

## AUDIT AND GOVERNANCE COMMITTEE MINUTES - 27 SEPTEMBER 2018

**Present:** Councillors Stevens (Chairman), Brock, Davies, Gittings, McKenna, Terry & Warman.

**Also in attendance:**

Councillor Lovelock	Leader of the Council
Councillor Page	Deputy Leader of the Council
Adrian Balmer	EY LLP
Matt Davis	Head of Finance
Maria Grindley	EY LLP
Paul Harrington	Chief Auditor
Jackie Hooper	Service Manager, LAC Leaving Care
Rachel Kennedy	EY LLP
Kevin Parker	Principal Auditor
Jean Stevenson	Chief Accountant
Jackie Yates	Director of Resources

### 10. MINUTES

The Minutes of the meeting of 1 August 2018 were confirmed as a correct record and signed by the Chairman.

### 11. EQUAL PAY UPDATE

Jackie Yates, Director of Resources, presented a report on the management of the equal pay claims and giving a current position on discussion, settlement of cases and future litigation. The report stated that approximately 180 employees or former employees had made an equal pay claim. This equated to approximately 258 claims, as some claimants were claiming in respect of more than one job role. Of the claims received, 56% were represented by Thompsons Solicitors (Unison) and 44% were being represented by Doran Law, a no win no fee solicitor.

The report stated there were now no outstanding claimants being represented by Thompsons, all claims had been settled and monies paid. There were 13 Doran claimants that were still going through a process. Firstly, there were claimants from mixed roles where further discussions were being entered into regarding schedules of loss; and secondly claimants whose claims had been struck out at a jurisdictional tribunal because of time issues but where Doran had indicated an appeal would be lodged. In addition, there were currently three claimants who were no longer represented by Thompsons or Doran. The Tribunal service had written to the claimants and if they wished to proceed with their claims, the Council would need to liaise with them directly or through their new representative(s).

A hearing had been scheduled for 15-17 October 2018 where the remaining claims would be determined if they could not be resolved beforehand. Any appeal by Doran Law against the jurisdictional claimant decision would be likely to be heard in 2019, as would any applications for costs from either side and any further steps if Doran Law chose to pursue their remaining challenge to the 2011 pay and grading arrangements.

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The Council had made provision for equal pay claims to be funded via capital receipts with £14m set aside in the 2016/17 accounts. As part of finalising the 2017/18 accounts the provision would be increased through additional capital receipts. During 2017/18, £5m had been paid out to claims and a further £7.1m had been paid out so far in 2018/19 with another £1m committed to date. The remaining liability was forecast to be £2.3m. To date the Council had spent £1,935,443.19 on legal fees including disbursements.

**Resolved:** That the progress on the management of the equal pay claims and the programme of litigation be noted.

### 12. INTERNAL AUDIT QUARTERLY PROGRESS REPORT

Paul Harrington, Chief Auditor, submitted a report providing an update on key findings emanating from Internal Audit reports issued since the last quarterly progress report in August 2018.

The report set out a summary of the audit reports in respect of Additional Payments; Payment Card Industry Data Security Standard; Network Security; South Reading Leisure Centre; and Journal Testing Q1. The report also contained details of the school audits and the follow-up audit of Right to Buy. The audit of Additional Payments had been given limited assurance, and the full report was therefore included in a report to be considered in Part 2 of the agenda (Minute 17 refers).

The report also listed the audits that were currently in progress, or were planned for the remainder of 2018/19, and gave a summary of investigations work between April and June 2018.

**Resolved:** That the report be noted.

### 13. ACCOUNTS 2016/17 & 2017/18 UPDATE

Further to Minute 3 of the meeting held on 1 August 2018, the Head of Finance submitted a report providing an update on progress with the audit of the 2016/17 and 2017/18 accounts. The Committee noted that the 2016/17 Accounts should originally have been audited and signed off by 30 September 2017, and that regular reports had been made to the Committee since then providing updates on progress.

The report stated that a revised set of accounts had been presented to the Committee on 1 August 2018 and formally submitted to the External Auditor subsequent to the meeting. The External Auditors had recommenced the audit following the Committee meeting and the audit was still ongoing. Following detailed discussions with the Auditors, it had been agreed that identifying sufficient evidence to substantiate some creditor and debtor balances was not viable given the passing of time and the turnover of officers at the Council. Consequently, the External Auditor had indicated that this aspect of the 2016/17 accounts would need to be qualified.

There were also a number of fixed asset and capital accounting issues still to be resolved with EY. These would impact on the value of Property, Plant and Equipment and two of the unusable reserves. Council's expert consultants were working through

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these issues and the proposed amendments to deal with EY's concerns had been presented to the Auditors. The Council's consultants had recommended further changes to the accounts for the Council's two Public Finance Initiative (PFI) Schemes and had provided EY with details of the changes. The amendments to the accounts would be made as soon as agreement had been reached with EY.

The report anticipated that EY's external audit field work would be completed in early October 2018. However, the draft opinion would be subject to consultation with the Council and review by EY's Professional Standards Panel. Given the delay in the audit and the potential qualification, it was likely that a review by Public Sector Audit Appointments would also be required. Therefore, EY did not expect to be in a position to give an opinion on the accounts until late October or early November 2018 at the earliest.

Additionally, EY had confirmed that if the opinion on the 2016/17 accounts was qualified, the 2017/18 opening balances would also be qualified due to uncertainties around the creditor and debtor balances. To ensure the qualification was lifted on the balances at 31 March 2018, the Finance Team had commenced a full review of all year end balances on creditor and debtor ledger codes in 2017/18 to ensure that they were fully evidenced and correctly calculated. Until the issues with fixed asset and capital accounting in 2016/17 had been resolved with EY it would not be possible to finalise the entries in the ledgers for 2017/18. EY had advised that the 2017/18 accounts should not be finalised until they had finalised their opinion on the 2016/17 accounts. This did not prevent the finalisation of transactions in 2017/18 ledgers and officers would finalise this work as soon as the exercise on creditors and debtors was complete, which would enable the outturn figures already reported to members to be confirmed. It was anticipated that the 2017/18 accounts would be ready for issue to EY in late November 2018.

**Resolved:** That the progress made by the External Auditor and officers in finalising the 2016/17 accounts be noted.

### 14. IMPLEMENTATION OF AUDIT RECOMMENDATIONS TRACKER

Further to Minute 8 of the meeting held on 1 August 2018, Jackie Yates, Director of Resources, submitted a report setting out, at Appendix 1, the Implementation of Audit Recommendations tracker report.

The report explained that each recommendation was marked with a percentage complete which correlated to a red/amber/green rating (up to 25% complete: red, between 26% and 75%: amber, over 75% complete: green). Any recommendations that were less than 50% complete but had exceeded their agreed completion date were also marked red. In the tracker report at Appendix 1 there were 106 high and medium risk recommendations from Internal Audit, of which 44 (42%) were currently green, 19 (18%) were amber and 43 (41%) were red. This was a significant improvement on the previously reported position on 1 August 2018.

Due to the lack of information available on the Foster Care recommendations at the previous meeting, the Service Manager responsible for Foster Care, Jackie Hooper attended the meeting to explain progress on implementing those recommendations.

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### Resolved:

- (1) That the high and medium risk Internal Audit recommendations and the responses to those risks be noted as set out in Appendix 1 to the report;
- (2) That a written update be provided to members of the Committee on the progress made so far to implement the audit recommendations in relation to Foster Care and a further report be submitted to the Committee, in the New Year once the Foster Care Handbook had been updated in accordance with Audit Recommendation 45, as set out in Appendix 1 to the report.

### 15. EXTERNAL AUDITOR UPDATE

The Committee noted that the external auditor had commented, as necessary, during consideration of the items listed above and had no further contributions to make.

### 16. EXCLUSION OF THE PRESS AND PUBLIC

#### Resolved -

That pursuant to Section 100A of the Local Government Act 1972 (as amended), members of the press and public be excluded during consideration of the following item below as it was likely that there would be a disclosure of exempt information as defined in the relevant paragraphs specified in Part 1 of Schedule 12A to that Act.

### 17. INTERNAL AUDIT QUARTERLY PROGRESS REPORT - ADDITIONAL PAYMENTS

Paul Harrington, Chief Auditor, submitted a report on the findings emanating from the audit report in respect of Additional Payments. Additional payments covered a range of areas including acting up allowances, honoraria for undertaking a discrete project or piece of work over and above normal duties, overtime and market supplements. The Council had spent approximately £2.287m on additional payments, excluding overtime, in 2017/18. In addition, around £1.6m had been paid in both 2016/17 and 2017/18 in overtime. The aim of the audit had been to review the systems and processes which govern honoraria and additional payments, including checking that they were consistently applied, robust, appropriate and complied with HR policies. Although HR policies were largely in place for the various types of additional payments such as acting up allowances, honoraria and market supplements, most of these policies had not been updated recently. However, the 'limited assurance' had not been derived from a lack of HR rules and procedures, but from a lack of adherence to them. The full internal audit report was attached to the report as an appendix, which included five recommendations to address the risks that had been identified.

#### Resolved -

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- (1) That the review of employment policies, which would ultimately be presented to the Personnel Committee for approval, which was being carried out by the Head of HR & Organisational Development be noted and endorsed;
- (2) That the Chief Auditor's recommendations set out in the internal audit report be endorsed and the Management responses to those recommendations be noted;
- (3) That a further report on the progress made to address the risks set out in the Internal Audit report be submitted to the Committee's meeting on 16 April 2018.

(Exempt information as specified in paragraph 3)

(The meeting commenced at 6.30pm and closed at 7.50pm).