

**MINUTES OF A MEETING OF THE  
AUDIT COMMITTEE  
HELD ON 15 JUNE 2016 FROM 7.00 PM TO 8.45 PM**

**Committee Members Present**

Councillors: David Lee (Chairman), Norman Jorgensen (Vice-Chairman), David Chopping, Charles Margetts, Beth Rowland and Oliver Whittle

**Other Councillors Present**

Councillor Prue Bray

**Also Present**

Madeleine Shopland, Principal Democratic Services Officer

Helen Thompson, Ernst and Young

Paul Ohsan Ellis, Team Manager Internal Audit

Catherine Hickman, Service Manager Shared Internal Audit and Investigation Service

Rob Stubbs, Head of Finance

Andy Couldrick, Chief Executive

Martin Jones, Planning Accountant-Corporate Finance,

John Ogden, Interim Head of Finance

**1. APOLOGIES**

An apology for absence was submitted from Adrian Balmer, Ernst & Young.

**2. MINUTES OF PREVIOUS MEETING**

The Minutes of the meeting of the Committee held on 10 February 2016 were confirmed as a correct record and signed by the Chairman.

The Committee wished Rob Stubbs, Head of Finance well in his new job and welcomed John Ogden, Interim Head of Finance.

**3. DECLARATION OF INTEREST**

Councillor David Chopping declared a personal interest in any matter relating to Wokingham Housing Limited by virtue of the fact that he was a Non-Executive Director of Wokingham Housing Limited. Councillor Chopping remained in the meeting during discussions.

Councillors Norman Jorgensen and David Lee declared a personal interest in any matter relating to WBC (Holdings) Limited by virtue of the fact that they were Non-Executive Directors of WBC (Holdings) Limited. Councillors Jorgensen and Lee remained in the meeting during discussions.

**4. PUBLIC QUESTION TIME**

There were no Public questions.

**5. MEMBER QUESTION TIME**

**5.1 Prue Bray asked the Chairman of the Audit Committee the following question:**

Retrospective Purchase Orders (item 15) continue to occur. Of particular concern are retrospective purchase orders with a value greater than £5,000. Adding together the orders worth over £5,000 reported to the last 4 Audit Committees (including this meeting)

shows that Children's Services are responsible for 17 of 26 such orders, worth £449,905.51 of the £586,961.60 total, or 65% of the number and over 75% of the value. Why does Children's Services contribute such a large proportion of the retrospective purchase orders?

**Answer:**

During the above period all Purchase Orders (PO) raised across WBC, Children's Services accounted for 34% with a total value of 38%. This suggests that the level of Retrospective Purchase Orders (RPO) with a value greater than £5k is around double what would be expected.

Of the 17 RPO with a total value of £450k the highest valued RPO with a value of £166k related to an annual contract for the period April 2016 - March 2017 where the supplier invoiced WBC in advance. Therefore, on processing the order in early April it was deemed to be retrospective. The budget manager has been reminded of their requirement to comply with the Financial Regulations, and hopefully that is a diplomatic term that has been used, and ensure no future breach occurs.

Of the 17 RPO 11 relate to early invoicing from suppliers; 4 changes within placements contracts and 2 changes in budget manager.

All budget managers with RPO with a value greater than £5k have been communicated with and are aware of the importance of appropriate commitment to accounting and compliance to the Financial Regulations.

Detailed performance on Retrospective Purchase Orders is shared with Heads of Service on a regular basis with individual managers required to provide explanation for any breaches. Formal communication to all managers has been issued reinforcing the requirement to comply with Financial Regulations.

Current performance in May and June of this year, demonstrates a marked improvement with just 1 Retrospective Purchase Order exceeding £5k being raised in each month. The budget manager has been supported to understand the process and implications.

Budget Manager training scheduled to commence August 2016 will include a section on Purchase Orders and compliance to Financial Regulations. Training will be compulsory where managers have not been compliant to Financial Regulations.

Additionally, Administrative Support has also been reminded of correct processes to follow and will be required to attend training where appropriate.

Councillor Bray commented that she agreed with Councillor Lee that the focus should be on retrospective purchase orders with significant values. She noted that one of the retrospective purchase orders highlighted in the report contained in the agenda was for £166,267.66 and that 12.1.21.4 of the Financial Regulations within the Constitution stated that purchase orders over £100,000 were the responsibility of Heads of Service. She requested further training on retrospective orders and continued pressure from the Committee with regards to high value retrospective purchase orders. This was agreed by the Chairman.

## **6. CORPORATE RISK REGISTER REFRESH - MAY 2016**

Andy Couldrick, Chief Executive, presented the Corporate Risk Register refresh – May 2016.

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

- Risk 29 - *Risk of a disruption to services and internal business* had been deleted from the Corporate Risk Register and would continue to be managed as part of the Resources Directorate Risk Register.
- Risk 20 - *Risk that the council, embarking on a major change programme, the 21 Century Council, fails to maintain service delivery standards, to deliver associated savings, or to effect the change, in structures and behaviours, to deliver the vision for the new Council's operating model*, has been updated from *'Risk that the council does not have buy-in to successfully implement the corporate vision and priorities'* to reflect the 21 Century Council project.
- With regards to Risk 8 *'Risk of avoidable serious harm or death of a vulnerable adult for whom the council has a responsibility'* Councillor Rowland questioned which provider had recently failed and was informed that it had been Age Concern Woodley.
- In response to queries from Members, Paul Ohsan-Ellis explained how risk appetite and risk management were highlighted. Consideration was given to presenting this in a different format at future meetings.
- Councillor Lee questioned whether a risk around a failure to attract foster carers should be included in the register. The Chief Executive commented that it was likely that this was included on the Children's Services directorate risk register. Councillor Lee questioned when directorate risk registers were reviewed and was informed that Directors reviewed them on a quarterly basis.
- Councillor Margetts asked why the Town Centre regeneration had been included as part of Risk 14 *'Risk that the Council fails to deliver key investment priorities through insufficient resources or inadequate planning'* and was not a separate risk. The Chief Executive commented that it was covered as part of a bigger corporate risk.
- Councillor Chopping suggested that it would be helpful for the Committee to understand the implications of health and safety to better understand the risk.
- Councillor Lee asked that in future the Corporate Risk Register include who were responsible for the risk's actions and the predicted completion dates.
- Members were reminded that the Internal Audit programme was built around the key corporate risks.

**RESOLVED:** That the risks and mitigating actions of the Council's corporate risks as detailed in the Corporate Risk Register be noted.

## **7. EXTERNAL AUDIT PLAN 2015-16**

Members received the External Audit Plan. The Plan's purpose was to provide the Audit Committee with a basis to review Ernst & Young's proposed audit approach and scope for the 2015-16 audit.

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

- With regards to financial statement risk, the following risks identified were highlighted; risk of management override, incorrect Capitalisation of Revenue

Expenditure, IPSAS 16 & IFRS 13 – Fair Value Measurement and Better Care Fund.

- Ernst & Young had not identified any risks which they viewed as relevant to their value for money conclusion.
- Ernst & Young had determined that overall materiality for the Council's financial statements was £6.7 million, based on 2% of gross expenditure. Councillor Whittle asked how the 2% was set. Helen Thompson indicated that it was Ernst & Young.
- Uncorrected audit misstatements greater than £337,000 would be communicated to the Committee. Members were reminded that the amount considered material at the end of the audit might differ from the initial determination.
- In response to a Member question, Helen Thompson confirmed that the cumulative impact of misstatements was also considered.
- The indicative fee scale for the audit of Wokingham Borough Council was £105,617, together with an estimated fee of £7,183 for the certification of the housing benefits subsidy claim.

**RESOLVED:** That the External Audit Plan 2015-16 be noted.

## **8. EXTERNAL AUDIT PROGRESS REPORT - JUNE 2016**

The Committee received the External Audit Progress Report – June 2016.

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

- Helen Thompson informed the Committee that Ernst & Young had completed its walkthrough of the key Council's financial systems in February/March 2016. No significant issues had been identified.
- Ernst & Young had continued to liaise with officers on plans relating to the new requirements for highways network assets and the Better Care Fund.
- At the planning stage of the audit, no significant value for money risks at the Council had been identified.
- Further detail on the 2014/15 Housing Benefits subsidy claim was included in response to questions raised at the previous Audit Committee.
- With regards to the local appointment of auditors, the Committee was reminded that existing external audit arrangements would remain unchanged for the 2015/16, 2016/17 and 2017/18 years. From 2018/19 onwards, councils would be required to appoint their own auditors.

**RESOLVED:** That the External Audit Progress Report – June 2016 be noted.

## **9. EXTERNAL AUDIT FEE LETTER 2016-17**

The Committee considered the External Audit Fee Letter 2016-17.

The indicative fee for 2016-17 was £117,404 and would be billed in four quarterly instalments of £29,351.

**RESOLVED:** That the External Audit Fee Letter 2016-17 be noted

## **10. EXTERNAL AUDIT LOCAL GOVERNMENT SECTOR BRIEFING Q2**

The Committee discussed the Local Government Audit Committee briefing Q2, which was produced quarterly.

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

- It was noted that from April 2017, the liability to pay the correct employment taxes would transfer from the worker's own company to the public sector body that was paying the company. Councillor Lee questioned what impact this would have on the Council. Rob Stubbs indicated that this was currently out for consultation.
- The Committee discussed the proposed changes to business rates in the future.
- Members discussed the process for the appointment of external auditors.
- In response to Member queries regarding capital receipts Rob Stubbs indicated that there was no expectation that the Council would have any for 2017/18.

**RESOLVED:** That the Local Government Audit Committee briefing Q2 be noted.

## **11. TREASURY MANAGEMENT ANNUAL REPORT 2015-16**

Members received the Treasury Management Annual Report 2015/16 which highlighted the Council's treasury position as at 31 March 2016, set out the treasury management decisions taken during 2015/16 and showed that the Council had complied with its strategy and the prudential indicators that were set in February 2015.

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

- With regards to Capital, the actual capital expenditure for 2015/16 had been £42.2m. The Capital financing requirement as at 31 March 2016 had been £211.8m.
- Members were informed that the total external borrowing for 2015/16 was £132.2m. The new interest free loans from the Local Enterprise Partnership totalled £0.6m.
- Investments at 31 March 2016 stood at £63.3m; Fund managers £21.5m, In house £30.0m and internal loans (Wokingham Housing Limited etc.) £11.8m.
- Councillor Margetts questioned what was meant by in house investments. Martin Jones explained that the Council, via brokers, invested in other councils, often on a short term basis, for the rate of return which could be received.
- Councillor Rowland asked why the level of in house investments was higher than those made by the Council's fund managers. The Committee was informed that the fund managers often made longer term investments.
- The return on investments for 2015/16 was £0.9m. The average rate of return was 1.01%.
- Councillor Jorgensen asked about the level of capital expenditure. Rob Stubbs indicated that when the capital programme was approved it tended to be for schemes. Ways of making improvements to the projection and forecasting were under consideration.
- As at 31st March 2016 there had been no breaches of the Treasury Strategy during 2015-16.
- Councillor Whittle asked whether the Council had any currency and was informed that it did not.
- It was noted that at the time the report was compiled Age Concern Woodley had not gone into administration. The Council's usual debt recovery policy would be followed.

**RESOLVED:** That

- 1) The treasury management annual report for 2015/2016 be noted;

2) The actual 2015/2016 prudential indicators within the report be noted.

## **12. SHARED AUDIT AND INVESTIGATION SERVICE ANNUAL REPORT 2015-16**

Members received the Shared Audit and Investigation Service Annual Report 2015-16. The report provided the Service Manager Shared Audit and Investigation Service's opinion on the Council's governance, risk management and internal control arrangements.

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

- The Internal Audit Team had undertaken audits of key financial systems (in order to compliment the work of External Audit), in addition to focusing on the Council's identified key risks, as set out in the Corporate Risk Register. The overall audit opinion was that they were "Substantially Complete and Generally Effective but with some improvements required".
- 91.3% of the Internal Audit Plan had been achieved with the reviews at draft report stage or completed. The remainder consisted of audit reviews with in progress fieldwork and which were targeted to be completed early in the 2016/17 financial year.
- Both the Internal Audit and Investigation teams were undertaking work on behalf of other local authorities. Councillor Whittle asked how resources were allocated across the local authorities. Catherine Hickman indicated that there was an Internal Audit Plan in place and that auditors were allocated as appropriate to the audits being undertaken.
- Areas of key progress made by the Shared Audit and Investigation Service were highlighted.
- An opinion of '3' (Range of Risk Mitigation Controls is incomplete and risks are not effectively mitigated) had been issued with regards to audits on Health and Safety (CRR), Creditors, Debtors and Adult Social Care - Personal Budgets.
- The Committee discussed the Creditors audit in detail. Management had commissioned a third party company to review controls around duplicate payments made to suppliers. Rob Stubbs indicated that the third party had software which could be used to identify any duplicate payments made which could then be recouped. Very little had been identified so far. Further development of the Council's WISER system would help reduce this in future.
- A management response remained outstanding in respect of the Housing Rents audit.
- Contingency days had been used to respond to Management requests in respect of the following: School Admissions, Bus Operators Grant Certification, BACS/CHAPS and Repairs & Renewal Grant Certification.
- The Investigations Team had identified total potential financial savings of £429,836 which was comprised of £322,336 of actual overpayments that were potentially recoverable and £107,500 of notional savings. Councillor Lee requested that the Committee be updated on recovered financial savings in future.
- Members were informed that an action plan detailing areas that required work to fully comply with CIPFA/IIA's new 'Public Sector Internal Audit Standards', had been developed. At present the Internal Audit Team 'generally conformed.'

**RESOLVED:** That

1) the Shared Audit and Investigation Service Annual Report 2015-16 be noted.

2) the Committee be updated on recovered financial savings in future.

### **13. ANNUAL GOVERNANCE STATEMENT 2015-2016**

The Committee considered the Draft Annual Governance Statement (AGS) which had been produced by the Corporate Leadership Team following consideration of a number of Management Assurance Statements produced by the Council's four Directors and two Heads of Services.

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

- The Annual Governance Statement covered the following key aspects of the governance environment in place at the Council during 2015/16: establishing and monitoring the achievement of the Council's objectives, facilitation of Policy and Decision-making, Financial Management, Performance Management and Risk Management.
- With the increasing number of major infrastructure projects being commenced further clarity of project management governance structures and procedures had been introduced.
- Health integration had also been identified as a significant governance issue.
- The Chief Executive had identified actions required to strengthen the aforementioned areas of governance and that their implementation would be monitored.

**RESOLVED:** That the Committee approve the Annual Governance Statement on behalf of the Council, prior to it being included in the final Statement of Accounts.

### **14. LOCAL CODE OF CORPORATE GOVERNANCE: DELIVERING GOOD GOVERNANCE IN WOKINGHAM BOROUGH COUNCIL**

The Committee received the Local Code of Corporate Governance: Delivering Good Governance in Wokingham Borough Council.

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

- Catherine Hickman informed Members that the adoption of the Code would enable the production of the Annual Governance Statement to move to an exception basis, provide greater transparency and make the code a living document that demonstrated good governance through a practical alignment with the Council's activities.
- Councillor Rowland asked for assurance that the proposed approach was more efficient than the current. Paul Ohsan-Ellis commented that the current Annual Governance Statement contained a lot of narrative and information that was available elsewhere such as on the Council's website.

**RESOLVED:** That the Local Code of Corporate Governance: Delivering Good Governance in Wokingham Borough Council be approved.

### **15. RETROSPECTIVE PURCHASE ORDERS**

Members were updated on Retrospective Purchase Orders. (RPOs)

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

- Reporting for April 2016 stood at 10%. A total of 97 RPO's were raised in the month, covering 77 suppliers.
- During April 2016 the value of retrospective orders raised was £388,297.51, ranging from £5.20 to £166,267.66. 10 retrospective purchase orders were in excess of £5,000, and of these one was over £50,000. The largest RPO was raised for £166,267.66 against Capita Business Services Ltd which related to various modules including training, consultancy, licence fee, subscriptions and support; fees were funded through the Schools Block.
- Councillor Lee proposed that in future the Committee only look at material Retrospective Purchase Orders. He asked that Officers give consideration as to the appropriate level of materiality.
- Members asked when a purchase order was required. Rob Stubbs commented that procurement cards could be used for very small items.
- Rob Stubbs indicated that retrospective purchase orders would never be completely eradicated. For example, with regards to the Public Health sexual health services, invoices were received for services from GPs all over the country, which made it difficult to budget for.
- Councillor Jorgensen commented that many of the retrospective purchase orders related to the Schools Block and asked whether the Committee was likely to continue to see this in the future. Rob Stubbs explained that the relevant finance business partner would be focusing on improving this area.
- In response to a query from Councillor Margetts, Rob Stubbs indicated that the lowest level of retrospective purchase orders was 7% a month.

**RESOLVED:** That the report and the actions being taken to reduce the incidence of raising retrospective purchase orders be noted.

## **16. FORWARD PROGRAMME 2016-17**

The Committee considered the Forward Programme 2016-17.

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

- The Committee requested a regular update on complaints and compliments.
- Training on treasury management would take place prior to the September Committee meeting.
- A training session on understanding the statutory accounts would be held prior to the Committee's September meeting.
- Andy Couldrick informed Members that the Internal Audit progress report which would be presented at the September Committee meeting would include information regarding improving capital expenditure.

**RESOLVED:** That the Forward Programme 2016-17 be noted.