

Audit Committee

**Wednesday, 9th January, 2013
6.03 - 7.20 pm**

Attendees	
Councillors:	Paul Massey (Chair), Andrew Chard (substitute), Colin Hay, Rowena Hay, David Prince, Tim Harman and Pat Thornton
Also in attendance:	Peter Barber (Grant Thornton), Paul Benfield (Grant Thornton), Rob Milford (Head of Audit Cotswolds), Bryan Parsons (Corporate governance, risk and compliance officer), Mark Sheldon (Director of Resources) and Peter Smith (Grant Thornton)

Minutes

1. APOLOGIES

Councillor Wall had given his apologies and Councillor Chard attended as his substitute.

2. DECLARATIONS OF INTEREST

No interests were declared.

3. MINUTES OF THE LAST MEETING

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

It was noted that Councillor Chard was not listed within the list of attendees. This would be amended.

Upon a vote it was unanimously

RESOLVED that the minutes of the meeting held on the 19 September 2012 be agreed and signed as an accurate record.

4. PUBLIC QUESTIONS

No public questions had been received.

5. ANNUAL AUDIT FEE LETTER FOR 2012-13 AND ANNUAL AUDIT PLAN FOR 2013-14 (INCLUDING INTRODUCTION)

Peter Barber (Associate Director) of Grant Thornton the council's new external auditor introduced himself and his colleagues Peter Smith (Engagement Manager) and Paul Benfield (Audit Executive). He had felt it was important to bring the whole team to their first meeting with the Audit Committee and expressed Grant Thornton's delight at being appointed the council's external auditor service for the coming five years.

He explained that the main driver behind their appointment had been the GO Shared Service with the Forest of Dean, Cotswolds and West Oxfordshire for

whom Grant Thornton already acted as external audit services. It was considered that this would enable the most effective audit, avoid duplication and in turn provide economies of scale. With the transfer from the Audit Commission on the 1st November he admitted that Grant Thornton were slightly behind and as such the fee letter was deliberately brief and no initial risks had been detailed. The scale fee, as set out in the letter, was set and confirmed by the Audit Commission at £108,290 and with the reduction of 40% this would be £64,974 and Grant Thornton would be seeking to discharge their responsibilities under the current code of practice and deliver a high quality external audit service. Up to 80% of their opinion would be based on the financial statements produced by the council, with initial governance assurance on controls and then after April, review of the substantive procedures. Members would be aware that up until two years ago the VFM conclusion had been quite wide ranging, however, the criteria had since been reduced and now focussed on financial resilience. Beyond the code Grant Thornton would undertake the certification of grants and returns and with the 40% reduction the fee for this service would be £12,750.

Peter Barber gave the following responses to questions from members of the committee;

- The 40% savings available to the council had been generated by the loss of the Audit Commission which had always been a large overhead for any external auditor. He assured members that this reduction would not result in a less rigorous service and Grant Thornton would adhere to all the same standards, adopt the same approach and maintain standards as the previous external auditors.
- Items from the audit timetable would be added to the committee work plan as appropriate, these details would be forwarded to the Democracy Officer, with September being a key meeting. Officers would be provided with initial copies of conclusions so that they are aware of any issues and Grant Thornton would work closely with Internal Audit to avoid duplication.
- He hoped that the issue of Chinese walls and confidentiality would be clearly set out in the various contracts (Ubico, CBH, etc) from the outset. However, these by their definition, would tend to evolve over time and it would be for each to decide what information they choose to share with other authorities, partners, etc.

The Chairman suggested that in time the committee could consider how the flow of data was working.

6. INTERNAL AUDIT MONITORING REPORT

The Head of Audit Cotswolds introduced the report as circulated with the agenda. He explained that such a report was produced for each meeting but highlighted the move to new audit standards meant that this report would contain more information than it had previously.

He referred members to the table at item 3.2 of the report which set out audits that had been concluded by Internal Audit. These included ordinary audit work, simple assurances, consultancy work, of which there was a raft, responsive work which included an investigation into the recent ICT virus and the last four items were audit plan items. Counter fraud had been an area of focus for the

partnership and using resources to proactively develop procedures, policies and training, etc was a priority.

The Head of Audit Cotswolds gave the following responses to questions from members of the committee;

- The recommendations relating to a need for a full business continuity document covering procedures to be followed when there was a loss of power at Leisure@ (page 25) covered all aspects from documentation to testing.
- Members were assured that whilst there was no mention in the 'Management Response to Findings and Recommendations' of the recommendations being taken forward, this was indeed the case. Recommendations from each report were included within an action plan, which was agreed by managers and items added to the relevant risk registers where appropriate.

7. AUDIT CHARTER

The Head of Audit Cotswolds introduced the Audit Charter. The Charter set out how Audit Cotswolds would meet the new Public Sector Internal Audit Standards and it was intended that this would be one of only a few documents that would be standardised across Cheltenham, Cotswolds and West Oxfordshire. He talked through the Charter itself and highlighted the following aspects;

- Work in relation to ethical and environmental aspects had been expanded upon to meet what now needed to be undertaken.
- In relation to 'Independence' there was, in the Section 101 agreement, a means by which he could be bypassed on issues where he had earlier provided advice, Chinese walls as it were. The committee would be made aware of any such impairment.
- 'Reporting' set out efforts to control the issue of draft and finalised reports given that audit work was often a snapshot and the need to report in a timely manner.
- Audit Cotswolds had adopted The Chartered Institute of The Chartered Institute of Internal Auditors (UK & Ireland) which allowed them to undertake work for CBH, UBICO, etc.

In response to a question from a member of the committee, the Head of Audit Cotswolds advised that recommendations would highlight the possible risks and these risks would be prioritised by the level of associated risk.

Recommendations relating to best practice which were not critical but would be of benefit could be permitted 12 months for implementation, whereas instant action would be expected for priority 1 risks. Internal Audit assessed risk and provided an opinion based on evidence and knowledge. These risks were reported to management who then made an assessment of the risk and any mitigating actions. If Internal Audit had concerns about the decision taken by management they would raise these concerns with the Audit Committee.

The Chairman felt the Charter was brief and concise and whilst he had, had concerns regarding the issue of Chinese walls he was content that this issue had been covered under the reporting section of the document.

8. GOVERNANCE AND INTERNAL AUDIT ROLE

The Head of Audit Cotswolds explained that whilst he had found it challenging to put into writing he considered it useful to try. He focussed on the table at item 3.2 which set out the various phases, indicators, governance arrangements and provided examples and was explained in greater detail at item 3.5.

For those that were not aware, the Chairman explained that this had come to committee to ensure that members were content that they understood the environment in which the council now operated (GO Shared Services, UBICO, CBH, etc) and the associated governance arrangements.

The Head of Audit Cotswolds gave the following responses to questions from members of the committee;

- Each arrangement was individual but was set up to allow access for internal audit and for relevant information to be gleaned but this would vary from one agreement to another. He accepted that it was complicated and hoped that the committee understood that there was some information he could bring before the committee and some that he would need to gain via other sources. Information needed to be localised and confidentiality safeguarded and Officers were working hard to ensure that this was the case.
- Where arrangements were proposed which were not considered appropriate these concerns would be raised by Internal Audit via HR and Legal colleagues. Admittedly there were numerous frameworks and governance arrangements and ensuring staff had received sufficient training was crucial.
- A document had been produced which set out the various frameworks and associated governance arrangements and he would pull this and any new information together and circulate it to members.

9. COUNTER FRAUD, CORRUPTION AND BRIBERY POLICY AND PROCESS

The Corporate governance, risk and compliance officer introduced the Anti Fraud and Corruption Policy which was approved by Audit Committee some three years ago but in this time a number of key supporting policies (the Constitution, Employee Code of Conduct, etc) had been reviewed. The policy before the committee had been considered in great detail, renamed, aligned with other policies and would be an overarching policy.

He referred members to the aims and objectives and highlighted their importance given the changing ways in which the council operated and the responsibilities as set out in the document. He would be working with the Head of Audit Cotswolds to align the policies across the authorities which would continue to be developed over the coming years in an effort to provide a best practice service.

The policy once approved by Cabinet would be owned by the Head of Audit Cotswold who would be responsible for;

- providing to the Audit Committee an annual report on fraud and corruption activity
- awareness training for employees and Members and
- policy reviews

The Corporate governance, risk and compliance officer gave the following responses to questions from members of the committee;

- It was felt that the availability of information including the Members' Code of Conduct (which would soon be published on the council's website) and the Employee Code of Conduct (available on the Learning Gateway) would aid the identification of fraud and that whistle blowing also had a role to play. HR was responsible for the Whistle Blowing policy.
- Members considered that the section on Responsibilities should include a reference on how officers deal with complaints that may suggest fraud or corruption. The officer said he would contact the Customer Service Manager regarding the process for managing any complaints that suggest a possible fraud or corruption issue and amend the section within the policy accordingly
- The Head of Audit Cotswold advised that his team would be taking a proactive approach next year to do with education in view of situation whereby an issue had been discussed too much to allow any involvement.
- Directors received summaries of all complaints on a quarterly basis and Internal Audit assessed the number and nature of complaints and compliments as part of each review which would also help in highlighting possible fraud or corruption issues.
- In the last few years Internal Audit had been required to submit a survey which covered various frauds, often most notably benefit fraud and this would help to inform the Annual Counter Fraud report scheduled on the work plan for June. This would be the first report of its kind to come before the committee and it would be for members to decide if they were happy with its content or required more information. He noted that the Annual Governance Statement would also need to include more detail in relation to counter fraud.
- Internal Audit looked at matters including stock control and expense claims to identify abuses of such things and he was confident that this was how many were discovered. The team also had an open door policy which often resulted in staff raising general concerns which were then picked up by Internal Audit. Allocation of grants would be looked at next year. The council had an Acceptable Use policy and random spot checks were undertaken which highlighted peaks in use, etc.
- The new staff Code of Conduct had been added to the Learning Gateway and all staff were required to acknowledge that they had read and understood it. He was unsure whether this needed to be repeated on an annual basis and accepted the suggestion from members that it should, along with the Acceptable Use policy, etc but would check with HR.

The Chairman pointed out that a policy would not in itself prevent things from happening but with them in place the council was, to a degree, protected. He raised concerns about the use of the word 'proven' in the flowchart (page 67) particularly given the option of prosecution as it referenced the judgement of an investigating officer rather than criminal findings. The Corporate governance,

risk and compliance officer undertook to reconsider the wording and to amend the flow chart prior to the cabinet meeting.

Members felt confident that the report would highlight more cases of the public trying to defraud the council (benefit fraud) rather than staff or members.

Upon a vote it was unanimously

RESOVED that;

- 1. Having considered the Counter Fraud and Corruption policy, the suggestions made by the committee, which it considers necessary to strengthen the council's standards of propriety and accountability be further considered by Officers.**
- 2. The Director of Resources be authorised to update the policy with any additional comments following the conclusion of the ongoing consultation with the audit partnership.**
- 3. Subject to recommendation 1, Cabinet be asked to approve the policy.**

10. WORK PROGRAMME

The work programme had been circulated with the agenda.

The Chairman explained that having read the Grant Thornton audit timetable it was clear that the work plan would need to be amended. Peter Barber would send through details of items for consideration at upcoming meetings to the Democracy Officer.

Councillor R. Hay felt that the Leisure & Culture Trust governance arrangements would need to be considered by the committee prior to consideration of the matter by Cabinet and this should be scheduled for the June meeting. The Chairman was happy that this be added and reassured members that the forward plan was reviewed at each Chairs Briefing and relevant items added to the committee work plan as necessary.

The Annual Counter Fraud report would be scheduled on the work plan for the June meeting.

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 20 March 2013.

Paul Massey
Chairman