

## Audit Committee

Wednesday, 12th January, 2011  
6.00 - 7.25 pm

<b>Attendees</b>	
<b>Councillors:</b>	Andrew Wall (Chairman), Bernard Fisher, Rowena Hay, Robin MacDonald, Paul Massey (Vice-Chair) and Paul Wheeldon
<b>Also in attendance:</b>	Cabinet Member Finance & Community Development, Rob Bell (Assistant Director – Operations), Sara Freckleton (Borough Solicitor & Monitoring Officer), Jane Griffiths (Assistant Chief Executive), Rob Milford (Audit Partnership Manager), Ian Pennington (KPMG), Mark Sheldon (Chief Finance Officer) and Rachael Tonkin (KPMG)

### Minutes

**1. DECLARATIONS OF INTEREST**

None declared.

**2. APOLOGIES**

None received.

**3. MINUTES**

The minutes of the last meeting, along with the exempt extract had been circulated with the agenda.

Councillor Massey referred members of the committee to page 3 of the minutes and the bullet point that referred to recycling. He suggested that it should be made clear that this was in relation to the internal recycling rather than the service provided to the public.

Upon a vote it was unanimously

**RESOLVED that the minutes (once amended according to the comment received) and the exempt extract of the meeting held on the 29 September 2010 be accepted and signed as an accurate record.**

**4. PUBLIC QUESTIONS**

None received.

**5. PROJECT AND PROGRAMME MANAGEMENT GUIDANCE NOTE**

The Assistant Chief Executive introduced the discussion paper as circulated with the agenda and apologised that the relevant Officer was inexplicably not in attendance.

Whilst this item would not ordinarily be considered by the Audit Committee, members had indicated, at an earlier meeting, that they wished to review the council's response to the project and programme management recommendations within the KPMG public interest report.

Members were referred to the guidance notes that had been developed in response to the recommendations, as well as a useful reminder of the risks.

The following responses were given by the Assistant Chief Executive (with input from the Audit Partnership Manager and Chief Finance Officer where required) to questions from members of the committee;

- The KPMG report identified that the decision to take high court action had been taken as a legal case rather than a project. The document defined what activity constituted a project and presented a formula for determining whether it was a large or complex project and recommended project management approaches. SLT had endorsed the document in an attempt to instil in Officers, what constituted a project.
- SLT and Service Managers would refer to the document prior to undertaking an activity to establish whether it was in fact a project. Operational Programme Board monitored projects across the Council in order to properly manage resources.
- From an Audit perspective, projects were assessed to see whether or not benefits had been realised and performance monitored.
- The threshold figures were quite high and should be reviewed at some point in the future. This would be raised with SLT when they met to consider, if the guidance note was being used and if not, why not.

The discussion paper did not require a decision by Members, however, it was unanimously

**RESOLVED that the Senior Leadership Team revisit the thresholds and provide a definition of the criteria.**

**6. ANNUAL AUDIT LETTER 2009/10**

Ian Pennington from KPMG introduced the Annual Audit Letter 2009/10 as circulated with the agenda.

The good news was that most items had been dealt with in the September 2010 meeting and there was very little else for the Audit Committee to discuss.

The aim of the document was that it summarised Audit activity and was more accessible to the public.

In response to a question from a member of the committee the Assistant Chief Executive explained that the data backup was based at the Depot and that formal testing would require a full shut down of the system, which would be very disruptive. Desktop testing was being undertaken and a formal test was in the planning.

The Cabinet Member Finance and Community Development observed that the level of cuts had been higher than those referenced in the document.

**7. GRANTS CERTIFICATION SUMMARY REPORT 2009/10**

Rachael Tonkin from KPMG introduced the grants certification summary 2009-10 as circulated with the agenda.

In total, KPMG had certified six grants and returns, four of which were unqualified with no amendment.

Two were unqualified but required minor adjustments to the final figure, details of which were summarised on page 4.

The final page of the document gave details of the fees for each grant certification, which were contained within the original estimate overall. This was attributed to good grants co-ordination and accurate grants preparation by Officers of the Council.

In response to a question from a member of the committee, Ian Pennington confirmed that CBC consistently compiled very good quality returns.

The Assistant Chief Executive would pass on this message to the relevant Officers.

## **8. FINANCIAL STATEMENTS AUDIT PLAN 2010/11**

Rachael Tonkin from KPMG introduced the Financial Statements Audit Plan 2010/11 as circulated with the agenda.

The document described KPMG's approach to audit work for CBC in the coming year (2011/12). The work was divided into two streams, value for money (VFM) and financial statements.

VFM (formerly Use of Resources) work would change following new guidance from the Audit Commission and focus on financial stability.

Page 3 detailed the schedule of work, which was currently in the planning stage.

CBC like all local authorities, was required to implement IFRS for the 2010/11 financial statements. The year end work would be bought forward by a month, to July, to alleviate the busy closedown and final accounts audit season, prior to consideration by the Audit Committee in September.

The diagram on page 5 showed the key financial statement risks identified by KPMG for 2011/12. Two areas of increased risk assessment would be;

- Implementation of IFRS
- 'GO' project

The 'GO' project raised issues about resources and the control environment.

The document then detailed the key audit risks and outlined the impact on the KPMG audit plan. The transition to IFRS impacted all areas.

Materiality items below £20k and considered trivial, would not be reported to the Audit Commission.

Ian Pennington queried the layout of page 9 of the document which he felt could have been clearer.

CBC had a good track record in preparing accounts of a high standard and as such KPMG would focus their testing on a sample of transactions that were more likely to be prone to significant fraud or error, rather than everything. This would reduce the level of work required by KPMG and as such, their fee.

The independence confirmation was set out on page 10 of the document and confirmed that KPMG were independent of CBC.

Pages 11 and 12 detailed the Audit fees for 2011/12, though the fee for the follow up work to the public interest report could be reduced based on the level of work required. CBC would be reimbursed directly by the Audit Commission for IFRS.

The audit timeline and deliverables, on pages 13 and 14, also highlighted the Audit Committee involvement. The suggestion from KPMG was that the September meeting of the Audit Committee for year end conclusions, be scheduled for earlier in the month than in previous years.

The following responses were given to questions from members of the committee;

- The £119m referred to in the document included housing benefits and CBC turnover.
- A lot of work was being done by Officers now in order that it was possible for KPMG to bring forward their audit of the accounts and the sign off of the financial statements.
- IFRS did apply across Europe but only to larger plcs rather than smaller ones, though over time, it would apply to all.
- The Elector Challenge had the potential to create more work and result in additional costs, but unfortunately this was the right of electors. However, challenges were often dealt with immediately or passed to Officers and members were reminded that the accounts had been challenged for the past 3 years.

## **9. PUBLIC INTEREST REPORT ACTION PLAN MONITORING REPORT**

This item was taken after the standing agenda items and before any other.

The Borough Solicitor and Monitoring Officer introduced the report as circulated with the agenda.

She explained that this was the third report to have come before the committee. A vast majority of the actions had now been completed, the most recent of which was the constitution review which was agreed at the last meeting of Council.

There were some minor residual actions which had been highlighted in bold.

One related to the tracking of decisions, which would be possible once the new committee management system had been fully implemented.

There were some issues relating to risk and project management training and one outstanding matter from the working group report was the Employee Code

of Conduct. Members had requested that this be updated to resemble the Members Code of Conduct, but some consultation was required before this could go to the Standards Committee for approval.

The full review of the constitution had been deferred with the agreement of Council, though this would start this year, ready for the new municipal year.

The Borough Solicitor and Monitoring Officer was pleased that the majority of actions had been delivered on time and hoped members shared these sentiments.

The following responses were given to questions from members of the committee;

- Overview and Scrutiny Committees currently had the right to scrutinise decisions made by the Staff and Support Services Committee and the same would be true of the Appointments Committee. This would be made clear in the constitution as part of the comprehensive review.
- A number of actions were addressed by the guidance note that was produced, which had resulted in clearer recommendations. If members felt that recommendations were not clear or had general concerns these would be investigated.
- There was a commitment to complete risk and project management training but this would not be possible within the original timeframe. This was due to capacity issues within the Learning and Development Team and explained the two seemingly, conflicting statements in R16 and R20. The module for risk management had been written and was currently being tested by Officers before it was rolled out across the council.
- Internal audit had done a large amount of work on this matter and as such, KPMG would need to do less, which would reduce the associated costs. KPMG would start testing soon, with a view to being able to report back to the committee in June 2011.
- SLT had discussed closing the risk relating to the council's ability to respond to the public interest report but had agreed that it should remain open until KPMG had completed their review. KPMG confirmed that the signs were good.

Upon a vote it was unanimously

**RESOLVED that the committee considered the information set out in Appendix 1 and reviewed progress against actions.**

#### **10. INTERNAL AUDIT PARTNERSHIP QUARTERLY PERFORMANCE**

The Audit Partnership Manager introduced the report as circulated with the agenda.

The report formed part of changes being introduced in order that the Audit Committee could monitor performance over the year, so that there would be no surprises at the time of the Annual Internal Audit Report.

He confirmed that the partnership had expanded to include West Oxfordshire with effect from the 1 November 2010 and was now called Audit Cotswolds.

Members were referred to item 3.2 of the covering report, a summary of the audit reviews concluded in the last quarter, from which there were no limited or low assurances.

He highlighted the audit of 'Environment and Sustainability Management', for which he had invited the Assistant Director Operations to provide more detail later in the meeting.

Item 3.4 detailed some of the other work Audit Cotswolds had undertaken in that time.

Appendix 1 (page 97 onwards), the Internal Audit Monitoring Report itself, contained a lot of detail, which he was hoping to reduce over time.

In relation to Performance Management (pages 98 and 99), he advised that this would ordinarily be measured against the national indicators, but these had been abandoned by the coalition government.

The KPMG Public Interest Report follow-up had been subject to substantial internal audit and there were no areas of concern with the exception of 'risk management and related training', given that very little had been achieved. It was established that risk management at CBC was undergoing some necessary changes, which had been compounded by budget restraints and staffing shortages.

Councillor Massey commented that he felt the monitoring report contained the right amount of detail and would disagree that this needed to be scaled down.

The following responses were given to questions from members of the committee;

- The last paragraph of item 4.2 on page 95 did end abruptly, this was a mistake that had been rectified on the website and should have concluded...manage maternity absence.
- There was no assurance for the Depot Rationalization audit as this had been a mid point health check with no issues arising.
- The comments by Audit to SLT in response to the management response to the result of the Performance Management audit had been agreed. SLT accepted that they had been fair comments and that performance data would need to be robust.

The Assistant Director Operations was not sure of the reasons behind the Audit Committee requesting the audit of 'Environmental and Sustainability Management' but was glad that they had. He had found the process challenging but at the same time invigorating, it was approached in a constructive way and had involved a range of Officers and Members.

It had highlighted the authorities progress in carbon reduction and Member engagement and involvement with the Internal Carbon Reduction Group and an Overview and Scrutiny Working Group having been established.

Some areas requiring more work, were, the various strategies which referred to sustainability and needed to be reviewed and joined up.

Longer term sustainable measures were another issue. In recent years the focus had been on short term gains, for which he felt he couldn't apologise but accepted that there was a need to consider long term measures too.

Also raised, were questions about how sustainability linked with commissioning. The Climate Change and Sustainability Officer, had done some really good work in creating the 'Commissioning for the Council's Community Objectives and Equalities assessment tool'. The purpose of the assessment tool was to ensure that services were delivered in a way in which maximised the positive contribution and didn't have a detrimental effect on the community objectives and outcomes, of which, enhancing and protecting the environment was one.

Moving forward, he accepted that consideration needed to be given to the membership of the Internal Carbon Reduction Group, which currently included CBH, but would need to be widened.

The following responses were given to questions from members of the committee;

- The budget would take account of projects with a longer term payback, the period had not been redefined, though, Officers were yet to resolve the issue of projects with a payback period longer than 10 years.
- The Climate Change and Green Space Strategies remained relevant documents, the issues were the action plans associated with those documents. These needed to more realistic, with reduced numbers of actions, rather than discounting the strategies.

## **11. DRAFT BUDGET 2011/12 - GOVERNANCE ISSUES**

The Chief Finance Officer introduced the report as circulated with the agenda.

Members were referred to the draft budget which was agreed for consultation by Cabinet on the 21 December 2010. The budget contained a significant number of proposals to either reduce services or cut expenditure, to address the funding gap of £2.9m.

The committee were asked to consider the budget proposals and whether there were any areas of concern in respect of governance arrangements for the council. These would be brought to the attention of Cabinet as part of the consultation process.

The following responses were given to questions from members of the committee;

- KPMG's recommendation<sup>16</sup> did involve risk management and related training. Admittedly there were cuts to the corporate training and the professional training budgets totalling almost £75k, but project and risk management training would remain a priority for the authority. Training across the board would be approached differently.

- Changed or shared services were automatically flagged with Audit. One Legal was currently being reviewed to establish whether the proposed benefits were being realised and to monitor performance. In relation to the 'GO' Programme the Audit Partnership Manager would look for one audit to be undertaken rather than four separate audit processes, which would also generate efficiency savings.
- The Audit workload did increase as more services were shared, but equally the workload was then shared between the authorities to avoid duplication.
- Shared Services was a growing trend at local authorities, given the flexibilities it offered. It allowed for resources to be moved where and when needed and scope for specialisation, which would reduce the demand for external advice. Auditing a shared service offered access to call upon the Internal Audit of the other authority.

Upon a vote it was unanimously

**RESOLVED that having considered the draft budget 2011/12, the Audit Committee response to Cabinet be, that Project and Risk Management be treated as priorities in relation to training.**

## **12. WORK PROGRAMME**

The Chairman referred members to the work programme as circulated with the agenda.

As agreed earlier in the meeting, the KPMG feedback on the Public Interest Report – follow up would be scheduled for June 2011.

Consideration of the governance issues arising from commissioning would be scheduled for March 2011.

Cabinet Member Corporate Services suggested that the committee may want to consider the Corporate Strategy at some stage. Members of the committee stressed that this would need to be in respect of governance and not a scrutiny role. Officers would consider how this would be presented and when.

Discussions were still ongoing at a national level about the appointment of external auditors and the process for doing so, when the Audit Commission was dissolved.

The date of the September meeting would be scheduled for earlier in the month. Alternative dates would be sent to KPMG for agreement.

## **13. ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION**

There were no urgent items for discussion.

## **14. DATE OF NEXT MEETING**

The next meeting of the committee was scheduled for the 23 March 2011.

Andrew Wall  
**Chairman**