

TEWKESBURY BOROUGH COUNCIL

**Minutes of a Meeting of the Audit Committee held at the Council Offices,
Gloucester Road, Tewkesbury on Wednesday, 19 March 2014
commencing at 2:00 pm**

Present:

Vice Chairman in the chair Councillor D J Waters

and Councillors:

R E Allen, Mrs K J Berry, A C Tugwell and D J Waters

AUD.37 ANNOUNCEMENTS

- 37.1 The Vice-Chairman in the chair welcomed Peter Barber, Engagement Lead from Grant Thornton, to the meeting.
- 37.2 The evacuation procedure, as noted on the Agenda, was taken as read.

AUD.38 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

- 38.1 Apologies for absence had been received from Councillors Dr A L Carter and A L Mackinnon (Chairman). There were no substitutions for the meeting.

AUD.39 DECLARATIONS OF INTEREST

- 39.1 The Committee's attention was drawn to the Tewkesbury Borough Council Code of Conduct which was adopted by the Council on 26 June 2012 and took effect from 1 July 2012.
- 39.2 There were no declarations made on this occasion.

AUD.40 MINUTES

- 40.1 The Minutes of the meeting held on 11 December 2013, copies of which had been circulated, were approved as a correct record and signed by the Vice-Chairman in the chair.

AUD.41 GRANT THORNTON PROGRESS REPORT

- 41.1 Attention was drawn to Grant Thornton's progress report, circulated at Pages No. 6-18, which set out the progress which had been made in relation to the audit plan together with any emerging national issues and developments that might be relevant to the Borough Council. Members were asked to consider the report.
- 41.2 With regard to the progress against the audit plan, Members were advised that Grant Thornton was required to issue a detailed accounts audit plan for 2013/14 giving an opinion on the Council's financial statements and the value for money conclusion. The audit plan would be informed by interim work which included updating the review of the Council's control environment and understanding of the Council's financial systems. Whilst the report set out that this work would be

completed in early March, unfortunately this had been delayed. Grant Thornton had completed its initial visit and would now be coming back to complete the work at the end of the month in order to bring the draft audit plan to the Audit Committee meeting in June. This interim work comprised approximately 20% of Grant Thornton's work during the year with the majority of information being obtained post year end when the Council produced its final accounts. Grant Thornton would embark on a series of tests to update its work on the Council's arrangements for value for money which would be informed by the year end outturns and medium term financial planning arrangements. In terms of the certification of claims and returns, the next report on the Agenda provided the outcomes of the work for 2012/13 which had involved two claims; this represented a significant reduction compared to previous years. In terms of work for 2013/14, a National Non-Domestic Rates claim was not expected which was surprising given the changes to the National Non-Domestic Rates system and the localisation of Business Rates. The assumption was that the only area of work for 2013/14 would be the Housing and Council Tax Benefits claim and the work on the Council Tax benefit element would be reduced following changes to the Council Tax system.

- 41.3 A Member queried what impact the additional interim work and the reduced work in respect of the National Non-Domestic Rates claim would have upon the audit fee. The Engagement Lead explained that the work between now and the end of March would be encompassed within the overall fee; there would be no additional charge for Grant Thornton being slightly behind. If work was no longer required e.g. National Non-Domestic Rates claim, then the Council would not be billed for it. The Member went on to question how assurance would be provided that the National Non-Domestic Rates systems were operating as they should be. The Policy and Performance Group Manager advised that internal control assurance would be required and a number of additional days had been included within the Internal Audit Plan 2014/15 for National Non-Domestic Rates to ensure that the key controls were in place. The Engagement Lead from Grant Thornton indicated that transactions would still appear within the end of year accounts and collection funds which would provide some assurance that they were materially stated. He indicated that, if Internal Audit intended to carry out more work to provide additional assurance, he would be happy to provide the criteria used by Grant Thornton which could be adapted to take account of the new arrangements.
- 41.4 In terms of emerging issues, Members were advised that the Audit Commission's latest research 'Tough Times 2013' talked about the financial challenges in local government and the need for effective and robust medium term financial planning; the research included a number of examples of best practice which may be of interest. Members were also informed that the Local Audit and Accountability Act had received Royal Assent on 30 January 2014. The Act made provisions for local authorities to appoint their own external auditors once the current contract ended in 2016/17. Local authorities would be required to establish an auditor panel, either individually or in a consortium with other authorities, which would advise on the maintenance of an independent relationship with the local auditor appointed to audit the accounts. The panel would need to be in post no later than December 2016 in order to inform the appointment of auditors for 2017/18.
- 41.5 Pages No. 14-15 of the report provided details of two reports from Grant Thornton, the first of which had been shared with Chief Officers and related to alternative service delivery models across the public sector to deliver savings, recognising that it was not possible to continue to incrementally reduce budgets year on year without fundamental service redesign e.g. shared Chief Executives, joint management teams, outsourcing work, setting up companies etc. 'Reaping the Benefits', a more recent report published in February 2014, focused on welfare reform and the impact on communities and the Council's role going forward, for instance, increased rent arrears and use of food banks and the wider ramifications of universal credit. Page No. 16-17 of the report set out two areas to which Grant

Thornton would be paying particular attention during the following year in relation to the Council's financial statements. Property, plant and equipment was the largest entry on the Council's balance sheet after pension liabilities and the 2013/14 Code specified that revaluations must be 'sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period'. This meant that a local authority had to satisfy itself that the value of assets in its balance sheet was not materially different from the amount that would be given by a full valuation. The second issue related to the recognition that local authorities were liable for successful appeals against business rates and should therefore make additional provisions within their financial statements. The Engagement Lead from Grant Thornton gave the example of a large supermarket making a challenge which was upheld and other supermarkets across the country subsequently being encouraged to make similar challenges. In addition to financial provisions, local authorities would have to make provisions for the additional work involved in assessing how reasonable and realistic these claims were.

- 41.6 With regard to the Audit Commission research into financial resilience, a Member queried whether the new ways of delivering services which relied less on Government funding were suggestions or directives and he indicated that Tewkesbury Borough Council had previously shared a Chief Executive with another local authority which had not worked for a number of reasons. He understood that the Local Government Association (LGA) was responsible for disseminating best practice. The Engagement Lead from Grant Thornton explained that there was no requirement to implement the measures which were suggested in the report and each local authority was different; notwithstanding this, there were some similarities and there was always scope to learn from others. Whilst the LGA certainly had a role to play in offering examples of best practice, other organisations were striving to provide alternative service delivery models which were more financially resilient and may have other ideas which had not previously been considered. The Deputy Chief Executive indicated that the report was adding to the narrative in relation to reshaping public services and the Audit Commission had made a number of suggestions based on previous experience. There was no 'one size fits all' solution; however, the unprecedented cuts to finances meant that local authorities would need to make radical changes. This was something which Tewkesbury Borough Council was addressing through its Business Transformation work. The Chairman went on to explain that consideration was being given to merging the Business Transformation Working Group with the Budget Working Group as there was a considerable amount of overlap between the two Groups. He indicated that he had been fortunate enough to attend the Leadership Academy which provided an opportunity to learn from other Councils, for instance, Breckland Council had outsourced their planning department to Capita Symonds. A Member raised concern that this approach might lead to a loss of local knowledge and she referred to the problems within the ambulance service as a result of outsourcing as drivers were unfamiliar with the area. The Chairman provided assurance that the decision-making aspects of planning were retained by the local authority but outsourcing meant that there was a greater pool of people to do the work which could address capacity problems. He understood that this arrangement was working well for Breckland. The Engagement Lead from Grant Thornton indicated that the peer challenge process was another way of learning from other authorities and the Deputy Chief Executive confirmed that Tewkesbury Borough Council had a peer challenge scheduled for autumn 2014.

- 41.7 Having considered the information and views expressed it was

RESOLVED That the Grant Thornton progress report be **NOTED**.

AUD.42 GRANT THORNTON CERTIFICATION REPORT 2012/13

- 42.1 Attention was drawn to Grant Thornton's Certification Report 2012/13 which set out the findings of the two claims which had been certified during the year. Members were asked to consider the information provided.
- 42.2 The Engagement Lead from Grant Thornton advised that the two claims which had been certified in 2012/13 were the National Non-Domestic Rates return and the Housing and Council Tax Benefit subsidy claim. The overall messages from the certification were positive and both had been submitted to audit by the required deadline. The Housing and Council Tax Benefit subsidy claim had required amendments but these related to the misclassification of cases between rent rebates and rent allowances and had no net impact on subsidy claimed. The working papers supporting both claims had been good although they did recognise a number of small reconciliation differences in respect of the Housing and Council Tax Benefit subsidy claim. The Council Officers responsible for the claim had been disappointed that the claim had been qualified; however, Members were advised that it was a complex claim and any errors had to be reported back to the paying department. The majority of audits in this area resulted in a qualification. Page No. 29 of the report showed that there was a small variation between the indicative fee and the actual fee. Although the Housing and Council Tax Benefit claim was slightly more than anticipated, this was offset by the reduction in the amount of work which was required on the National Non-Domestic Rates return. This was due to the fact that a full audit had been carried out in the previous year which meant that Grant Thornton was satisfied that the arrangements were effective. This resulted in a net difference of approximately £750.
- 42.3 In response to a query regarding the amendment to the Housing and Council Tax Benefit subsidy claim, Members were advised that £489 was the net effect of the adjustment to the claim and it was noted that this had been in the Council's favour. It was to be borne in mind that this was a £22.9M claim as the benefits team processed a high number of transactions on a daily basis and unfortunately there was occasional human error. The Council should take assurance that there were no significant issues over the way benefits were processed at Tewkesbury Borough Council. The Engagement Lead from Grant Thornton reiterated that, there would be no Council Tax subsidy element in this work for 2013/14 and the audit fee would be reduced by 12% to reflect this change.
- 42.4 It was
- RESOLVED** That the Grant Thornton Certification Report 2012/13 be **NOTED**.

AUD.43 STATEMENT OF ACCOUNTING POLICIES

- 43.1 The report of the Finance and Asset Management Group Manager, circulated at Pages No. 31-50, set out the main changes in accounting policies under the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14. The Committee was asked to approve the accounting policies to be used during the 2013/14 closedown.
- 43.2 Members were advised that the Council was required to produce an annual Statement of Accounts prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14. The accounting policies governed the accounting treatment used to close the final accounts which the Committee was asked to approve each September. A full list of the changes to the accounting policies was attached at Appendix A to the report with the main changes outlined at Pages No. 32-33, Paragraph 2.0. Members were advised that the changes to post-employment benefits had no net effect on the actual accounts but

they would result in a presentational change as the transactions were split between employee-led and employer-led. Termination benefits had previously been recognised when there was a 'demonstrable commitment' but this had now been changed so that there was more certainty. With regard to property, plant and equipment (PPE), assets had previously been valued on a rolling programme over five years, however, this had been found to be insufficient and a valuer had been commissioned to ensure that the carrying value was not materially different from fair value at year end. A new policy had been included clarifying the accounting treatment of Council Tax and Business Rates and how it differed from the statutory treatment involving the Collection Fund.

- 43.3 A Member queried whether the changes in respect of Council Tax and Business Rates had any impact on pooling and was informed that the final guidance was yet to be received from the Department of Communities and Local Government. It was hoped that the implications would become clearer once Officers had attended a training course on pooling the following week.
- 43.4 It was
RESOLVED That the accounting policies to be used during the 2013/14 closedown be **APPROVED**.

AUD.44 INTERNAL AUDIT MONITORING REPORT

- 44.1 The report of the Policy and Performance Group Manager, circulated at Pages No. 51-67, summarised the work undertaken by the Internal Audit team for the period December 2013 to February 2014. Members were asked to consider the audit work completed and the assurance given on the adequacy of internal controls operating in the systems audited.
- 44.2 Members were advised that full details of the work undertaken during the period were attached at Appendix 1 to the report and it was estimated that 92-96% of audits would be completed by 31 March 2014. The Policy and Performance Group Manager indicated that he intended to attach a document setting out the status of each audit as an appendix to the report in future. There had been some sickness absence within the team which was being mitigated by a combination of overtime; a reciprocal working arrangement with a neighbouring authority which had been brought forward from March 2014; and the appointment of an agency contractor between mid-February and the end of March.
- 44.3 Appendix 1 provided a summary of the activity audited, the control objectives for each activity and the audit opinion for each control objective. Members were advised that the audit on data quality in relation to the Key Performance Indicators (KPIs) for Quarter 2 2013/14 which were reported via the performance management framework had been found to be satisfactory. Human Resources had been audited to ensure that salary adjustments sent to the Payroll Officer were accurate, supported with appropriate documentation and processed in accordance with the Council's policies and procedures and this had been found to be satisfactory. The licensing audit had focused on licensing fees, the checking of licenses and supporting documentation and the issuing of the licences once the correct fee had been received. Whilst some recommendations had been made, the overall level of assurance had been good or satisfactory. There was nothing significant to report in respect of the key financial systems in relation to Business Rates. The creditors audit had sought to ensure that there was adequate control over the placement of orders and receipt of goods. It had been found that three invoices were not supported with official purchase orders; these were small in value and two related to the same service area. The invoice details in relation to the payments made for the storage of personal belongings for homeless persons could not be verified e.g. it was unclear what items were being stored, how many

items were being stored etc. thereby providing only limited assurance for that activity. Recommendations had therefore been made to enhance the process for monitoring this expenditure. With regard to the audit of tree inspections, Members were advised that the Grounds Maintenance Team had completed the inspections of high risk sites and it would now be important to implement the second phase of the project which was to establish and maintain a database of trees in order to monitor re-inspections. With regard to the follow-up audits completed, Members were reminded that the Asset Manager had attended the last meeting of the Committee to provide an update on the progress in relation to playgrounds. The follow-up audit had been very positive with ownership having been verified and independent inspections being carried out by trained Officers. The Policy and Performance Group Manager felt that a potentially significant health and safety issue had now been mitigated. In terms of the corporate improvement work, the work on procurement had been completed and submitted to the Procurement Group and the review of customer services across all services would help to inform the refresh of the Customer Services Strategy.

- 44.4 Appendix 2 to the report set out the 'essential' audit recommendations that had been identified through the undertaking of follow-up audits but had not yet been implemented. Members were advised that there were currently four service areas where recommendations were outstanding. It was intended that a table of all recommendations would be brought to future meetings to allow Members to keep track of what recommendations had been made and how they had been implemented.
- 44.5 With regard to the creditors audit and the limited assurance in relation to the payments made for the storage of personal belongings for homeless persons, a Member queried where the items were stored and was advised that the storage company was located at Gloucester Business Park. She raised concern that items could easily go missing from storage containers and this could be particularly devastating for a homeless person who may have no other belongings. The Policy and Performance Group Manager provided assurance that the issues identified could be resolved relatively easily e.g. through obtaining an inventory, establishing liability for loss and damage to such items etc. and a follow-up audit would be undertaken to ensure that the recommendations were implemented.
- 44.6 A Member noted that the Landscape Officer had left the authority to take a six month sabbatical and she questioned whether this would have an impact on tree inspections. She raised concern that a Tree Preservation Order application which had been submitted two weeks earlier had not yet been acknowledged. A Member indicated that he had a similar issue having submitted a request to trim or fell a tree on 12 December 2013 which had not been validated for 69 days. He had not been provided with an explanation for this delay despite having made a complaint. The Deputy Chief Executive apologised that the Member had not received a response to his complaint; however, she indicated that the Landscape Officer had only left the authority the previous week so these issues were not related to her absence. She explained that it was intended to use flexible resources to cover the position and she provided assurance that this would be kept under a watching brief. The Policy and Performance Group Manager clarified that the tree inspections did not form part of the Landscape Officer role and were carried out by the Grounds Maintenance Team which was based at the depot. With regard to the implementation of the database, a Member suggested that, as new ways of working were explored, there might be an opportunity to update the database directly from the field in future.
- 44.7 Having considered the information provided it was

RESOLVED That the Internal Audit Plan Monitoring Report be **NOTED**.

AUD.45 INTERNAL AUDIT PLAN 2014/15

- 45.1 The report of the Policy and Performance Group Manager, circulated at Pages No. 68-72, set out, at Appendix 1, the Internal Audit Plan 2014/15. Members were asked to approve the Plan.
- 45.2 Members were advised that the Internal Audit Plan 2014/15 was divided into five main areas: corporate governance; corporate improvement; fundamental financial systems; service areas; and consultancy and advice. The Plan had been informed by recommendations from Group Managers and had been endorsed by the Corporate Leadership Team. Members were informed that safeguarding was a new item which had been included under corporate governance and there was an audit tool kit for self-assessment which could be of assistance. The Business Transformation Group Manager had asked for some work to be undertaken in relation to the Council's Behaviours Framework which was a set of core values and behaviours which defined how staff were expected to approach their work and would be used as part of the Personal and Professional Development (PPD) meetings which were replacing the Joint Annual Review process. Information governance; the new leisure centre; Disclosure and Barring Service Policy; and the National Fraud Initiative were the other areas included in the Plan under corporate governance. The work on fundamental financial systems would help to inform Grant Thornton's year end work on the accounts. In terms of the service areas included in the Plan, audits would be carried out in relation to ICT; recycling; garden waste; Individual Electoral Registration (IER); homelessness; property leases; food control; and Section 106 Agreements. Consultancy and advice had been allocated 30 days within the Plan which accounted for representation on corporate groups e.g. Health and Safety Group, Business Continuity Group etc.
- 45.3 Accordingly, it was
- RESOLVED** That the Internal Audit Plan 2014/15 be **APPROVED**, as detailed at Appendix 1.

The meeting closed at 2:50 pm