

**Minutes of the meeting of the Audit and Standards Committee  
held on 8 September 2016**

**Present**

**Members:**

Councillors John Appleton (substituting for Councillor Bob Stevens), John Beaumont, Mike Brain (substituting for Councillor Chris Saint), Bill Gifford and June Tandy

**Independent Members:**

John Bridgeman CBE (Chair) and Bob Meacham OBE

**Officers:**

John Betts, Head of Finance

David Carter, Strategic Director, Resources Group

Sarah Duxbury, Head of Law and Governance

Virginia Rennie, Strategic Finance Manager

Garry Rollason, Chief Risk and Assurance Manager

Ben Patel-Sadler, Democratic Services Officer

David Soley, Service Manager, Adult Social Care Practice

Mike Wood, Service Manager, Service Development and Assurance (Adults)

**External Representatives:**

Helen Lillington, Grant Thornton – Auditors

Grant Patterson, Grant Thornton – Auditors

Andrew Reid, Grant Thornton – Auditors

**1. General**

**(1) Apologies**

Apologies were received from Councillors John Horner, Chris Saint and Bob Stevens.

**(2) Members' Disclosures of Pecuniary and Non-Pecuniary Interests**

Councillor Brain declared a non-pecuniary interest; the nature of the interest being that he was a governor of Quinton School.

Councillor Tandy declared a non-pecuniary interest; the nature of the interest being that she was a member of Nuneaton and Bedworth Borough Council.

**(3) Minutes of the meeting of the Audit and Standards Committee held on 23 June 2016**

It was agreed that the minutes be signed by the Chair as a true and accurate record.

## REPORTS CONSIDERED IN PUBLIC

### 2. External Auditors Audit Findings Report 2015/16

Grant Patterson, Grant Thornton – Auditors introduced the report and informed the Committee that it summarised all of the External Auditor's audit findings for the year 2015/16.

Members noted that the External Auditors had not had to alter or change their audit approach which had been communicated to the Committee in the Audit Plan dated February 2016.

Grant Patterson informed the Committee that the majority of audit work had now been completed – the External Auditors anticipated that they would be providing an unqualified audit opinion in respect of the financial statements.

Members noted that the External Auditors had not identified any issues in relation to the Council's internal controls – the Council was securing value for money in relation to its overall effectiveness and efficiency.

Andrew Reid, Grant Thornton – Auditors informed the Committee that no significant issues had been identified during the External Audit process.

Members noted that during the testing of receivables, one manual debtor amount had been incorrectly included as 31 March 2016. The value of the debtor incorrectly included was £386k – this figure was below the External Auditors 'trivial' threshold and so it was recommended that adjustments to the accounts were not required.

Members noted that further testing undertaken by the External Auditors had not resulted in any additional issues being identified.

Members noted that it was a requirement for External Auditors to work under the presumption that fraud may have taken place if any accounting irregularities were identified during the audit process (even if it eventually transpired that no fraud had taken place).

The Committee noted that the Council had undertaken a review of its asset registers during the year which had led to the reclassification of some assets between categories.

Members noted that reclassification between community schools land and buildings as at 31 March 2016 had no impact on the total schools valuation or on other elements of the financial statements.

John Betts, Head of Finance informed the Committee that this was a positive report which was the result of a great deal of hard work from finance staff and was helped by the positive working relationship between the Council and the External Auditors. In relation to the External Auditors' Value for Money conclusion, the Committee noted that they would be providing an unqualified opinion. Members noted that the External Auditors were satisfied across all areas in relation to the significant risks outlined in the appendix to the report and the actions the Council was proposing to mitigate these risks.

Members noted that the final opinion could not be officially given until it had been approved by full Council – this would take place in September 2016.

One significant risk identified by the External Auditors related to working with partners and other third parties. However, members noted that the External Auditors had determined that the Council was undertaking a reasonable approach and had processes in place to manage partnership working effectively.

The Committee noted that adequate arrangements were in place with regards to the management of the Better Care Fund.

The External Auditors informed the Committee that an objection to the accounts had been received by a member of the public. The objection would be considered

and appropriate action would be taken, if deemed appropriate. Members noted that this objection would not have a material impact on the final financial statements. Members discussed how future objections could be dealt with in a way which would not delay the final External Audit opinion being given. The External Auditors were duty-bound to investigate any objections, with appropriate decisions then being taken as to how to best deal with them.

The Committee noted that the final External Audit fee had not changed – the fees for other services provided to the Council were also outlined in the appendix to the report.

Members noted that there had been no significant changes to the letter of representation.

**Resolved:**

The Audit and Standards Committee agreed to endorse the Annual Governance Report of the External Auditors and approve the wording of the Letter of Representation.

**3. Statement of Accounts 2015-16**

John Betts, Head of Finance introduced the report and informed the Committee that the presentation of the Statement Accounts had been amended slightly in an attempt to make them as readable as possible.

Members noted that some cash had been transferred to the Council's reserves due to underspends in some service areas. However, due to a cut in the government grant and the increased financial pressures on Council services, officers had earmarked reserves in order to maintain services going forwards. John Betts informed the Committee that it was likely that the levels of useable reserves would decrease in future years due to service demands and a decrease in government grants.

Virginia Rennie, Strategic Finance Manager informed the Committee that one of the three largest outstanding capital commitments related to Kenilworth station. Although this was shown in the accounts as a Council financial commitment, the project was being jointly funded with the Department for Transport – therefore the actual financial commitment from the Council was less than that shown in the Statement of Accounts.

Members noted that there had been an increase in the overall number of Council staff earning over £50,000.

The Committee expressed a view that the Statement of Accounts were well presented and were easy to follow and understand. Members wished to place on record their thanks to John Betts, Virginia Rennie and their respective colleagues who had worked to ensure that the Statements of Accounts were complete.

Members noted that the Statement of Accounts would be submitted to the September 2016 meeting of Council for approval.

**Resolved:**

The Audit and Standards Committee agreed to recommend the 2015/16 Statement of Accounts to Council for approval.

#### **4. Annual Governance Statement 2015/16**

Sarah Duxbury, Head of Law and Governance introduced the report and informed members that this was the second occasion where the Audit and Standards Committee had considered the detail of the Annual Governance Statement. The Committee expressed a view that it was pleased that the whistleblowing policy featured in the 2015/16 document. Members also discussed the issue of Brexit and whether or not this should be included in the document. Sarah Duxbury confirmed that the statement was effectively looking backwards over the 2015/16 year and this issue would be considered when the new statement was prepared. The External Auditors informed the Committee that the topics to be covered in the AGS were outlined in guidance issued by Cipfa and Warwickshire's statement was consistent with that guidance. The External Auditors were also satisfied that the document was consistent with their understanding of the organisation and noted that the updated statement included a comment on limited opinion audit reports. Sarah Duxbury informed the Committee that it was important for the Council to ensure that the general public could access information they required quickly and easily – including the Annual Governance Statement. Members noted that they had a role to play as elected representatives to ensure that their electorate were provided with any requested information in the easiest and quickest way possible. The Council had to make significant financial savings and for this reason, the most efficient and effective way of communicating with the public was to make information available digitally.

#### **Resolved:**

The Audit and Standards Committee agreed to endorse the Annual Governance Statement for 2015/16 prior to submission to Cabinet and Council.

#### **5. Statement of Accounts 2015/16 - Pension Fund**

Helen Lillington, Grant Thornton – Auditors introduced the report and informed the Committee that the External Auditors were required to issue a separate opinion on the Pension Fund Accounts – the External Auditors proposed to offer an unqualified opinion on the 2015/16 Pension Fund Statement of Accounts.

Members noted that the investments made in relation to Pension Funds could be complex. The External Auditors had identified issues which were not material in relation to the valuations placed on investments associated with the management of the Pension Fund (this was due to slightly different estimation techniques being adopted).

The Committee was assured by Helen Lillington that the issues highlighted by the External Auditors did not result in any material changes needing to be made to the accounts.

Some issues arising from the External Audit included:

- Three late journals that had been posted to amend an investment classification - these had not been formally approved in line with the Fund's normal procedures. However, the External Auditors had gained sufficient assurance that these journals were an appropriate year end adjustment.

- The fund manager confirmation from SL Capital was £0.9 million higher than the value recorded by the custodian and therefore, included in the accounts. The difference related to unrealised gains not recorded by the custodian.
- Testing of level 2 investments had identified that two cash balances had been included in the analysis which should not have been included. The value of the items was £3.8 million and officers had agreed to amend for this.

The External Auditors informed the Committee that they were satisfied that the correct procedures were in place in relation to the management and operation of the Pension Fund.

The Committee noted that the cessation payment of £2.7 million which was due to the Fund in respect of pension liabilities owed by one employer was likely to be paid at a future date. Members noted that the Letter of Representation would be amended to reflect this.

Members noted that some internal audit work had been completed in relation to the processes involved in the operation of the Pension Fund, but this had been undertaken around two years ago. Officers would be determining when it would be appropriate for internal audit to complete further work in relation to the Pension Fund.

The Committee noted the unadjusted misstatements identified by the External Auditors and approved management's proposed treatment of all items recorded in the appendix to the report.

The Committee was advised by the External Auditors that there was scope to improve the way in which the accounts were presented in future years.

The Committee expressed a view that it would be helpful if a clearer explanation was included in future Pension Fund statement of accounts in terms of the liabilities of the fund and the how current investments were likely to address any deficits.

John Betts, Head of Finance informed members that the Council's Pension Fund Investment Sub-Committee undertook a great deal of work in relation to the liabilities and deficits of the Pension Fund – the Sub-Committee also received regular updates with regards to current investments and their potential returns.

Members noted that employee contributions to the Pension Fund would help to cover any deficits caused by underperforming investments. The Committee noted that the entering of the Pension Fund into the Border to Coast Pool would help to reduce future fund management fees.

The External Auditors informed the Committee that current investments in relation to the Pension Fund were healthy.

In relation to the Pension Fund accounts themselves, John Betts informed the Committee that the final accounts would be approved by Council. Any comments made by members of the Audit and Standards Committee in relation to the Pension Fund could be shared with the Local Pension Board. Members noted that the Audit and Standards Committee were charged with the governance of these financial statements.

The Committee expressed a view that this was a well written report and thanked all of the officers who had been involved in the production of the Pension Fund Statement of Accounts.

**Resolved:**

The Audit and Standards Committee agreed to:

- 1.) Recommend the Pension Fund Statement of Accounts to Council for approval and;
- 2.) Endorse the Annual Governance Report of the External Auditors for the Warwickshire Pension Fund and;
- 3.) Approve the final wording of the Letter of Representation.

## **6. External Auditors Progress and Update Report**

Andrew Reid, Grant Thornton – Auditors introduced the report and informed the Committee that the 2015/16 audit was substantially complete.

Items included within the update report in relation to items for the Committee to consider going forwards were Brexit, the building of successful joint venture companies, the financial sustainability of local authorities and the changing face of corporate reporting. John Betts, Head of Finance assured the Committee that officers were considering all of these emerging areas as part of their day to day work.

### **Resolved:**

The Audit and Standards Committee agreed to note the External Auditors Progress and Update Report.

## **7. Appointment of External Auditors**

Virginia Rennie, Strategic Finance Manager introduced the report and informed the Committee that the Council was required to take a decision in December 2017 on who would be their next external auditors.

Members were presented with three options for the Committee to consider which were outlined in the report.

Discussions took place around the three options presented, with the Committee expressing a view that its preferred option was to opt in to a sector-led body. The sector-led body would have the ability to tender for contracts with the accountancy firms nationally, maximising the opportunities for the most economic and efficient approach to the procurement of external audit on behalf of the whole sector.

### **Resolved:**

The Audit and Standards Committee agreed to recommend to Council that Warwickshire County Council opt-in to the approved sector-led body for the appointment of the authority's external auditors from April 2018.

## **8. Adult Social Care Update**

The Committee considered the update report which was provided by David Soley, Service Manager, Adult Social Care Practice and Mike Wood, Service Manager, Service Development and Assurance (Adults).

Members noted that the March 2014 Supreme Court ruling had lowered the threshold as to the circumstances which constituted a deprivation of liberties and as a consequence led to a substantial increase in the number of Deprivation of Liberty Safeguard (DoLS) applications received by Councils, including Warwickshire.

The Committee was assured that despite the increase in demand for referrals into the DoLS service for assessment and authorisation of a deprivation in a care home or hospital, a process was in place to review and prioritise applications and a budget had been implemented to support this area of business.

In relation to the MOSAIC system, the Committee noted that the system would help to effectively manage records – around 16 other local authorities were currently using the MOSAIC system.

Members noted that in relation to Case File Audits, the process was facilitated via a mix of peer-to-peer and supervisory audit – the process was an internal one. Any learning points identified were entered into the MOSAIC system so that improvements could be made to the service.

The Committee thanked David Soley and Mike Wood for the Adult Social Care Update.

### **Resolved:**

The Audit and Standards Committee noted the Adult Social Care Update.

## **9. Work Programme and Future Meeting Dates**

The Audit and Standards Committee noted the Work Programme and future meeting dates.

## **10. Any Other Business**

None

## **11. Reports Containing Confidential or Exempt Information**

It was resolved that members of the public be excluded from the meeting for the items mentioned below on the grounds that their presence would involve the disclosure of exempt information as defined in paragraph 3 of Schedule 12A of Part 1 of the Local Government Act 1972.

### **EXEMPT ITEMS FOR DISCUSSION IN PRIVATE (PURPLE PAPERS)**

## **12. Consideration of the Exempt Minutes of the Audit and Standards Committee meeting held on 23 June 2016**

The Exempt Minutes of the previous meeting were approved.

**13. Internal Audit Progress Report**

The Committee rose at 13.00 pm.

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Chair