

BROMSGROVE DISTRICT COUNCIL

MEETING OF THE AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

15TH SEPTEMBER 2016 AT 6.00 P.M.

PRESENT: Councillors B. T. Cooper (Chairman), S. R. Colella (Vice-Chairman) (from Minute Item No. 17/16 to part way through Minute Item No. 22/16), R. L. Dent, J. M. L. A. Griffiths (from Minute Item No. 17/16 to part way through Minute Item No. 23/16), C.A. Hotham (Substitute), P. M. McDonald (from Minute Item No. 18/16), C. J. Spencer, P.L. Thomas (from Minute Item No. 18/16 to part way through Minute Item No. 23/16) and M. Thompson

Observers: Councillor G. Denaro

Invitees: Ms S. Joberns and Mr R. D. Percival (Grant Thornton)

Officers: Ms. J. Pickering, Mrs. C. Felton, Mr. A. Bromage, Ms. S. Morgan and Ms. J. Bayley

17/16 **ELECTION OF CHAIRMAN**

Councillor S. R. Colella opened the meeting in his capacity as Vice Chairman of the Committee and invited Members to put forward nominations for the position of Chairman.

A nomination for the position of Chairman was received in respect of Councillor B. T. Cooper.

RESOLVED that Councillor B. T. Cooper be elected as Chairman of the Committee for the ensuing municipal year.

(Following the appointment of the Chairman the Committee agreed to hold a brief 10 minute adjournment, from 6.02 – 6.12 pm, to provide the Chairman with an opportunity to attend a briefing on the content of the agenda).

18/16 **APOLOGIES FOR ABSENCE AND NAMED SUBSTITUTES**

Apologies for absence were received from Councillor S. R. Peters and Parish Councillor C. Scurrall. It was confirmed that Councillor C. Hotham was attending as a substitute for Councillor Peters.

The Committee also noted that Councillors S. R. Colella, J. M. L. A. Griffiths and P. L. Thomas would need to leave the meeting early.

19/16

DECLARATIONS OF INTEREST AND WHIPPING ARRANGEMENTS

There were no declarations of interest nor of any whipping arrangements.

20/16

TO CONFIRM THE ACCURACY OF THE MINUTES OF THE AUDIT, STANDARDS AND GOVERNANCE COMMITTEE MEETING HELD ON 16TH JUNE 2016

The minutes of the meeting of the Audit, Standards and Governance Committee held on 16th June 2016 were submitted.

During consideration of the minutes reference was made to previous discussions about the Parish Council representatives on the Committee and it was noted that many Parish Councillors were co-opted rather than elected onto their Parish Council. Members' preference for elected Parish Councillors to serve on the Committee had been reported to Bromsgrove's Area Committee of the Worcestershire County Association of Local Councils (CALC). However, it was acknowledged that the appointment would ultimately be determined by CALC.

RESOLVED that the minutes of the meeting of the Audit, Standards and Governance Committee held on 16th June 2016 be approved as a correct record.

21/16

STANDARDS REGIME - MONITORING OFFICERS' REPORT

The Head of Legal, Equalities and Democratic Services presented the Monitoring Officer's report. Members were advised that since the previous meeting of the Committee a single Member to Member complaint had been received and this was in the early stages of investigation.

Various Member training sessions had also been delivered during the period and further training was scheduled to take place later in the calendar year. Specific reference was made to the training delivered on the subject of child sexual exploitation and safeguarding. Members noted that this was an important area of responsibility and should be taken seriously.

The Committee also briefly discussed the county-wide Governance training event that was due to be delivered by the external auditors, Grant Thornton, in Redditch on 11th October. Members questioned whether it might be more appropriate for this training to be delivered by an independent body with no links to the Council. The Member Development Steering Group was therefore asked to investigate governance training arrangements at other local authorities and with the Local Government Association. The Committee was advised that this could be raised at the next scheduled meeting of the group on 19th September 2016.

RESOLVED that

- (1) The Member Development Steering Group be asked to investigate arrangements in place at other local authorities to deliver Governance training; and
- (2) The report be noted.

22/16

GRANT THORNTON - AUDIT FINDINGS REPORT 2015/16 (APPENDIX TO FOLLOW)

Representatives from Grant Thornton presented the Audit Findings Report in relation to the final accounts 2015/16. For this item the draft letter of representation, detailing the Financial Statement for the year ended 31st March 2016, was tabled for Members' consideration (attached at Appendix 1 to these minutes). During the presentation of this report the following matters were highlighted:

- Grant Thornton had made no adjustments to the accounts, though had identified one area in respect of assets that could impact on the accounts if an adjustment was made.
- The external auditors were anticipating that they would be issuing an unqualified opinion on the accounts.
- The process followed by the Council to issue the accounts had improved significantly when compared to the previous year, in line with the Section 11 recommendations.
- Further improvements could be made to the process to ensure that in future the Council could submit the accounts in line with new earlier deadlines from 2018.
- Grant Thornton had identified weaknesses in the Council's arrangements, particularly in respect of financial reporting, and were issuing a qualified 'except for' value for money conclusion.
- For the risk in terms of management over-ride of controls the testing of journals work undertaken by the auditors had required significant time due to the complexity of the Council's ledger and cost coding arrangements.
- The risk in terms of the valuation of Parkside had identified no issues for the Council, which shared this asset with Worcestershire County Council.
- Since the publication of the report more information had been received regarding the valuation of the former Council House site and the external auditors were satisfied with this detail.
- Grant Thornton had reviewed the assumptions, qualifications and controls used by the actuaries for staff pensions.
- When considering operating expenses no problems had been identified for 2015/16 but an issue had been identified for the previous year in relation to an invoice for £4,000. Following further investigation Grant Thornton had discovered no further mistakes and this was not considered to be a systemic problem. However, this investigation had highlighted challenges in respect of invoices being recharged and included on the general ledger.

- External auditors had noted that the volume of invoices to Redditch Borough Council for shared services was such that improvements could be made to streamline the process.
- Three assets had been identified for which the Council received charges though the ownership status was unclear.
- These three assets comprised low cost housing that had been transferred to BDHT in the early 2000s.
- Legal Services had undertaken some initial investigations and determined that additional time was required to provide further clarification regarding legal ownership arrangements.
- These were separate to five other assets detailed in the statement of accounts which had been reclassified by the Council as operational assets, having previously been listed as investment assets, following consultation with Grant Thornton.
- The external auditor's approach to undertaking the Value for Money (vfm) assessment had changed in 2016/17 in line with national requirements.
- For the Financial Outturn and Medium Term Financial Strategy the external auditors had discovered that the Council had good arrangements at the officer level for managing budgets.
- However, improvements could be made to the ways in which Members were engaged in the budget setting process and supported to make informed decisions about the budget.
- Consideration had been given to the progress made by the Council in respect of Section 11 recommendations and a decision had been taken not to issue further recommendations at this time.
- The final auditing fees charged by Grant Thornton to the Council were £57,830.

Additional points were also raised for the Committee's consideration about the report by the Executive Director of Finance and Corporate Resources:

- Officers were working to improve the financial monitoring reports presented for the consideration of Members.
- Work was also being undertaken to provide further clarity in respect of the Council's chart of accounts.
- An Efficiency Statement had been produced for the Council which provided a strategic overview of the local authority's financial position.
- Officers were aiming to present a balanced and robust four year programme for the authority.
- Budget reports would be presented for the consideration of the Finance and Budget Working Group, Overview and Scrutiny Board, Cabinet and Council as part of an enhanced approach to involving Members in the budget setting process.

Following presentation of the report the following points were considered by Members in detail:

- The potential for the external auditor's final auditing fee for the Council to be recorded on the front page of the report.
- The length of delays in terms of the Council paying external organisations when invoiced.
- The arrangements in place to advertise the statement of accounts the previous year, the extent to which this complied with statutory requirements and the information provided about this in the report. An apology was provided for the lack of a reference to this in the report and it was agreed that Officers should discuss this further with the external auditors and report back at a later date.
- The improvements that could be made to the ways in which budgetary monitoring information was reported for Members' consideration.
- The need for action to be taken and difficult decisions to be made to balance the Council's budget in future years.
- The extent to which funding had been transferred from reserves to balance the budget in recent years.
- The use of virement and the number of cases in which this had occurred at a level close to that requiring approval from full Council. Officers agreed to obtain further information on this subject for Members' consideration.
- The impact of achieving budget savings on the services received by the Council's customers.
- The legislation requiring advertising of the accounts, the Audit Commission Act 1998, and the extent to which this should be updated to reflect the growth in the internet and electronic forms of communication.
- The promotion of the Council's work on the statement of accounts on the Council's website.
- The impact of using page numbering for the report alongside page numbering for the agenda pack on the clarity of proceedings. Members were advised that the focus should always be on referring to the page numbers in the agenda pack.
- The potential for many of the points considered during Members' discussions to be raised at future meetings of the Overview and Scrutiny Board.

At the end of these discussions Members briefly considered the potential content of the Council's Medium Term Financial Plan. In challenging economic circumstances for local authorities Members suggested that the deficit position for the Council across the full 4 year period that would be covered by the plan should be reflected in that report. The Committee accepted that if this was to occur the first year of the period would still need to achieve a balanced budget. However, Members commented that this would provide further clarity about the financial position of the Council and would help when making decisions about the budget.

The Committee also discussed in some detail the level of funding allocated by the Council each year to address the pension fund liability

and the extent to which this had been set at an appropriate level to meet actuarial funding requirements. Members were advised that the external auditors checked whether the estimate was a fair reflection of the Council's liability as had been set by Mercers, the Worcestershire Actuary. However, the external auditors were not required to assess the proportion of staff who were due to receive particular pension settlements. Given the complexity of these arrangements and the significant level of the pension fund liability Members agreed that it would be useful to receive a presentation on the subject of the Council's pension arrangements at a future meeting.

Following these discussions the Committee

RECOMMENDED to Council

- (1) The approval of the draft letter of representation as included in the attached appendix; and
- (2) That the Council's Medium Term Financial Plan should always be produced displaying the total deficit for the authority.

RESOLVED that the Audit Findings Report 2015/16 be noted.

23/16

STATEMENT OF ACCOUNTS 2015/16 (POST AUDIT) (APPENDIX TO FOLLOW)

The Executive Director of Finance and Corporate Resources and the Financial Services Manager presented the Statement of Accounts 2015/16 and in so doing raised a number of points for the Committee's consideration.

- A set of accounts had been circulated for the consideration of all Members in July 2016.
- The documentation provided in the Committee's agenda pack contained the post audit set of accounts.
- The external auditors had issued an unqualified judgement on the accuracy of the accounts. Grant Thornton were satisfied that, on the basis of materiality, the Council's accounts were accurate.
- The general fund balance as at 31st March 2015 was £4.274 million. This had fallen to £4.159 million as of 31st March 2016 due to use of funding from balances.
- The Council had £7.417 in usable reserves.
- Information had been provided in respect of the Artrix; the Council was obliged to supply this information because it had voting rights at the venue.
- Provisions had been made for potential appeals against business rate settlements as this could have a potentially significant impact on the Council going forward.
- A typographical error had been identified in the covering report to the accounts; the Committee was being asked to recommend the accounts for the approval of Council, not the Cabinet.

Members subsequently discussed a number of points in detail:

- The differences in accounting practices for local authorities compared to businesses and the need for the Council to follow CIPFA guidance.
- The net worth of the Council and the extent to which this compared with other local authorities.
- The trend for fluctuations in pension fund liabilities over time in response to changing circumstances, such as assumptions around changes to interest rates.
- The impact of the Council's budgetary position on borrowing costs.
- The option for the Council to borrow from the Public Works Loan Board.
- The pension fund liabilities and arrangements in place to address these. Officers advised that the Council had an agreement in place to pay off the liabilities over a period of 21 years, though the timeframes could be negotiated if considered appropriate.
- The potential for a local authority not to contribute to paying off pension liabilities in any given year. Members were informed that this would not be considered advisable.
- The inclusion of the value of Parkside on the balance sheet and the provision of this valuation by qualified professionals.
- The need to complete the process for shared ownership of Parkside with Worcestershire County Council. Members were advised that this was close to completion and that it was considered accurate to list the building as a Council asset.
- The impact of the delay in purchasing new vehicles following the decrease in the value of the pound in recent months. Officers agreed to obtain further information on this subject following the meeting.
- The potential stamp duty requirements for Parkside and the extent to which this had been budgeted for in the Council's reserves. Officers confirmed that, whilst no figure had been included in the reserves for this, further information was awaited from the County Council and would be confirmed with Members once it became available.
- The level of staff redundancies recorded in the accounts and whether information had been reported to the Worcestershire Regulatory Services (WRS) Board about redundancies in that team. Officers agreed to obtain further clarification on this subject for Members' consideration.
- The reasons for staff redundancies in the WRS team. Officers explained that this had occurred due to a restructure following the return of Trading Standards to Worcestershire County Council.
- The level of funding available to the Council from Section 106 agreements and the extent to which the authority remained on track to spend this funding. Members agreed that further information on this subject should be reported for the Committee's consideration at a future meeting.

At the end of these discussions the Audit, Standards and Governance Committee

RECOMMENDED that the Statement of Accounts 2015/16 be approved by Council.

24/16

QUARTER 1 (APRIL TO JUNE 2016) FINANCIAL SAVINGS UPDATE

The Executive Director of Finance and Corporate Resources presented the Financial Savings Update for the period 1st April to 30th June 2016. During consideration of this item she highlighted the following matters:

- This was a new report concerning financial savings which had been introduced in response to the Section 11 recommendations.
- Full year savings identified by the Heads of Service had been included in the report.
- No concerns had been identified to date with regard to the potential for the Council to achieve proposed savings during the year.
- Officers would welcome any suggestions from Members about the content and presentation of the report.

Members proceeded to discuss the content of the report raising a number of issues in so doing:

- The inclusion of the reduction in Members' Allowances in the list of savings detailed in the report. Members suggested that as this reduction in Councillor numbers had been known for a couple of years this should have been budgeted for and should not appear in the figures.
- Potential alternative uses of the £44,000 listed as savings from the reduction in elected Members on the Council.
- The preference of the Finance and Budget Working Group for savings to be listed in the figures once.

Following consideration of the item the Committee

RESOLVED that the report be noted.

25/16

SECTION 11 PROGRESS UPDATE REPORT

The Financial Services Manager provided an update on the progress that had been achieved with implementing the Section 11 recommendations. Many of the recommendations relating to the final accounts had been implemented and the Council had adopted a more robust approach to submitting the statement of accounts compared to the previous year. In addition a new financial planning module was due to be introduced shortly which would provide fourth tier managers with more control and flexibility in the use of their budgets.

RESOLVED that the report be noted.

26/16

INTERNAL AUDIT MONITORING REPORT

The Services Manager for Worcestershire Internal Audit Shared Service presented the Internal Audit Monitoring Report. The report outlined residual summary reviews for 2015/16 and provided an update on the internal audit work and performance in the period 1st April to 31st July 2016.

Significant progress had been achieved to date in respect of the internal audits scheduled for 2016/17. Any of these internal audits which resulted in medium or high priority recommendations would be reported to the Committee during the course of the year. In the majority of cases the assurance level identified through the internal audit process had been significant. Unfortunately in the case of consultancy and agency assurance had been assessed to be limited, though Internal Audit had been assured that action was being taken by Officers to address this.

In respect of the Key Performance Indicators (KPIs) for the Internal Audit Service there had been significant improvements in performance in relation to KPI 4 since the report was published. Members were advised that the Internal Audit team remained on track to deliver planned audits in 2016/17 as detailed in the Internal Audit Plan for the year. A number of reports were in draft form or in the process of being finalised and would be reported for Members' consideration at the following meeting.

At the end of this item Members requested further clarification on the level of assurance for the full system audit of debtors, as this had been recorded as both moderate and significant in the report. Officers agreed to provide this information for circulation electronically outside the meeting.

RESOLVED that the report be noted.

27/16

RISK CHAMPION - VERBAL UPDATE REPORT (COUNCILLOR PHIL THOMAS)

A written statement was read out to the Committee on behalf of the Council's Risk Champion, Councillor P. L. Thomas. In this statement Members were advised that Councillor Thomas had been arranging meetings with Heads of Service to discuss departmental risk registers. This followed consideration of the Council's Corporate Risk Register, which had enabled Councillor Thomas to understand the corporate risks faced by the Council and would help to clarify the links back to the departmental level.

Councillor Thomas had also met with the Executive Director for Finance and Corporate Resources to discuss corporate risks. During this meeting actions undertaken by managers to address these risks had been considered. It would be possible to update Members in more detail about this at the following meeting when it was suggested that the

Committee should receive a report about action in respect of the Corporate Risk Register over the preceding 6 month period.

RESOLVED that a monitoring update regarding the Corporate Risk Register be added to the Committee's Work Programme for consideration in December 2016.

28/16

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE WORK PROGRAMME

Members considered the content of the Audit, Standards and Governance Committee's Work Programme.

Officers confirmed that all of the additional items that had been proposed for the consideration of the Committee at a later date would be added to the Committee's Work Programme.

The meeting closed at 8.05 p.m.

Chairman



JP/WR

15th September 2016

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B4 6AT

**From the Office of the
Executive Director (Finance & Corporate
Resources)**

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Dear Sirs

Bromsgrove District Council
Financial Statements for the year ended 31 March 2016

This representation letter is provided in connection with the audit of the group financial statements of Bromsgrove District Council and its subsidiary undertakings, for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the group and parent Council financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i We have fulfilled our responsibilities for the preparation of the group and parent Council financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ("the Code"); which give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions affecting the group and parent Council and these matters have been appropriately reflected and disclosed in the group and parent Council financial statements.
- iii The Council has complied with all aspects of contractual agreements that could have a material effect on the group and parent Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the group and parent Council financial statements in the event of non-compliance.
- iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

- vi We are satisfied that the material judgements used in the preparation of the group and parent Council financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
- vii Except as disclosed in the financial statements:
 - a there are no unrecorded liabilities, actual or contingent
 - b none of the assets of the group or parent Council has been assigned, pledged or mortgaged
 - c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.
- x All events subsequent to the date of the group and parent Council financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.
- xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.
- xii We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and parent Council financial statements have been amended for these misstatements. The group and parent Council financial statements are free of material misstatements, including omissions.
- xiii We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end.
- xiv We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the group and parent Council financial statements.
- xv We believe that the group and parent Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the group and parent Council's needs. We believe that no further disclosures relating to the group and parent Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xvi We have provided you with:
 - a access to all information of which we are aware that is relevant to the preparation of the group and parent Council financial statements such as records, documentation and other matters;
 - b additional information that you have requested from us for the purpose of your audit; and
 - c unrestricted access to persons within the group and parent Council from whom you determined it necessary to obtain audit evidence.

- xvii We have communicated to you all deficiencies in internal control of which management is aware.
- xviii All transactions have been recorded in the accounting records and are reflected in the group and parent Council financial statements.
- xix We have disclosed to you the results of our assessment of the risk that the group and parent Council financial statements may be materially misstated as a result of fraud.
- xx We have disclosed to you all our knowledge of fraud or suspected fraud affecting the group and parent Council involving:
 - a management;
 - b employees who have significant roles in internal control; or
 - c others where the fraud could have a material effect on the group and parent Council financial statements.
- xxi We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the group and parent Council's financial statements communicated by employees, former employees, regulators or others.
- xxii We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the group and parent Council's financial statements.
- xxiii We have disclosed to you the identity of all the group and parent Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiv We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the group and parent Council financial statements.

Annual Governance Statement

- xxv We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Statement

- xxvi The disclosures within the Narrative Statement fairly reflect our understanding of the group and parent Council's financial and operating performance over the period covered by the group and parent Council financial statements.

Approval

The approval of this letter of representation was minuted by the **Audit Committee** at its meeting on **15th September 2016**.

Yours sincerely,



Jayne Pickering
Executive Director (Finance and Corporate Resources)
Bromsgrove District & Redditch Borough Councils

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