

# DRAFT

Note: These Minutes will remain DRAFT until approved at the next meeting of the Committee

## GOVERNANCE AND ETHICS COMMITTEE

### MINUTES OF THE MEETING HELD ON MONDAY, 23 APRIL 2018

**Councillors Present:** Steve Ardagh-Walter, Jeff Beck (Vice-Chairman), Paul Bryant, James Cole, Lee Dillon, Sheila Ellison (Substitute) (In place of Keith Chopping), Anthony Pick and Quentin Webb

**Also Present:** Sarah Clarke (Acting Head of Legal Services), Julie Gillhespey (Audit Manager) Andy Walker (Head of Finance), Barry Dickens (Parish Council Representative), Geoff Mayes (Parish Council Representative), Ian Pennington (KPMG) and Jo Reeves (Principal Policy Officer)

**Apologies for inability to attend the meeting:** Councillor Keith Chopping

#### PART I

#### 29 Minutes and Matters Arising

The Minutes of the meeting held on 5 February 2018 were approved as a true and correct record and signed by the Chairman subject to the following amendments:

**Item 26 – Challenging Communication Issues - Update to the Officers Code of Conduct, Page 2, third line from the bottom** replace 'she' with Sarah Clarke **and Page 3, second line from the top** replace 'Ms Clarke', with 'Sarah Clarke'.

**Item 27 - Internal Audit - Interim Report 2017-18 (GE3258), Page 5** replace 'Ms Gillhespey' with 'Julie Gillhespey'.

#### Matters Arising:

The Committee noted the tabled list of actions arising from previous meetings.

Councillor Jeff Beck advised that he understood that Councillors were not considered to be employees of the Council and sought clarification regarding a request Members had received to complete e-learning about the General Data Protection Regulations. Sarah Clarke confirmed that Councillors were not considered to be employees of the Council under employment legislation and she would check whether the Head of HR had intended Members to complete the e-learning in addition to the training they had already received (**Action: Sarah Clarke**). Councillor James Cole explained that officers had recommended members of the Executive to complete the training.

Julie Gillhespey gave a presentation in reference to action 4 on the tabled list; Members had requested information regarding the audit process including timescales and the resourcing of the audit team. Julie Gillhespey outlined the key stages of the audit process and explained that a delay could occur at any and each stage. Reasons for delays could be attributed to the client or the audit team. The audit team was small and where a delay occurred with one audit, another would be started which could in turn worsen delays. Clients and Portfolio Holders would be consulted on audit recommendations which required agreement before the audit could be finalised. The Audit Manager acted as a bottle neck as each audit stage needed to be reviewed and signed off. Large investigations also increased the workload of the team. Julie Gillhespey explained that the Committee received an update twice per year which caused an information lag so proposed to return to quarterly updates.

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Councillor Steve Ardagh-Walter enquired whether clients or the resourcing of the team was the biggest contributing factor to delays. Julie Gillhespey advised that a high proportion were attributable to a lack of engagement and the situation was worsened by the reduced resources. More advance notice to Heads of Service might help to ensure there was engagement from the beginning of the process.

Councillor Anthony Pick asked how more regular reports to the Committee would help the audit team to save time, as it appeared to be counter productive. Julie Gillhespey explained that it would not save any time but it would ensure the Committee had information in a more timely manner.

Andy Walker provided an update in respect of action 3 on the tabled list. A temporary member of staff had been in post to implement the audit recommendations regarding the property database. A candidate had been offered a permanent role and was anticipated to start in May 2018.

### **30 Declarations of Interest**

There were no declarations of interest received.

### **31 Forward Plan**

The Committee considered the Governance and Ethics Committee Forward Plan (Agenda Item 4).

Councillor James Cole noted that a report concerning risk management would be presented imminently to Corporate Board and Operations Board and requested that the Committee consider the report at the next meeting.

Sarah Clarke noted that the Scheme of Delegation was currently scheduled for several meetings and she would correct the Forward Plan for the next meeting.

**RESOLVED** that the Governance and Ethics Committee Forward Plan be noted.

### **32 Monitoring Officer's Annual Report to the Governance and Ethics Committee - 2017/18 Year End (C3323)**

The Committee considered a report (Agenda Item 5) concerning local and national issues relating to ethical standards and brought to the attention of Members any complaints or other problems within West Berkshire.

Sarah Clarke particularly wished to highlight that 16 complaints regarding conduct had been received; 15 were in respect of parish and town councils. A number of complaints received were related so it was intended to review how the standards process could be amended in order to respond more flexibly and reduce the workload on the Democratic and Electoral Service Manager, Moira Fraser.

Declarations of gifts and hospitality offered and received remained low so Sarah Clarke expected that Members may not be making appropriate declarations. It was noted that the Chairman of Council's declarations were contained on a separate document and this had not been appended to the report. The officers' register of gifts and hospitality had been appended to the report and this would be redacted before presentation to the Council. There were differences in what had been declared and a large variance in the value of gifts and hospitality offered so it was intended to review the officers' gifts and hospitality protocol.

Councillor Quentin Webb suggested that an employee's post number be used instead of their job title in the redacted version. Sarah Clarke responded that she would prefer to remove the employee's name but leave their job title and team as it would be easier to

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identify any trends. Councillor Lee Dillon stated that he supported Sarah Clarke's proposal and enquired whether this might put junior members of staff at risk if they were the only employee with that job title. Councillor Dillon supported the inclusion of job titles for officers as some officers had delegated powers.

Councillor Ardagh-Walter enquired whether complaints of little substance were as time consuming as more justified complaints. Sarah Clarke advised that where a breach was suspected or identified an external investigator was appointed which was resource intensive. Due process was followed for each complaint and there was a separate process which needed to be followed for complainants who requested anonymity. Councillor Ardagh-Walter asked the workload might be decreased if more advice could be made available prior to a complaint being lodged. Sarah Clarke advised that she would not wish to deter complaints however there had been some instances where the process had been misused so she intended to consider a vexatious or repeated complaints process. Proposals would be presented to the Finance and Governance Group and the recommended option would be brought to the Governance and Ethics Committee before a final decision at Council.

Councillor Cole stated that there appeared to be a contradiction in the report as at paragraph 12.3 Members were praised for seeking advice yet at paragraph 11.1 they were criticised. Sarah Clarke explained that Members were generally very good at seeking advice where they suspected they may have a conflict of interest, however she could only assume from the limited declarations of gifts and hospitality offered or received that Members were not being vigilant in such declarations. Measures could be put in place to ensure officers made appropriate declarations through line management and internal meetings, however the Monitoring Officer's ability to ensure Members made declarations was limited.

Councillor Cole noted some formatting issues in the report. Sarah Clarke confirmed that these would be corrected prior to the submission of the report to Council.

**RESOLVED** that the report be considered at the Council meeting on 8<sup>th</sup> May 2018.

*Councillor Lee Dillon and Barry Dickens left the meeting at 5.58pm.*

### 33 Internal Audit Plan 2018/19 (GE3324)

The Committee considered a report (Agenda Item 6) concerning the proposed Internal Audit work for the three year period covering 2018/19 to 2020/21.

Councillor Ardagh-Walter noted that the work programme was based on levels of risk asked whether key risks were identified based on experience or a formalised process. Julie Gillhespey advised that it was informed by experience and the consultation with Heads of Service, Corporate Board and Operations Board.

Councillor Webb noted that 'Electrical (including street lighting)' had never been audited and was considered to be low risk and expressed the view that it should be audited as a large project to replace street lighting had been carried out and there should be assurance that the anticipated benefits had been realised. Julie Gillhespey advised that evaluation of the contract had lead to the conclusion that the service was low risk. Andy Walker assured the Committee that all budget lines were monitored monthly. Julie Gillhespey agreed that she would consider how the street lighting service was evaluated to be low risk (**Action: Julie Gillhespey**).

Councillor Cole asked if Julie Gillhespey considered it to be a good thing that the responsibility for risk management had been moved to another service in the Council. In response, Julie Gillhespey noted the correlation between risk management and internal audit and advised that she had been unable to take on responsibility for risk management following the deletion of the Chief Internal Auditor post. Councillor Cole advised he was

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pleased that risk management was now managed by another service and the Committee would need to make an assessment whether the Internal Audit team were sufficiently resourced. Andy Walker stated that in his capacity as the Section 151 Officer he was required to give an opinion regarding whether internal audit resources were adequate. An external review was due to be undertaken and the outcome report would be shared with the Committee.

*Councillor Steve Ardagh-Walter left the meeting at 6.15pm.*

Councillor Paul Bryant expressed the view that should there be an issue with the street lighting project it would show as a budget anomaly rather than a risk.

Geoff Mayes suggested that each section of appendix Di should be numbered for ease of reference.

*Councillor Shelia Ellison left the meeting at 6.19pm.*

Councillor Pick asked whether an audit into planning enforcement would be in respect of planning decisions or more general. Julie Gillhespey confirmed that it would be general. Councillor Pick noted that the last audit had been undertaken in 2010/11 and stated that he had concerns that resources were adequate. A constituent had recently made contact regarding planning enforcement and Councillor Pick had been informed that officers were unable to investigate. Councillor Beck noted that the Committee's role was to consider risks to the Council rather than to developers and neighbours. Councillor Pick expressed the view that there was a reputational risk to the Council if it was unable to properly enforce planning legislation.

Councillor Bryant queried the acronym 'NFI' on page 71 of the agenda pack. Julie Gillhespey explained that it meant the National Fraud Initiative, a mandatory exercise for which the Council would have to provide data.

Councillor Bryant further queried what would be involved in the Commercialisation audit. Julie Gillhespey explained that all aspects of the property investment activities of the Council would be investigated.

Councillor Cole asked whether all suspected fraud found in during an audit would be reported to the Chief Executive. Julie Gillhespey advised that there was a Fraud Policy which outlined the reporting process. Andy Walker noted that fraud would also be reported to the police.

**RESOLVED** that the Proposed Audit Plan, the Internal Audit Charter and associated documents be approved.

### 34 External Audit Plan 2017/18 (GE3225)

The Committee considered a report (Agenda Item 7) concerning the External Audit Plan from KPMG for 2017/18.

Ian Pennington (KPMG) advised that there were no significant changes to the Code of Practice on Local Authority Accounting ("the Code") in 2017/18, which provided stability in terms of the accounting standards the Authority needed to comply with. Despite this, the deadline for the production and signing of the financial statements had been significantly advanced in comparison to the year ended 31 March 2017. This represented a significant change for the Authority but KPMG recognised that the Authority had successfully advanced its own accounts production timetable in prior years so as to align with the new deadlines. As a result, KPMG did not feel that this represented a significant risk, although it was still important that the authority carefully managed its closedown process to meet the earlier deadline.

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Materiality for planning purposes has been set at £3.6 million (1% of the Council's expenditure), lower than the £5m used in previous years. KPMG were obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this had been set at £180,000.

A risk requiring specific audit attention and procedures to address the likelihood of a material financial statement error had been identified as Pension Liabilities. The valuation of the Authority's pension liability, as calculated by the Actuary, would be dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. KPMG would review the processes in place to ensure accuracy of data provided to the Actuary and consider the assumptions used in determining the valuation.

Risks with less likelihood of giving rise to a material error but which were nevertheless worthy of additional audit focus had been identified as:

- Valuation of Property, Plant and Equipment – Whilst the Authority operated a cyclical revaluation approach, the Code required that all land and buildings be held at fair value. KPMG would consider the way in which the Authority ensured that assets not subject to in-year revaluation are not materially misstated;
- Valuation and disclosure of investment property – The Authority was expecting to acquire up to £20 million of commercial investment properties (by 31 March 2018) as part of its plans to provide a balanced investment portfolio to give the Authority a long term revenue stream. The Authority had specific governance arrangements to implement and deliver its strategy. KPMG would review the Authority's decision making when purchasing investment properties in 2017/18. They would also assess the valuer's qualifications, objectivity and independence to carry out valuations and review the methodology used.

The risk assessment regarding the Council's arrangements to secure value for money (VFM) had identified that financial resilience would be a significant risk. As a result of reductions in central government funding, and other pressures, the Authority was having to make additional savings beyond those from prior years and also pursue income generation strategies. KPMG would consider the way in which the Authority identified, approved, and monitored both savings plans and income generation projects and how budgets were monitored throughout the year.

Ian Pennington also noted that electors were entitled to write to KPMG to challenge audit activity. If any challenges were made this would be costly and time consuming.

Councillor Pick enquired what aspects of the property investment service would be looked at. Ian Pennington advised that the accounts, governance, processes, valuers and value for money would be audited. It was also noted that property investments in other parts of the country would have different risks. Councillor Webb advised that the Council's Property Investment Strategy permitted the purchase of commercial property but not residential and the report did not appear to be accurate. Sarah Clarke noted that the Council had recently bought a residential property for temporary accommodation in order to reduce costs. Councillor Webb requested that the reference in the report was reworded to be more accurate.

Councillor Pick asked that the report contained more information regarding how the Council's Property Investment Strategy worked in operation. Sarah Clarke explained that the full strategy including operational procedures was presented to the Council in May 2017 and the purpose of the audit report would be to evaluate whether those procedures were being followed.

Councillor Beck thanked Ian Pennington for presenting the report.

**RESOLVED** that the External Audit Plan be noted.

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*(The meeting commenced at 5.05 pm and closed at 6.47 pm)*

**CHAIRMAN** .....

**Date of Signature** .....