

## MINUTES OF AUDIT COMMITTEE MEETING - THURSDAY, 24 SEPTEMBER 2015

### Present:

Councillor Galley (in the Chair)

Councillors

Benson  
Cox

Cross  
Hunter

Matthews  
O'Hara

Owen  
Roberts

### In Attendance:

Mr Neil Jack, Chief Executive

Mr Steve Thompson, Director of Resources

Mr Phil Redmond, Chief Accountant

Mr Trevor Rees, KPMG

Mr Iain Leviston, Manager, KPMG

Ms Tracy Greenhalgh, Chief Internal Auditor

Ms Hilary Shaw, Head of Business Support and Resources

Mr Chris Kelly, Senior Democratic Governance Adviser (Scrutiny)

### 1 DECLARATIONS OF INTEREST

Councillor Hunter declared a personal interest with regard to item 4, 'Risk Services Quarter One Report – 2015/2016', the nature of the interest being that he was a Board Member of Blackpool Housing Company.

Councillor Galley declared a personal interest with regard to item 4, 'Risk Services Quarter One Report – 2015/2016', the nature of the interest being that he was a Board Member of Blackpool Transport Company.

### 2 MINUTES OF THE LAST MEETING HELD ON 18 JUNE 2015

The Committee agreed that the minutes of the last meeting held on 18th June 2015 be signed by the Chairman as a correct record.

### 3 UPDATE ON FRAMEWORK-I PHASE 2 IMPLEMENTATION

Ms Shaw, Head of Business Support and Resources, presented a report to the Committee detailing the actions taken to address the recommendations of the Internal Audit report on Framework-i Phase 2 Implementation dated 27 January 2015.

It was explained to Members that the internal audit report had contained 11 recommendations. One of those recommendations had been considered a Priority One recommendation, which was that the rationale of commissioning decisions for children's placements, including the providers that had been considered and why one provider had been selected over another, should be recorded.

Ms Shaw advised the Committee that all recommendations had now been addressed and

## **MINUTES OF AUDIT COMMITTEE MEETING - THURSDAY, 24 SEPTEMBER 2015**

actions had been undertaken as appropriate. It was noted that the Chief Internal Auditor had signed off the Priority One action as completed at the end of August 2015.

Members raised a number of questions and it was noted that care providers had clauses in their contracts to prevent them charging top up payments to service users or their families in respect of care. It was also considered that Adult Services would not want to move people in residential care due to their inability to pay top-up fees if it would be detrimental to their health, so would negotiate with the care provider on waivers to top-up payments as necessary.

The Committee, in relation to recommendation five of the internal audit report, questioned whether formal minutes of the Quality Monitoring Group's meetings were produced and if they were not, would it be appropriate for them to be properly recorded in such a way. Ms Shaw advised that the internal audit had not recommended that formal minutes of those meetings be produced and that she would have to seek the opinion of the Head of Social Care as to the appropriateness of doing so.

Upon further questioning from Members, Ms Shaw reported that she considered that the internal audit report had identified some areas where improvements had been required and that the report on the next phase of Framework-i was due in November.

The Committee agreed to note the updates on the actions taken.

Background papers: None

### **4 RISK SERVICES QUARTER ONE REPORT - 2015/2016**

Ms Greenhalgh, Chief Internal Auditor, presented the Committee with an overview of the Risk Services Report for the first quarter of 2015-2016.

Ms Greenhalgh reported on the key internal audits that had been scoped in the first quarter and for which preparatory work had commenced. Members were also provided with details of service developments with regards to Corporate Fraud, the related recruitment exercise undertaken by the service in order to appoint an Insurance Fraud Officer and the procurement of a system to facilitate the investigation of insurance fraud.

Ms Greenhalgh reported on the Key Performance Indicators for the service. She advised that, although still not quite on target, 80% of business continuity plans were up to date as of the date of the meeting and that 100% of risk registers had been revised and were up to date. Members' attention was also drawn to the Corporate Fraud Team statistics.

Members questioned the reasons for only 53% of the Places directorate business continuity plans being completed. Ms Greenhalgh advised that this was due to resource issues within the directorate but that she had been working with the directorate's Risk Champion and, as of the day of the meeting, the completion rate had risen to 70%. The Committee also raised questions regarding a number of performance indicators of which the 2015/2016 actual measure appeared to be a long way short of the target. Ms Greenhalgh explained that those targets were annual targets and it was expected that the actual measure would increase throughout the year.

## **MINUTES OF AUDIT COMMITTEE MEETING - THURSDAY, 24 SEPTEMBER 2015**

The Committee was advised that there had been two inadequate assurance statements issued within the quarter. Those inadequate assurance statements related to Income and Debt Management, for which it was noted there was a wide array of procedures in place across the Council, with varying levels of performance. It was considered that there were inadequate controls in place and major lapses in compliance with the controls on some services. The other inadequate assurance statement related to Housing Options, which was considered to have inadequate controls in place in relation to having an appropriate system in place for financial management. However, Ms Greenhalgh advised that planned improvements, which included the introduction of new software packages for service and financial management, should help enable more robust controls in future. An update on the implementation of improvements resulting from the internal audits would be presented to Members at a future Committee meeting.

Members raised questions with regards to the performance of the Estate Management service in relation to the Internal Audit review of Income and Debt Management. Members were advised that Estate Management was not the only service area to not have been performing adequately in its income and debt management, but that there had been issues within that service relating to the timeliness of raising income. Mr Thompson, Director of Resources, advised that he chaired an Income and Debt Strategy Group, which had been responsible for commissioning the internal audit review and had the objective of ensuring consistency of income and debt management across the Council. The Group had actioned the areas where improvements were required, which had included some personnel changes and a restructure of Property Services. He noted that due to the size of the organisation and the level of income it generated, it would be inevitable that some debts would occasionally need to be written off. However, it was considered that the Council could improve its performance in this area.

The Committee challenged the adequate assurance statement of the Children's Services Social Care improvement Plan, in light of Internal Audit's concerns that the Improvement Plan was not reflected in the Service Risk Register and its assertion that action should be taken to ensure that outstanding milestones were completed. Members were advised that this was due to the outstanding milestones being considered lower risk and Mr Jack, Chief Executive, explained the background to the Improvement Plan to Members. It was noted that the Improvement Board had disbanded following the Department for Education's Notice to Improve Order, in respect of the Council's Safeguarding Service, being lifted. However, there remained a number of outstanding milestones to be transferred into the updated plans of the appropriate body within the Council, in order to ensure they were completed.

The Committee agreed to note the report and requested that progress against the Priority One recommendations that arose from the Income and Debt Management and Housing Options Internal Audit reports be presented to Members at future Committee meetings.

Background papers: None

### **5 EXTERNAL AUDITOR'S REPORT TO THOSE CHARGED WITH GOVERNANCE (ISA 260) AND STATEMENT OF ACCOUNTS 2014-2015**

The Committee considered KPMG's Governance Report and the audited Statement of Accounts for 2014-2015. Mr Thompson, Director of Resources, summarised the key

## MINUTES OF AUDIT COMMITTEE MEETING - THURSDAY, 24 SEPTEMBER 2015

aspects of the Statement of Accounts and highlighted the changes that would be made for 2016/2017, which would include the valuation of roads in the Transportation Infrastructure assets valuation. It was noted that this should add approximately £800 million to the value of assets and reserves in the balance sheet.

Members raised questions regarding Treasury Management and were advised that the Treasury Services continuously looked to borrow at more favourable interest rates and that the Authority had very few Lender Option Borrower Option loans, which would have been attractively priced at the time they were taken.

The Committee questioned the reasons for the Council not applying for any supported capital expenditure approvals in order to borrow for capital purposes in 2014/2015. Mr Jack advised that borrowing support was not provided for this type of funding and any money received from the scheme required repayment. He explained that some authorities had used the borrowing in order to fund their redundancy costs. However, Blackpool Council had not needed to do this as redundancy payments had been able to be met through earmarked reserves.

The Committee noted the management fee received by the Council for its provision of payroll services for a number of organisations within the borough and across Lancashire and queried whether the Council was actively looking to sell its services more widely. Mr Jack advised that some service areas were actively looking to do this and highlighted the example of Positive Steps, which had recently helped to recruit positions for Sainsbury's.

The Committee raised concerns regarding the potential financial implications relating to the Highfield Humanities College PFI scheme, in light of the school's conversion to an academy. Members were advised that the arrangements relating to this were likely to be highly complex and that external support would potentially be required. However, it was noted that at the outset, the project had demonstrated value for money.

Mr Rees, Partner, KPMG, commented that the financial reports had been of a high quality and thanked Council officers for their help and co-operation throughout the audit process. He explained that the External Auditor's report had summarised the key findings from two areas, namely the audit work in relation to the Council's financial statements for 2014-2015 and its arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

The Committee discussed the recommendations contained within the report and Mr Rees noted there were no Priority One recommendations. The Committee noted one of the recommendations related to payroll reconciliation segregation of duties and questioned whether this issue should be considered a more pressing concern for the Authority. It was reported to Members that management had been aware of the issue but that with reduced staffing levels, segregation of duties would prove increasingly difficult. However, Mr Jack advised that there were multiple system and software controls in place that prevented the issue posing a significant risk to the Council.

The Committee also discussed the KPMG recommendation regarding recognition of school assets. Mr Rees explained that, under new accounting guidance that had been issued by CIPFA on the recognition of voluntary aided schools in local authority balance sheets. Under KPMG's interpretation of the guidance, it was considered that two primary

## **MINUTES OF AUDIT COMMITTEE MEETING - THURSDAY, 24 SEPTEMBER 2015**

schools, St. John Vianney and St. Kentigerns, should not be recognised by the Council. Upon questioning from Members, Mr Rees considered that this would only have a small effect on the Council financially and that the impact on the schools' operations would be minimal.

Mr Rees reported that KMPG anticipated that an unqualified audit opinion on the Authority's financial statements and Value for Money conclusion would be issued by 30 September 2015.

The Committee agreed to approve the audited Statement of Accounts for 2014-2015.

Background papers: None

### **6 STRATEGIC RISK REGISTER**

Ms Greenhalgh presented the Council's revised Strategic Risk Register for the Committee's consideration.

It was explained that when the Strategic Risk Register was last approved by the Corporate Leadership Team on 13 October 2014, it was decided that a more in-depth review of the content and format of the register should be undertaken. The revised Strategic Risk Register now included outcomes from that review.

Ms Greenhalgh also advised that in the past, the Finance and Audit Committee had required risk owners to attend Committee meetings on a periodic basis to provide an update in terms of how each risk was being managed. Members were invited to consider continuing this arrangement.

The Committee agreed to approve the Council's Strategic Risk Register and request that risk owners be required to attend Committee meetings to discuss progress against addressing each risk on a periodic basis.

Background papers: None

### **7 COUNCIL TAX REDUCTION SCHEME - PROSECUTION POLICY**

Ms Greenhalgh advised the Committee that the Public Sector Internal Audit Standards required that an external assessment of an organisation's internal audit function was undertaken once every five years by a qualified, independent assessor or assessment team. Ms Greenhalgh explained the options available for how the external assessment was undertaken and the Committee considered that a part in a peer review process, which would incur no direct costs to the Authority.

The Committee agreed to approve that Blackpool Council participate in the peer review process developed by the North West Chief Audit Executives Group (NWCAE) which would address the requirement of a self-assessment with independent external validation.

Background Papers: CIPFA Local Government Application Note for the UK Public Sector Internal Audit Standards.

## MINUTES OF AUDIT COMMITTEE MEETING - THURSDAY, 24 SEPTEMBER 2015

### 8 PUBLIC SECTOR INTERNAL AUDIT STANDARDS

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The Committee agreed to approve that Blackpool Council participate in the peer review process developed by the North West Chief Audit Executives Group (NWCAE) which would address the requirement of a self-assessment with independent external validation.

Background Papers: CIPFA Local Government Application Note for the UK Public Sector Internal Audit Standards.

### 9 DATE OF NEXT MEETING

The Committee noted the date of the next meeting as 6pm on Thursday 22 October 2015 at Town Hall, Blackpool.

### Chairman

(The meeting ended at 7.20 pm)

Any queries regarding these minutes, please contact:  
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