

URGENT BUSINESS AND SUPPLEMENTARY INFORMATION

Accounts, Audit and Risk Committee

2 December 2015

Agenda Item Number	Page	Title	Officer Responsible	Reason Not Included with Original Agenda
5.	(Pages 1 - 12)	Minutes	NA	Administrative Reasons

If you need any further information about the meeting please contact Sharon Hickson, Democratic and Elections sharon.hickson@cherwellandsouthnorthants.gov.uk, 01295 221554

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Agenda Item 5

Cherwell District Council

Accounts, Audit and Risk Committee

Minutes of a meeting of the Accounts, Audit and Risk Committee held at Bodicote House, Bodicote, Banbury, OX15 4AA, on 23 September 2015 at 6.30 pm

Present: Councillor Mike Kerford-Byrnes (Chairman)
Councillor Rose Stratford (Vice-Chairman)

Councillor Ray Jelf
Councillor Nicholas Mawer
Councillor Barry Richards
Councillor Lawrie Stratford
Councillor Barry Wood

Apologies for absence: Councillor Colin Clarke

In Attendance: Ed Cooke, PWC, Internal Audit
Mark SurrIDGE, Ernst Young, External Audit
Mick West, Ernst Young, External Audit, joined the meeting during agenda item 8

Officers: Paul Sutton, Head of Finance and Procurement
Denise Taylor, Corporate Accountant
Belinda Green, Benefits Manager for agenda item 11
Shirley Vaughan, Performance and Planning Officer for agenda item 10
Nick Addis, Corporate Fraud Officer, for agenda item 11
Natasha Clark, Team Leader, Democratic and Elections
Sharon Hickson, Acting Democratic and Elections Officer

14 **Declarations of Interest**

There were no declarations of interest.

15 **Petitions and Requests to Address the Meeting**

There were no petitions or requests to address the meeting.

16 **Urgent Business**

There was no urgent business.

17 **Minutes**

The Minutes of the meeting of the Committee held on 24 June 2015 were agreed as a correct record and signed by the Chairman.

18 **Chairman's Announcements**

The Chairman made the following announcements:

1. The filming and broadcasting of the meeting was permitted, subject to the efficient running of the meeting not being affected.
2. He had agreed to change the order of the agenda and would be moving agenda items 10 and 11 before agenda item 7.

19 **First Quarter Risk Review 2015-16 & Update on Development of Risk & Opportunities Management Strategy**

The Head of Transformation submitted a report to update the Committee on the management of Strategic, Corporate and Partnership risks during the first quarter of 2015/16 and reported the progress made on the 2015/16 Risk & Opportunities Management Strategy review, Risk Training programme and Internal Audit review.

In the course of discussion it was queried whether Bicester Gateway had been identified as a risk due to the potential impact on Pioneer Square in terms of lost trade and revenue. The Policy and Performance Officer agreed to clarify this with the Commercial Director (Bicester).

Resolved

- (1) That the quarter 1 Strategic, Corporate and Partnership Risk Register be noted and no issues be identified for further consideration or referral to the Executive.
- (2) That the changes to two shared risks' scores, increase in Risk reference Strategic S02 – Financial resilience and decrease in risk reference Strategic S07 – Customer Service Improvements, be noted.
- (3) That it be noted that the two Partnership risks, previously “common” to both Authorities, were now Council specific to better reflect the different structure/circumstances at each Authority.
- (4) That the progress made on the 2015/16 Risk and Opportunities Management strategy review, the 2015/16 Risk Training Programme and the 2014/15 Risk Audit be noted.

20

Corporate Fraud Team Quarterly Update

The Head of Finance and Procurement submitted a report which provided members with an update on the Joint Corporate Fraud team including the progress made on the teams' business plan for 2015/16.

In presenting the report the Benefits Manager updated Members on the successful DCLG bid for funding to support the work on corporate fraud. DCLG was monitoring the work carried out through progress reports to ensure the funding was being used as set out in the bid document.

Resolved

- (1) That the report be noted.

21

Statement of Accounts 2014-15

The Director of Resources submitted a report to obtain official sign-off by the Chief Financial Officer and the Chairman of the Accounts, Audit and Risk Committee of the audited Statement of Accounts 2014/15.

In introducing the report, the Head of Finance and Procurement gave an overview of the changes that had been made to the accounts since the preliminary "subject to audit" version was considered by the Committee at its 24 June meeting.

The Committee was advised that the majority of the changes were primarily presentational. The main changes related to the inclusion of Graven Hill management costs of £52k, which the auditors were satisfied with but created a ripple through the accounts requiring associated amendments.

The Head of Finance and Procurement advised the Committee that the other main change related to a disclosure recognising a Department for Communities and Local Government (DCLG) debtor for NNDR3 (Business Rates) Return 2014 of £1.5million. In an error on the part of CDC, the NNDR3 had been underclaimed from DCLG in 2012/13. Officers had now contacted DCLG requesting that the money be paid to CDC, however as the business rates payment system had since changed, it would only be possible for the full amount to be claimed if DCLG agreed there were special circumstances. If it was deemed there were no special circumstances, it would only be possible to reclaim 60% of the £1.5m overpayment.

The Head of Finance and Procurement reported that DCLG had agreed to consider repayment, subject to information being submitted. The outstanding amount was recorded in the accounts as a debtor and would not be impaired at this stage as The Head of Finance and Procurement remained confident of full repayment after discussions with DCLG, who had advised that they would give some indication if they would make the payment, by 28 September 2015.

The external auditor advised the Committee that if they endorsed the accounts, they were effectively supporting the belief of officers that the full £1.5m would be repaid by DCLG. The external auditor recommended caution

and that the Committee agree to impair the 40% of the payment that was reliant on special circumstances. If the money was not impaired there was the potential that 100% would be lost.

In response to members' questions regarding how the £1.5m had not been picked up earlier, the Head of Finance and Procurement explained that it was human error in the calculation of the NNDR3 claim form.

Having regard to the explanation of the Head of Finance and Procurement and the comments of the external auditor, Members discussed the implications on impairing 40% of the unclaimed £1.5m from DCLG.

The Committee agreed to accept all of the amendments made to the accounts since their June 2015 meeting with the exception of the disclosure recognising DCLG as a debtor for NNDR3 of £1.5m.

To enable the signing off of the accounts by the statutory deadline of 30 September 2015, the Committee further agreed to delegate authority for the approval of the Statement of Accounts 2014-15 to the Head of Finance and Procurement, in consultation with the Chairman, subject to the provision of evidence to the external auditor that the full £1.5m would be returned by DCLG. If this evidence was not provided, only the 60% that could be claimed without the requirement for special circumstances should be included in the accounts and the remaining 40% of the £1.5m should be impaired.

The Committee requested that a separate report be submitted to their December meeting detailing the full history about what happened to arrive at this position and setting out the current position.

Resolved

- (1) That, excluding the amendment relating to the disclosure recognising DCLG as a debtor for NNDR3 (business rates) of £1.5m. the amendments to the Statement of Accounts 2014-15 made since the June meeting of the Committee be approved.
- (2) That authority for final approval of the Statement of Accounts 2014-15 be delegated to the Head of Finance and Procurement, in consultation with the Chairman, subject to the provision of evidence to the external auditor that the full £1.5m would be returned by DCLG. If this evidence was not provided, the 40% repayment requiring special circumstances to be applied, should be impaired.

External Audit Results Report 2014-15

The Director of Resources submitted a report which presented the Ernst and Young LLP (the council's external auditor) Results Report 2014-15. The report included comments on the external audit of the 2014-15 Statement of Accounts.

In presenting the report, the External Auditor reported that the financial statement audit had been carried out recommending that the Committee considers the Audit results report before approval. The one matter that remained under review within financial statement relating to the £1.5m debtor with the DCLG had been considered in great detail at the previous agenda item. The External Auditor highlighted to members the calculated provision made for NNDR appeals for 2015/16 assumed all cases would be completed within a 12 month period, due to volume of transactions external audit recommend that the 2015/16 calculation be revisited.

The Committee was advised that whilst some recommendations for improvement had been made, the External Auditor anticipated issuing an unqualified opinion on the 2014-15 financial statements.

The External Auditor explained that this was the last time they would be operating under the Audit Commission Code and giving a Value for Money conclusion in this way. The assessment of the Councils financial resilience had been increased to a “significant risk” to reflect the significant financial challenges facing the sector.

The External Auditor informed the Committee that a more robust management of reserves was required to maintain financial resilience for the future and recommended in-depth reporting of all earmarked reserves with formal reviews held on each.

In terms of value for money, the External Auditor concluded that the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources and expected to present an unqualified value for money conclusion for these arrangements.

The Committee was advised that the proposed final audit fee for 2014/15 was higher due to the increased scope arising from Group Accounts and the costs associated with responding to an elector’s question on the Council’s accounts.

The Head of Finance and Procurement advised the Committee that the areas for improvement would be identified by officers to be referred to the appropriate committee.

Resolved

- (1) That, authority for final approval of the Statement of Accounts 2014-15 be delegated to the Head of Finance and Procurement, in consultation with the Chairman, subject to the provision of evidence to the external auditor that the full £1.5m would be returned by DCLG. If this evidence was not provided, the 40% repayment requiring special circumstances to be applied, should be impaired.
- (2) That the adjustments to the financial statements be noted
- (3) That the letter of representation on behalf of the Council be approved.

23 **Internal Audit Progress Report 2015-16**

The Director of Resources submitted a report which presented the Internal Audit Annual progress report 2015/16.

In introducing the report, Ed Cooke, PwC, the council's internal auditor advised the committee that discussions had been held with management on the 2015/16 audit plan and individual review scopes would be completed in due course. The 2015/16 plan remained on course to be delivered during quarter 3 and quarter 4.

The Committee was advised that two additional pieces of work had been delivered: The first being an additional review in relation to HCA procedural Compliance was delivered outside of the 2014/2015 internal audit plan under a separate engagement letter. Discussion had taken place for a similar arrangement to be included in the 2015/16 year plan.

The second additional piece of work related to the provision of risk management training for senior management team and staff under service heads that have responsibility for risk. Initial discussions have been held and a scope of work requested to identify precise requirements and any additional fees that would be applicable

Resolved

- (1) That the report be noted.

24 **Q1 Treasury Management Report**

The Director of Resources submitted a report on the Council's treasury management performance and compliance with the treasury management policy for 2015-16 for Quarter 1 as required by the Treasury Management Code of Practice.

Resolved

- (1) That the Q1 Treasury report be noted.

25 **Work Programme 2015 - 2016**

The Committee considered its Work Programme 2015-16.

Resolved

- (1) That subject to the addition of DCLG Business Rates Update report to December, the work programme 2014/15 be noted.

26 **Exclusion of Press and Public**

Resolved

That, in accordance with Section 100A(4) of Local Government Act 1972, the press and public be excluded from the meeting for the following items of business, on the grounds that they could involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1, Schedule 12A of that Act .

27 **Q1 Treasury Management Report - Exempt Appendix**

Resolved

(1) That the exempt appendix be noted.

The meeting ended at 7.55 pm

Chairman:

Date:

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Cherwell District Council

Accounts, Audit and Risk Committee

Minutes of a meeting of the Accounts, Audit and Risk Committee held at Bodicote House, Bodicote, Banbury, OX15 4AA, on 9 October 2015 at 2.00 pm

Present: Councillor Mike Kerford-Byrnes (Chairman)
Councillor Rose Stratford (Vice-Chairman)

Councillor Colin Clarke
Councillor Barry Richards
Councillor Lawrie Stratford
Councillor Barry Wood

Substitute Members: Councillor Lynn Pratt (In place of Councillor Nicholas Mawer)

Also Present: Councillor Ken Atack, Lead Member for Financial Management

Apologies for absence: Councillor Ray Jelf
Councillor Nicholas Mawer

In attendance: Martin Grinham, Ernst and Young, External Audit
Mark Surridge, Ernst and Young, External Audit

Officers: Sue Smith, Chief Executive
Paul Sutton, Head of Finance and Procurement
Martin Henry, Director of Resources / Section 151 Officer
Kevin Lane, Head of Law and Governance / Monitoring Officer
Natasha Clark, Team Leader, Democratic and Elections

28 **Declarations of Interest**

There were no declarations of interest.

29 **Chairman's Announcements**

There were no Chairman's announcements.

30 **Exclusion of the Press and Public**

The Chairman advised the Committee that as the report was public, it was not necessary to exclude the press and public.

31 **Statement of Accounts 2014-15**

The Director of Resources/Section 151 Officer submitted a report which sought approval of the Statement of Accounts and Letter of Representation for the financial year 2014-15.

The Chairman reminded the Committee that at their meeting of 23 September they had determined they could not sign off the accounts and had delegated authority to the Head of Finance and Procurement, in consultation with the Chairman, to continue discussions with Ernst and Young, the council's external auditor, and the Department for Communities and Local Government (DCLG) with a view to the accounts being signed off by the statutory deadline of 30 September 2015. It subsequently emerged that delegated authority could not be granted to an officer to approve the Statement of Accounts and it had therefore been necessary to call the special meeting of the Committee.

In introducing the report, the Director of Resources/Section 151 Officer gave a detailed overview of the issue that had arisen at the 23 September Accounts, Audit and Risk Committee which had resulted in the Committee's decision not to approve the accounts at that time. The Director of Resources explained that as part of their audit of the Statement of Accounts 2014-15, Ernst Young, the council's external auditor, had highlighted an accrual that had been raised for approximately £1.5m.

The debtor was raised in 2011-12 and related to the NNDR3 (a return which certified the level of business rates the Council had collected on behalf of the Government) that had been submitted and audited for the financial year 2011-12. The return had been incorrectly completed and as a result, the council had overpaid £1.5m to the Government more than it should have. A debtor had therefore been raised in the general ledger to reflect that this amount was owed to the Council by the Government. This debtor accrual was still in the accounts in 2014-15 as the overpaid amount had not been reimbursed by the DCLG.

The Committee was advised that when considering the 2014-15 audited accounts, the external auditor had asked the Section 151 Officer to consider if he would be impairing any of the outstanding debt owed. The Director of Resources/Section 151 Officer explained that after careful consideration, he had felt it was premature to do so.

Prior to the 23 September meeting, the external auditor had been aware of the Director of Resources/Section 151 Officers' approval of the accounts and was comfortable with the approach being taken. At the meeting however, the Director of Ernst Young had arrived late and not been aware of the position of the external audit team. He had given his view on the outstanding debtor advising the Committee the accounts should not be approved. The Committee had consequently determined not to approve the accounts and to delegate authority for their approval to the Head of Finance and Procurement, in consultation with the Chairman, which it had subsequently transpired was not possible.

The Director of Resources/Section 151 Officer advised the Committee that since that meeting there had been further discussions with the external auditor and correspondence and contact with DCLG.

The Director of Ernst and Young had confirmed that he no longer had an issue with the accounts or the judgement exercised and that he encouraged the Council to approve them.

DCLG had requested the submission of information for the reimbursement of the overpaid funds which they would take into account for 'special consideration', which the council had duly submitted requesting the overpaid funds be repaid. DCLG's official position remained that they were still considering the matter.

The Director of Resources/Section 151 Officer advised the Committee that since the Committee's 23 September meeting, he had set out his reasoning to the external auditor regarding why he felt it was premature to write off any of the DCLG debt in the 2014-15 accounts. On 30 September, in light of the information from the external auditor and DCLG, he reconsidered the matter and advised the Chairman of the Accounts, Audit and Risk Committee, the Leader of the Council and the Lead Member for Financial Management that he was still of the view that it was too premature to write off any of the outstanding debt for 2014-15 and the accounts should therefore be approved.

In considering the report, Members noted that whilst they needed to rely on the advice of the Section 151 Officer, they should question these judgements particularly when there was conflicting advice from the external auditor. Members raised some concerns that the view of the external auditor had changed since their 23 September meeting. It was however important that the advice of the Section 151 Officer and the external auditor was now that the accounts should be approved.

In response to Members' queries regarding the ramifications of the council approving the Statement of Accounts 2014-15 after the 30 September statutory deadline, the Director of Resources/Section 151 Officer explained that the council would be on a black list that was published, although he was unsure where this was published, and there was potential reputational damage.

The Committee raised concerns about the situation that had arisen and stressed the importance of reviewing what had happened, how the situation had arisen and the implications if the £1.5m was not repaid. Members referred to their comments at the 23 September meeting that a full review of the events leading to the error and it not being identified until 2014-15 be undertaken and noted that an independent body would undertake this review following approval of the Statement of Accounts. This would be reported back to the Committee as soon as possible.

Having due regard to the detailed explanation given by the Director of Resources/Section 151 Officer, the Committee agreed that the statement of accounts 2014-15 should be approved.

(Having been approved, the Statement of Accounts 2014-15 and Letter of Representation 2014-15 were signed by the Chairman of the Accounts, Audit and Risk Committee and the Section 151 Officer.)

The Chairman advised the Committee that he had met with the Chief Executive regarding the independent review to be undertaken. The Chief Executive explained that an external company that had not been engaged in any part of the

process would be used to undertake the review, which would look at what had happened, internal control processes, escalation to senior officers and elected Members and call upon the internal and external auditors, former and current officers as witnesses and make recommendations accordingly.

The Committee agreed that it was important for the review to be thorough and the Chief Executive should oversee the terms of reference of the review, in consultation with the Chairman.

In response to Members' comments, the Chairman agreed that he would use his discretion to invite other members of the committee to participate in the review if he deemed it appropriate.

Resolved

- (1) That the Statement of Accounts for 2014-15 be approved.
- (2) That the Letter of Representation for 2014-15 be approved.
- (3) That authority be delegated to the Chief Executive, in consultation with the Chairman, to oversee the independent review which would report its findings and recommendations to the Accounts, Audit and Risk Committee.

The meeting ended at 2.30 pm

Chairman:

Date: