



AUDIT AND GOVERNANCE COMMITTEE

MEETING : Monday, 23rd July 2018

PRESENT : Cllrs. Gravells (Chair), H. Norman, Smith, Stephens, Wilson and Lewis

Others in Attendance

Corporate Director
Head of Policy and Resources
Accountancy Manager
Head of Audit Risk Assurance
KPMG Representative

Democratic and Electoral Services Team Leader
Democratic and Electoral Services Officer

APOLOGIES : Cllrs. Melvin and Brooker

1. DECLARATIONS OF INTEREST

1.1 There were no declarations of interest.

2. MINUTES

2.1 The minutes of the meeting held on the 12th March 2018 were approved as a correct record and signed by the Chair.

3. PUBLIC QUESTION TIME (15 MINUTES)

3.1 There were no public questions.

4. PETITIONS AND DEPUTATIONS (15 MINUTES)

4.1 There were no petitions or deputations.

5. AUDIT AND GOVERNANCE COMMITTEE ACTION PLAN

5.1 The Committee considered the Action Plan.

AUDIT AND GOVERNANCE COMMITTEE
23.07.18

- 5.2 In relation to minute 68, Councillor Stephens queried One Legal's response to the question regarding the possibility of the release of bank statements being inserted into the Gloucester Lottery contract. The Head of Policy and Resources advised that, as the bank account used for the Lottery was one that served many other local authorities it would be difficult to obtain bank statements solely for Gloucester Lottery. He further advised that the Council received a breakdown of both monies and the rolling prize fund each week.
- 5.3 Councillor Stephens noted that in relation to the DHP allocation, Gloucester City Council was not spending as much of their budget as other neighbouring Councils. He queried why the Council was not spending a higher proportion of their budget. The Chair asked for clarification on whether the previous recommendation for improvements to the housing section on the website had been carried out.
- 5.4 The Head of Policy and Resources stated that a Benefits Officer was now in place and that Civica had increased the number of staff working on DHP allocations. He further stated they were ahead of budget at present and most of the budget for DHP would be spent by yearend. In relation to neighbouring districts, the Head of Policy and Resources stated that many differed significantly from Gloucester in their needs which explained the difference in proportion spent. When comparing Gloucester and Cheltenham the percentage spent was similar as Cheltenham's needs in this area were very similar to Gloucester's.
- 5.5 Councillor Stephens further questioned the number of residents who reapply for DHP after the 13 week period and whether there was a mechanism in place to help those who reapply. The Head of Policy and Resources replied that DHP were not designed to be a reoccurring benefit thus he was unsure whether a mechanism was in place. He stated, however, that he would look into the statistics of those reapplying and report back to the Committee.
- 5.6 Councillor Stephens queried whether the Head of Policy and Resources was happy with the current spending of DHP and its projected spend, to which he replied that he was happy with the current position.
- 5.7 Councillor Stephens and the Chair requested a future update regarding DHP figures, to which the Head of Policy and Resources agreed to bring the figures for Quarter 2 before the Committee.
- 5.8 **RESOLVED:-**
- (1) That the Audit and Governance Committee note the Action Plan,
 - (2) That the statistics regarding the DHP reapplication rate be made available to the Committee, and;
 - (3) That a further update regarding DHP figures for Quarter 2 be brought before the Committee.

6. KPMG EXTERNAL AUDIT REPORT 2017/18 (ISA 260 TO THOSE CHARGED WITH GOVERNANCE)

It was agreed by the Chair that this item would be discussed prior to agenda item 7.

AUDIT AND GOVERNANCE COMMITTEE
23.07.18

- 6.1 The KPMG representative presented the report to Members. He summarised the main outcomes of the audit work, focusing on asset valuation, pension liability and major capital transactions of the past year, in particular the King's Walk transaction. He reported that the audit was nearing completion with only small areas outstanding and would be completed by the deadline of 31st July 2018. He stated that the Statement of Accounts were positive and commended the Finance team for their hard work with meeting the faster close deadline. There were small adjustments regarding the King's Walk lease repayments and the revised Statement of Accounts reflected this.
- 6.2 Given the Finance team had sought external advice, Councillor Wilson questioned why the King's Walk transaction was included as a risk in the Audit report. The KPMG representative advised that the purpose of the report was to assess accountancy activity that had taken place in 2017-18 and put forward recommendations for the future, hence the recommendation for the Council to seek external accounting advice if it enters into another complex arrangement.
- 6.3 In response to a question by Councillor Stephens regarding seeking advice in the future, the Head of Policy and Resources stated that the Finance team would ensure they sought the appropriate advice when dealing with similarly complex transactions. Councillor Stephens also commended the finance team on their positive audit report and Statement of Accounts.
- 6.4 The Chair commented that there was a continual improvement in respect of the Finance team and congratulated them on their positive performance throughout the year.
- 6.5 The Committee were informed that the King's Walk redevelopment transaction was very complex to account for and to audit due to the multifaceted nature of the transaction. After receiving external accounting advice and changing aspects of the transaction, in particular spreading the initial rent and sinking fund over the life of the lease, KPMG were satisfied that management's judgement was reasonable.
- 6.6 The Chair questioned whether the recent developments regarding recycling income and performance by Amey had been considered in KPMG's audit. The KPMG representative stated that it did not come under the remit of the audit review. However the performance of the Finance team with regard to that situation demonstrated positive management of active contracts.
- 6.7 The Chair thanked the KPMG representative for his report.
- 6.8 **RESOLVED:-** The KPMG External Audit Report 2017/18 be approved.

7. STATEMENT OF ACCOUNTS

- 7.1 Members considered the Statement of Accounts. The Head of Policy and Resources stated that he was pleased that the Finance team had met the faster close deadline regarding the Statement of Accounts.

AUDIT AND GOVERNANCE COMMITTEE
23.07.18

- 7.2 Councillor Stephens noted the overspend in the Culture and Leisure Portfolio. He queried whether the new draft money plan would include more realistic targets for this portfolio. The Head of Policy and Resources advised that the targets were being re-evaluated by the Head of Service and the first draft of the money plan would take into account the new targets.
- 7.3 **RESOLVED:-** That the Statement of Accounts are approved and signed by the Chair and the Head of Policy and Resources.

8. ANNUAL GOVERNANCE STATEMENT 2017/18

- 8.1 The Head of Audit Risk Assurance presented the Annual Governance Statement, detailing the assurance framework and practices of good governance that the Council followed.
- 8.2 The Committee were informed of the new CIPFA Audit Committee Guidance for 2018 and the Chief Internal Auditor would work with the Audit and Governance Committee to implement the guidance once it was published.
- 8.3 The Head of Audit Risk Assurance drew the Committee's attention to Appendix 3 to the report, stating that the Council Wide Assurance Map provided open communication and a high level overview of individual service area performance against the seven principles of good governance.
- 8.4 Councillor Stephens asked for clarification regarding the indicators on the Assurance Map. The Head of Audit Risk Assurance advised that there could never be 100 percent assurance and the purpose of the Assurance Map was to highlight areas that need improvement. She further stated that she was pleased with the response from service areas regarding the Assurance Map.
- 8.5 The Chair requested that in the next Annual Governance Statement, there was a comparison between the data year on year in relation to the Assurance Map to highlight the direction of travel and to provide the relevant assurances that the improvement areas identified had been addressed.
- 8.6 **RESOLVED:-** That the Audit and Governance Committee approve the Annual Governance Statement.

9. TREASURY MANAGEMENT SIX MONTHLY UPDATE 2017/18

- 9.1 The Committee considered the report of the Accountancy Manager which detailed the borrowing and investments made by the Council. The Accountancy Manager noted the positive yield on investment, particularly the King's Walk transaction and noted there had been no new long term borrowing. The Committee were informed of new EU regulations being introduced under MIFID II which would govern the relationship between financial institutions and local authorities. The Accountancy Manager also stated that the Council continued to maintain an under-borrowing position in 2017/18 which was positive.

AUDIT AND GOVERNANCE COMMITTEE
23.07.18

9.2 **RESOLVED:-** The Audit and Governance Committee note the Treasury Management Update.

10. INTERNAL AUDIT/EXTERNAL AUDIT JOINT WORKING PROTOCOL

10.1 The Head of Audit Risk Assurance provided an overview of the Internal/External Audit Working Protocol detailing the joint working arrangements between internal audit and the new external auditors, Deloitte.

10.2 **RESOLVED:-** That the Audit and Governance Committee note the report.

11. BENEFIT ACCURACY REPORT

11.1 The Committee considered the report which detailed the accuracy rate of Housing Benefit and Council Tax Support assessments. The Head of Policy and Resources drew the Committee's attention to paragraph 3.7 of the report which indicated a continued decrease in the financial error rate.

11.2 Councillor Stephens thanked the Head of Policy and Resources for the report and commented that it was positive to see a decline in the error rate. He stated that it would be beneficial for the Committee to see comparable error rate statistics from other Councils to give an indication of whether the Council's error rates were average.

11.3 **RESOLVED:-**

- (1) That the Audit and Governance Committee note the Benefit Accuracy Report, and;
- (2) Information on other Council's benefit accuracy be made available to the Committee.

12. AMEY STREET SCENE CONTRACT

12.1 The Committee considered the report from the Corporate Director regarding the update on the Amey Street Care contract.

12.2 The Corporate Director gave an overview of the current position regarding Amey's failure to obtain market average prices for recycling and a failure to sell on a proportion of recycling. The Committee were informed that the Council had calculated that the value of Amey's underperformance was £297,031 and the Council, therefore, continued to withhold this amount.

12.3 The Corporate Director further stated that three meetings had taken place between Amey and Council Officers, where Amey provided the Council with Appendix 1, the waste flow in and out of the Eastern Avenue depot. These figures, however, did not address all of the concerns that the Council had and were subsequently described by Amey as illustrative only.

12.4 The Committee were informed that due to new information arising regarding the continuing situation it was likely that the sum in dispute could rise to approximately £315,000. There was also concern regarding the significant amount of recycling being contaminated, totalling close to 11% of all

AUDIT AND GOVERNANCE COMMITTEE
23.07.18

recycling being collected, and concerns regarding the possibility that the County Council could seek repayment in relation to recycling credits where recycled material had been sent to landfill.

- 12.5 The Corporate Director further stated that the Council had placed all reasonable pressure on Amey with regard to their performance. Service failure notices had been issued where appropriate, a first quarter performance penalty report was being compiled and two fixed penalty notices had been issued in respect of recent fly-tipping incidents in Matson.
- 12.6 The Chair thanked the Corporate Director and the Finance team for their hard work and report. He further thanked Councillor Cook, Cabinet Member for Environment, for all of his hard work in seeking a resolution and the Finance team for their diligence in noticing the issue.
- 12.7 Councillor Wilson queried the process for managing the contract and the performance of Amey and whether the Council were auditing the figures that Amey provided. In response, the Corporate Director stated that the Council received regular updates from Amey regarding their performance and returns which was how the discrepancy regarding recycling was flagged. He further stated that Council officers had been continuing to check stock levels at the depot.
- 12.8 Councillor Stephens stated that the contract was not fit for purpose and questioned whether there was an arbitration clause in the contract. In response the Corporate Director stated that that there was a contractual dispute clause in the contract, however he stated that he could not discuss this matter further while in public session.
- 12.9 Councillor Stephens shared his view that since the dispute regarding the recycling tonnage, the quality of Amey's work had decreased and that he was receiving an increasing number of complaints from his constituents.
- 12.10 In response from a query from the Chair regarding the sum in dispute, the Corporate Director stated that as of the 18th July the outstanding amount was approximately £315,000.
- 12.11 The Chair questioned whether the Council's external auditors would be able to act as arbitrators in the dispute. The Corporate Director advised that this would not be possible as they would not be seen by both parties as being sufficiently independent or expert in the issue under dispute.
- 12.12 The Chair sought reassurance that the situation be resolved as swiftly as possible. The Corporate Director replied that he could not guarantee that the matter would be quickly resolved. He also indicated that any contract transfer would be complex, disruptive and resource-intensive and could trigger possibly a lengthy legal challenge.
- 12.13 Councillor Stephens stated that he was pleased that the report had been made public. The Chair concurred stating that it was important that the Committee be able to discuss this issue in the public arena.

AUDIT AND GOVERNANCE COMMITTEE
23.07.18

12.14 A number of questions were asked and the Corporate Director advised that the answers could not be provided in the public part of the meeting as the matters were exempt from publication. The Committee agreed to defer further discussions to the end of the meeting with press and public excluded by virtue of Paragraph 3 of Schedule 12A the Local Government Act 1972.

13. AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME

13.1 The Committee considered the work programme.

13.2 **RESOLVED:-** That the Audit and Governance Committee note the work programme.

14. INTERNAL AUDIT ACTIVITY ANNUAL REPORT 2017/18

14.1 The Committee considered the report on Internal Audit Activity for 2017/18. The Head of Audit Risk Assurance summarised the key findings of the report and stated all relevant requirements of the Public Sector Internal Auditing Standards had been met. She further commented that during 2017/18 ARA had provided a dividend to the Council in the sum of £10,762.69.

14.2 **RESOLVED:-**

- (1) That the performance of Audit Risk Assurance meeting the required standards be noted, and;
- (2) That reasonable assurance be taken that the internal control environment at the City Council is operating effectively.

15. DATE OF NEXT MEETING

15.1 17th September 2018 at 6:30pm in the Civic Suite, North Warehouse.

16. EXCLUSION OF THE PRESS AND PUBLIC

16.1 **RESOLVED:-** That the press and public be excluded from the meeting during the following items of business on the grounds that it is likely, in view of the nature of business to be transacted or the nature of proceedings, that if members of the press and public are present during the consideration of the item there will be disclosure to them of exempt information as defined in Paragraph 3 of Schedule 12A of the Local Government Act 1972 as amended.

17. AMEY STREET SCENE CONTRACT CONTINUED

17.1 The discussion regarding the Amey Street Scene Contract continued.

17.2 **RESOLVED:-** That the Audit and Governance Committee note the report.

Time of commencement: 6.30 pm hours

AUDIT AND GOVERNANCE COMMITTEE
23.07.18

Time of conclusion: 8.10 pm hours

Chair