

GOVERNANCE AND AUDIT COMMITTEE

25 JULY 2017

Present:- Councillor Barlow (Chair), Councillor Chillingworth,
Councillor Graham, Councillor Harris, Councillor F
Macleane, Councillor Willetts

Also Present: - Councillor Buston

62. Minutes

RESOLVED that the minutes of the meeting held 25 June 2017 were confirmed as a correct record.

63. Annual Statement of Accounts

Councillor Harris, declared a non-pecuniary interest (in respect of being a Member of Essex County Council) declared a non-pecuniary interest in the following item pursuant to the provisions of Meetings General Procedure Rule 7 (5).

Steve Heath, Finance Manager, introduced the Annual Statement of Accounts report. The report requests that the Committee accept the audit results report for the year ending 31 March 2017, notes the comments in the covering report and approves the letter of representation and the audited statement of accounts.

Kevin Suter, Ernst and Young, presented the report to the Committee, which outlined the results of the audit of the 2016/17 statement of accounts. Kevin Suter reminded members that the original plan was brought to the Committee in March, which included the possible risks, and this report provides the key conclusions from the audit. The two responsibilities of the auditors are to provide an opinion on the statement of accounts, as well as to draw a conclusion on the arrangements for value for money.

With regard to the findings from the statement of accounts, Kevin Suter stated that at the time of the report there had been limited areas of testing that were still outstanding, however these have now been completed, and the intention is for the Statement of Accounts to be signed at the end of the meeting. Kevin Suter provided the Committee with a summary of the report including information about the fraud and revenue recognition, and confirmed that there were no issues to draw to attention. Kevin Suter also confirmed that no issues were found in the risk of management override. With regard to the presentation of the financial statements, no material misstatements were identified, but there was a requirement to restate certain figures. This was corrected using the new Expenditure and Funding Analysis note.

Kevin Suter informed the Committee that the valuation techniques used were reasonable and within the appropriate benchmarks. With regard to Pensions valuation, Kevin Suter

highlighted that the assumptions used by the pension fund actuary were considered to be at the optimistic end of the range for the discount rate and RPI inflation.

Kevin Suter confirmed that the auditors would be intending to apply an unqualified opinion on the financial statements. Kevin Suter also commented on a finding within the report regarding the change of payroll systems and the issue of document retention for the purpose of the audit.

The Committee welcomed the report from the auditors. The Committee raised a number of questions regarding the pension fund estimations. Kevin Suter confirmed that this comment would be reflected in reports to other local authorities in Essex. Kevin Suter confirmed that there are no non-standard issues with regard to the Pension Fund and that the estimation was deemed to be towards the top of an acceptable range, which means that it is materially correct. The process under which a valuation is devised would be managed by Essex County Council who would be audited and the actuary would also need to adhere to standards.

In response to a further question about the level of risk associated to the pension fund deficit, Kevin Suter stated that the Statement of Accounts provides a material reflection of the liabilities of the risks to the Council. Funding of the Pension Fund is undertaken on a tri-annual basis, with contribution rates agreed and built in to the budget setting process. Kevin Suter confirmed to Committee members that there are controls in place to assess the funding and duration of liabilities and that the risk to the Council is appropriately managed, particularly given the lifetime of the funding. The Chairman of the Committee suggested that further information about the Pension Fund could be brought to the Committee in future.

Kevin Suter also confirmed, in response to a query, that the Council and the auditors have a good dialogue to ensure that the recommendations are dealt with in a timely manner. Kevin Suter thanked Colchester Borough Council Officers for their assistance in this process.

With regard to the Council's arrangements for value for money, Kevin Suter confirmed that the Council's key plans were appropriately supported and reported an unqualified conclusion for the arrangements to implement value for money. Two risks were identified, the first of which was the savings required over the medium term, however based on the Council's record it was deemed that there are adequate arrangements for this. The second risk is related to the governance and accounting arrangements for the establishment of the Essex Garden Communities project. Kevin Suter confirmed that the actions taken so far are soundly based, and recommendations from the peer review have been responded to positively and in a timely manner. Kevin Suter informed the Committee that given the early stages of the project this would be something that the auditors would keep an eye on. The Committee Chairman, suggested that this may be an item the Governance and Audit Committee wish to look at in future.

Following further queries regarding Garden Communities, Kevin Suter explained that whilst there is not a similarly sized comparative body to take best practice from, in relation to the Governance, there is a lot of experience on how Councils have undertaken commercial style projects or significant decisions that could be used. Kevin Suter also confirmed that the Council has taken advice on the structure of the company and therefore from an audit perspective, happy with the arrangements in place. Kevin Suter also confirmed that the same risk and findings was also included within Braintree District Council and Tendring District Council audit reports.

A member of the Committee questioned whether the auditors were confident that the Council could continue to identify efficiencies to reduce the budget gap. Kevin Suter stated that it is harder to find efficiencies over a longer time, however the arrangements in place are soundly based. The pressure on budgets and budget gaps is seen across other authorities in Essex.

Kevin Suter brought to the attention of the Committee that the auditors remain independent of the Council. In addition, Kevin Suter also highlighted the small increase in fee, which has been agreed with the finance team. This is in relation to the payroll migration issues and additional work on the statement of accounts.

RESOLVED that;

- a) Audit results report for the year ending 31 March 2017 be accepted
- b) The comments in the covering report be noted
- c) The letter of representation be approved
- d) Audited statement of accounts be approved.

64. Colchester Borough Homes Annual Report and Governance Statement

Michael Hadjimichael, Director of Resources, Colchester Borough Homes, and Glenn Houchell, Chairman Colchester Borough Homes Finance and Audit Committee attended the meeting to present the Colchester Borough Homes (CBH) Annual Report and Governance Statement. The report requests that the Committee considers and comments on the Governance Assurance Statement of Colchester Borough Homes, and accepts the assurance provided by CBH regarding its governance arrangements throughout 2016/17.

Glenn Houchell, who was appointed Chairman of the Finance and Audit Committee at the turn of the year provided members with background information about the Committee. Glenn Houchell highlighted the level of detail that the Finance and Audit Committee receive and discuss and confirmed that Colchester Borough Homes are looking to further develop the risk management programme.

Michael Hadjimichael confirmed that the report had been approved by both the CBH Finance and Audit Committee and the CBH Board. The key highlights in the report include the reappointment of Mazars as internal auditors and the approval of a risk led plan by the Finance and Audit Committee. Michael Hadjimichael also noted that he was pleased that the future audit would be focusing on risk.

Since the previous years audit, work has been carried out to improve the disaster recovery ability of CBH; two tests took place during the year, alongside a renewed business continuity plan. Colchester Borough Homes have been working closely with Colchester Borough Council to further develop disaster recovery.

During 2016/17, Internal Audit identified two areas of limited assurance. This included recommendations on improving the timing of insurance renewals; as a result of which the 2017/18 renewals process has commenced earlier in the year. The other area of limited assurance was with regards to payroll. Whilst this sits with Colchester Borough Council, CBH worked with colleagues at CBC to ensure that an appropriate control framework is in place during transition. Ann Hedges highlighted that the new payroll system, which will be fully operational by September, would allow for greater flexibility in retrieving valuable

information for managers. It was also confirmed that Colchester Borough Homes had received an unqualified opinion from external audit.

In response to a query regarding risk management, and the risks associated with developing business opportunities outside of the relationship with CBC, Michael Hadjimichael confirmed that this has taken prominence on the strategic risk register. Colchester Borough Homes are constantly reviewing core procedures, and most of the commercial activities to date have been conducted with the core staff at CBH. Further steps for business development will require additional skill sets, and this will be looked at in detail in the future alongside examples of best practice.

Following a question regarding the limited assurance following an audit on payroll and insurance, Michael Hadjimichael confirmed with regards to insurance, all recommendations have been followed. In terms of the Payroll audit, CBH has been having conversations with Colchester Borough Council to ensure the correct processes are followed as the majority of required recommendations can only be acted on by CBC. Ann Hedges confirmed that the payroll system and the transfer to a new provider sits with CBC; similar risks were identified within the CBC Annual Governance Statement. The new payroll system is now in place and provides an increased ability to make the improvements required.

Further information about CBH managing corporate facilities was also requested. Michael Hadjimichael confirmed that the management of corporate facilities has been in place since 2013/14, with the skill set required for this function similar to that of managing existing stock. Risks associated with corporate facilities are included in the operational risk register, and if an issue did arise it would be escalated to the Colchester Borough Homes Finance and Audit Committee. With regard to new business opportunities, CBH are taking a risk averse approach focusing on those areas that CBH excels in.

RESOLVED;

- a) that the Governance and Audit Committee considered and commented on the Governance Assurance Statement of Colchester Borough Homes.
- b) The Committee accepts the assurance provided by Colchester Borough Homes regarding its governance arrangements throughout 2016/17.

65. 2016/17 Year End Review of Risk Management

Councillor Graham, declared a non-pecuniary interest (in respect of being the Director of the Stadium Board) declared a non-pecuniary interest in the following item pursuant to the provisions of Meetings General Procedure Rule 7 (5).

Hayley McGrath, Corporate Governance Manager, introduced the 2016/17 Year End Review of Risk Management. The report requests that the risk management work undertaken during 2016/17 is noted and that the Committee consider and comment on the current strategic risk register and the proposed risk management strategy for 2017/18. The report also requests that the Committee endorse the submission of the report to Cabinet.

Hayley McGrath provided the Committee with a summary of the key messages as included within the report. In particular, it was highlighted that whilst many of the risks listed in the register are outside of the control of the Council it is possible to mitigate the impact of those risks. The Committee were also informed that the auditors have endorsed the risk management approach from the Council giving it a substantial assurance level.

In summarising the work undertaken during 2016/17 Hayley McGrath provided the

Committee with information on the improvements made to embed Health and Safety within the Council. Current work has included revising the policies on lone workers, introducing new procedures and equipment as well as work in conjunction with the Stadium to deliver large events.

Hayley McGrath informed Committee members that the risk register had been reviewed in line with the usual processes, which included discussions with members of the Senior Management Team. Following discussions at the Performance Management Board, an additional risk regarding challenging behaviour from customers who had been incorrectly sign posted to Colchester Borough Council has been included on the register. Work is being conducted in the library with Essex County Council staff to assist on this matter.

Some Committee members requested further information about the risks associated with garden communities and whether the impact of the risk was categorised high enough, considering previous input from the auditors. Hayley McGrath informed members that the risk level has been discussed with Colchester Borough Council performance management board, Chief Executive and Directors. Whilst the impact of the risk is high, there are mitigation measures in place to reduce the possibility of issues occurring.

A further query from the Committee questioned whether it was likely that the number of high scoring risks would reduce in the near future. Hayley McGrath confirmed that whilst there are a number of risks with high totals the register takes a view of the strategic long term risk to the Council. It is not expected that the risks presented will alter significantly, however risks are reviewed each quarter with a report coming to the Committee every six months. Operational risks that sit within each service area tend to be more fluid and depend on the particular projects taking place at that time.

Hayley McGrath informed the Committee, following a question, that the risk tolerance line and matrix is part of a national risk management process. Some authorities' list risks on a 3x3 grid, however Colchester Borough Council has opted for a 5x5 grid, as this provides greater detail on the different levels of risk.

The risks associated with disaster recovery were also questioned, particularly regarding the difference between the high impact and low probability as well as other risks to service interruptions that are not included. Hayley McGrath commented that there are a number of risks that are not included on the register, but are dealt with under Council policy and procedures. The impact of ICT failure would be significant, given that it features as a big part of everyday work at the authority, however the Council is confident of the security arrangements in place. The Committee also discussed the scoring used to indicate the probability of risks occurring, and whether ratings of four or five mean that the risk is more likely to happen than not.

Hayley McGrath also highlighted the risk management strategy that forms part of the policy framework. This gets reviewed every year, and whilst it has been through a full review this year, have been no significant changes made as it remains fit for purpose. Hayley McGrath also confirmed to the Committee that the Portfolio Holder, Cabinet and the Governance and Audit Committee have responsibility for embedding risk management in the authority. Every report also includes reference to risk. Following a query from a Committee member, Hayley McGrath confirmed that it would be possible to add a training session regarding risk management for Councillors if that would be of interest.

RESOLVED that;

- a) the Risk Management work undertaken during 2016/17 be noted
- b) the current strategic risk register has been considered.
- c) The proposed risk management strategy for 2017/18 has been considered.
- d) The Committee endorse the submission of the report to Cabinet.

66. Work Programme 2017-18

Councillor Barlow, introduced the Work Programme 2017-18. The report requests that the Committee note the content of the Committee's Work Programme for 2017-18.

Councillor Barlow reminded the Committee of the questions raised during the items heard at the meeting, which related to the Pension Fund and Garden Communities. Councillor Barlow suggested that discussions take place about whether the Committee receive a briefing on these issues or whether an item is scheduled in the work programme for a future meeting date.

In addition, Councillor Barlow highlighted the Review of Meetings and Ways of Working which is due to come back to the Committee in the next few months. Councillors were reminded that input needs to be provided about how the review is going to assess whether the later start times of meetings has been a success.

RESOLVED that the Work Programme be noted.