

## Audit Committee

Wednesday, 20th June, 2012  
6.05 - 7.45 pm

Attendees	
<b>Councillors:</b>	Paul Massey (Chair), Nigel Britter (substitute for Colin Hay), Andrew Chard (substitute for Andy Wall), Tim Harman and Charles Stewart (substitute for Rowena Hay)
<b>Also in attendance:</b>	Jenny Poole (Head of GO Shared Services), Rob Milford (Head of Audit Cotswolds), Bryan Parsons (Corporate Governance, Risk and Compliance Officer), Ian Pennington (KPMG Auditor), Mark Sheldon (Director of Resources) and Rachael Tonkin (KPMG Auditor)

## Minutes

### 1. APOLOGIES

Councillors R. Hay, C. Hay, Wall had given their apologies and Councillors Britter, Stewart and Chard were substituting respectively. Councillor Thornton had also given her apologies.

### 2. DECLARATIONS OF INTEREST

No interests were declared.

### 3. MINUTES OF THE LAST MEETING

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

The Chairman referred members to the fourth paragraph of item 8 on page 3 where the words 'low' and 'negligible' needed to be switched so that the sentence read '...and 'negligible' listed below 'low'.

Upon a vote by those that had been present it was unanimously

**RESOLVED that the amended minutes of the meeting held on the 21 March 2012 be agreed and signed as an accurate record.**

### 4. PUBLIC QUESTIONS

No public questions had been received.

### 5. GO SHARED SERVICES UPDATE

The Head of GO Shared Services introduced herself and the update that had been circulated with the agenda.

She explained that such updates would be provided to each of the GO Shared Services partners, each report would follow the same format and she apologised for any instances where another partner was referenced in place of Cheltenham Borough Council in error.

On the 1 April 2012 Cotswold District Council became the employing authority for the GO Shared Services partnership. The governance arrangements in place to manage the development of the ERP system and the development of the shared service had now been superseded by a Joint Monitoring and Liaison Group (JMLG) and a Client Officer Group (COG). The first meeting of the COG was held on the 25 May and the first meeting of the JMLG was scheduled for a date next week.

There had been a number of achievements to date including the savings that had been driven out from CIPFA and the Audit Commission were being lobbied to reduce the fee for External Auditors given the expected economies of scale. Implementation was complete or nearing completion for 5 of the 6 organisations (including Cheltenham Borough Homes and UBICO) and whilst there had been some minor issues, fundamentally the system was working, paying staff, etc. She felt that these were good achievements given the pace of implementation.

TUPE transfers were successfully carried out at the 1 April 2012 and all employees transferred to Cotswold DC. The restructure and shaping of the service was on target for October and this would bring about further efficiency savings. A variety of methods were being utilised to ensure that staff were kept informed and engaged, including letters, briefings, the website and workshops.

It was a testament to the hard work of officers that the current stage had been reached and implementation continued and she took the opportunity to thank staff for all of their efforts. She was confident that GO Shared Services would deliver what it had set out to do.

The GO Shared Services Manager gave the following responses to member questions;

- All staff other than the senior management team were at risk and all had been provided with an information pack. Staff, were currently being invited to 1-2-1s to discuss the structure and therefore there could be changes as a result and until this time it was not possible to provide figures for staff that would exit the organisation. This documentation would be available on the 18 July 2012.
- There was a sum of monies set aside for one-off compulsory redundancies.
- The business case was regularly reviewed, delivery was largely on cost and she was confident that it would be delivered within budget. The new system was already delivering savings and further savings were being actively progressed as part of the restructure. She was happy to provide further updates and envisaged final close down by Autumn.
- The Head of Audit Cotswolds would next week be setting out how and what internal audit would report and to whom.
- There was every confidence that the ERP implementation would resolve the payroll issues that faced Cheltenham Borough Council. The issues would continue to be monitored.

The Chairman thanked the GO Shared Services Manager for her attendance.

## **6. INTERNAL AUDIT MONITORING REPORT**

The Head of Audit Cotswolds introduced the report which was a six monthly item designed to give the Committee an opportunity to comment on the work completed by the partnership and provide ongoing comment and assurances on the control environment throughout the year. This would also support the work of the external auditor.

Item 3.4 set out other areas of work which Audit Cotswolds had undertaken through the course of the last year and included support for GO Shared Services, the Local Authority Company and Cheltenham Borough Homes as a client. Appendix 1, the Internal Audit Monitoring Report itself gave details of the specific areas of audit.

Payroll – this was the third consecutive year that issues were being reported but given the imminent implementation of a new ERP system a pragmatic approach to the review had been taken and focussed on key controls to identify any operational improvements so as not to effect the progress of GO. Weaknesses in the accuracy and effectiveness of internal controls included reconciliation, non-standard salary payments (e.g. maternity payments) and management review and performance management procedures. In spite of GO the risk would still be with this authority and whilst he was confident that a higher assurance would be achieved, this would need to be evidenced before the assurance would improve. The assurance was Limited.

Council Tax and NNDR – sickness was a concern. One member of the team had been off sick since last October and whilst this had not impacted the service any further absences would have consequences. The assurance was High.

Housing Benefits – the issues here had been resolvable and therefore a limited assurance was not justifiable. There was uncertainty around the significant changes to the Benefit system and periods of change always posed a risk. The assurance was Satisfactory.

Green Waste Accounting – this was a follow-up to a review which resulted in a limited assurance and had involved discussions with UBICO and the CBC side to ensure that all issues were being addressed. He was comfortable that the issues were being taken forward and confirmed that the matter would be subject to further follow-up.

The Head of Audit Cotswolds provided the following responses to member questions;

- There was no formal opinion for the review of the Green Waste Accounting as this had been a follow-up.
- Progress in relation to recommendations was reviewed after 6 months and all recommendations had an associated deadline which would trigger a return visit from internal audit. If sufficient improvements had been achieved the service would not be reviewed again until the next annual review.
- There were a number of issues that had delayed improvements to the payroll system and resulted in 2-3 years of limited assurance, which included failed negotiations with Tewkesbury Borough Council to join

GO and capacity issues which despite numerous attempts at recruitment were unresolved. Given that a new system was being built a pragmatic approach was taken and whilst the legal requirements were met, the limited assurance was allowed to continue for much longer than would ordinarily be acceptable.

- The ERP system was automated but managerial authorisations were still required. The 2 person rule referred to in the report implied that the process would involve the same two individuals but this was not the case, the point was simply that a second person would need to be involved in the process.
- The concerns highlighted in the original report for the green waste review had been fairly severe in relation to non-compliance with financial rules but he was confident that action had been taken to resolve this. With the formation of UBICO there had been a significant shift in governance and this would be considered in detail by internal audit at the end of the year.

## **7. ANNUAL INTERNAL AUDIT OPINION FOR 2011/12**

The Head of Audit Cotswolds introduced the internal audit opinion for 2011/12 which was a key source of control assurance for the Audit Committee and Senior Leadership Team as well as support for the external auditors (KPMG). The work was also a key component of the annual governance statement.

Internal audit now operated as a partnership which included Cotswold District Council and West Oxfordshire District Council. The 10 year agreement provided stability, resilience and increased skills base and would allow for the service to be further developed. This also enabled the service to be adaptive and add items to the work plan where required (e.g. UBICO which was a massive undertaking and did take precedence over lower risk work).

Based on the work that had been undertaken the overall opinion was of satisfactory assurance. He explained that any organisation in a position similar to that of CBC, an organisation going through the same period of change would achieve a satisfactory assurance. The table of internal audit work for 2011/12 set out the various audit activities and he noted that in some cases the work undertaken by other sources of assurance had been considered (e.g. the One Legal Shared Service Audit on which internal audit at Tewkesbury Borough Council had collaborated).

In response to a member question the Head of Audit Cotswolds reiterated that it was not possible to provide an assurance where smaller, more focussed pieces of work had been carried out.

Upon a vote it was unanimously

**RESOLVED that the Annual Internal Audit Opinion 2011/12 be accepted by the Audit Committee.**

## **8. ANNUAL GOVERNANCE STATEMENT**

The Corporate Governance, Risk and Compliance Officer (CGRCO) introduced the annual governance statement which the council had a statutory duty to prepare. The review was undertaken by the CGRCO and reported to the Senior Leadership Team and Corporate Governance Group before consideration by

the Audit Committee ahead of its consideration by Council as part of the Statement of Accounts.

Assurance statements and evidence tables were issued to the Directors on an annual basis. The Directors undertook self assessment checklists of the existence and adequacy of governance and control arrangements and were encouraged to complete an honest assessment, setting out mitigating actions for areas of weakness in the control.

There had been a lot of activity over the last year that had affected the controls of the council including, the review of the constitution, the new financial rules adopted by council and rolled out across GO, the adoption of a commissioning framework and a protocol (to be considered / agreed at Council on 25 June 2012), the formation of the Local Authority Company and new Section 106 agreements.

The statement was a retrospective look at the last year, a challenge of what the council do and finalised with an action plan which would be monitored by the Corporate Governance Group and a report back to the Audit Committee in January 2013. The only outstanding issue from last years action plan was the payroll issue which had been previously discussed.

The CGRCO gave the following responses to member questions;

- The formation of UBICO was a response to an opportunity to work with a partner given the strong business case and was not the result of a commissioning review. The reference to UBICO would be moved below the references to commissioning reviews to avoid any confusion.
- A progress update would be provided and officers would consider the suggestion that original deadlines as well as revised deadlines would be reported.

Upon a vote it was unanimously

**RESOLVED that;**

- 1. The annual governance statement be approved and recommended for adoption by Council 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 January 2013.**

## **9. INTERIM AUDIT REPORT**

The KPMG Auditor introduced the Interim Audit report for 2011/12 and for the sake of new members explained that the report formed part of a chain of reports. This, the interim report, followed the planning report which was considered in March and summarised the key findings arising from the work

carried out to date in relation to council's control environment for accounts production.

Overall the councils control environment was effective, with all but one of the aspects considered by KPMG being assessed as 'level 3 - generally sound control environment'. Risk assessment processes had been graded at level 2 (deficiencies in respect of individual controls) as a result of the number of recommendations raised by internal audit in their review of the area.

The councils IT control environment was effective but one area for further improvement identified was the need to formalise the review of access to various systems. The reviews were necessary to ensure that only valid individuals had access to specific systems. The justification for this was the implementation of a new system but KPMG were left with some questions about what this would mean for the accuracy of accounts – could an issue have crept through.

The controls over the financial systems that were selected for testing were found to be generally sound, however there were known weaknesses in payroll controls. Internal audit had issued a 'limited assurance' audit opinion as there was no reconciliation of the two current systems at the end of each month. KPMG needed to satisfy themselves that the two systems reconciled at the end of the year and that no journals had been created. As the control didn't work they needed to apply alternative testing. There were some systems that still needed to be tested and these would be tested as part of the work required at year-end.

KPMG relied on Internal Audit to maximise their efficiency, considering reports, assessing their plans and testing some of the work that they had undertaken. KPMG found that Internal Audit fully complied with the Code of Practice for Internal Audit in Local Government and members should be assured that they could rely on Internal Audit.

The council's overall process for preparation of the financial statements was adequate. An issue had been identified last year regarding the lack of evidence of review of journals but this would be addressed following the transition to GO on the 1 April 2012.

In response to a member question, the Director of Resources advised that the £100k journal threshold had been used locally and when this issue had been discussed with the GO partners it was agreed that £100k was an acceptable level given the size of the organisations involved. Generally, larger journals were dealt with by more senior officers within the finance team. The KPMG Auditor assured members that this would be the subject of testing and any issues would be reported. The Chair requested that the issue of the £100k threshold for journals be raised with the GO partners and a response reported back to the Committee in September.

The Director of Resources confirmed that the new ERP system would, as standard good practice, be subject to a regular review of users. This had not been the case for APTOS as the new system was being developed. The Head of Audit Cotswolds reassured member that this item was included on the Internal Audit action plan. The KPMG Auditor explained that KPMG would not

test GO as Grant Thornton had been appointed as external auditor for the GO partners. KPMG would complete the audit for March 2012, which would be 95% complete by September. The new auditors would be in place on the 1<sup>st</sup> September and were welcome to review any information KPMG had.

The Director of Resources assured members that Cheltenham Borough Council would still be audited as an independent authority as ultimately the new external auditor would still have to sign off separate accounts for each authority. The decision to use the same auditor was based on the fact that there was now a shared system which would previously have been tested by 3 different external auditors.

**10. WORK PROGRAMME**

The Chairman referred members to the work plan as circulated with the agenda. He explained that the work plan was populated with reoccurring items with no vast scope for change but members were welcome to raise items for consideration.

Officers imagined that there would be little change to the timetable of external audit items by the newly appointed external Auditor and reassured members that there would be a full handover between KPMG and Grant Thornton and at no point would the council be without an external auditor in place.

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

There were no urgent items for discussion.

**12. DATE OF NEXT MEETING**

The next meeting was scheduled for the 19 September 2012.

Paul Massey  
Chairman