

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, 30 JULY 2018

Councillors Present: Steve Ardagh-Walter, Jeff Beck (Vice-Chairman), Jeff Brooks, Paul Bryant, Keith Chopping (Chairman), James Cole, Jane Langford (In place of Barry Dickens), Geoff Mayes, Anthony Pick and Quentin Webb

Also Present: Shannon Coleman-Slaughter (Chief Financial Accountant), Andy Day (Head of Strategic Support), Julie Gillhespey (Audit Manager) and Andy Walker (Head of Finance and Property), Moira Fraser (Democratic and Electoral Services Manager) and Councillor Rick Jones (Executive Portfolio: Corporate Services)

Apologies for inability to attend the meeting: Barry Dickens

PART I

3 Minutes and Matters Arising

The Chairman welcomed Antony Smith and Greg Morris from KPMG to the meeting.

The Minutes of the meetings held on 23 April 2018 and 08 May 2018 were approved as a true and correct record and signed by the Chairman subject to the inclusion of the following amendments:

23 April 2018, Item 29 (Minutes and Matters Arising), Page 2, first paragraph, last line replace the word 'form' with 'from'.

23 April 2018, Item 32 (Monitoring Officer's Annual report to the Governance and Ethics Committee – 2017/18 Year End), Page 3, second paragraph, eighth line replace the word 'wad' with 'had'.

23 April 2018, Item 33 (Internal Audit Plan 2018/19), Page 4, final paragraph, first line delete the word 'in'.

Matters Arising

Actions 1 and 2 had been completed and could therefore be deleted from the list of outstanding actions.

Item 4 GDPR Training – Sarah Clarke had established from the Head of HR that Members were not required to undertake the e-learning.

Item 5 Risk Evaluation of Street Lighting – Julie Gillhespey stated that she had relooked at this issue and that she believed that street lighting warranted being classified as a moderate risk and consideration would be given to including it in the audit plan for the following year.

4 Declarations of Interest

There were no declarations of interest received.

5 Forward Plan

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

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Moira Fraser commented that if Members were minded to approve the recommendations in Agenda Item 5 she would include six monthly risk management update reports to the forward plan.

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

6 Review of Governance of Risk Management (GE3601)

The Committee considered a report (Agenda Item 5) concerning the governance and management arrangements of the Council's Risk Management function.

Andy Day in introducing the item reported that this report attempted to consolidate a number of previous reports relating to risk management. The risk management function had recently been subsumed in the Strategic Support Service. While the function had been transferred no resources had been attached to the transfer. As a consequence he had allocated 0.75 days per week to this activity. This was largely commensurate with the level of resource previously allocated to this function when it had resided in the Audit Team.

This report provided an update on progress made since April 2018 when the function had transferred. Andy explained that he and Catalin Bogos were in the process of reviewing and redrafting the risk management policy. Work was also ongoing on amending the risk management templates and they were also reviewing the triggers which would cause a risk to be escalated from a service risk register to the strategic risk register. It was envisaged that this would be a living document and risks would move between registers when triggers were reached or where risks were not imminent. Andy and Catalin would be meeting Heads of Service and Senior Management Teams as well as the Corporate Management Team to discuss the changes.

A quarter 1 report had been produced which was based on previous iterations but work would be ongoing to update this document too. It was envisaged that six monthly risk management updates would be taken to Corporate and Operations Board as well as to the Governance and Ethics Committee.

Andy apologised that recommendation 2.6 had erroneously been included in this report.

Councillor Paul Bryant was concerned with the impact a reduction in resources could have on this important function. Andy commented that as he was new to managing this function he could not comment on how this area was previously resourced. Officers would be seeking to educate services and amend processes however any activity had to be proportionate to the resources available.

Councillor James Cole commented that he had initiated this activity after the Governance and Ethics Committee had asked him to attend Risk Management Group meetings. That Committee had not proved to be very successful and had subsequently been disbanded. Ian Priestley had drafted the first report on this issue and Councillor Cole had had significant input into that report. He did not agree with the current version of the report. He had however met with Andy Day and Catalin Bogos and could see a way forward which could be achieved over a period of time.

Councillor Cole stated that he had wanted Senior Managers and the Executive to gain a clearer understanding of risk appetite and tolerances. He wanted the Council to understand that the risk register did not quantify financial exposure of the Council. He also wanted to test the controls to ensure they actually existed. He also wanted to ensure integration across the silos that existed within the Council. He wanted to use existing

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data to understand if the Council was likely to hit its tolerances. In his opinion the only way to achieve this would be have a database for risk and this was the one recommendation that had not been agreed by either Corporate or Operations Board. The database could also be used to tie risk reserves to the risk register. In summary this document did not achieve what he had set out to achieve but that that could be resolved over time.

Councillor Steve Ardagh-Walter queried if the revised level of resources had been compared with other similar authorities. Andy Day commented that he had not done so. He wished to stress that this report was an update on progress that had been made since April 2018. The issues around risk appetite and tolerances etc. raised by Councillor Cole would be considered as part of the review of the risk management policy which was currently been undertaken.

Councillor Quentin Webb thanked Councillor Cole for his endeavours. He welcomed the revised governance arrangements which were set out in paragraph 4.2 of the report. Councillor Webb commented that he supported the contents of this report.

Councillor Jeff Brooks queried what processes Councillor Cole wished to see in place in order to achieve his goals. He asked if Councillor Cole wished him to propose that he be involved in the introduction of the changes. Councillor Cole did not take him up on this offer but commented that he had not been invited by Officers to help. Councillor Brooks supported the recommendation for ongoing updates to be brought to the Governance and Ethics Committee. He also suggested that it would be useful if the Strategic Risk Register was also presented to the Committee as part of the update report. Andy Day agreed to do this **(Andy Day to Action)**.

RESOLVED that:

1. notwithstanding the resource implications, the Risk Management function be subsumed into Strategic Support.
2. the Risk Management Group be abolished and the existing governance arrangements set out in Paragraph 4.2 (Appendix A) be used to manage this function going forward.
3. the Risk Management policy be reviewed and, as part of this review, the Council's risk appetite be considered and developed.
4. all service risk registers be amended to ensure that they contained the full impact of any risks such as any financial liability etc.
5. Operations Board and the Governance and Ethics Committee receive 6 monthly Risk Management update reports.
6. 4 of the 5 recommendations proposed by Councillor Cole (paragraph 3.2 of Appendix A refers) be supported, the only one not supported, at this stage, being the need for a Risk Management database.

7 Internal Audit Annual Assurance Report (GE3330)

The Committee considered a report (Agenda Item 6) which discharged the requirement of the Audit Manager to make an annual formal report to those charged with governance within the Council under the Public Sector Internal Audit Standards (PSIAS).

The audit opinion was based upon the assurance work undertaken during the year, knowledge gained from previous assurance work, as well as intelligence gained from other sources of assurance, both internal and external, for example, Ofsted and the Council's Finance and Governance Group. The report was linked to the Annual Governance Statement which was also included on this agenda.

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Julie Gilhespey explained that the council was required to produce this report on an annual basis. This report was longer than previous iterations to ensure that it fully met the requirements of the PSIAS, but the key issues were set out in paragraph 5.4 on page 24 of the agenda

Councillor Quentin Webb asked for comment on the process that was followed in the case of weak and very weak audits. Julie explained that the recommendations would be shared with the relevant Head of Service and Corporate Director who would be tasked with meeting the recommendations. Audit would undertake a follow up six months later to ensure that sufficient progress was being made with implementing the recommendations. Councillor

Councillor Rick Jones commented that as the portfolio holder for this area he wished to stress that it was the audit teams role to identify issues and then report them to the relevant Head of Service, Corporate Director and Portfolio Holder. It was these officers that needed to resolve the issues. Audit then undertook a review six months later where the audits were deemed to be weak or very weak to see if satisfactory progress had been made. Julie Gilhespey stated that Governance and Ethics could ask Internal audit to undertake a second follow up where they felt it was needed.

Councillor Anthony Pick noted that in terms of the follow ups one follow up had shown that progress was unsatisfactory (Management of Archive Storage) and one was satisfactory (Section 17 Support), where it was unsatisfactory did this then mean that the service was ineffective. Julie Gilhespey stressed that this did not demonstrate that the service was ineffective just that the controls were weak which increased the risk that something could go wrong.

Councillor Steve Ardagh-Walter was concerned about the potential delay between a concern being identified and the concern being reported at a Governance and Ethics Committee meeting. He queried if the presentation on follow ups could be amended to be more informative for the Committee. Data for the past three years would be useful. Julie stated that she could look into this. **(Julie Gillhespey to Action)**. Members commented that it would be useful if some of the definitions could also be included in the report.

RESOLVED that the report be noted.

8 Annual Governance Statement (GE3331)

The Committee considered a report (Agenda Item 7) which set out the Annual Governance Statement (AGS) for the Council for 2017-18. The report also outlined issues that Corporate Board considered should be included in the 2017-18 AGS as they required action to resolve.

Andy Walker explained that the governance framework comprised the systems and processes, and culture and values, by which West Berkshire Council was directed and controlled and its activities through which it engaged with, led and accounted to the community.

It enabled West Berkshire Council to monitor the achievement of its strategic objectives and to consider whether those objectives had led to the delivery of appropriate, cost effective services. Comments from the Monitoring Officer and the s151 Officer were set out in Section 4 of the report.

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RESOLVED that the actions to mitigate risks to the Council's governance arrangements be agreed.

9 Financial Statements (GE3327)

The Committee considered a report (Agenda Item 8) which provided Members with the ISA260 report from KPMG. Shannon Coleman-Slaughter explained that the report included KPMG's opinion on the Council's Financial Statements, the Council's Value for Money and any additional recommendations. The report also included the final copy of the Council's Financial Statements as at 31st March 2018.

Antony Smith from KPMG stated that this was an excellent audit report. Page 61 of the report set out any issues that were outstanding at the time the report was prepared. They noted that the timeframe for preparing the report had been foreshortened by two months this year which was why some of the work was still ongoing.

Mr Smith highlighted the following key outcomes in the report:

- There were no unadjusted audit differences.
- One presentational adjustment had been made in respect of capital financing.
- They had agreed an audit adjustment of £4.1m to the Comprehensive Income and Expenditure Account to remove transactions relating to the financing of capital which was in line with a similar adjustment in 2016/17
- They had issued an unqualified value for money conclusion.
- They had not identified any matters that would require them to issue a public interest report nor had they needed to exercise any other audit powers. There were no issues that they wished to draw to the attention of the Committee.
- The only significant risk to the council that they had identified was in relation to pension liabilities
- The other areas the audit had focussed on were valuation of land and buildings, valuation and disclosure of investment assets and the faster close.
- In terms of the investment assets they had looked into the governance arrangements and were satisfied that the purchases accorded with the agreed policies.
- In terms of the faster close down the Council had delivered a commendable quality of accounts and supporting documents given the reduced timescales. This was particularly notable given the loss of key staff over this critical period.
- Fraud risk from revenue recognition was not seen to be a particular issue for local authorities they therefore had not included specific work into their audit plan over and above their standard fraud procedures. No issues were identified.
- There were no matters arising from their work related to fraud risk from management override of controls.
- The value for money conclusions were set out on page 75 and 76 of the agenda. They were satisfied that the Council's arrangements were satisfactory and processes were in place to identify situations early on and take corrective action.

Andy Walker stated that KPMG had been the Council's auditors for the past ten years. New auditors (Grant Thornton) would be taking over as of the 2018/19 financial year. He wished to convey the Council's thanks to the team for all their hard work and pragmatic approach.

Councillor Jeff Brooks queried the rate at which the Berkshire County Council PWLB loans were being repaid. Andy Walker commented that the Council had taken on loans of around £34m and the value of these loans had been reduced to £20.5m. Some of the

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loans were for a sixty year period and therefore still had a long way to run. The Council had looked at refinancing these loans but this had not proved to be possible.

Councillor Ardagh-Walker queried what impact a rise in interest rates would have on the Council's outstanding loans. Andy Walker explained that a separate report (Treasury Management Annual report) would be produced that would look at these issues the report would be taken to the September Executive meeting. He stated that the council had decided that all borrowing would be done on fixed rates.

Councillor Quentin Webb thanked the Team for all their hard work and Councillor Chopping commented that this was an excellent piece of work.

RESOLVED that the Financial Statements be approved as required by the Accounting and Audit Regulations.

(Antony Smith and Greg Morris left the meeting)

10 Planned Audit Fee for 2018/19 (GE3577)

The Committee considered a report (Agenda Item 9) which provided Members with a copy of the Audit Fee letter for 2018/19 from Grant Thornton. The letter set out the fee for audit in line with the prescribed scale fee set by the Public Sector Audit Appointments Ltd (PSAA). It was noted that the Governance and Ethics Committee had previously agreed that the Council should become a member of the PSAA, who now appointed its auditors which had resulted in a 23% reduction in the fees for 2018/19. The 2018/19 fee totalled £74,423.

Councillor Jeff Brooks commented that it was good practice to change auditors periodically.

Councillor Steve Ardagh-Walter stated that he had raised concerns about this approach at previous meetings but that it appeared to be a successful decision and he wanted to thank Officers for seeing it through.

RESOLVED that the planned audit fee letter for 2018/19 be noted.

11 Outcome of the External Review of Internal Audit (GE3270)

The Committee considered a report (Agenda Item 10) concerning the outcome of the external assessment of Internal Audit.

The outcome of the assessor's report had concluded that the Council's Audit Team 'Generally Conforms' with the PSIAS. There were a small number of recommendations and some suggestions for improvement.

Julie Gillhespey commented that the Council was required to undertake this review every five years. She was pleased with the outcome of the review which stated that the Council generally conformed with requirements. The report set out 4 recommendations and 5 suggestions. These were incorporated into the action plan set out on page 222 of the agenda. If members were minded to agree them she was happy to introduce them.

The only item which was slightly unusual was S1 Consider undertaking a review of the remit and effectiveness of the Governance and Ethics Committee. This would be done against a checklist from CIPFA guidance for audit committees. Julie commented that if Members were minded to accept this suggestion the review would be undertaken by Internal Audit.

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Councillor Jeff Beck commented that he endorsed the recommendations especially Recommendation 3 which was to strengthen the Service by the introduction of an additional post to the team. Julie Gillhespey explained that there were currently three members of the team and they were in the process of recruiting a senior auditor. It was hoped that the appointment would be made later that week.

RESOLVED that the report be noted and the content of the Action Plan be approved as the basis of a Quality Assurance Improvement Plan (QAIP) for Internal Audit.

12 Date of the Next Meeting

The Committee noted that the dates for the remainder of the Municipal Year were as follows:

- 8 August 2018
- 28 August 2018
- 26 November 2018
- 4 February 2019
- 16 April 2019

(The meeting commenced at 5.00 pm and closed at 6.10 pm)

CHAIRMAN

Date of Signature