

Audit Committee

Wednesday, 22nd June, 2011
6.02 - 7.27 pm

| Attendees | |
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| Councillors: | Andrew Wall (Chairman), Bernard Fisher, Paul Massey (Vice-Chair) and Paul Wheeldon |
| Also in attendance: | Jane Griffiths (Director of Commissioning), Councillor Colin Hay (Cabinet Member Corporate Services), Rob Milford (Audit Partnership Manager), Bryan Parsons (Policy Officer), Ian Pennington (KPMG Auditor), Rachael Tonkin (KPMG Auditor) and Councillor John Webster (Cabinet Member Finance and Community Development) |

Minutes

1. APOLOGIES

Apologies were received from Councillors MacDonald and R. Hay and Mark Sheldon (Director of Resources).

2. DECLARATIONS OF INTEREST

None declared.

3. MINUTES

The minutes of the last meeting had been circulated with the agenda.

Upon a vote it was unanimously

RESOLVED that the minutes of the meeting held on the 23 March 2011 be agreed and signed as an accurate record.

4. PUBLIC QUESTIONS

No public questions were received.

5. ANNUAL GOVERNANCE STATEMENT

The Director of Commissioning introduced the report as circulated with the agenda, in the absence of the Director of Resources.

The Annual Governance Statement (AGS) was considered annually by the Audit committee and formed part of the annual statement of accounts. Whilst the accounts timetable had changed and the statement of accounts would be considered for approval in September, officers had felt it important to prepare the AGS in advance. The action plan identified control issues and set out how the weaknesses would be addressed.

The following responses were given by the Director of Commissioning, with assistance from the Policy Officer, to questions from members of the committee;

- Control issues which did not include a target completion date within the action plan would be updated to include one prior to Council on the 29 September.
- Governance controls were considered by the council every year. Each March the Directors assessed existence and adequacy of governance and control arrangements. Once completed this was considered by the Director of Resources, Policy Officer and Head of Internal Audit, to identify any improvements to be included in the action plan. The Senior Leadership Team and Corporate Governance Group then considered the governance statement, before it was submitted to the Audit Committee ahead of its consideration by Council
- The payroll issue was a capacity issue which had not been addressed despite the best efforts of the Council to improve resilience. Measures had been put in place and for one reason or another had not come to fruition. There was somebody on the GO Programme that could be utilised.
- Internal Audit monitored and assessed controls. If progress was not achieved on any item within the action plan following six monthly tracking, a full audit was undertaken.

The action plan was scheduled for review by the Audit Committee in December.

Ian Pennington, the KPMG Auditor, assured members that KPMG were not overly concerned with the outstanding items, given that a large number were I.T. matters that would be addressed by the GO Programme. He accepted the stance of the Council, that it was hard to justify investment when various changes were planned for later in the year.

Upon a vote it was unanimously

RESOLVED that;

- 1. The annual governance statement be approved and recommended for adoption as part of the statement of accounts, and**
- 2. The Leader and Chief Executive be recommended to sign the annual governance statement, and**
- 3. An update report on progress against actions be scheduled on the Audit Committee work plan for December 2011.**

6. THE BRIBERY ACT 2010

The Policy Officer introduced the report as circulated with the agenda, which set out the impact of the Bribery Act 2010 which would come into force on 1 July 2011. As a result, internal controls and policies would need to be reviewed and updated where necessary to reflect the Act.

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

- The Procurement Officer had confirmed that the Act's provisions were reflected within the contract rules and would be kept under review.
- HR had also confirmed that the recently amended Employee Code of Conduct reflected the requirements of the Bribery Act.
- The Ministry of Justice guidance confirmed that the Act created a new offence which can be committed by commercial organisations that fail to prevent persons associated with them from committing bribery, this did not affect local authorities directly because of existing codes of conduct for members and staff and therefore would not alter the rules on hospitality.
- All new and revised policies were circulated to HR, Finance and Legal for comment in order that wording did not preclude existing arrangements.
- All internal control policies within appendix A of the Code of Corporate Governance and this, along with information about the Act would be posted on the intranet, along with a link to the Ministry of Justice guidance notes. The named Officers would be responsible for updating policies where appropriate.

The constitution was to be considered by Council in October and the Director of Commissioning suggested that the committee may like to consider making a recommendation to the relevant Cabinet Member to ensure that the requirements of the Bribery Act are taken into account.

Members requested confirmation that implementation was complete at the appropriate time.

Upon a vote it was unanimously

RESOLVED that the changes effected by the Bribery Act 2010 be taken account of by the committee, along with the proposal to review and update any necessary changes to the Council's policies.

7. ANNUAL INTERNAL AUDIT REPORT

The Audit Partnership Manager introduced the report as circulated with the agenda, which was produced annually alongside the Opinion Statement and feeds into the Annual Governance Statement (AGS). He highlighted some key messages.

Item 3.2 of the covering report summarised the assurance opinion for 2010-11, which based on activities and systems examined and other assessment evidence, was 'satisfactory', with the four opinion options being high, satisfactory, limited or low assurance.

Having assessed the effectiveness of internal audit as part of the review, it was considered 'fit or purpose'. Members were reminded that the service had benefited from the wider partnership of which it was now a part, which had improved the knowledge base and skill set of the service.

The Internal Audit Report itself highlighted three areas where a 'limited assurance' opinion had been deemed necessary and this was reflected in the

AGS. 'Street Scene Enforcement' Management Controls and Performance Effectiveness, were reviewed after numerous delivery responsibilities were bought together under one enforcement group. Various improvements were identified and significant progress had already been made. A 'Health Check' audit identified that 'Business Continuity Plans' required full testing. Whilst desk-top testing had been undertaken throughout the year (2010-11), a full system test had not and as a result Internal Audit were actively monitoring this area.

Internal Audit were able to take assurances from other providers, including KPMG, so as to avoid duplication.

Appendix A detailed the range of Internal Audit activity and the assurances gained. Some areas were ongoing, those marked as 'consultancy' did not involve full reviews but as with the GO Programme, the Audit Partnership Manager sat on the Programme Board and was able to challenge the business case. Some activity had progressed in the last year and some had needed to be deferred as more urgent matters had arisen.

The following responses were given by the Audit Partnership Manager to questions from members of the committee;

- The Performance Effectiveness element of the 'Street Scene Enforcement' review did not relate to individual's performance but in fact, performance indicators and what the service should be delivering, for example, what level of mileage claim was to be expected.
- 'Consultancy' involved ongoing advice, mitigating risks to allow progress, highlighting best practice and suggesting improvements.
- The ability to offer an Assurance Opinion depended on the scope of the review, hence why one had been given to the Cemetery and Crematorium and not Leisure@.
- Once, for example, the GO Programme and Cheltenham Development Task Force have established what they wanted to achieve, Internal Audit will be in a position to offer an assurance opinion, which they couldn't in relation to programme management.

Upon a vote it was unanimously

RESOLVED that the Annual Audit Opinion 2010-2011 be accepted by the committee.

8. INTERIM AUDIT REPORT 2011/12

Ian Pennington, KPMG Auditor, introduced the report as circulated with the agenda. He and his colleague, Rachael Tonkin, highlighted some headline messages.

The report summarised the key findings arising from KPMG's interim audit work at Cheltenham Borough Council in relation to the 2010-11 financial statements and work to support the KPMG 2010-11 value for money conclusion up to June 2011. The main body of work would be undertaken when the accounts were completed.

Page two of the report summarised some of the work done to date and the remainder of the report provided further details on specific areas.

Section three of the report related to higher level controls which gave KPMG an understanding of the Councils organisational control environment, which overall were considered to be effective.

Some aspects of the IT control environment were assessed at level 2 (amber) and this had much to do with the APTOS system and access to it. Improvements had proved difficult at present but would be increasingly important with the introduction of the Agresso system.

KPMG evaluated the financial systems of the Council to ensure that the system was likely to produce reliable figures for inclusion in the financial statements. This was generally sound. The last four systems would be assessed at the final audit visit as part of the year end process and would be reported to the committee in September.

Whilst the Council had implemented a number of the recommendations from the prior years report, KPMG had brought forward a high level recommendation 'testing of back-ups'. Formal testing of back-ups was in progress but had not yet been completed.

IFRS accounts would look very different to previous years and the Finance Team had approached the conversion very well.

The Council had made good progress in addressing the key risk areas that KPMG had identified, however, there remained some significant challenges that required focus and these areas would be revisited in the year end report in September.

Section five credited the Council for its positive response to the Public Interest Report, its handling of which had impressed the KPMG Auditor. He did wonder whether the Council may like to consider what difference it had made at some point.

Councillor Massey welcomed the positive report from KPMG and commended Internal Audit for their role in this achievement. He was also pleased to note that a number of the issues highlighted in the report related to the ICT infrastructure of the Council and would 'shine a light' on the matter.

In response to a question from a member of the committee, the Director of Commissioning explained that the issue of password control had been raised with ICT and HR. They felt that the technical complexity of implementing increased password controls far outweighed the benefits of doing so.

Councillor Wheeldon raised an issue about member password expiration, which the Director of Commissioning would highlight to IT and HR.

The Interim Audit Report 2011-12 was formerly noted by the Audit Committee.

9. AUDIT FEE LETTER 2011-2012

Ian Pennington, the KPMG Auditor, introduced the Audit fee letter 2011-12 as circulated with the agenda. The letter gave an indication of the fee being proposed by KPMG for the 2011-12 financial year.

Audit Commission advice had been for KPMG to deduct 5% of the 2010-11 fee, which did not include the £5k for the follow up of the Public Interest Report. He appreciated the Councils disappointment at not having received the IFRS reimbursement from the Audit Commission.

In response to a question from a member of the committee the KPMG Auditor advised that despite the level of Internal Audit undertaken by the Council, there was not a downward trend in the KPMG fee. The Council were however, at the low end of the scale of fees. This was largely based on the high quality of accounts produced by the Council.

The Audit fee letter 2011-12 was formerly noted by the Audit Committee.

10. DCLG CONSULTATION

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

The DCLG consultation paper (Appendix A), was a cumbersome document, but one that he felt important for members of the committee to see. The table of draft responses (Appendix B) had been formulated by the Audit Partnership Manager and the Corporate Governance Group.

The Audit Partnership Manager had two main items to raise with the committee. Firstly, having assessed the 'design principles' of what DCLG want to achieve, he didn't feel it covered all of the elements that he would have liked to have seen, for it to include external auditors and other assurance providers. Secondly, the introduction of independent Chair and Vice Chair as a minimum could be counter productive whereby the Audit Committee members have been elected by the public and have a fundamental duty to the public. Another issue was how they would be vetted and remuneration.

Members made the following comments;

- The Audit Partnership Manager and Corporate Governance Group had formed some good responses and there was not a lot that the committee could add.
- Retain member involvement, the committee already had the professional external auditors (KPMG), it was unclear what value independent members would bring.
- The response to question 42 onwards, relating to smaller bodies, in which it was felt the questions were applicable to the authority. The Council did have a justifiable interest in Parish Councils and felt that the Council could legitimately suggest that expenditure of £10k, inline with Charities was more sensible than the proposed £1k.
- Perhaps co-opting independent members from time to time as was necessary would be useful.

Ian Pennington, KPMG Auditor, observed a range of Audit Committees and felt that this committee had improved over the last four years, in the way in which it

considered and talked about risk. He suggested that the committee consider a self assessment of effectiveness which hadn't been done for some time and could provide some perspective on whether things were done as well as they could be.

Upon a vote it was unanimously

RESOLVED that the comments of the committee be considered by the Audit Partnership Manager and updated as necessary.

11. COMMISSIONING - UPDATE ON CURRENT COMMISSIONING EXERCISES

The Director of Commissioning introduced the paper as circulated with the agenda, which had been produced at the request of the committee at their last meeting. Appendix A, set out the different delivery and governance options available, which would be used at the start of all commissioning exercises. She hastened to add that this was a working draft, the document would evolve and therefore member comments were welcome.

Experience gained through the GO Programme and the Council's relationship with CBH, were useful, but this was a learning curve for all involved.

Ultimately, if externalising services, the Audit Committee needed to be satisfied, as with services delivered internally, that governance arrangements were being delivered, as in some cases the service would remain a statutory function of the authority. The two commissioning reviews, leisure & culture and built environment were in the very early stages.

Members of the committee made the following comments;

- Some form of framework needed to be developed which should be considered as part of every commissioning review. Ultimately, regardless of the delivery option the Council would still require the same governance arrangements.
- Community Interest Companies did not pay dividends, this needed to be amended.
- The primary issue was the 'governance' column. The Audit Committee needed assurances that the relevant governance arrangements were in place and that these were enforceable.
- The document should show what level of control the Council would have over the various delivery options, for example, the Council would have little control over a Limited Company.

Members were assured that an optional appraisal would form part of each commissioning review, which would automatically discount some models. Some delivery options would be subject to more governance by their very nature and it could be that the Council was not able to influence this.

Ian Pennington, KPMG Auditor, reminded members that they would be commissioning external auditors in four years time. His colleague, Rachael Tonkin, highlighted the need to consider how commissioning may impact on the Council's accounts. Would the accounts be consolidated as with CBH or would different delivery options have different impacts on the accounting process.

The Director of Commissioning told how discussions were ongoing in relation to the GO Programme and extra accounting.

The Director of Commissioning reiterated that Appendix A was a working progress and thanked members for their comments, which would help to inform development of the document.

12. WORK PROGRAMME

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

The following items were to be added to the work plan;

21 September 2011

- Recommendation tracker
- GO Shared Services update

11 January 2012

- KPMG Annual Audit letter
- KPMG Grant certification
- KPMG 2011-12 Audit Strategy

20 June 2012

- KPMG Interim report
- New member training session
- GO Shared Services – post implementation update

The Internal Audit monitoring report would be considered at each meeting as a standing item.

Under the 'items to be added at a later date' the changes to the appointment process for external auditors would not be reported by KPMG and an Audit Committee self assessment would be added.

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 was scheduled for the 21 September 2011, for which Councillor Massey tendered his apologies.

Andrew Wall
Chairman