

## **Minutes of the meeting of the Audit and Standards Committee held on 25 July 2018**

### **Present**

#### **Members:**

Councillors Parminder Singh Birdi, Mark Cargill, Bill Gifford, John Holland, John Horner, Jill Simpson-Vince and Adrian Warwick (substituting for Councillor Andy Crump)

#### **Independent Members:**

John Bridgeman CBE

#### **Officers:**

Vicki Barnard, Group Manager (Corporate Finance)

John Betts, Head of Finance

Sarah Duxbury, Head of Law and Governance and interim Head of HROD

Chris Malone, Head of Education and Learning

Chris Norton, Strategic Finance Manager (Corporate Financial Services)

Ben Patel-Sadler, Democratic Services Officer

Virginia Rennie, Strategic Finance Manager

Garry Rollason, Internal Audit and Insurance Manager

#### **External Representatives:**

Javed Akhtar, Grant Thornton – Auditors

Grant Patterson, Grant Thornton – Auditors

### **1. General**

#### **(1) Apologies**

Apologies had been received from Councillor Andy Crump and Bob Meacham OBE.

The Chair wished to place on record his thanks to Ben Patel-Sadler for supporting the Committee over the previous four years. Ben would shortly be leaving the organisation to take up a post elsewhere.

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

Councillor Adrian Warwick declared a non-pecuniary interest as a member of the Local Government Pension Scheme.

Councillor John Holland declared a non-pecuniary interest as a member of the Local Government Pension Scheme.

Councillor Bill Gifford declared a non-pecuniary interest as a member of the Pension Fund Investment Sub-Committee.

**(3) Minutes of the meeting of the Audit and Standards Committee held on 24 May 2018 and Matters Arising**

Sarah Duxbury, Head of Law and Governance and interim Head of HROD informed the Committee that the revised electronic process for conducting pre-employment checks would be implemented for October 2018. The priority focus had been on implementing payroll with the most recent roll out being to schools. Once payroll roll out had been completed work could commence on the systems development needed to implement the changes proposed around pre-employment checks.

Members were informed that a number of the audit recommendations had been implemented (eg briefing session delivered for all local recruiters, guidance provided for HR resourcing team, compliance checks reinstated) and that the process around pre-employment checks in relation to local recruitment had been strengthened. It was noted that any existing cases identified as not having the appropriate checks would be cleared by the end of 2018.

Sarah Duxbury informed the Committee that Corporate Board had requested a report from the Internal Audit and Insurance Manager on the recent limited audits which included pre-employment checks as they were also seeking assurance that the issues identified in the audit were being addressed.

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

**2. Reports Containing Confidential or Exempt Information**

**Resolved**

That members of the public be excluded from the meeting for the item 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.

**3. Exempt minutes of the meeting held on 24 May 2018**

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

**ITEMS FOR DISCUSSION IN PUBLIC** – The committee returned to public session

**4. External Auditor's Governance Report 2017/18**

Grant Patterson, Grant Thornton – Auditors, introduced the report, introducing his colleague Javed Akhtar, Grant Thornton – Auditors, who would be working alongside Grant Patterson in delivering external audit services to the Council.

Grant Patterson thanked John Betts, Head of Finance and the wider finance team for all of their work in ensuring that the earlier deadline for the submission of the Council's financial statements (July 2018) was met.

Members noted that the external audit findings report was now complete and would be submitted to Council (26<sup>th</sup> July 2018) for approval, subject to any comments received at this meeting.

Grant Patterson summarised the appended report, with the Committee noting that:

- The external auditors had substantially completed the audit of the Council's financial statements – it was anticipated that an unqualified audit opinion would be issued following the presentation of this report to this meeting and subsequent approval of the financial statements by the Council on 26<sup>th</sup> July 2018.
- No significant issues had been identified during the audit process – members noted that the outstanding items as outlined at page 4 of the appended report had now been completed.
- The financial benchmark in relation to triviality was set at a figure of £717,000 – any figure over this amount was required to be reported by the external auditors.
- Significant audit risks were outlined at page 5 of the appended report – there were no significant concerns raised by the external auditors in respect of these risks (improper revenue recognition, management override of controls, valuation of property, plant and equipment, valuation of pension fund net liability, implementation of new payroll system, risks identified in the external auditors' Audit Plan and operating expenses).
- The Council had not undertaken a complete valuation process of all land and building assets. The external auditors concluded that via the application of the indices provided by Gerrard Eve, a potential understatement of £8.8 million had been identified. This difference was not material and was below the external auditors' expectation of tolerable error. A full revaluation was due to take place in 2018-19. This was not a volatile market and members noted that valuations carried out at 5 year periods were fairly common.
- The external auditors would continue to examine the two new Local Authority Trading Companies formed by and wholly owned by the Council during 2017/18 – the Council may need to update its assessment (group accounting) for 2018/19 based on the actual turnover achieved by these companies.
- Although the external auditors were made aware of four cases of fraud currently identified by the Council, it had been determined that the impact of these cases would not be material to the financial statements.

- No inconsistencies had been identified in relation to an overall opinion being given by the external auditors.
- An objection had been received in relation to the financial statements for 2017/18 (specifically related to the used of section 106 monies/planning of school places). It was the view of the external auditors that these objections would be considered and dealt with quickly and effectively (within 12 months). In relation to the accounts from two years ago, members noted that the objection received in relation to these would be resolved by September 2018.
- In relation to Value for Money, it was the view of the external auditors that the Council had appropriate arrangements for delivering economy, efficiency and effectiveness. The Council's overall financial position remained challenging given the level of savings that needed to be found in order to set balanced budgets in future years. The external auditors expressed a view that the level of reserves held by the Council was reasonable.
- 92% of the Council's savings plan had been achieved which was a good result.
- The Council remained a going concern – a benchmarking exercise in relation to the level of reserves compared to other county councils had indicated that Warwickshire was placed around the middle quartile.
- Officers were producing regular reports against the baseline budget.
- There had been no changes to the external audit fees charged for 2017-18

After considering the summary provided by Grant Patterson, members were invited to comment.

The external auditors informed the Committee that they applied their own assessment to test the materiality of specific transactions. Members noted that there had not been a single transaction identified by the external auditors which would indicate significant concerns. The Committee suggested that the wording on page 4 of the appended report be altered slightly to read 'material transactions and account balances', removing the word 'significant'.

Grant Patterson informed the Committee that Brexit was not an issue in itself to be considered as part of the external audit process. It would be the responsibility of the Council to put appropriate plans/measures in place to counter any issues which Brexit might cause. John Betts, Head of Finance informed the Committee that Brexit would likely impact all county councils in some form – this would vary across the country depending on individual circumstances. Members noted that the Council was very much aware of the Brexit process and would ensure that appropriate measures were in place as the process continued. The Brexit process had no direct impact on the 2017-18 accounts (view of the external auditors).

Grant Patterson informed the Committee that because the new payroll system had been successfully implemented during 2017-18, it would have no impact on the 2018-19 accounts.

In relation to the two companies formed by the Council during 2017-18, members noted that they had been included in the full statement of accounts. Cabinet had received reports on establishing the companies and the Resources and Fire & Rescue Overview and Scrutiny Committee had requested a briefing. John Betts informed the Committee that Educaterers were in the process of finalising their external auditing arrangements.

Garry Rollason, Internal Audit and Insurance Manager informed the Committee that two of the four fraud cases, amounting to about £300k had recently gone to court. Members noted that the Council explored every possible measure to ensure that as much money as possible was recovered by the Council after a fraud had taken place. This included considering recovering money via pensions held by staff responsible for the fraud, claiming via fraud insurance policies and seeking recovery via the Proceeds of Crime Act. Each case of fraud was dealt with on an individual basis. Members noted that they had been advised about three of the four fraud cases referred to and that further details regarding the fourth would be reported to the Committee by the Internal Audit and Insurance Manager at an appropriate stage.

In relation to Value for Money, John Betts informed the Committee that the One Organisational Plan resulted in a robust medium-term financial strategy being in place. Members noted that the Plan was delivering its savings targets and that the strategy for delivering savings in the period post 2020 was currently being worked on. John Betts informed the Committee that the Council was aware that the future would bring further financial challenges, but reiterated that plans were being worked on to manage this.

Sarah Duxbury, Head of Law and Governance and interim Head of HROD informed the Committee that actual or possible litigation and claims had been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards. The relationship between the legal and finance teams was strong and effective communication resulted in appropriate information being shared between the teams as part of the process for finalising the accounts.

## **Resolved**

The Committee agreed to endorse the Audit Findings Report of the External Auditors for Warwickshire County Council and approved the wording of the Letter of Representation.

The Committee also requested a briefing document in advance of the next meeting in relation to the two newly formed Council companies to cover their audit requirements.

## **5. Annual Governance Statement 2017/18**

Sarah Duxbury, Head of Law and Governance and interim Head of HROD introduced the report and informed the Committee that members had considered a draft document at a previous meeting.

Members noted that the revisions suggested by the external auditors had been incorporated within the tabled document. The document had also been recently considered by Cabinet where no revisions were suggested.

### **Resolved:**

The Committee agreed to endorse the Annual Governance Statement for 2017/18 prior to submission to Council on 26th July.

## **6. Statement of Accounts 2017/18**

Vicki Barnard, Group Manager (Corporate Finance) introduced the report and informed the Committee that officers had undertaken work to ensure that the accounts were more easily readable and clearer.

Members noted that this was a large and complex document – the challenge being to ensure that the document provided an appropriate narrative whilst displaying information clearly.

Members noted that the requirement to include accounting figures relating to schools resulted in some inconsistencies in the explanatory foreword. These were not accounting errors, merely information that had to be included. Officers would look at improving consistency next year.

The Committee noted that a significant proportion of the Council's budget was spent on social care (63%) and this was likely to increase.

Members noted that the sale of strategic sites was public knowledge.

The Committee expressed a view that the accounts were very readable from a visual perspective.

### **Resolved:**

The Committee agreed to recommend the 2017/18 Statement of Accounts to Council for approval.

## **7A. Pension Fund - External Auditors Governance Report**

Chris Norton, Strategic Finance Manager (Corporate Financial Services) introduced the report and informed the Committee that a summary provided by the external auditors in respect of the Annual Governance Report (for the Warwickshire Pension Fund) was located at page four of the appended report.

Members noted that there had not been any concerns raised by the external auditors – the pension fund remained a going concern.

The Committee noted that in relation to the valuation of Level 3 investments being incorrect (page 7 of the appended report), this was below the level of materiality.

In relation to pooling arrangements, the Committee noted that it was a requirement stipulated by government that all local authority pension schemes be placed in a pool. Chris Norton informed the Committee that the transfer of assets into the Border to Coast pool would begin towards the end of 2018.

Although Warwickshire had the right to withdraw from the Border to Coast Pool (hypothetically), the assets belonging to Warwickshire would still need to be transferred into another pension pool.

Chris Norton assured the Committee that the pension scheme management team worked with the actuary to take account of longer life expectancy and deaths of younger members of the pensions scheme when calculating the appropriate fund level (and the impact which these events had on the pension scheme overall).

**Resolved:**

The Committee agreed to endorse the Annual Governance Report of the External Auditors for Warwickshire Pension Fund and approved the Letter of Representation.

**7B. Pension Fund Statement of Accounts 2017/18**

**Resolved:**

The Committee agreed to endorse the 2017/18 Pension Fund Statement of Accounts and recommend them to Council for Approval.

**8. School Monitoring and Governance Arrangements**

Chris Malone, Head of Education and Learning introduced the report and informed the Committee that the report sought to provide reassurance that appropriate safeguards which supported schools to have appropriate governance and assurance arrangements were in place.

Members noted the current arrangements that were in place in Warwickshire at page two of the report.

Chris Malone informed the Committee that schools were specifically targeted in terms of additional support being offered in cases where concerns had been identified via a range of sources in relation to their governance arrangements. The Council would also offer support to those schools where instances of significant overspend and declining academic performance had been identified. Support could

consist of additional training being offered through the Governor Services traded offer or support through the school improvement team or schools causing concern process.

Members noted that the new electronic system (Pendulum) sought to ensure that Council data and information about schools is transparent and joined up across departments. The system also shows assessment and other data and information.

Chris Malone informed the Committee that the success of interventions could be measured via future Ofsted inspections, improved management of budgets by schools and an improvement in educational performance (assessment outcomes).

Members noted that the Council did not measure the performance of schools on a curved axis – schools were simply measure on a grades basis (A-D). Chris Malone informed the Committee that targeted work was undertaken with schools on grades C-D. The Committee noted that it was the aim of the Council to ensure that more ‘good’ schools became ‘outstanding’ (Ofsted) and that a higher percentage of governors accessed the training offered by the Council.

Chris Malone expressed a view that true success in this area would come via improved educational outcomes for all children, although a key focus remained ensuring that vulnerable learners closed the educational attainment gap to their peers.

**Resolved:**

The Committee noted the safeguards which supported schools to have appropriate governance and assurance arrangements in place.

The Committee requested that the Head of Education and Learning report back to the Committee in one year (to provide assurance that progress was continually being made in this area).

**9. Annual Report**

The Committee expressed a collective view that they were pleased with the style and content of the annual report

**Resolved:**

The Committee agreed to approve its annual report 2017/18 before submission to Council.

**10. Work Programme and Future Meeting Dates**

To consider items for the committee’s work programme and future meeting dates to be held in Shire Hall at 10:00 a.m. as follows:

- 29<sup>th</sup> November 2018



□ 28<sup>th</sup> March 2019

**11. Any Other Business**

None

The Committee rose at 12.15pm

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Chair