democratic and Electoral Services Officer for consistently producing accurate and detailed minutes that reflected the excellent work undertaken by the Committee.

**Time of commencement: 6.30 pm hours**

**Time of conclusion: 7.13 pm hours**

**Chair**

## Public Version

## Completed Internal Audit Activity during January and February 2017

## Follow-up internal audit findings – Marketing Gloucester Ltd

## Service Area: Leisure and Culture

## Audit Activity: Marketing Gloucester Ltd (follow-up)

## Background

Marketing Gloucester Ltd (MGL) was established in 2008 as an independent organisation with the primary purpose of representing, supporting and advising business and public leaders on economic and regeneration growth, leisure and tourism and promotion of them in the City of Gloucester.

In 2016/17, the Council currently funds and has expenditure with MGL in the form of:

Type of support	£
Annual grant	175,000
Grant contribution for staff	60,000
City and Civic Events Budget	160,000
Seconded staff budget	69,000
	<b>464,000</b>

An audit review was undertaken as part of the 2015/16 Internal Audit work-plan. On the basis of the work carried out at that time the auditors concluded that the control environment provided an Unsatisfactory Assurance Level that the risks considered to be material to the achievement of the objectives for this arrangement were being adequately managed and controlled.

## Scope

A summary of the 2015/16 key findings, recommendations and agreed management actions was reported to the Audit and Governance Committee on 19th September 2016. At this meeting, members requested Internal Audit to undertake a follow-up review to evaluate the progress made by management in implementing the following actions:

- 1) The Council should ensure that all Council spend with Marketing Gloucester (grant funding and service expenditure) is supported by an up to date and complete legally binding agreement(s) that is in line with current Council policies. The agreement(s) should confirm the rationale and purpose of the expenditure; the nature of the services to be provided by the Company; payments to be made within specified financial years; clear performance objectives and targets; and other rights and obligations applicable to both parties. Criteria confirming actions required where the Company does not fully utilise Council funding should also be considered – e.g. if individual Council event budgets are not fully spent/make a surplus or if the annual grants are not fully spent within the allocated financial year.

- 2) Subject to confirmation as to the legal impact, loans issued to Marketing Gloucester (historic and current) should be reviewed and formal agreements documented to confirm the purpose of the loan and the terms for repayment.
- 3) Performance review against the Funding and Management Agreement ((FMA) and other relevant agreement(s)) should be formally allocated to a responsible officer and group (e.g. the Performance Review Meeting) to ensure that compliance is achieved and that areas of non-compliance (Council or Company) are identified and remediation action taken where necessary.
- 4) The Council / Company performance review group should support the strengthening of financial controls at Marketing Gloucester – e.g. documentation and delivery of core financial procedures and controls; receipt and retention of quotes; and full implementation of external audit control observations. The group should receive and review the Company audited accounts (including letter of comment), in line with the requirements of the FMA para 11.5.
- 5) Terms of reference should be defined and agreed for the Council/Company performance review group, confirming the group’s objectives or decision making powers. The Council should consider whether the group’s role is included within the updated agreement(s) with the Company and ensure that the group’s title is in line with updated agreement(s) requirements (i.e. does not contradict agreement paragraphs).

**Risk Assurance – N/A**

**Control Assurance – N/A**

**Key findings**

**Transparency around arrangements and funding (Recommendations 1 and 2)**

- Working with One Legal the following documents have been prepared to provide for clarity and transparency around the resources that will be directed to MGL.

Type of Document	Purpose
<b>Memorandum and Articles of Association</b> of the Company (limited by Guarantee and not having a share capital).	To align the objects of the company to its expected activities. Confirms Gloucester City Council is the sole member.
<b>Members Agreement between:</b> (1) The Council of the City of Gloucester; and (2) Marketing Gloucester Limited.	To formalise MGL long term liabilities (i.e. £97k loan from the Council) and repayment criteria.

<p><b>Agreement between:</b>          (1) The Council of the City of Gloucester;          and          (2) Marketing Gloucester Limited.</p>	<p>To deliver:          (1) The core services as per the Memorandum &amp; Articles;          (2) Annual City Events programme; and          (3) Annual Civic Events programme.</p> <p>Note: This three year agreement will also clarify the annual charges for 2016/17 to 2018/19 and include a phased reduction in funding from £464,000 to £269,000. It will also introduce a formal performance monitoring and reporting regime.</p>
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The above documents are currently with MGL for review and agreement.

**Strengthening Corporate Oversight (Recommendations 3, 4 and 5)**

- The Corporate Director will be responsible for overseeing the Council’s arrangements and assessing the performance of MGL.
- The revised documentation will introduce a formal performance reporting and monitoring regime between the Council and MGL.
- Meetings of the Partnership Performance and Review Group have continued with the last meeting held on 6th January 2017. The meetings are attended by the Cabinet Member for Culture and Leisure, the Corporate Director, and the Chief Executive of MGL.

**Conclusions**

The findings from the follow-up review confirm that the Corporate Director (as lead officer) has a clear strategy to regularise the Council’s relationship with MGL and to further strengthen the governance arrangements (including performance and financial monitoring). Actions are in progress at the point of audit follow-up review.

Subject to this being subsequently completed within a reasonable timeframe, Internal Audit would then be in a position to confirm that the key management actions arising from the 2015/16 review have been completed.

**Management Actions**

In line with request from Audit and Governance Committee, a Value for Money review of the Council’s arrangements with Marketing Gloucester Ltd is included within the proposed Risk Based Internal Audit Plan 2017/18.

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