



## **AUDIT AND GOVERNANCE COMMITTEE**

**MEETING** : Monday, 23rd January 2017

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

**Others in Attendance**

Councillor Richard Cook, Cabinet Member for Environment

Darren Gilbert, KPMG LLP

Jonathan Lund, Corporate Director and Monitoring Officer

Jon Topping, Head of Finance

Theresa Mortimer, Head of Audit, Risk and Assurance

Lloyd Griffiths, Head of Neighbourhood Services

Stephanie Payne, Group Manager, Audit, Risk and Assurance

Atika Tarajiya, Democratic and Electoral Services Officer

**APOLOGIES** : Cllr D. Norman (Ex- Officio)

### **50. DECLARATIONS OF INTEREST**

There were no declarations of interest.

### **51. MINUTES**

In response to Councillor Stephens' query that the minutes made no mention of the Committee's request to receive an update on the Marketing Gloucester Limited (MGL) follow up audit, the Group Manager advised that the follow up audit was currently in progress and the results would be reported to the Committee, as planned, at their meeting on the 13<sup>th</sup> March 2017.

Councillor Stephens expressed his disappointment that the follow up audit report would not be available prior to setting the budget for the forthcoming year.

**RESOLVED:**

That the minutes of the meeting held on the 21<sup>st</sup> November 2016 be confirmed as a correct record.

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

There were no public questions.

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**53. PETITIONS AND DEPUTATIONS (15 MINUTES)**

There were no petitions or deputations.

**54. AUDIT AND GOVERNANCE COMMITTEE ACTION PLAN**

The Committee considered the action plan.

**RESOLVED: That the Audit and Governance Action Plan be noted.**

**55. KPMG GRANTS AUDIT REPORT**

The Committee considered a report from KPMG outlining the firm's certification work in relation to the Housing Benefit Subsidy claim.

Mr Gilbert highlighted key areas of the report, noting that the subsidy represented a significant amount of money and comprised a very defined audit. He explained that the firm had certified the work with six qualifications, three of which related to risk based verification and the other three were more usual and were encountered more regularly by auditors. He concluded by reporting that the qualifications had been reported to the Department of Work and Pensions and the Council was awaiting a final decision on the subsidy claim recognising that the auditors had issued three specific recommendations to improve the Council's processes.

Councillor Wilson questioned whether software supplied by Civica was causing issues with the process, noting that they had failed in the past to apply software patches when required.

Mr Gilbert advised that there did not seem to be any specific issues with Civica, noting that it was quite common for most local authorities to have the housing benefit subsidy audit qualified due to the sheer number of transactions undertaken and increased scope for error.

In response to Councillor Wilson's query regarding assurance that recommendations were being actioned, Mr Gilbert advised that these would be considered as part of next year's audit.

The Head of Finance reported that two out of three recommendations had already been actioned as complete as outlined in the report and another was being actioned as part of an ongoing process.

Councillor Stephens welcomed the results of the audit, noting that the large number of transactions increased the chances of qualification. He suggested that Officers continue to closely monitor any systems errors and report these to the Chair of Audit and Governance, who could then make a decision on whether a report to Committee was appropriate.

The Head of Finance advised that an update on the benefit accuracy rate was already scheduled for the June 2017 meeting and the Chair agreed that a

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combined report on benefit accuracy rates and monitoring of benefit software be presented to the Committee in June 2017.

**RESOLVED:**

That the report be noted and a further report updating Members on benefit accuracy rate and monitoring of benefit software be presented to Committee.

**56. INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2016/17**

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

The Chair welcomed the Cabinet Member for Environment, Councillor Richard Cook, and the Head of Neighbourhood Services, Lloyd Griffiths to the meeting.

Councillor Stephens expressed disappointment with the limited assurance opinion, noting that basic contract management procedures had not been applied. Referring to commentary related to performance on page 30 of the agenda pack, he queried whether the City Council had the power to impose any financial sanctions for non-delivery of key performance indicators (KPIs).

The Head of Neighbourhood Services explained that contractual provision for financial sanctions against key performance indicator failures had not been finalised at the commencement of the contract. He reported that following recent discussions with Amey, a suite of operational and strategic KPIs were being agreed, noting that the City Council was considering various options of enforcement..

In response to Councillor Stephen's query regarding the types of sanctions that could be imposed, the Head of Neighbourhood Services reported that the City Council would initially seek remedial action before imposing financial sanctions. Councillor Stephens questioned whether following the Together Gloucester organisation re-design process there would be adequate resource to monitor the contract and carry out suitable checks.

He was assured that in the proposed structure, the Head of Place and the Streetcare Client Officer would lead on the management of the Amey contract with additional support from the environment officers.

The Chair referring to page 30 of the agenda pack, noted that discrepancies had been found with data Amey provided and queried the reliance that could be placed on the information provided.

The Corporate Director reported that the existing relationship with Amey could not continue, and the Council resources could not continue to be relied upon to correct poor performance and operational errors. He noted that resource had been identified within the Together Gloucester proposals to effectively monitor the contractor, acknowledging that the Council was facing a challenging economic climate and the need to make continued savings.

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Councillor Stephens queried the payment of £53,824 referred to in the report. The Head of Neighbourhood Services advised that the sum was a contractual payment relating to a staged payment for bin replacement over the life of the contract. Both the Council and Amey were continuing to search their records for documentation confirming the purpose and intent of the payment.

In response to Councillor's Melvin's query, the Corporate Director confirmed that the City Council held a copy of the original contract. Councillor Melvin questioned why the payment of £53,824 was not set out in the contract. The Head of Neighbourhood Services explained that whilst the contract did not provide a detailed breakdown of individual payments, officers did hold information relating to spend under the main categories of activity.

The Head of Finance commented the contract was amended annually to reflect market indices. Councillor Cook accepted the comments from Members and acknowledged that the contract required improvement stating that the focus was on delivering continuous improvement rather than firefighting issues.

Councillor Wilson expressed concern that there was no complete record of service provision changes. The Head of Neighbourhoods informed Members that prior to 2015 there had been no central record of service provision changes, though changes that Officers were aware of before prior to this were being included retrospectively.

Councillor Patel welcomed the detailed report, expressing concern with the quality and level of supervision of Amey operatives working to deliver to the street cleansing function. He requested detailed information on the supervisory resource available and how this was utilised. The Head of Neighbourhood Services confirmed that he would provide this information once it had been collated.

In response to Councillor Melvin's question regarding instances where Amey were unable to deliver functions or services that were included as part of the contract sum, the Head of Neighbourhood Services noted that the contract provided flexibility in circumstances such as these to utilise the existing resources flexibly.

In reply to the Chair's query whether the Council's contract was based upon a standard template Councillor Cook confirmed that it was a standard contract and advocated that the Council continue to develop a positive relationship with Amey, whilst still remaining firm on the standards expected from the Council's contractor.

The Chair expressed concerns with the governance findings and welcomed the work undertaken by the auditors to highlight the improvements required. He advised Members of the Committee that he had requested that the specific recommendations relating to the Streetcare Audit should form part of the Committee's resolutions to ensure that a clear and transparent audit trail could be achieved.

In response to Councillor Stephens' request for a separate value for money audit following implementation of recommendations, the Head of Audit Risk Assurance shared service reported that in cases where a limited assurance opinion was provided, a follow up review, to monitor progress against the detailed action plan,

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was undertaken. She advised that a follow up review of the Streetcare contract was scheduled in the 2017/18 Internal Audit Plan.

The Committee agreed that service managers would attend the Committee in 6 and 12 months to provide an update as to the actions taken in response to the recommendations made.

In response to the Chair's query regarding the individual ward records, the Head of Neighbourhood Services explained that records were being stored centrally since 2015.

Councillor Melvin sought reassurance that the Council's depot at Eastern Avenue was being appropriately and efficiently used in connection with the delivery of the waste, recycling and streetscene service. The Head of Neighbourhood Services responded to say that he had no reason to be concerned that this was not the case but would respond directly to Councillors on the issue.

The Chair thanked the Cabinet Member for Environment and the Head of Neighbourhood Services for attending the Committee meeting.

In response to Councillor Stephens' query regarding no royalty income payments received for the 2014/15 income year referenced within the Civic Governance-Revenues and Benefits audit, the Head of Audit Risk Assurance advised that there was provision within the contract to enable the Council to receive royalty payments annually when meeting certain terms and conditions. These payments could be around £29k per year. The Head of ARA confirmed that there was an agreed recommendation within the audit report relating to royalty payments, and an update on these payments would be provided to the Committee prior to the next meeting.

Councillor Stephens stated his view that a commitment had been made that the Garden Waste service would operate on a cost recovery basis but was now operating at a surplus.

Councillor Cook reported that there was no evidence that the service was intended to be income neutral. He noted that at approximately £1.75 per collection, the optional service represented excellent value to residents who chose to participate.

**RESOLVED** that:

1. Progress against the Internal Audit Plan 2016/17 be accepted.
2. The recommendations contained in the Streetcare Audit Report Action Plan, as outlined below, be endorsed, and appropriate officers report back to the Committee after 6 months and 12 months on progress to implement the Action Plan:
  - (1) Review and revise the purpose, terms of reference, completeness of the risk register and arrangements for strategic oversight of the service;
  - (2) Formally document and regularly maintain and review key service conditions, specifications and variations to ensure contract compliance;

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- (3) Implement a formal contract change process, reflecting past changes where practical, including a up to date Adopted Land Schedule;
  - (4) Clarify currently undocumented contract charges and ensure that procedures are appropriate to demonstrate “good value for money”;
  - (5) Implement an annually updated Service Plan which documents key service delivery data and in particular costs, staff levels, fleet, H&S, quality measurement, site locations, working methods;
  - (6) Review key performance indicators to include strategic, operational and quality related targets and sanctions for non-compliance; and
  - (7) Implement appropriate arrangements to monitor/check and document performance.
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.

**57. ANNUAL GOVERNANCE STATEMENT IMPROVEMENT PLAN 2015/2016**

The Committee considered the report of the Head of Audit Risk Assurance providing assurance to the Committee that the improvement areas and associated actions identified as part of the annual review of governance arrangements operating within the Council, have been and are being addressed.

The Head of Audit Risk Assurance outlined key areas of the report highlighting that all recommended actions had been or were being addressed.

In response to Councillor Stephens’ query regarding the inclusion of Gloucestershire Devolution bid within the Governance Statement, The Head of Audit Risk Assurance advised that this remained within the statement due to the potential impact on governance arrangements, noting that at this point in time the future of the bid was still to be determined.

In response to Councillor Melvin’s request for an update on the Gloucestershire Devolution Bid, the Corporate Director advised that Government were currently only considering advanced bid proposals and that those less advanced, such as the Gloucestershire bid, were currently on hold.

**RESOLVED:**

That actions taken to address the governance improvement areas identified be noted.

**58. SELF ASSESSMENT OF RISK MANAGEMENT ARRANGEMENTS AT GLOUCESTER CITY COUNCIL AGAINST ISO31000 RISK MANAGEMENT - PRINCIPLES AND GUIDELINES AND ASSOCIATED ACTION PLAN.**

The Committee considered the report of the Head of Audit Risk Assurance seeking independent assurance on the adequacy of the Council’s Corporate Risk Management framework.

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The Head of Audit Risk Assurance reported that the City Council had been assessed as being 75% pure compliant, noting that item 1 on action plan had already been addressed.

**RESOLVED** that:

1. The Risk Management Action Plan be accepted;
2. Further updates and outcomes be provided to Committee during 2017/2018 as appropriate.

**59. RISK MANAGEMENT POLICY STATEMENT AND STRATEGY 2017-2020**

The Committee considered the report of the Head of Audit Risk Assurance proposing an updated Risk Management Policy Statement and Strategy to become effective from 1st April 2017.

**RESOLVED** that:

1. The Risk Management Policy Statement and Strategy 2017-2020 be adopted and recommended for endorsement to Cabinet.
2. The Strategy, be disseminated to managers in accordance with Communications Plan, to re-affirm the Council's risk management objectives.

**60. ANTI FRAUD AND CORRUPTION POLICY STATEMENT AND STRATEGY (INCLUDING THE ANTI BRIBERY POLICY AND ANTI MONEY LAUNDERING POLICY) 2017-2019 AND THE CONFIDENTIAL REPORTING PROCEDURE (WHISTLEBLOWING POLICY).**

The Committee considered the report of the Head of Audit Risk Assurance seeking independent assurance on the adequacy of the Council's Anti-Fraud and Corruption response and framework.

The Chair welcomed the policies and thanked Officers for their work and effort in this regard.

**RESOLVED** that:

1. The Anti-Fraud and Corruption Policy Statement and Strategy, the Anti Bribery Policy, Anti Money Laundering Policy 2017-2019 and the Confidential Reporting Procedure (Whistleblowing) be adopted and recommended its endorsement to Cabinet; and
2. The strategy and policies, once endorsed by Cabinet, be disseminated to managers in accordance with a Communications Plan, to reaffirm the Council's anti-fraud culture and objectives.

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

The Committee noted the Audit and Governance Work Programme 2017.

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The Democratic and Electoral Services Officer advised Members that the plan covered the work programme for the current municipal year and would be updated following confirmation of the calendar of meetings at Council on the 6<sup>th</sup> February 2017 and the Committee's membership at Council on the 23<sup>rd</sup> May 2017.

**62. DATE OF NEXT MEETING**

Monday 13<sup>th</sup> March 2017 at 6:30pm in the Civic Suite, North Warehouse.

**Time of commencement: 6.30 pm hours**

**Time of conclusion: 8.15 pm hours**

**Chair**