

**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
HELD ON 8 FEBRUARY 2017 FROM 7.00 PM TO 8.45 PM**

Committee Members Present

Councillors: David Lee (Chairman), Norman Jorgensen (Vice-Chairman), Prue Bray, David Chopping and Charles Margetts

Also Present

Adrian Balmer, Ernst and Young
Andy Couldrick, Chief Executive
Sheldon Hall, Senior Auditor
Catherine Hickman, Service Manager Shared Audit and Investigation Service
Anne Hunter, Service Manager Democratic Services
Martin Jones, Planning Accountant
Jonathan Ross, Service Manager Group Finance
Helen Thompson, Ernst and Young

46. APOLOGIES

An apology for absence was received from Councillor Oliver Whittle.

47. MINUTES OF PREVIOUS MEETING

The Minutes of the meeting of the Committee held on 5 December 2016 were confirmed as a correct record and signed by the Chairman.

48. DECLARATION OF INTEREST

There were no declarations of interest received.

49. PUBLIC QUESTION TIME

There were no Public questions submitted.

50. MEMBER QUESTION TIME

There were no Member questions submitted.

51. EXTERNAL AUDIT PLAN 2016-17

The Committee received the External Audit Plan 2016-17.

Helen Thompson went through the proposed Plan and highlighted the intention to carry out a review of the Private Finance Initiative (PFI) accounting model. Helen clarified that this area was being reviewed, not because there was perceived to be any issues, but to ensure that the information was in line with expectations.

In relation to value for money risks, which were viewed as relevant to the value for money conclusion, Helen confirmed that no significant risks had been identified. This area would be kept under review and any changes to the risk assessment would be reported to the Audit Committee at a future meeting.

RESOLVED: That the External Audit Plan 2016-17 be noted.

52. CERTIFICATION OF CLAIMS AND RETURNS - ANNUAL REPORT 2015/16

The Committee received the Certification of Claims and Returns – Annual Report 2015/16. It was noted that the audit, which had taken place in November, related to certification of the housing benefits subsidy claim which had a total value of £23,825,777.

During the discussion of this item the following points were made:

- With regards to the housing benefits subsidy claim, minor adjustments had been made to the claim to account for errors identified;
- Testing of the initial rent allowances sample had identified one case where the Authority had underpaid benefit due to contributory job seekers allowance not being removed from the claim for a specific period. As there was no eligibility to subsidy for benefit which had not been paid, the error identified did not affect the subsidy and had not been classified as an error for subsidy purpose. David Lee queried whether account was taken anywhere of the effect on an individual of any under/overpayment. Adrian Balmer confirmed that this was not part of the work carried out by External Audit. Jonathan Ross stated that he would look into this matter to ascertain if this information was recorded elsewhere in the Council;
- In response to a query Helen Thompson responded that any errors identified were discussed in detail with the Benefits Section however they had no knowledge of whether the Section went back and corrected these errors;
- Jonathan Ross advised that all non-Housing Revenue Account claims, all backdated claims, all overpayments over £1.5k and 10% of all assessments were checked;
- Testing of the initial non-Housing Revenue Account rent rebate samples had identified three cases which had shown small differences due to incorrect capital income. As these were significantly below the £6,000 capital limit no 40+ testing had been carried out. To clarify the meaning of 40+ testing it was confirmed that if 20 claims were tested, and having tested different aspects of a claim it was found that one was 1p out, then for each error type found 40 claims would then be checked.

RESOLVED: That the Certification of Claims and Returns – Annual Report 2015/16 be noted.

53. VALUE FOR MONEY PROFILES

The Committee received a presentation on the Value for Money (VFM) profiles which included clarification of how the data was collected and where it could be accessed.

During the discussion of this item the following points were made:

- Councillor Lee queried why “doing things efficiently” was not mentioned in the VFM statement. External Audit went through the areas that were considered which included elements of decision making arrangements and reporting through partners;
- It was also queried if there was any challenge on the information provided by other LAs to ensure the consistency of findings. In relation to the “corporate and democratic core costs as a proportion of net spend” an example was sited of some councils including their director costs as part of relevant service area spend and others, like Wokingham, including all director costs in the corporate and democratic core which thereby led to a higher spend being shown. Councillor Lee agreed to speak to the Leader of Council and Chief Executive to ascertain if anything could be done about challenging information from other LAs;

- It was noted that some of the data included was actually based on 2014/15 figures. External Audit confirmed that data was only included once the information had been audited and therefore the most up to date position was limited to 2015/16 figures;
- Members queried the finding relating to “the % of looked after children (LAC) with a stable placement for at least 2 years” which was ranked in the worst 5%. It was noted that the database, which was based on 2014/15 figures, showed that the Council’s spend on children and young people was in the lowest 5% as was spent on LAC. Andy Couldrick stated that the indicator didn’t tell the whole story as Councils captured the data differently and he also provided further information on this particular area both in 2014/15 and now which demonstrated how the Council was supporting LAC. The Chairman stated that as the Committee was concerned about the interpretation of this indicator the Corporate Parenting Board should be asked to look at the issue in more detail;
- It was noted that the “income from sales, fees and charges as a % of total spend” showed the Council as being in the lowest 20% of all councils and again it was felt that this was an area that would benefit from further discussions with Members.

RESOLVED That:

- 1) the Value for Money profiles presentation be noted;
- 2) Corporate Parenting Board to be asked to look at the background to the finding of “the percentage of looked after children with a stable placement for at least 2 years” indicator.

54. CERTIFICATION OF CLAIMS AND RETURNS - CLAIMS AND RETURNS ORGANISED BY LOCAL AUTHORITIES

The Committee received a report regarding the Certification of Claims and Returns – Claims and Returns Organised by Local Authorities.

Jonathan Ross went through the report and advised that the audits mentioned used to be undertaken by external auditors but were now the responsibility of the Council.

Whilst going through the sub-contracting controls Jonathan highlighted the recommendations that had come out of the audit which were intended to provide additional controls. Members queried how many sub-contractor contracts were unsigned prior to work commencing. It was believed that this had only happened about three times and the reason was that it was often difficult to gain access to the right person in order to obtain a physically signed contract once agreement to go ahead had been reached.

Following a query about having to repay £297k from right to buy receipts to the DCLG it was confirmed that this was consistent with previous years. In addition Members were informed about the financial arrangements relating to right to buy receipts.

Following a discussion about whether or not to continue undertaking audits for sub-contracts under £100k in value it was decided to continue with the current arrangements for a further year and then review the matter.

RESOLVED That:

- 1) the Audit Certification Reports 2015/16 for the Teachers’ Pension Return; the Pooling of Housing Capital Receipts Return, and the Review of Sub Contracting Arrangements for the Skills Funding Agency (SFA) be noted;

- 2) audits for sub-contracts under £100k be continued for a further year.

55. TREASURY MANAGEMENT STRATEGY 2017/18

The Committee considered the proposed Treasury Management Strategy for 2017/18.

Martin Jones tabled amended Appendices A and B which had been updated following a late recommendation by the Council's treasury advisors. It was noted that this would provide more flexibility on borrowing capacity. Martin went through the report and highlighted that for 2017/18 external borrowing could increase by £53m. Part of that borrowing would be achieved through cashflow rather than investment which reduces costs. It was confirmed that all loans were taken up on a fixed rate basis which was currently averaging 3.4%.

During discussion of the item the following comments were made:

- It was confirmed that payback of borrowing, as shown in Table 5, would be by year 14 from the 2018/19 financial year;
- In relation to debt incurred due to capital investment in residential property it was felt it would be useful to state what the asset value was of such property. It was noted that it had not yet been decided if the Council would wish to sell the property or use it as an income stream. The Chairman agreed to take up this matter with the Leader of Council and the Chief Executive;
- It was noted that borrowing did not include forward funding for infrastructure. Members were advised that the Council would receive S106 and CIL monies to cover these costs;
- In response to a query about how vulnerable the expected S106 and CIL monies were, when taking account of possible slippages, it was confirmed that if there was slippage in building work there was also likely to be slippage in the amount that would have to be paid on infrastructure. This matter was reviewed on a quarterly basis and checks were made with the relevant service departments;
- In relation to the SDL sites Councillor Lee queried what would happen if a development went bust but there was still planning permission on the land; would the relevant monies still be paid to the Council?

RESOLVED: That the Audit Committee recommend to Council for approval, subject to the inclusion of a breakdown of borrowing and how it will be repaid, the following:

- 1) Capital Prudential indicators, 2017/18;
- 2) Borrowing strategy 2017/18;
- 3) Annual Investment Strategy 2017/18;
- 4) Flexible use of capital receipts strategy;
- 5) MRP policy; and
- 6) Treasury Indicators: limits to borrowing activity 2017/18.

56. CORPORATE RISK REGISTER REFRESH

The Committee received the Corporate Risk Register Refresh.

Members were advised that there had not been any major changes to the risk register and it was confirmed that all risks were reviewed by the Corporate Leadership Team on a monthly basis. The Chairman felt it would be better to include wording to confirm that a risk has been reviewed and the resulting outcome rather than just state the review date.

The performance improvement and savings arising from Wokingham's implementation of the Better Care Fund was noted and Members were advised that within the NHS there was recognition that Wokingham was doing well and that other neighbouring authorities could benefit from looking at how this had been achieved.

In response to a query about how discussions were going with the Department of Health over the increased burdens associated with the change to eligibility criteria it was confirmed that the current plan was for Wokingham and West Berkshire Councils to proceed with a judicial review of the Department of Health's decision not to provide any further funding.

Following further discussion on whether the Council's risk appetite was correct the Chief Executive confirmed that a recommended action on risk appetite would be included in future reports.

RESOLVED: That the Corporate Risk Register refresh be noted and the risk appetite remains reflective of current conditions.

57. INTERNAL AUDIT AND INVESTIGATION Q3 PROGRESS REPORT 2016/17

The Committee considered the Internal Audit and Investigation Q3 Progress Report 2016/17 which detailed the work of the team from 1 April 2016 to 31 December 2016.

Catherine Hickman went through the report and highlighted a number of areas including the list of audits to date and the fact that in the last quarter no audits had received a 3-4 opinion. It was pointed out that the Shared Property Services had received a draft opinion of 3 however it was noted that this was only a draft opinion and following a response from the service concerned would be reported at the next meeting.

Following a query by the Chairman, relating to whether a summary document of the Government's procurement regulations existed as he wished to ensure that the Council was being fair to all suppliers, the Chief Executive agreed to share with the Committee a copy of the Guidance for Managers on Procurement.

RESOLVED: That the Internal Audit and Investigation Progress Report be noted.

58. 2017/18 INTERNAL AUDIT AND INVESTIGATION PLANS

The Committee considered the 2017/18 Internal Audit and Investigation Plan which detailed those audits which were proposed to be undertaken during 2017/18 and the scope of these reviews.

During discussion of the Plan the following comments were made:

- The Audit Plan was aligned with the Council's vision, principles and priorities, the Corporate Risk Register, transitional risk registers as a result of the 21st Century Council Programme and service risk registers;
- Audits of key financial systems were undertaken on an annual basis;
- The scope of the various audits were noted;
- Given the concerns about the size of the procurement framework Procurement Officers would be asked to create a leaner version that was still legally compliant;
- With regard to the risk that the Council fails to deliver key investment priorities through insufficient resources or inadequate planning Members asked if the Council should be looking at the structure of the Town Centre Regeneration project i.e. how it was managed and how it was reported. Ensuring that there was adequate project management in place and that progress was in line with expectations were also put forward as areas to be considered during an audit. The Committee felt that a review of the governance arrangements of the project would be useful and to this end it was agreed that a proposal would be produced for Corporate Leadership Team's consideration;
- It was noted that the Audit Team were speaking to Optalis about undertaking some work for the company.

RESOLVED: That the 2017/18 Internal Audit and Investigation Plan be approved.