Minutes of the Audit and Standards Committee Meeting held on 30 July 2019

Present: Martyn Tittley (Chairman)

Attendance

Derek Davis, OBE	Victoria Wilson
Michael Greatorex	Paul Northcott
Colin Greatorex	Susan Woodward
Carolyn Trowbridge (Vice-Chairman)	Jonathan Price
Ross Ward	David Williams
Bernard Williams	

Also in attendance: Lisa Andrews, Rob Salmon, Ann-Marie Davidson, John Tradewell, Debbie Harris and Stephen Clark (Ernst & Young, External Auditors).

In attendance (part meeting): Melanie Stokes (Item 6b); James Bailey and David Walters (Items 8 and 11); Stephen Broughton (Item 12); Andrew Jepps and Bev Jocelyn (Item 13); Bronya Jeffries (Item 14).

Apologies: Jill Hood, Alastair Little and Ann Edgeller

PART ONE

90. Minutes of the Meeting held on 12 June 2019

RESOLVED – The Director of Corporate Services agreed to verify with the Leader of the Opposition the accuracy of the statement that 'no other local authority' had been able to comply with the Regulations in respect of Deprivation of Liberty Standards'.

That the Minutes of the meeting held on 12 June 2019 be confirmed and signed by the Chairman.

91. Declarations of Interest

There were no declarations of interest.

92. Annual Governance Statement 2018-19

The interim Head of Audit and Financial Services asked Members to approve the Annual Governance Statement 2018-19 which forms part of the Annual Accounts and is overseen by the external auditor. Following approval by the Audit and Standards Committee, the Statement was required to be signed off by the Chief Executive and the Leader of the Council.

The Statement followed the same format as in 2017-18. It had been prepared in line with guidance issued by the Chartered Institute of Public Finance and Accountancy

(CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE). The document described what the Council was responsible for; the aim of the governance framework; the governance framework; a review of how effective the Council's governance framework is and significant governance issues. Annex 1 to the Statement reproduced "The Annual Review of the Effectiveness of the Governance Framework including the system of internal control – 2018-19".

Details of the way in which the Annual Governance Statement had been prepared were detailed in the report. Six key questions had been agreed and approved by the Corporate Governance Group to act as a guide on what constituted a **significant** governance issue to inform the completion of the 2018-19 statement. These were detailed in paragraph 7 of the Statement.

Details were given of the arrangements for monitoring and evaluation of the Statement. The annual review of effectiveness was explained and attached to the Statement. This explained the key governance issues and actions taken to complete them against the Code of Corporate Governance and Annual Review. Some governance issues in the 2017-18 Statement were ongoing and had been carried forward into the 2018-19 Statement. The interim Chief Internal Auditor's Annual Report had given an adequate assurance opinion on the overall control environment and this had been reported to the June meeting of the Committee. An unqualified opinion had been given by the external auditor in 2017-18. The external auditor had indicated their intention to give a qualified opinion by exception, based on the SEND Ofsted report that had been received in November 2018.

As reported to the Committee as part of the Annual Outturn Report the Council has an effective system of internal audit; during 2018-19 the Monitoring Officer and the Chief Finance Officer have not had to use their official powers; the Council has effective processes in place and scrutiny arrangements that reflected the Council's key priorities; Children's Services maintained a 'Good' rating from Ofsted; there was positive feedback regarding the Council's governance processes from the Peer Challenge in September 2018; an Action Plan in regard to SEND had been put in place and would be overseen by the Families Strategic Partnership Board; the Audit and Standards Committee had received an Annual Report on the management of elected member related complaints and 'unconscious bias' training had been arranged for Members. Moving forward detailed Member Code of Conduct reports would be included where appropriate. Finally, the Local Government and Social Care Ombudsman did uphold a complaint regarding the management of the Deprivation of Liberty Safeguards.

The remainder of the report highlighted the key elements of the Governance Framework and the principles, statutory obligations and organisational objectives were described on a 'Single Sheet'. The key roles of those responsible for developing and maintaining the framework were described. These reiterated management and employee compliance. The key governance matters in 2017-18 and actions taken were described and were listed on pages 51-54. The ten key governance issues for 2018-19 were summarised and were listed on pages 55-56.

Members asked if the Corporate Governance Group was happy with the progress being made regarding AGS 1-5, in particular the transformation of Children's Services "ongoing" (AGS 4) and questioned the pace in regard to the digital road map (AGS 6) as there was no sign of any material projects for Members to see. The interim Head of Audit and Financial Services responded that positive responses had been received from the individual Lead Officers, including the Chief Executive. Digital was a key enabler in the Council's Corporate Strategy and would continue to be monitored and actions taken where necessary.

Members asked if the Council had adequate capacity and capability to deliver transformational change (AGS 5), given the reference to "issue of capacity" identified last year, on page 27 of the report. Given further reductions in staffing this would give less flexibility to make transformational change. Members asked how focussed the organisation was on the issue of capacity. The Director of Corporate Services responded that the Council must live within its means. He added that the issues raised were not capacity issues. The work regarding Digital was ongoing. A great deal had been achieved with the roll out of Office 365, the improvements to the Council's website; the introduction of agile working and the Council was now switching off some of its phone services as the online service was available. Transformation was ongoing.

In regard to Children's Services, the place-based approach had led to some overall successes and the number of children coming into the care system had moreorless stabilised. The main issue was the numbers coming into the 'higher end' of care which was costlier.

The issue regarding SEND was in regard to demand. He stated that it was important to work closely with parents and schools to enable them to understand why it was important that pupils remained in mainstream education and how they would be supported in that system. It may be necessary to inject extra capacity into SEND in order to deliver the transformation.

The Leader of the Opposition stated that the SEND Ofsted report had come as a surprise to herself and others and she had concerns that a reduction in capacity across the whole system may mean that there may be other issues that the Council is not currently aware of that may become significant cost pressures. The Chairman reminded Members that the Committee had written to the Cabinet Member for Children and Young People last year expressing concerns regarding SEND.

RESOLVED – That the report be approved.

93. Statement of Accounts 2018-19

The County Treasurer introduced the Statement of Accounts 2018-19. He explained that the Accounts were signed on time and he expected an audit opinion that would meet the deadline. He reminded Members that the sign off of the Accounts' deadline had been brought forward to 31 May for the second year and this meant that the Council had to produce the accounts for sign off by 31 July, whereas the production of accounts had previously been 30 September. This impacted on the whole Finance and Audit Teams and the deadline clashed with other accounting deadlines in the public sector. This year the Accounts had been further complicated because of the number of notional adjustments that the Council had been required to make. There had been changes to the rules, one of which impacted on notional adjustments. Specifically, the McCloud judgement Court Case that had not been concluded until the end of June/early July after the Accounts had been prepared, and this meant that the accounts had to be redone. The County Treasurer also drew Members' attention to the capacity of the Council to deliver. The external audit had produced some areas for improvement that the Team would be working with the external auditors to address. Finally, the County Treasurer drew Members' attention to the external auditors' Value for Money opinion judgement in regard to the SEND Ofsted position.

a) Training Session - Understanding the Statement of Accounts

The Corporate Finance Manager gave a presentation on Understanding the Statement of Accounts.

The background to the presentation of the Statement of Accounts to Members of the Audit and Standards Committee was that the Council is required to approve the Statement of Accounts in accordance with the Accounts and Audit Regulations 2015 and the Chairman of the relevant Committee (the Audit and Standards Committee) was required to sign and date the accounts.

The Statement of Accounts were the formal accounts of the Council and showed what the Council's services cost in the year of the account, where the Council's income comes from and what the Council's assets and liabilities were at the year-end. The Accounts must cover the period 1 April 2018-31 March 2019 and must be drafted by 31 May and finalised and audited by 31 July. During the period from 31 May to 31 July they are open to a six-week period of public inspection (3 June – 12 July), by any member of the public, Members, employees and other interested parties.

The Accounts had been prepared according to a range of principles and practices and governed by the Code of Practice on Local Authority Accounting and had to be signed off by the responsible financial officer (the County Treasurer) who was responsible for agreeing that the Accounts presented a 'true and fair view'. The external auditors, Ernst & Young, were appointed independently of the Council, by the Public Sector Audit Appointments. The main accounting principles to note were materiality (gross expenditure over £1bn) and accruals (to ensure that all income and expenditure is included in the year to which it relates). Notional transactions may take place. This meant that no cash was leaving or being received by the Council for those transactions, but an amount needed to be included in the financial statement to comply with the financial regulations.

There were four main sections to the accounts. The narrative statement provided an overview of the financial position. The accounting policies were the rules used in the preparation of accounts. There were four main financial statements followed by 47 notes and finally, the Pension Fund accounts. A comprehensive income and expenditure statement was included that reported the net costs for services for the year (2018/19) and the principal sources of financing (amounts to be funded from taxation) to give the net surplus/deficit for the year.

The Accounts showed a net deficit on provision of services is £16.8m. This was because of the number of notional transactions and represented a smaller deficit than in 2017/18. The main points to note were the net cost of services were less than 2017/18, in line with MTFS expectations. There has been an increased loss on disposal of school assets due to the number of schools transferring to academies (a notional transaction). The net pensions liability was slightly larger due to the impact of the McCloud judgement and other assumptions made by the actuary. The McCloud judgement came about following a recent Court case where an individual complained about age discrimination in pension transition arrangements. The Government had accepted the judgement of the Court but because of the recent nature of this case local authorities have not been able to quantify the financial impact across the public sectors. The actuary had predicted an increase in the pension liability for Staffordshire of £11.2m. Finally, the Accounts showed an increase in income due to additional Council tax and capital grants being received in 2018/19.

An explanation was given of Prior Period Adjustments. These were required where there had been either a change in accounting policies, only made through changes in accounting practices, or where material errors had been found. Changes had been made retrospectively by amending opening balances and comparative accounts. During the 2017/18 accounts it was found that there were timing differences in the disposal of school assets when the school converted to academy status. This was reported to the Committee last year. An exercise had been undertaken to cleanse the data in the asset register and ensure assets were disposed of in the correct financial year and a prior period adjustment had been made to ensure all disposals were shown in the correct year. This was a notional adjustment and had not had an impact on reserves or cash balances.

The balance sheet summarised the Council's financial position for the year indicated by the value of its assets less its liabilities (£89.4m), the level of balances and reserves at its disposal and its reserves (usable and unusable). The impact of the McCloud judgement was a small percentage of the pension liability (a totally hypothetical figure) which had increased from £947.9m to £1,128.2m. There had been an increase in cash and short-term investments at the year end to ensure liquidity around Brexit.

In total the Council's usable reserves had increased by £67.0m. General balances were now at £30.4m. This level would be reviewed as part of the MTFS process. Schools' reserves had decreased by £1.4m. The Movement in Reserves Statement showed more detail on changes to the reserves during the year.

Details of the Pension Fund are given on pages 175-212 of the papers. These were separate accounts for which the County Council was the administering authority. The pension fund accounts must be included in the County Council's Statement of Accounts and had increased in value by 7.4% during 2018/19. There had been a net increase in the fund value of £353.3m. The Pension Fund also produced its own Annual Report.

b) Statement of Accounts 2018-19

Members asked for an explanation of the treatment of the transformational payments on page 62 of the report. The Corporate Finance Manager stated that the Council has used the flexibility given to it by the Secretary of State to use capital receipts to capitalise transformational spend (£13m). Separately the Council had transferred £5m to the exit and transition fund as part of the one-off funding required by the MTFS report in February.

Members asked for an explanation of the rate of the Lender Option Borrower Option (LOBO) as compared with borrowing from government. The Head of Treasury and Pensions explained that the Council had a portfolio of loans that cost an average interest rate of around 4% p.a. When the LOBO loans were taken out the Council always made sure that the structure of the loan at the back end was around the PWLB (Public Works Loan Board) rate and at the time this was 4.5%. There would be some loans that are less than the PWLB at the time they were taken out. There was a profit to be made at the time the Council borrowed them but given where interest rates are currently they are more expensive that where the market could borrow them today. However, to get out of them there would be a large penalty, so it made financial send to leave them as they were.

Members asked if the Council charged a handling fee for managing education endowments and trust funds. The Head of Treasury and Pensions explained that in the main the Council did not charge a handling fee. Some were land only and if a fee was charged for these small endowments or trust funds they would have no income to pay for such charges.

Members stated that they observed that Reserves had increased at a time when services had been cut and this may appear inconsistent to local residents. The County Treasurer explained that pages 63-64 set out details regarding the movement of reserves. A variety of funding was received for capital schemes, but if the Council did not deliver on those schemes, the money was carried forward. In respect of international standards, the Council was required to recalculate the way in which we charge out those loans, so there was a windfall benefit in the first instance as a consequence, that then gets charged out over the next 30 years. The reserve is a mechanism to equalise this. Balances went up by the amount of the underspend £3.5m. on the general fund.

Members asked about the unpaid debt with Stoke City Council, and the amount owed to the Council from Entrust of £0.9m (page 147) and asked when these debts would be repaid. The Corporate Finance Manager stated that the debt with Stoke City Council was historic and went back to 1997. Stoke City Council do pay the costs of servicing that debt and they paid it off over time. The debt with Entrust just represented a snapshot as at 31 March 2019.

Note by Clerk: The external audit of the draft statement of accounts for the year ended 31 March 2019 has not yet been completed by the external auditors, EY LLP, due to a small number of audit procedures still due to be concluded upon. This situation is allowed for by Regulation 10, paragraph (2a) of the Accounts and Audit Regulations 2015. Therefore, this notification explains, as per paragraph (2a), that the County Council are not yet able to publish their audited 2018/19 final statement of accounts in line with deadline of 31st July 2019, as per paragraph (1). The accounts published on the Council's website are those being audited and once the audit opinion is received the final audited accounts will be published.

RESOLVED – a) That Members approve the 2018/19 Statement of Accounts b) that Members approve the letters of representation from the County Treasurer c) that Members delegate authority to the County Treasurer and the Chairman to make any final amendments to the accounts as deemed necessary by the external auditors.

94. Report of those charged with governance (ISA 260)

Stephen Clark introduced the two reports from Ernst & Young.

a) Staffordshire County Council

Stephen Clark, Ernst & Young referred Members to the Executive Summary in the draft audit results report, specifically to the changes in materiality and adjustments and reporting an extension to the scope of the work regarding pensions following the McCloud judgement and the impact of Guaranteed Minimum Pensions. The effect was summarised in the Audit Differences on page 243 of the papers. He stated that he hoped to be able to sign off the Accounts by close of play on 31 July 2019.

Turning to the areas of Audit Focus, Ernst & Young had completed their audit regarding Capital Receipts Flexibility and had no concerns. The auditors had no concerns regarding Misstatements due to Fraud or Error. In respect of Valuation of Land and Buildings, there had been some challenges last year regarding schools' recognition assets. This has led to a prior adjustment this year.

In regard to Pension Liability Valuation, this continued to be an area of Audit Focus. Ernst & Young were happy with the local authority's adjustments which showed a relatively large movement of £23,443m. There were two financial reporting standards, IFRS 9 – Financial instruments and IFRS 15 – Revenue contracts with customers. Ernst & Young were happy with the Council's assessment in respect of both standards. In regard to the Accounting for the PFI scheme – there were no adjustments to report.

Moving on to Audit Differences, Ernst & Young were happy with the adjustments made, and the number of minor disclosure adjustment changes. There was one adjustment that the Council had not made of £1.3m in respect of a buildings' valuation. Ernst & Young were happy that this was not material and that no adjustment had been made.

In regard to Value for Money Risks, three key risks had been identified by the external auditors.

Ernst & Young were satisfied that the Council had put in place adequate arrangements in place to address the risks in regard to the MTFS.

In relation to working with partners and third parties, the external auditors had concluded that they were satisfied with the establishment of Nexxus Care to deliver reablement, provider of last resort and home care services.

However, the Council had received a joint Ofsted and CQC report in January 2019 on SEND service provision. The external auditors acknowledged the work being done to address the significant weaknesses identified in the report but offered a qualified opinion in this area and hoped that this would be removed in due course.

Ernst & Young concluded that they were happy with 'Other reporting issues' and continued to work with the County Treasurer and his team on the control environment to look to how these might be improved.

Members asked if the £25.4m reclassification adjustment referred to in the Audit Differences and the creditor and debtor value being increased by £1.05m should have been picked up by the Finance Team or external audit. Ernst & Young explained that in ideal world this should have been the case, however the area of disposals was particularly challenging. This related to the issue of disposals of schools' assets referred to in last year's report and a prior period adjustment had to be made and the auditors had to confirm that it had been done in the right period.

Members asked what the £1.3m buildings valuation related to and asked why it was not in the report. Ernst & Young responded that there had been an error in the valuation basis. The County Treasurer explained that this was as a result of human error in that the wrong index had been used to calculate the valuation. This was materially insignificant, and it had been decided not to adjust the figure. He stated that he would ensure that this did not happen again.

Members raised concerns regarding the comments made in regard to partnership working and asked for Ernst & Young's suggestions as to how the Council could ensure that proper governance arrangements and visibility was in place. Ernst & Young stated that in regard to the joint Ofsted and CQC report regarding SEND, many other local authorities had received similar judgements and the way in which Ofsted and the CQC had based their inspections had changed, so schools could move from a judgement of 'Outstanding' to 'Requires Improvement' rapidly. SEND partnership working was complicated in that it involved the local authority, Clinical Commissioning Groups and schools, some over which the authority had relatively little direct control, but for which the Council were still statutorily responsible. His view was that the strength of the partnership depended on the strength of the partners. He concluded that the external auditors had seen the SEND action plans and they seemed timely and appropriate. The challenge would be bringing the partners to the table.

The Chairman thanked Ernst & Young for their report and the County Treasurer and his team for their efforts.

RESOLVED – That the report be approved.

b) Staffordshire Pension Fund

Stephen Clark, Ernst & Young stated that the external auditors key focus for the audit of the Pension Fund's financial statements had identified two risks regarding the risk of manipulation of investment income and assets and valuation of unquoted investments. Other areas of key focus included the Local Government Pension Scheme (LGPS) Asset Pooling Arrangements and Ernst and Young and they were happy with the basis for the management of these funds.

Members asked if the £4.2m misclassification between Contributions Receivable and Investment Income in the Pension Fund Account had been identified during the year or by the external auditors. This misclassification had been identified during the audit.

RESOLVED: That the report be accepted.

95. Forward Plan

The interim Head of Audit and Financial Services asked Members to note that the 9 March 2020 meeting had been rearranged and would now take place on 20 April 2020 to consider the Internal Audit Plan for 2020-2021.

The next meeting was scheduled to take place on 14 October and every effort would be made to ensure that it took place within the allotted time.

The Chairman stated that SEND was very important and should be on the Forward Plan.

RESOLVED - The Forward Plan was received.

96. Infrastructure+ Risk Management

The Commissioner for Highways and the Built County gave an update on how risk was managed within the Infrastructure+ strategic partnership contract and asked Members to consider whether additional measures would be beneficial in ensuring risk was adequately managed. The background to this was the collapse of Carillion that had highlighted the risks of public sector infrastructure projects, including the financial health of principal contractors.

Infrastructure+ was a 10-year overarching agreement between Staffordshire County Council and Amey LG providing an outcome focused approach to the delivery of highway and non-property infrastructure services across Staffordshire. The contract went live on 1 October 2014 and since this time had successfully delivered £150m of highway operations and projects; achieved over £30m of front-line service cost savings and implemented over £100m of inward investment highway and transport infrastructure improvements to support the creation of over 10,000 new jobs and 8,500 new houses across Staffordshire. The core element of the Infrastructure+ partnership was the Term Service Contract for maintenance, management and improvement of over 6,300Kms of highway network.

The Governance Framework operated at three tiers: The Strategic Partnership Board (SPB) involving Directors, Cabinet Members and the County Treasurer; the Operational Commissioning Board, of which he was a member, and Delivery Project Teams and Outcome Groups (made up of operational managers). The representation on these groups was described. In regard to the Risk Management, details were given at Appendix 2 of the report. This was periodically reviewed and updated. Infrastructure+ Risk Registers were regularly reviewed and updated. Individual call-off contracts had their own specific risk registers.

A significant risk had been identified (PR0015) relating to the financial stability of Amey, particularly considering the recent, now resolved, dispute with Birmingham City Council and the announcement that Amey was also to be included in parent company Ferrovial's sale of its services business. This risk was identified in the Council's risk register and was regularly monitored. Additionally, these risks were minimised by payments only being made for completed works or goods received; closely monitoring Amey's company accounts in terms of Amey's credit rating and supply chain payment performance to provide early warning of insolvency risks; and suitable Business Continuity Plans being in place. The SPB had requested that operating manuals be developed that set out the necessary step-by-step Business Continuity Plan in the event of Amey becoming insolvent.

Members stated that they found the measures taken reassuring and emphasised the reputational risk, stating that all Councillors had the interface with customers. They asked how customer satisfaction and the impact on reputational risk was managed. Furthermore, they asked if Amey's financial plans were robust. The Customer Outcomes Group (COG), that included eight local Members, was responsible for managing customer satisfaction and reputational risk. In addition, results of MORI national highways and satisfaction survey, and customer satisfaction surveys were taken into account and these were fed into the COG, and issues were addressed, and concerns mitigated.

Members asked if the drive for value for money and greater efficiencies had caused the collapse of Carillion. The Commissioner for Highways and the Built County stated that Carillion was working in the high-risk PFI market. The Council were operating a service contract and were paying regularly. The Council were monitoring Amey's financial health and had collaborative arrangements in place with them.

Members asked if Amey was up for sale and what contingency arrangements were in place if Amey suddenly went into administration. The Commissioner responded that Amey was up for sale as part of the Ferrovial's business decision. The Council had business continuity plans in place to support business critical decisions. If Amey went into administration, the expectation would be that the administrator would continue to operate the contract until an alternative buyer could be found. Amey's staff could be TUPE transferred back in-house and the contract could continue to be operated in this way for a short period. Alternatively, if a large construction contract was halfway through, the site could be mothballed to ensure that services were safe and secure until an alternative provider could be found. Budget contingency was built into those schemes to allow for this eventuality.

Members asked if the contract could be brought back in-house. The Commissioner explained that this could happen as the contract was flexible and this could be done on a short or long-term basis.

RESOLVED: The report was received.

97. Exclusion of the Public

The Chairman to move:-

"That the public be excluded from the meeting for the following items of business which involve the likely disclosure of exempt information as defined in the paragraphs of Part 1 of Schedule 12A (as amended) of the Local Government Act 1972 as indicated below".

98. Infrastructure+ Quality & Management Systems and Financial Compliance - Final Audit Report

Report of the County Treasurer
(Exemption paragraph 3)

99. Deputyships - Final Audit Report

Report of the County Treasurer
(Exemption paragraph 3)

100. Brokerage: Non-Residential Pathway - Final Audit Report
Report of the County Treasurer
(Exemption paragraph 3)

101. My HR System Security - Final Audit Report
Report of the County Treasurer
(Exemption paragraph 3)

102. Financial Assessments and Property (Follow up of Recommendations) - Final Audit Report
Report of the County Treasurer
(Exemption paragraph 3)

103. Questions arising from reports circulated outside the Agenda
Report of County Treasurer
(Exemption paragraph 3)

a) Cyber Assurance – Patch Management Final Report
b) Cyber Assurance – Data Breach Incidents and Response Plans
c) Commercial Services – Procurement Final Report
d) Liberata Payroll System Audit Report

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