

**Corporate Affairs and  
Audit Committee  
Report**

**28 September 2017**

**Statement on the VFM Conclusion**

**James Bromiley – Strategic Director Finance Governance and Support**

**PURPOSE OF REPORT**

1. This note relates to the opinion issued on the Council's accounts by Ernst and Young (EY), our external auditor, which is being reported to the Committee today.
2. The external auditor issues an opinion on whether the financial statements give a "true and fair view" of the financial position for the year and whether the accounts have been "properly prepared"; and also an opinion on the Council's arrangements for securing economy, efficiency and effectiveness (Value for Money) in the use of resources.
3. EY have issued a positive "unqualified" opinion on the financial statements and while they have identified good progress in decision-making processes overall they have maintained a "qualified – except for" opinion in respect of the decision-making process for asset disposals. They conclude that in all other respects they are satisfied that the Council has put in proper arrangements to secure Value for Money.
4. My conclusion is that while that is disappointing it is clear that the Council has made further progress since the end of the 2016-17 financial year and I am determined to maintain the focus on that progress with the aim of ensuring the qualification is removed for the 2017-18 financial year.

**BACKGROUND**

5. Deloitte, our then auditors, issued a qualified opinion in September 2015 on Value for Money for the 2014-15 financial year. Their qualification was based on three grounds:
  - project management arrangements;
  - capital programme monitoring; and
  - governance arrangements for the disposal of properties.
6. The Council developed a Council Improvement Plan during 2015-16 to address each area identified in the qualification. However, in their review of the 2015-16 financial year in September 2016 EY concluded that while progress had been made in implementing the action plan, a number of significant actions remained

incomplete at 31 March 2016. They therefore qualified their opinion on the same three grounds set out above.

7. In September 2016 the Council completed a restructure designed to bring together responsibilities which had been disconnected and create a single point of accountability in relation to finance and governance ie the role of Strategic Director Finance, Governance and Support Services.
8. EY's 2016-17 opinion sets out that further progress has been made in all three respects. On project management and capital programme monitoring that has been sufficient to remove the qualification; but on governance for asset disposals insufficient progress had been made by 31 March 2017.
9. A new asset disposal policy setting out more robust arrangements was approved by Executive on 7 December 2016. Since then we have commissioned audit work from internal audit on the degree to which that was embedded. As expected given the risks identified at the planning stage, external audit's work this year has had an increased focus on asset disposals.
10. Given that the basis of the auditors' opinion is over a full financial year it was always going to be challenging to obtain an unqualified opinion on asset disposals in 2016-17. In addition, audit work has highlighted that while there had been progress the process was not fully embedded by March 2017.
11. There is no implication in the auditors' opinion that there has been fraud or criminal activity. EY have based their audit around the National Audit Office guidance that requires a judgement on whether there are "proper arrangements" to secure economy, efficiency and effectiveness. The judgement is not about the value for money of individual transactions.
12. It is also clear that the fact that the accounts have been qualified for the two previous years on Value for Money grounds has meant that the auditors have needed to have an increased focus on these areas and have had to seek strong positive evidence of processes having been changed in order to change their opinion from 2015-16.

## **CONCLUSION**

13. I have considered the opinion given by EY in my role as Section 151 officer. While I am disappointed that the judgement on asset disposals is not to remove the qualification, I accept fully that judgement. The direction of travel is undoubtedly positive and EY have told me that they have observed further progress since the end of the financial year.
14. I have commissioned a detailed internal review of all 2017-18 property disposals ahead of this meeting and the findings of that work support the view that the asset disposals process is now much more fully embedded than it was by March. Further internal reviews will be carried out during the financial year; there will also be a review by internal audit ahead of the next external audit. While I obviously cannot provide a guarantee I am confident that this work will ensure that the Council will obtain an unqualified opinion on asset disposals in the 2017-18 year.

15. I am clear however that there needs to be a culture of continuous improvement of the governance processes around asset disposals. That ambition is set out in the Annual Governance Statement and improvements will be monitored through the Corporate Affairs and Audit Committee. In order to further improve governance and demonstrate transparency in this area we have now set up a monthly Estates Strategy Board to which asset disposals will be reported regularly; and this in turn will provide regular reports to the Executive Sub-Committee for Property and the Corporate Affairs and Audit Committee.

James Bromiley  
Strategic Director of Finance, Governance and Support  
19 September 2017