

Corporate Governance Committee – 22 June 2015

Present: Councillors Mrs Blatchford, Coles, Cossey, Hall, Horsley, Hunt, Mrs Reed, Miss Smith, Mrs Stock-Williams Mrs Tucker and Mrs Webber

Officers: Shirlene Adam (Director of Operations and Section 151 Officer), Catrin Brown (Senior Environmental Health Officer – Health and Safety), Paul Harding (Corporate Strategy and Performance Manager), Hannah Stevenson (Corporate Strategy and Performance Officer) and Michelle Brooks (Democratic Services Officer).

Also Present: Councillors Aldridge, Morrell and Parrish
Ashley Allen (Grant Thornton)
Alastair Woodland from South West Audit Partnership (SWAP)

(The meeting commenced at 6.15 pm)

12. Appointment of Chairman

Resolved that Councillor Mrs Stock-Williams be appointed Chairman of the Corporate Governance Committee for the remainder of the Municipal Year.

13. Appointment of Vice-Chairman

Resolved that Councillor Mrs Blatchford be appointed Vice-Chairman of the Corporate Governance Committee for the remainder of the Municipal Year.

14. Apologies/ Substitutions

Apologies: Councillors Sully and Wedderkopp

Substitutions: Councillor J Horsley for Councillor R Lees.
Councillor Mrs J Reed for Councillor R Ryan.

15. Minutes

The minutes of the meeting held on 9 March 2015 were taken as read and were signed.

16. Declaration of Interests

Councillors Coles, Govier and Hunt declared personal interests as Members of Somerset County Council.

17. Grant Thornton External Audit Plan 2014/2015

Considered report previously circulated, which introduced the External Audit Plan for 2014/2015.

Each year the Council's external auditors, Grant Thornton, provided a plan which detailed their approach to the audit work required in respect of the preceding financial year (2014/2015). Specifically this audit work focussed on the provision of an audit opinion in relation to the accounts, value for money (VFM) and associated key risks.

The significant risks identified in the plan were:-

- The revenue cycle included fraudulent transactions; and
- Management over-ride of controls.

Other risks identified were 'operating expenses' and 'employee remuneration'.

Noted that the overall fee for the service provided was £77,895 (£67,505 for the Council audit and £10,390 for grant certification).

During the discussion of this item, Members made comments and statements and asked questions which included :- (Responses are shown in italics)

- Reference was made to a particular Economic Investment Grant which appeared not to have been used for the purpose intended. How was something like this factored into the programme to ensure due diligence had been followed? *Currently audit field work was being carried out in respect of this matter. This would cover what happened, the processes already in place and identifying any missing controls from that process and identify anything else to learn for the future. These findings should be available to the Committee at its next meeting.*
- Under the risks identified, 'operating expenses' are mentioned. Was this confined to one area or throughout Council? Was this a serious problem or a general risk?
It was a general risk simply due to the scale of expenditure. More work was required to ensure there were no risks of material misstatement.
- What percentage of costs did Taunton Deane (TD) pay against West Somerset (WS)?
The Business Case stated a broad assumption 80% TD, 20% WS. As part of the implementation process, service and staff costs had been examined, post by post, and any apportionment different from the 80/20 split had been implemented.
- How often would the apportionment be reviewed?
Currently there was uncertainty as to what Phase 2 of JMASS might look like. Managers were currently encouraged to keep an eye on their cost sharing split, and manage their resources and time. A fundamental review was not planned, unless there was a change in emphasis through budget setting.
- How would the auditors measure and definitively state that they were satisfied with the split? Without timesheets or other audit mechanisms in place, how could it be proven that the Council had obtained value for money?
A spreadsheet exercise was undertaken to assess the split and spot checks were carried out. It was not tested fully, but a risk based approach

was taken and an assessment made that overall the split looked appropriate and that each Council was charging to relevant expenditure

- How could this be considered a full audit? It appeared that this exercise was purely reviewing information provided rather than an ‘in depth’ analysis?

This was a new process for both Councils and was more of a high level review to make sure expenses were not materially misstated. A more detailed review was more of an internal audit function.

- What was the number of staff that worked exclusively for each Authority?
This information would be provided outside of the meeting.

Resolved that the report be noted.

18. Grant Thornton External Audit – External Audit Fees 2015/2016

Considered report previously circulated, on the fee position for external audit services for 2015/2016.

The external audit function for Taunton Deane transferred from the Audit Commission to Grant Thornton during 2012. This change was part of a national programme of “outsourcing” the external audit work and had resulted in significant savings for local authorities.

The letter also set out details of the process and timetable for completing the external audit work for 2015/2016 together with details of the team who would lead the work.

Any additional audit work, outside of the planned audit and grant fee work, would be billed separately and in addition to the fee quoted.

The indicative audit fee for 2015/2016 was £61,594. This was split between the fee for the main audit of £50,629 (which represented a reduction of £16,876 from the previous year) and the grant certification work of £10,965 (which represented a slight increase of £575 from the previous year).

The fee was within the Council’s budget allocation for 2015/2016.

Resolved that the Grant Thornton Audit Fee letter for 2015/2016 be noted.

19. Grant Thornton External Audit Update

Considered report previously circulated, which provided a progress update from the Council’s external auditors, Grant Thornton, in respect of the 2014/2015 audit work for Taunton Deane and on emerging national issues, which might be relevant to the Council.

Each year Grant Thornton were required to carry out “set” audit work and the report provided a useful progress update in relation to that work.

Additionally, the report shared the headlines on emerging national issues and developments, which might have a bearing on the Council.

These related to:-

- Welfare Reform Review;
- Building Local Authority Trading Companies;
- Inspection into the governance in Rotherham Council;
- The DCLG Build to Rent Scheme; and
- Provision for Business Rate Appeals.

During the discussion of this item, Members made comments and statements and asked questions which included: - (Responses are shown in italics)

- Was Grant Thornton trying to terrify Members by publishing the report concerning the governance of Rotherham Council?
This was intended for information only; to demonstrate what potentially could happen if proper governance was not in place.
- Was the Council looking into setting up a trading company?
This had been on the radar for a while, and had been discussed during the DLO transformation programme. There were challenges around the legal advice and whether it was a safe thing to do. However, with the transformation objectives to be met, everything was up for discussion. A strong steer would be helpful.
- With regard to the Welfare Reform review, it was surely the case that the reduction in funding for Discretionary Housing Payments from the Government would result in further increases to rent arrears and homelessness. What provision was being made by this authority to try and help out where there was a genuine need for housing?
- Scrutiny would look for a report on this matter, as there was a concern that people who received support from the local authority but then had such support withdrawn, could then easily default altogether.

Resolved that the report be noted.

20. Update on Health and Safety Performance and Strategy for 2015/2016

Considered report previously circulated, which provided an update on the progress of a range of Health and Safety matters across the organisation.

Below was a summary of topics:

- There had been a 70% increase in the number of incidents reported. This was higher because of more accurate reporting.
- Key performance indicators (KPIs) had been revised from the standards set in 2014-2015 as a result of 1) accident reporting having increased to a level commensurate with the size and nature of the organisation; and 2) the previous audit targets proving unachievable, and having been set as “test targets”.

- The terms of reference for the Health and Safety Committee had been considered within the context of the new One Team, the review of the safety policy and the proposed amalgamation of the TDBC and WSC UNISON branches.
- Stress Management Survey – 500 employees, 244 returns. These would be analysed and the result submitted to Members in due course.
- With regard to the Health Surveillance Programme, hearing tests had been completed for all employees working with potentially noisy machinery (54 in total) including 3 employees working in the Print Room. There had been a small number of referrals for further assessment with an occupational physician.

During the discussion of this item, Members made comments and statements and asked questions which included: - (Responses are shown in italics)

- With regard to the 'red' KPI, was this form not returned because the manager was not aware of the new time frame?
Yes. Reminders had been sent to all Managers about the requirement to respond within two weeks.
- In regard to the survey sent to 500 randomly selected people, not aware that the organisation employed much more than 500 people, if this is the case, How could the Stress Management Survey be sent out randomly to 500 members of staff when the organisation had not many more than this number of staff?
There were 604 TD employees. Health and Safety Executive Guidance advised that an organisation of the Council's size, should survey 500 people.
- With there being such a marginal difference in number maybe the survey should have been sent to all employees?

Resolved that the progress made with the implementation of the Health and Safety Strategy, its delivery and the initiatives to improve the operating culture of the Council be noted.

21. **SWAP Internal Audit Plan 2014-2015 Annual Opinion**

Considered report previously circulated, concerning the Internal Audit Plan 2014-2015 Annual Opinion.

The Internal Audit function played a central role in corporate governance by providing assurance to the Corporate Governance Committee, looking over financial controls and checking on the probity of the organisation.

Internal Audit was required to provide an Annual Opinion on the state of the Internal Control Environment.

The report summarised the work of the Council's Internal Audit Service and provided:-

- Details of any new significant weaknesses identified during internal audit work completed since the last report to the Committee; and
- A schedule of audits completed during the period, detailing their respective assurance opinion rating, the number of recommendations and the respective priority rankings of these.

Noted that there were some service level high priority recommendations identified since the last update. These would be followed-up by Internal Audit to provide assurance that risk exposure had been reduced.

The opinion offered by SWAP was 'Reasonable Assurance' in respect of the areas reviewed.

During the discussion of this item, Members made comments and statements and asked questions which included: - (Responses are shown in italics)

- In relation to partial assurance areas, in particular the number of transactions being raised on 45000 codes, please clarify what the codes related to.
These codes related to in-house SAP works within Deane DLO and their use had arisen during the introduction of the new computer system. As part of the creditor review for 2015/2016, action will be taken to ensure that 'over-use' of this code was closed off.
- It was noted that due to the restructure, SWAP only had the capacity to deliver 93% of 2014/2015 Audit Plan. Which review would be affected?
The three reviews were the Safer Somerset Partnership (SSP) - Community Safety, Housing Voids and the WSC and TDBC shared services. All three had been taken forward into the 2015/2016 plan evaluation and had been assessed. Housing Voids was currently underway and time had been allocated for the shared services audit. The risk assessment had deemed the SSP as not significant to take forward in 2015/2016 within the days available.
- What was PAS?
This stood for Priority Area Strategy which linked into the plans to deal with areas of severe deprivation such as North Taunton and East Taunton.
- Concern was raised that the report was difficult to follow – 'impossible' to identify the information in the format presented.
- Were Quality Assessment Improvement Plans the area where Members could have a meaningful conversation for a specific programme plan to be added to the regular fraud controls? It was suggested that a detailed examination of the way the Portfolio Holder responsible for Economic Development handled that budget should be undertaken, particularly in relation to the grant scheme that was operated.
This Plan had been presented to Members of this Committee in March, where the Plan for 2015/16 was approved. This was the opportunity for Members of the Committee to feed in and add items.
- Were there any reserve dates where these concerns could be considered?

Resolved that the Members are asked to note the opinion and progress in delivering the internal audit plan for 2014/15.

22. Review of Effectiveness of Internal Audit

Considered report previously circulated, concerning the findings of the recent review of the effectiveness of internal audit carried out by Director of Operations. The review found the service to continue to operate at a “satisfactory” level.

Internal audit formed a part of the corporate governance and internal control framework that provided accountability to stakeholders on all areas of the Council Plan. Their opinion on the adequacy and effectiveness of the Council’s internal control framework formed a part of the evidence used in preparing the corporate Annual Governance Statement (AGS) for 2014-2014, which would be published as part of the Council’s Statement of Accounts in September 2015.

Reported that the 2006 CIPFA Code of Practice for Internal Audit had been superseded by the Public Sector Internal Audit Standards (PSIAS) and a Local Government Application Note on the 1 April 2013 that set out how an internal audit function should be fulfilled. The new Standards covered:-

- Purpose, authority, and responsibility;
- Independence and objectivity;
- Proficiency and due professional care;
- Quality Assurance and Improvement Programme;
- Managing the Internal Audit Activity;
- Nature of Work;
- Engagement Planning;
- Performing the Engagement;
- Communicating Results; and
- Monitoring Progress.

All aspects of the Standards would be covered by the South West Audit Partnership (SWAP), through the previously approved Audit Charter, and reviewed and approved by the Corporate Government Committee on an annual basis.

Details of the review which had been undertaken by the Council’s Section 151 Officer, Shirlene Adam, were submitted.

The review had found that overall the team performed well and that this view was supported by the comments of external auditors and client satisfaction. Details were provided which showed some of the overall performance of the service during the year compared to the previous three years.

The number of audit projects undertaken within the days available had declined slightly from the previous year from 37 to 28 (with an additional three in draft and seven in progress). The reasons for this decrease were outlined in the report.

There were no new high priority recommendations in 2014/2015.

The outturn position showed that each year the partnership continued to make a surplus from operations. This would give some room for reinvestment in the business which was managed via the Board of Directors for SWAP.

As SWAP was now a company limited by guarantee the Directors of the company would be required to act in the interests of the company. Noted that the Section 151 Officer still had access to the SWAP Management Team to influence service delivery and priorities from a customer's perspective.

In assessing SWAP's performance it was seen as important to review the standards of service and that each authority was afforded the same standards and also senior officer time. The report outlined the minimum standards to be introduced and whether they would have been delivered for Taunton Deane had they been in place.

Further reported details of progress that had been made in respect of the following 2014/2015 Action Plan:-

- To improve the information flows between the SWAP MKI System and the Council, to reduce the manual intervention currently required to maintain up to date records of audit recommendations;
- To further develop the audit universe work started during 2013/2014 with the Section 151 Officer and team – creating a database of knowledge to be used to manage risk across the Council;
- To look for further efficiencies in delivering audit work across Taunton Deane and West Somerset to benefit both Councils;
- To improve on the current 2013/2014 delivery times with regard to moving from draft to final audit reports; and
- To work with the Council on improving the reporting of key audit information to the Audit Committee.

The following new actions were to be progressed during 2015/2016:-

- (1) SWAP to work with TDBC to ensure that the percentage of audits completed in year for 2015/2016 increased to 95% of the audit plan delivered (with the remaining 5% delivered in the first two months of the following year);
- (2) Improving engagement with TDBC as a customer of SWAP so as to ensure TDBC were aware at an early point of known changes to service delivery, changes to key personnel or other relevant matters affecting the delivery of audit services to the Council;
- (3) SWAP to undertake a review of the current report template structure in order to identify improvements in clarity and content, in consultation with client officers; and
- (4) Current Key Performance Indicators (KPIs) will be reviewed and where necessary, new ones would be introduced in consultation with client officers.

It was the opinion of the Section 151 Officer that the system of internal audit was effective.

Resolved that the findings of the review of the effectiveness of Internal Audit for 2014/2015 be noted.

23. Draft Annual Governance Statement 2014/2015

The report covered the draft Annual Governance Statement (AGS) which was reviewed and approved annually by the Corporate Governance Committee at the June meeting. The AGS was to be signed by the Leader of the Council and the Chief Executive Officer prior to being submitted to the external auditors.

The AGS reviewed the effectiveness of the Council's systems of internal control and governance. The format of the review followed the six core principles of governance adopted by the Corporate Governance Committee (and recommended by CIPFA).

Also included was an Action Plan covering key governance actions to be delivered during 2015/2016.

This report was an annual requirement and was undertaken by the Corporate Officers Group. The purpose of the Group was to review the controls in place, and assess whether these were appropriate for the Organisation and therefore enabled the Group to form an opinion, and provide assurance that the business and finance controls were broadly robust. This report related solely to Taunton Deane Borough Council.

This report accompanied the Statement of Accounts and concluded that the controls in place remained adequate and fit for purpose. Committee Member comments or challenges were sought, and were asked to be presented, before moving forward for final signatures to be added.

During the discussion of this item, Members made comments and statements and asked questions which included: - (Responses are shown in italics)

- It was agreed the role of Corporate Scrutiny was under-resourced. The role of a scrutiny officer for 2 days a week, would add to the effectiveness of the scrutiny role.
- Who was the AGS aimed towards - members and officers, or is it meant to be more public?
The report was principally for Members and officers, but it was also published for the public, with hyperlinks included to enable the public to access documents.

Resolved that:-

- (1) The report be noted; and
- (2) The draft Annual Governance Statement be recommended for adoption by the Leader of the Council and the Chief Executive Officer.

24. Corporate Governance Committee Forward Plan

Submitted for information the proposed Forward Plan of the Corporate Governance Committee.

Resolved that the Corporate Governance Committee Forward Plan be noted.

(The meeting ended at 7.45 p.m.).