



Minutes of the meeting of the AUDIT COMMITTEE held on WEDNESDAY 24 JUNE 2009 at 7.30 pm

Present: Councillor White (Chair)
Councillors Bint, Burke, Dransfield, Tunney and Williams.
Mr C Fogden (Independent Member)

Officers: D Hill (Chief Executive [Designate]), G Snelson (Corporate Director Strategy, Governance and Performance), D Wilkinson (Head of Audit and Risk Management), J Neilson (Director of Finance), P McCourt (Head of Legal Services and Monitoring Officer), J Moffoot (Head of Democratic Services), M Hodgson (Head of Operational Finance), C Davies (Finance Manager), M Rehal (Internal Auditor) and L Sung (Senior Committee Manager).

Also Present: Councillors Crooks, A Geary and Miles, M West and C Ryan (Audit Commission) and T Taylor (Deacon and Jones LLP)

Apologies: Councillor Gerrella and Mr A Peck (Independent Member)

AC03 MINUTES

RESOLVED -

That the Minutes of the meeting of the Audit Committee held on 8 April 2009 be approved and signed by the Chair as a correct record.

AC04 DECLARATIONS OF INTEREST

1. Councillor Williams declared a personal interest in Agenda Item 12 (School Build Programme Value For Money) as he was a Governor at Caroline Haslett School.
2. Councillor White declared a general personal interest as he was the Chair of the United Sustainable Energy Agency which administers the Council's Carbon Offset Fund.

AC05 ANNUAL GOVERNANCE STATEMENT

The Committee considered the Annual Governance Statement which had been prepared and published in accordance with the CIPFA/SOLACE Good Governance Framework. The preparation of an Annual Governance Statement was a statutory requirement

which required 'sign off' by the Chief Executive and the Leader of the Council and provided an overview of governance within the Council.

The Director of Finance advised the Committee of two corrections to the Statement:

1. To add the words 'deliver for' in paragraph 1.2 in the introduction of the Annual Governance Statement. The paragraph should now read:

"Governance comprises the systems and processes, and cultures and values by which the Council is directed and controlled and through which we deliver for, account to, engage with and, where appropriate, lead, the community."

2. To delete the words "We propose over the coming year to take steps" in Paragraph 2 of the Conclusion and replace with the words "We are currently taking steps".

The Head of Audit and Risk Management reported in paragraph 4.6.3 of the Annual Governance Statement that the Annual Internal Audit Report 2008/2009 had concluded, on the basis of audit work completed during the year, that the Council's internal control environment and systems of internal control provided reasonable assurance over the exercise of its functions and that systems that refer to internal financial control were adequately controlled.

Members expressed concern in respect of this paragraph, highlighting issues around the Council's failure to meet efficiency targets and the Council's low level of reserves.

The Head of Audit and Risk Management assured the Committee that Corporate Improvement Planning was now established to ensure that an appropriate level of financial controls would be put in place.

The Committee was requested to consider an action plan which set out areas for improvement and which would be reviewed and progress reported to the Committee on a quarterly basis.

RESOLVED –

1. That the action plan setting out the significant governance issues be agreed and that the Audit Committee receives regular updates and details of progress made against the plan on a quarterly basis.
2. That the Cabinet and Council be informed that the Committee was concerned about the lack of financial control throughout the organisation.
3. That the Annual Governance Statement, as amended, be agreed with the following words included at the end of paragraph 4.6.3:

“However, the Audit Committee remains concerned that the level of financial controls needs to be addressed.”

4. That, should the Standards Committee suggest any further amendment to the document, the Director of Finance, in consultation with the Chair and Spokespersons of the Audit Committee be authorised to agree the changes.
5. That if the amendments proposed by the Standards Committee are so significant, an additional meeting of the Audit Committee be convened to consider those proposals.

AC06

STATEMENT OF ACCOUNTS 2008/09

The Committee considered the Statement of Accounts for 2008/2009 and was requested to highlight any concerns that may need to be brought to the attention of Cabinet or Council.

The Director of Finance reported that the Statement of Accounts would be presented to the external auditor on 1 July 2009 and would then be made available to the general public throughout a statutory deposit period. Any material changes arising from the audit of the 2008/2009 accounts would be reported back to the September meeting of the Audit Committee.

The Director of Finance highlighted the following issues:

- As at 31 March 2009, the Radcliffe School owed the Council £2.8m (the school currently has a deficit of £1m). Cabinet approval had been sought on the approach to be taken in the draft accounts.
- Budget efficiencies of £2m had not been achieved which impacted adversely on the level of balances. This matter would be addressed in the current Medium Term Financial Planning round.
- The year-end General Fund balance was £7,544K, and would reduce to £1,823k by the end of 2011/12. The Council had previously approved an £8m minimum level of reserves.
- Walton High School was not mentioned by name as a contingent liability in the accounts, though it was included as a note on legal costs for schools.

The Committee highlighted the following issues:

- The level of pensions liability and its impact on the level of reserves;
- Procurement savings and workforce efficiencies had not been achieved;
- Revenue monitoring reports did not sufficiently highlight issues that become apparent at year end;

- There was a degree of volatility in budget reporting with issues around Directorate's compliance with approved budget processes;
- There were large variances of outturns from month to month, and particular variances between period 11 and year end;
- The level of risk presented to the Council in respect of the recovery of monies from Radcliffe School and the legal issues associated with this matter.

RESOLVED –

1. That the Statement of Accounts be approved and presented to the external auditor on 1 July 2009.
2. That Cabinet and Council be made aware of the concerns raised by the Audit Committee.
3. That sufficient budgetary training be made mandatory for budget managers throughout the Authority.

AC07

INTERNAL AUDIT ANNUAL REPORT 2008/09

The Committee considered the Internal Audit Annual Report for 2008/2009 which would support the Council's Financial Statement and Annual Governance Statement for 2008/09.

The Head of Audit and Risk Management reported that he was required to provide a formal opinion on the adequacy of systems of control. For 2008/2009, the Head of Audit and Risk Management stated:

"It is my opinion based upon the audit work completed in the period 1 April 2008 to 31 March 2009, that Milton Keynes Council's internal control environment and systems of internal control provide reasonable assurance over the exercise of its functions.

The shortage of permanent staff at Senior Officer level throughout the year has undermined the control framework to some extent, however permanent positions have either recently been, or will shortly be filled.

In many areas controls around project management have been compromised, however the introduction of the Portfolio Office is helping address many of the concerns.

In respect of those systems that refer to, or are substantially related to, internal financial control, it is my opinion that the controls operated by management are currently adequate.

Any system of internal control can only provide reasonable, rather than absolute, assurance that assets are safeguarded, transactions are authorised and properly recorded and material errors or irregularities are either prevented or would be detected within a reasonable period of time."

The Head of Audit and Risk Management advised that the Audit Report had highlighted 8 key issues:

- There is little evidence that risk management and business continuity or the necessary supporting culture, understanding and awareness was embedded in the Authority;
- The ability to have in place a robust IT Disaster Recovery Plan was hampered by the lack of identification of priority systems from the Business Continuity Plan;
- The ongoing audits of returns submitted by Bus Operators continue to give concern due to the standard of record keeping making it difficult to verify the income due to the Council;
- Incorrect charging to customers of the Community Language Service had been identified with no assurances that interpreters/translators were legally entitled to work in the UK;
- The Council did not receive all the income to which it was entitled from Windmill Hill Golf Course due to inadequate systems and a lack of robust monitoring on the part of the Council;
- The audit of Beanhill Surestart Project identified a lack of clearly defined roles and responsibilities, inadequate governance arrangements, cost evaluation, budget management and controls over charges/variations;
- There had been a lack of clarity of previous Corporate Priorities.

Despite the Committee's concerns in respect of the year end accounts and the identified inconsistencies of monthly budget reporting, the Head of Audit and Risk Management advised that the audit report had deemed the process satisfactory.

RESOLVED -

1. That the Internal Audit Annual Report 2008/09 be noted.
2. That the results of the audit on internal budgetary controls be reported to a future meeting of the Committee.

AC08

CODE OF CORPORATE GOVERNANCE

The Committee considered the Code of Corporate Governance and its recommendation for adoption by the Council.

The document would become a public statement of the Council's commitment to carrying out its functions in a way that demonstrated accountability, effectiveness, integrity and inclusivity and would set out clearly the way in which it would meet those requirements.

The document had been produced in accordance with the CIPFA/SOLACE best practice framework "Delivering Good Governance in Local Government".

The Council had adopted 6 core principles and supporting principles from the framework and had developed specific requirements that the Council would evidence to ensure that the 6 core principles were being observed.

The six core principles were:

- Focusing on the purpose of the authority and on outcomes for the community and on creating and implementing a vision for the local area;
- Members and Officers working together to achieve a common purpose with clearly defined functions and goals;
- Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
- Developing the capacity and capability of Members and Officers to be effective;
- Engaging with local people and other stakeholders to ensure robust public accountability.

The Head of Audit and Risk Management reported that the action plan, which set out where the Council should be and the standard by which it should be measured, would be regularly reported to the Committee.

RESOLVED –

1. That the Council be recommended to adopt the Milton Keynes Code of Corporate Governance as a public statement of the Council's commitment to the principles of accountability, effectiveness, integrity and inclusivity, and the means by which they will be achieved.
2. That the specific operational requirements that the Council will evidence to ensure that the Code of Corporate Governance was being observed, be noted.

AC09 REVENUE BUDGET MONITORING 2008/09 – OUTTURN POSITION

The Committee considered the outturn for the 2008/09 Revenue Budget.

The Director of Finance reported that the closing General Fund earmarked reserves balance, after directorate outturns and specified uses, was £7,544k.

Bearing in mind the Committee's concerns raised under previous items, the Committee requested that the District Auditor consider the Council's level of debt provision. The Committee further recommended future consideration of capitalising all projects.

The Committee requested that it be kept up to date on issues of budget management and training of budget holders.

RESOLVED –

1. That the outturn for the 2008/09 Revenue Budget be noted.
2. That matters relating to budget management and the training of budget holders be reported regularly to the Committee.

AC10

CAPITAL PROGRAMME 2008/09 – DRAFT OUTTURN

The Committee considered the outturn for the 2008/09 Capital Programme.

The Committee considered that the management and controls around spending remained an area for improvement and commented on the unacceptable level of slippage in the capital programme.

The Committee made specific reference to Bletchley Leisure Centre project's funding shortfall of £1.3m. The funding shortfall has been evident for some time and the Committee suggested that the Cabinet take further action to identify the funding.

To improve reporting procedures, the Committee suggested that projects be reported as revenue until such a time as the project had been approved.

The Committee suggested that higher risk projects should be identified within Committee reports setting out details such as costs, slippage, risks etc. A flagging mechanism identifying high risk projects should be included in future capital programme reports.

RESOLVED –

1. That the outturn for the 2008/09 Capital Programme be noted.
2. That the Cabinet be requested to review how it receives its Capital Programme information to ensure meaningful reporting and best practice.
3. That the Cabinet be requested to take action in respect of the £1.3m funding shortfall for Bletchley Leisure Centre and that this issue be reported to the Council.

AC11

SCHOOL BUILD PROGRAMME VALUE FOR MONEY

The Committee considered a review of value for money of the Council's School Build programme, including the costs and revenue of school projects completed in recent years.

For this review, 4 schemes were selected. These were:

- Hazeley School – Phases 1 and 2
- Oxley Park School
- Walton High
- Caroline Haslett

New Bradwell Primary School Refurbishment Works was also selected but was not compared to data from the Building Cost Information Service.

Projects had been analysed with consideration to quality, cost, programme and risk. In summary, the Council's competitive procurement process was found to have delivered good value for money for the specification of schools procured/built with the exception of Hazeley School Phase 1 and New Bradwell. Phase 2 of Hazeley School addressed many of the issues arising from Phase 1 and was found to have provided good value for money.

In respect of the overall value for money assessment only Hazeley Phase 2 and Oxley Park were considered to have provided good value for money.

The review found various design issues which highlighted lost opportunity for improved value for money and a general high level of specification that had resulted in increased costs.

In summary, the report found:

- Hazeley Phase 1 did not provide value for money
- Hazeley Phase 2 did provide value for money
- Oxley Park did provide value for money
- Walton High did not provide value for money – the site constraints were considered to be a material factor and outside the control of the Council.
- Caroline Haslett did not provide value for money.

Most of the areas of improvement were found to have already been addressed by the new improved governance arrangements put in place following the School Build investigations. These included:

- Adoption and qualification of staff in PRINCE 2 project management;
- Realistic project programmes allowing sufficient time for design and tender specification;

- Improved and standardised project documentation;
- Introduction of whole life costings;
- Implementation of a School Programme Board and individual Project Boards.

The Committee requested assurances that a robust process was in place to ensure that over-specification was no longer an issue for future school build projects and considered that the benefit of the new improved project process should be applied to all future capital projects.

The Chair thanked Tim Taylor (Deacon and Jones LLP) and the internal audit team for the work they had done on the school build programme value for money review.

RESOLVED –

1. That the School Build Programme review to ascertain whether the Council received value for money be noted.
2. That the Cabinet be requested to bear in mind issues of over-specification, build costs and whole life costing when monitoring the Council's Capital Programme, and that the learning achieved from the School Build Programme in relation to improved project management be applied to all capital projects.

AC12

INTERNAL AUDIT STRATEGY AND CHARTER

The Committee considered the revised Audit Strategy and Internal Audit Charter.

RESOLVED –

That the revised Audit Strategy and Charter be approved.

AC13

INTERNAL AUDIT 2009/10 AUDIT PLAN

The Committee received the proposed Annual Audit Plan for the 2009/10 financial year. The objective of the Plan was to ensure that all activities of the Council were audited over a reasonable period of time.

The Head of Audit and Risk Management reported that he was required to highlight where he considered resources were not sufficient to meet the internal auditing requirements of the Council and to meet the Section 151 Officer's responsibilities.

The Committee gave consideration to the level of unplanned work and how this may impact on the planned work for the Internal Audit service.

RESOLVED –

That, with the addition of auditing the revenue budget monitoring processes, the Internal Audit 2009/10 Audit Plan be agreed.

AC14

AUDIT COMMITTEE TERMS OF REFERENCE

The Committee reviewed its Terms of Reference.

RESOLVED –

That the Terms of Reference be amended to reflect the Committee's authority to approve various documents and refer others for approval.

THE CHAIR CLOSED THE MEETING AT 11.05 PM

DRAFT