DECLARATIONS OF INTEREST - None

1. Minutes

RESOLVED that the minutes of the meeting held on 20 April 2016 are confirmed as a correct record.

2. Audit, Governance & Standards update - Grant Thornton

Chris Long of Grant Thornton presented an update on the external Audit Plan as at June 2016 and a series of papers by Grant Thornton on emerging issues and developments in local government

This covered

- the 2015-16 Accounts Audit Plan
- the programme for the 2015-16 final accounts audit aimed at substantially completing the audit by August and earlier delivery of the audit findings
- the preparations for the earlier timetable for signoff of accounts starting from May and July 2018
- a summary of emerging national issues relevant to the Committees role covering
  - Joint Venture companies
  - Knowing the Ropes – a cross sector review on Audit Committee effectiveness
  - Reforging local government – a review of financial resilience and the challenges to many councils that are already lean
  - Fighting Fraud and Corruption locally.
The Chair reminded Members that they would be meeting with Grant Thornton, independent of officers, at 7:00 on 22 September.

Resolved that the Audit Plan is noted.

3. Contracts Register Review  

An update on the Council’s Contracts Register System (CRS) was presented.

A training programme has been implemented for contract managers across the Council. This includes contract administration and performance management. Contract Management is a key capability for the Council under the Our Kingston Programme. The aim is that every procurement takes place through the system and is a central repository where contract information is stored.

Further work is being undertaken with managers to reinforce that it is mandatory to publish all contracts on the system which are over £5k and that any procurement leading to an order or contract award must also be carried out on the system. Six monthly refresh activities will be carried out and as part of this service managers/contract managers will be requested to confirm they have appropriate sign-off of contracts.

Questions concerned the outcome of the initial monitoring and tracking of contracts and the degree of compliance

Resolved that

1. the actions being taken by Strategic Business Commissioning to oversee the Council CRS and work with staff to ensure the mandatory use of the Council’s Pro-contract system and Contracts Register System are noted;
2. a further update is considered at the September meeting.

4. Annual Accounts Process  

Work on the Statement of Accounts and supporting working papers for submission to audit before the 30 June 2016 deadline has been completed.

The initial timetable was set ambitiously to provide a “trial run” towards achieving what will become the deadline for submission in 2017/18 of 31 May. A degree of slippage against this has caused by

Changes to key staff leading the process as a result of illness and changes within the team;

A reduced level of Finance team support to service managers due to the resources needed for the development of Outcome Based Budgeting. Work which was planned for completion in January to March 2016 was not completed until April with a consequent impact on the finalisation of the revenue outturn position.
Following the completion of the accounts a “lessons learned report” will be produced highlighting areas where the process can be improved or streamlined to ensure that the earlier deadline can be achieved.

On behalf of the Committee the Chair and Vice Chair expressed their thanks to the closure team for completing the draft accounts within the statutory deadline in difficult circumstances.

Resolved that the progress made producing the 2015/16 Statement of Accounts for audit by the statutory deadline of 30 June 2016 be noted;

5. Treasury Management Annual Report

Treasury Management is the management of the Council’s cash flow, borrowing and cash investments to support its finances. The Council has adopted the CIPFA Treasury Management Code of Practice and accordingly this Committee considers a mid year report on treasury management performance in January and the annual report in June.

The responsibility for treasury management decisions remains with the Council at all times, however Treasury Management is a complex and technical area and Arlingclose Limited, an independent treasury advisory company provide specialist skills and support.

The annual report for the year 2015/16 includes:

- the economic background,
- a summary of borrowing and investment activity,
- credit and counterparty risk,
- compliance with Prudential Indicators.

Borrowing - There were no new long term loans during the year. At 1 April 2015 the Council’s underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £264.6m. Loans held by the Council at that date were £233.1m. The Council’s current strategy is to maintain external borrowings below their underlying level, referred to as internal borrowing. Affordability and the “cost of carry” remained important influences on the Council’s borrowing strategy alongside the consideration that any borrowing undertaken ahead of need, would have to be invested at rates of interest significantly lower than the cost of borrowing.

The Council has determined it is more cost effective in the short-term to use internal resources instead. The Public Works Loan Board (PWLB) would be able to meet all of a local authority’s needs for long term borrowing if required and the Council qualifies for borrowing at the ‘PWLB Certainty Rate’ - (0.20% below the PWLB standard rate) to 1 November 2016. The PWLB is to be abolished by the Treasury but this will have no impact on existing loans held by local authorities.

Investment activity - investments totalled £517m over the year and total maturities were £526m. Over the year an average investment balance of £54m was maintained at an average return of 0.60% 0.32m interest.
Debt management – The objective in relation to debt is to achieve the lowest level of interest paid on the Council’s debt as prudently possible, while at the same time minimising the potential volatility of the average rate of interest. The average rate of interest paid was 4.26% - £9.9m.

Credit and Counterparty risk - The list of banks and financial institutions that the Council places deposits with was reviewed and changes over the year, with advice from Arlingclose Ltd, were noted. The Council only undertakes investments based on the latest available agreed credit ratings agencies. These are independently reviewed by the Treasury Management advisers (Arlingclose) on a regular basis throughout the financial year.

Performance – The objective for cash investments was to achieve an overall return on total deposits above the average 7 day notice London InterBank BID Rate (LIBID). The Council’s overall return was 0.24% above the target rate equating to £0.32m interest received against the LIBID average of £0.19m).

Resolved that the report is noted.


An update on the preparations for the production of the Annual Governance Statement and Action Plan to be submitted to the Committee in September was considered.

An assessment of the Council’s activities has been conducted throughout April and May to confirm that the Council has effective corporate governance arrangements in place and to identify any areas of relative weakness where improvements can be made.

Other pieces of assurance work which will feed into the overall assessment of governance arrangements this year include:

- an Internal Audit Review of Corporate Governance nearing conclusion
- other Internal Audit outcomes, as set out in the Annual Report to this Committee

The outcome of this process, will be submitted to the Committee’s September meeting along with a draft Annual Governance Statement for formal approval. The September report will also include the outcome of the review by the Achieving for Children (AfC) Board on the overall adequacy and effectiveness of the governance, risk management, internal control, Treasury management and value for money systems and frameworks within AfC.

In previous years the Committee has forwarded the approved AGS to the Treasury Committee for formal sign off. However, there is no legal requirement to do that and given the need for the signed AGS to be included with the approved Statement of Accounts (which is also approved by the Audit, Governance and Standards Committee) it is proposed to make a change to the terms of reference to dispense with this additional stage in the process.
The Action Plan to address areas of relative identified in last year’s Annual Governance Statement has been monitored throughout the year by SLT and the Committee. Good progress has been made in most areas and any uncompleted actions will be carried over into the Action Plan for 2016/17. The current position on the Action Plan was illustrated in Annex1.

Questions posed by the Committee related to the timetable and incomplete actions in the Action Plan, including the monitoring of the completion by all staff of mandatory training modules within the Evolve system.

**Resolved** that

1. it is noted that, in response to the requirement for a local authority to have in place proper arrangements for the governance of its affairs and to undertake an annual open and honest assessment of its governance framework, the Council is undertaking an assessment of its corporate governance arrangements the outcome of which will be reported to the Committee’s September meeting;

2. it is **recommended** to Council that paragraph 8 (b) of the Committee’s Terms of Reference is amended to provide that it is no longer a requirement for the Annual Governance Statement to be submitted to the Treasury Committee for final sign off.

3. the latest position on the implementation of the 2015/16 AGS Action Plan as set out in paragraphs 13 and 14 of the report is noted.

**7. Summary Corporate Risk Register and Risk Monitoring**

The April review of the Corporate Risk Register by the Strategic Leadership Team (SLT) in April added three additional risks. These relate to the Council’s reduced ability to prevent Homelessness: Pensions Service work-load and resourcing levels; and the potential insecure transmission of data.

The June review by SLT made a number of adjustments and these were reflected in the Summary Risk Register submitted at Annex 1. A new format has also been developed for the Risk Register which is intended to make clearer the exact nature of the risk and reduce some of the historical information previously included.

The Committee is due to undertake its full review of the Corporate Risk Register at its meeting on 22 September 2016. In accordance with usual practice, the Committee will identify two risks for fuller review during the course of the year.

The Committee welcomed the new format and suggested that the role of officers should be included for additional clarity and that there should be a note to indicate why the ranking of a risk had changed. It was also suggested that the Summary register was circulated to all Lead Members.

**Exclusion of the Press and Public**
It was Resolved to exclude the press and public from the meeting for the discussion on specific risks on the grounds that it was likely that exempt information, as defined in paragraph 3 of Part I of Schedule 12A to the Act, would be disclosed and the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

This paragraph covers information relating to the financial or business affairs of any particular person (including the authority holding that information).

Specific risks were discussed, further details on the response to the unusual weather conditions on Referendum day and actions to mitigate these were requested. This will be included in the September report as part of the handling of natural disasters.

Resolved that

1. the new format of the Summary Corporate Risk Register (SCRR) is welcomed and the updates noted;

2. it is noted that the SCRR will continue to be reviewed and updated (where required) and reported at every meeting of the Committee;

3. the full Corporate Risk Register will be reported to the September meeting, including a report on natural disaster plans.

8. Annual Internal Audit report

The report for 2015/16 reviews performance and summarises some highlights from the Internal Audit Service’s work.

To date 36 audits have been completed or are at draft stage; 10 reports are nearing completion and 4 audits have been cancelled from the original plan.

70% of all the audits undertaken were given either substantial or full assurance (compared to 78% in 2014/15 and 74% in 2013/14). The reduction in the percentage of substantial assurance audits reflects the development work and close relationship with DMTs which has helped to focus on areas of management concern, as well as areas identified as audit concern.

Over the year the service has

- delivered 100% of the Audit days agreed commissioned by the Shared Service Board – 657.5 days plus 142.5 AIC audit days
- received a rating a 100% client satisfaction for audit work
- implemented the transfer of staff to the South West London Fraud Partnership in May 2015.
- expanded the South West London Audit Partnership to a 4 Borough shared service with the inclusion of LB of Merton from 1 October 2015 and LB of Sutton from 1 April 2016.
through the Housing Fraud Strategy recovered 16 properties delivering notional savings of £288k, plus a further 2 properties pending recovery and 4 awaiting court hearings. 11 Right to Buy applications were withdrawn, delivering notional savings of £1.1m and 30 are being investigated.

identified £194,720 of overpayment/incorrect payment of benefits as a result of the National Fraud Initiative data matching exercise.

identified actual and notional savings as a result of fraud investigation work are £1.6m.

As required the Head of the South West London Audit Partnership and Statutory Head of Internal Audit for the Royal Borough of Kingston upon Thames has provided the Council with an opinion on the adequacy and effectiveness of the internal control environment. Assurance can never be absolute and, therefore, only reasonable assurance can be provided that there are no major weaknesses in these processes.

Member questions related to progress on some Priority 1 recommendations, these will be addressed in the update to the September meeting and suggestions for inclusion in the Audit Plan.

The Chair commented that it is planned to have a standing item on the agenda for additions to the Audit Plan to pick up any issues of Member concern.

Resolved that the report on the activities of Internal Audit for 2015/16 is noted.

9. Effectiveness of Internal audit

A summary of the self assessment review of the effectiveness of the Shared Internal Audit and Investigations Service against the Public Sector Internal Audit Standards (PSIAS) was considered.

The Head of the SWLAP has undertaken a self-assessment against the revised standards. This has been more difficult for 2015/16 as LB Merton joined the shared service part way through the year and LB Sutton on the 1st April 2016. The assessment shows that there is substantial compliance with 99.7% of the 346 standards being met or partly met (95.8% met, 3.9% partially met, 0.3% not met,).

Areas of non compliance largely relate to the rolling out of consistent audit practice across the partnership and updating the Audit Manual to ensure consistency and best practice.

There are some gaps which need to be addressed and actions to address these are identified in the Quality Assurance and Improvement Plan (QAIP) at Annex 1 of the report. Some of these recommendations were included in the 2015/16 QAIP and have been delayed as a result of work undertaken as part of the expansion of the shared service.

The PSIAS require that an independent external review should be undertaken at least once in every five years. A peer review of the partnership as a whole is being planned for next year, the date of this is still to be finalised.

Questions from Members largely concerned the role Audit could play in assisting the Committee with
a review of the effectiveness of the Committee – it was suggested that Mazars could do some work on this raising awareness amongst Members and officers on compliance with the requirements on declarations of gifts and hospitality and on registering interests and changes to them within the 28 day deadline

Resolved that
1. the outcome of the self-assessment review of the effectiveness of the Shared Internal Audit & Investigations Service for 2015/16, is noted and
2. the Quality Improvement Action Plan (QAIP) attached at Annex 1 is approved.

10. Expansion of Shared Internal Audit Service

The proposal to extend the South West London Audit Partnership (SWLAP) to include the London Borough of Wandsworth (LBW) from 1 October 2016 was considered.

This is proposed in the light of the Richmond/Wandsworth Shared Staffing arrangement (SSA) which involves the alignment of services and the joint employment of staff. The proposals also include the consolidation of the SWLAP and the South West London Fraud Partnership (SWLFP) into one five borough shared service for internal audit and fraud investigations.

Overall the proposals were welcomed but a concern was on the spread of a Head of Internal Audit across 5 Boroughs.

It was explained that whilst the Head of the Partnership also undertakes the role of Head of Internal Audit this covers Richmond and Kingston only, Sutton and Merton share a Head of Internal Audit and Wandsworth will retain its own.

Resolved that the proposal to extend the South West London Audit Partnership is endorsed and recommended for approval by the Treasury Committee.