

Minutes of the Audit and Standards Committee Meeting held on 25 September 2017

Present: Martyn Tittley (Chairman)

Attendance

Mike Davies	Jeremy Oates
David Brookes	Carolyn Trowbridge (Vice-Chairman)
Colin Greatorex	Bernard Williams
Syed Hussain	Victoria Wilson
Ian Lawson	

Apologies:

PART ONE

79. Declarations of Interest

Councillor C Greatorex declared an interest as a member of the Staffordshire Pension Fund.

The Committee kept a minutes silence in memory of former member of the Committee, Councillor Graham Burnett.

80. Minutes of the Meeting held on 26 June 2017

RESOLVED That the minutes of the meeting held on 26 June 2017 be approved and signed by the Chairman.

The Chairman reported that Mr Jon Waller, Head of Financial Strategy and Support had now retired. The Director of Finance and Resources outlined the interim arrangements for redistributing Mr Waller's duties:

Treasury and Pensions – Melanie Stokes
Broader Governance and Adult and Childrens Financial Services – Lisa Andrews
Deputy Director and responsibility for Income and Payments – Rob Salmon

These appointments would remain in place for six months before being ratified by a Special Appointments Committee.

The Chairman observed that there should be no conflict of interests in the role of the Chief Internal Auditor and the Director of Finance and Resources confirmed that the Auditor role would be protected and defined.

81. Annual Governance Statement 2016-17

The Annual Governance Statement 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) issued in 2016. This governance statement explained how the County Council has followed the corporate code of governance and also meets the requirements of the Accounts and Audit Regulations 2015 regarding its preparation and publication. The governance framework is basically the systems and processes, and the culture and values we are controlled by and which we answer to, get involved with and lead the community. The system of internal control is an important part of the framework and we have designed it to manage risk to a reasonable level. It cannot remove all risk of failing to achieve our policies and aims, so it can only offer reasonable protection. The governance framework is made up of the many systems, policies, procedures and operations we have in place which govern the way the County Council conducts its business.

The Corporate Governance Working Group continue to advise on the result of the review of how effective the governance framework is and a plan in place aims to continuously improve the system. Significant governance issues were clearly identified and set out in the report.

A member asked about the adequacy of reserves and what level was deemed to be appropriate. The Deputy Director of Finance and Corporate Finance Manager explained that there was not a mechanistic formula but the guidance from the former Audit Commission had been 3% which was still generally observed. It was a matter of adopting a risk assessing approach. He explained that the more specific and accurate it was possible to be around earmarked reserves (agreed capital schemes, insurance claims etc); the less you needed in general reserves and balances. Generally, £20m was considered enough and the County Council had this amount in its general reserves.

RESOLVED That the Annual Governance Statement be approved.

82. Statement of Accounts 2016-17

The Corporate Finance Manager delivered a presentation explaining the 2016-17 Statement of Accounts – how they are prepared, how public money has been spent in Staffordshire, the accounting concepts and principals and technicalities around the Balance Sheet.

The 2016-17 Statement of Accounts had been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom. The Director of Finance and Resources had prepared letters to the Auditors expressing an opinion that the accounts gave a true and fair view of the financial position of the Council and the Staffordshire Pension Fund in accordance with the appropriate rules and regulations.

In terms of Revenue Grant, the County Council had spent £477.8m after allowing for transfers to reserves, which was £4.7m more than had been budgeted for. The Health and Care Directorate had seen increasing pressures over recent years due to rising demographics and challenging market conditions. In addition to these pressures, the Better Care Fund income shortfall of £15m had impacted on this service area.

The Families and Communities Directorate ended the year with a small overspend of £0.4m, despite increasing placement costs for looked after children but these were offset by underspends in Education Services.

The Economy, Infrastructure and Skills Directorate achieved an overall underspend of £3.9m which has arisen from various initiatives. The underspend had been partially offset by overspend on waste tonnages and on winter maintenance.

In terms of Capital Outturn, the County Council spent grants from Government totalling £56.2m in 2015-16. £14.7m of borrowing to finance our capital spend was accounted for. The total capital spend for 2016-17 was £127.3m, compared to £84.8m in 2015-16.

The capital spend of £127.3m included £16.4m of revenue transformational spend which had been capitalised and funded from capital receipts generated in year, in accordance with the Capitalisation Direction issued by the Secretary of State.

The Balance Sheet showed that the total of assets less liabilities is £124.8 m which is a decrease of £173.8m when compared with the 2015-16 Balance Sheet. One of the main reasons for this decrease is that the value of property, plant and equipment had reduced due to the number of schools being disposed of following their conversion to academy status. Additionally there was an increase of £44.8m in the Council's share of liabilities associated with the pension fund.

The Balance Sheet also included a Prior Period Adjustment, required by the external auditors. This technical accounting adjustment which relates mainly to maintained schools, has not had an impact on the value which could be obtained should the assets be sold.

After taking account of the outturn, the General Fund Balance total was £21.0m as at 31 March 2017. School reserves have decreased by £13.2m to £29.1m, reflecting the impact of academy conversions and schools using their reserves for specific projects or to support their revenue budgets.

In 2016-17 the Pension Fund's market value steadily increased over the year despite being impacted by volatility in global equity markets. The fund was now valued at £4,590.5m.

A member asked about the reduction in school reserves and asked whether this represented overstaffing or questionable management practices in schools. The Deputy Director of Finance and Corporate Finance Manager explained the £13m decrease was roughly half due to academisation (so schools took any balances with them) and half had been used by schools in-year (which suggested some schools had need for additional funds). The Director of Finance and Resources acknowledged that the situation of schools using their reserves to a greater extent was replicated around the country.

Members asked for clarification around academisation whether the County Council retains responsibility for the building and why reserves (of public money) should move with the school, in effect moving reserves into the private sector. The Director explained that the DfE required in the academisation process that surplus reserves move with the

school. Furthermore, when a school converts, the County Council leases the building to the new academy on a long term arrangement. The County Council no longer has control over that asset and so it is removed from the Balance Sheet. The County Council does not have responsibility to repair and maintain the building but an obligation to provide education in a community. All liabilities remain with the County Council. Approximately one third of schools were still maintained by the authority.

2016-17 had proved challenging in terms of MTFs. Within the first quarter it had become apparent that the NHS were not going to pay £15m BCF and overspending in various areas meant that a quick response to address the £20m of additional pressures. By introducing rigorous spending controls ultimately the overspend was reduced to £4m.

RESOLVED That (a) the 2016-17 Statement of Accounts be approved and

(b) the letters of representation from the Director of Finance and Resources be approved.

83. Report to those charged with Governance

Mr Steve Clark, Mr Mark Sturridge and Mr Jason Burgess from Ernst & Young, External Auditors, presented the County Councils Audit results report.

The report described how the External Auditors had substantially completed their audit of the County Council's financial statements for 2016-17 in line with the procedures outlined in their Audit Plan. They anticipated issuing an unqualified opinion on the authorities financial statements and to conclude that proper arrangements are in place to secure value for money in the use of resources.

The External Auditors identified the following audit risks during the planning phase of the audit plan:

- Risk of fraud in revenue recognition
- Risk of management override
- Property, plant and equipment valuation
- Accounting for the waste PFI

The report set out how these risks had been addressed to enable them to gain audit assurance over these issues.

Other key areas of the audit identified as significant risks were:

- Local Government Pension Scheme Liability (reclassified as a significant risk)
- Financial statements presentation – Expenditure and Funding Analysis and Comprehensive income and expenditure statement.

A member asked the External Auditors for assurance that they were happy with the long term borrowing arrangements and they confirmed that they were. They acknowledged that going forward, as more Councils entered into commercial arrangements there was

some nervousness amongst the LGA around Councils expertise in this area however, they had no concerns currently regarding the County Council in this regard.

Members noted that the timetable for the production and audit of accounts in future years had been brought forward and the External Auditors were asked whether they were sufficiently resourced to accommodate these changes. The External Auditors believed they would be able to deliver within the timeframe.

RESOLVED That the County Councils External Audit results report be received.

84. Pension Fund

The External Auditor Pension Fund Manager, Caroline Davies, summarised the observations and conclusions from the audit of the Staffordshire Pension Fund's financial statement for the year ended 31 March 2017. The report identified a small number of control observations and improvement recommendations for management of financial processes and controls.

The External Auditor concluded that the pension fund financial statement gave a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2017 and had been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local authority Accounting.

RESOLVED That the Staffordshire Pension Fund Audit Results Report be received

85. Local Public Audit - Update

The Interim Head of Audit and Financial Services presented a report which set out the outcome of the sector led body procurement process for the appointment of the external auditor for the County Council with effect from 2018-19.

In October 2015, the Secretary of State – Communities and Local Government (DCLG) determined that the transitional arrangement for local government bodies for the appointment of external auditors be extended to include the audit of accounts for 2017-18. During July 2016, it was announced that Public Sector Audit Appointments Ltd (PSAA) had been named as the body authorised to make future appointments on behalf of principal local authorities in England.

RESOLVED That (a) the outcome of the sector led body procurement process for the appointment of the external auditor for the County Council with effect from 2018-19 for a five year period, as being Ernst and Young, be noted, and

(b) members of the Audit and Standards Committee be advised of the level of audit fee over recent years.

86. Work Programme 2017-18

RESOLVED That the Work Programme for 2017-18 for the Audit and Standards Committee be noted.

87. Exclusion of the Public

RESOLVED 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 of the Local Government Act 1972 (as amended) indicated below

88. Exempt Minutes

RESOLVED That the exempt minutes of the Audit and Standards Committee held on 26 June 2017 be recorded as an accurate record and signed by the Chairman.

89. Internal Audit Report - Limited Assurance Review

Exemption paragraph 3

Members received a report summarising the Internal Audit Review into the systems, controls and risks relating to the administration and control of processes in place for dealing with those aspects deemed to have limited assurance. Members noted progress to address the recommendations within the review.

Chairman