

Minutes of the meeting of the **AUDIT COMMITTEE** held on **TUESDAY 26 SEPTEMBER 2017** at 7.00 pm

**Present:** Councillor P Geary (Chair)  
Councillors Bald, R Bradburn, Cannon and C Wilson

**Independent Member:** Mr Bush, Mr I Farookhi and Mr N Nyamazana

**Officers:** D Sharkey (Corporate Director Place), D Wilkinson (Chief Auditor), S Bridglalsingh (Service Director [Legal and Democratic Services]), S Richardson (Service Director for Finance and Resources), V Errington (Corporate Accounting Manager), A Roulton (Strategic Finance Business Partner), C Fisher (Head of Internal Audit), R Peck (Head of Customer Service, Digital and Transformation), K Williams (Corporate Customer Feedback Manager) and D Imbimbo (Committee Manager)

**Also Present:** Mrs M Grindley (Ernst and Young)

**Apologies:** Councillors Dransfield, Khan and K Wilson

### **AC13 CHAIRS WELCOME AND INTRODUCTION**

The Chair welcomed Members and Officers to the meeting.

The Chair reminded members that at the previous meeting an item in respect of a Council contract had been discussed (AC09 Hertsmere Leisure Members Item and Hertsmere Leisure Added Value), and made the following statement;

‘Colleagues, when we dealt with the Hertsmere Leisure contract item at our last meeting, the way in which we did so upset some officers present. They feel that their professionalism was called into question and some personal accusations were made. As Chair of the Committee, I would like to offer my apologies for any upset that people felt. As I said at the start of the meeting, the item was likely to be a heated one and this proved to be the case. It’s not uncommon for debate on such items to become heated, but i don’t believe it was the intention of anyone to cause upset to any individual in the room and certainly not to call into doubt the professional credibility any of our officers. I request that this is recorded in the minutes and brought to the attention of the officers concerned’.

### **AC14 DISCLOSURE OF INTERESTS**

No declarations were made.

**AC15**

**MINUTES**

RESOLVED –

That the Minutes of the meetings of the Audit Committee held on 20 June 2017 be approved and signed by the Chair as correct records.

**AC16**

**REVIEW OF PREVIOUS DECISIONS – DECISION TRACKER**

The Committee heard from the Chief Auditor that there remained 3 outstanding matters. In respect of the Budget Scrutiny Referral – Waste, this was dealt with at Item 8 on the agenda 'Budget Management Added Value' and the other two 'Asbestos Contract' to be considered at Item 9 on the agenda and 'A421 project' this was an ongoing matter and outcome would reported when available. .

RESOLVED –

That the report be noted.

**AC17**

**LOCAL GOVERNMENT & SOCIAL CARE OMBUDSMAN'S ANNUAL REVIEW 2016/2017**

The Committee considered a report in respect of the Local Government & Social Care Ombudsman's Annual Review 2016/2017

The Committee heard that the majority of complaints were resolved at stage one of the Council complaints scheme and only 6% of all complaints are referred to the ombudsman, of those 88% were found in favour of the Council.

The Head of Customer Service, Digital and Transformation, told the Committee that in all cases, including those where the findings were in the Councils favour, a review was undertaken to ensure that wherever possible lessons were learnt.

Mr Farookhi congratulated the team on an impressive record.

RESOLVED –

That the report be noted.

**AC18**

**ASBESTOS PROCUREMENT – CHALLENGE FROM WOODS BUILDING SERVICES LTD**

The Committee considered a report that set out the current position with regards to the Woods Building Services Ltd. procurement dispute and the position regarding settlement of the claim.

The Committee heard that an out of court settlement had been made in respect of a claim from Woods Building Services following a failed procurement exercise where it had been determined by the High Court that the Council had acted improperly. The claim had been for the sum in excess of £1.6m however it had been settled for £800,000. The Committee noted that in addition to this there had been legal costs of £102,500. The Committee heard that the costs had been paid from the Housing Revenue Account.

The Committee heard from the Corporate Director Place that extensive reviews of procurement procedures had been undertaken and as a result new practices and checks introduced. There was also now compulsory training for anyone involved in procurement, and a Crisis Management Protocol had been drawn up which was designed to ensure that should issues arise in the future immediate intervention would seek to limit any risk of an escalation.

The Committee received assurances from the Corporate Director Place and the Service Director [Legal and Democratic Services], that lessons had been learnt from the incident and the measures to mitigate risk had been embedded in practices and procedures that had been adopted by the Council. It was further confirmed that ownership of major procurement projects was now the responsibility of the Service Directors and overseen by the Corporate Leadership Team.

It was also acknowledged that a new approach to defending claims was to be adopted whereby the Council would not seek to defend the actions where it was clear there was liability, thereby incurring unnecessary additional legal costs.

The Committee commented that there was a need to ensure that with the devolvement of procurement to LGSS and the increased number of procurement projects, that adequate resources and protocols were in place to ensure that the risk to the Council was minimised. It was recognised that LGSS provided a greater range of specialist procurement skills. It was further noted that on 5 October 2017 the Constitution Commission was to consider a paper looking at the level of financial triggering of a key decision and a proposal that the procurement committee be removed.

Despite the assurances received from the Corporate Director Place the Committee remained concerned that with the increase in procurement activity a thorough review of resources should be undertaken to ensure that during the forthcoming budget setting resource levels were retained at an appropriate level.

Councillor Bald proposed that the Audit Committee should note the growing importance of procurement management in light of the asbestos contract and recommends that the Budget Scrutiny Committee conducts a thorough review of budget proposals to ensure that sufficient resources of the procurement function were in place'. This was seconded by Councillor A Geary and agreed by acclamation.

**RESOLVED –**

1. That the report be noted.
2. That the following referral be made to the Budget Scrutiny Committee;

‘That the Audit Committee notes the growing importance of procurement management in light of the asbestos contract and recommends that the Budget Scrutiny Committee

conducts a thorough review of budget proposals to ensure that sufficient resources of the procurement function were in place and that the resource strength is not weakened by the savings process but strengthened’.

**AC19**

### **ADDED VALUE REVIEW – BUDGET MANAGEMENT DEMAND LED BUDGETS**

The Committee considered a report in respect of the audit of budget management of demand led budgets and the concerns raised by the Budget Scrutiny Committee’s referral relating to the non-delivery of the 2016/17 £100k medium term budget saving in respect of the CRC Contract.

The Committee was reminded that as part of the programme of ‘Added Value’ reviews requested by the Audit Committee, the audit has been completed to provide assurance to the Committee that robust budget management arrangements existed within Milton Keynes Council.

The Chief Auditor confirmed that the audit opinions were;

- Adequacy of System – Substantial
- Compliance – Substantial
- Organisational Impact – Minor

The Committee was reminded that good budget management included the ability to recognise at the earliest opportunity when an unplannable issue was likely to impact on the budget, and take corrective action to mitigate additional expense at an early stage. The audit found that control measures around these issues were working effectively hence the audit opinion of ‘substantial’.

The Committee heard that the Council had a good approach to ensuring targeted training was given to those senior managers responsible for managing volatile budgets and this contributed to the robust systems in place.

Some members of the Committee questioned the new process adopted by Cabinet to report on budgets on a quarterly basis rather than monthly, Councillor Bald proposed that the Committee make a recommendation to Cabinet to review that decision, this was seconded by Councillor A Geary.

The Service Director (Finance and Resources), told the Committee that this was a practice adopted by many large Unitary Authorities, it was further commented that Corporate Leadership Team and Cabinet members were briefed monthly and any Councillor could have a briefing on any budget matters at any time.

Other members of the Committee expressed a view that it was something that could be trialled for a period and if it was found not to be working the decision could be reversed.

On being put to the vote the proposal to make a recommendation to Cabinet to reverse the decision to have quarterly reporting rather than monthly was lost.

RESOLVED –

That the report be noted.

## **AC20**

### **STATEMENT OF ACCOUNTS 2016/17**

The Committee received the Statement of Accounts, the Committee heard that the Accounts and Audit Regulations 2016/17 required the Chief Finance Officer to formally approve the Statement of Accounts by 30 September 2017.

The Committee was reminded that the Audit Committee received the draft Statement of Accounts at its June meeting. Since that time the accounts had been the subject of an audit which identified a small number of adjustments that were required. In addition to these the finance team had also identified some corrections to the draft accounts to ensure that the Final Statement of Accounts was correct.

RESOLVED –

1. That the Statement of Accounts for the financial year ended 31 March 2017 be approved
2. That the now signed Annual Governance Statement for 2016-17, which was approved by this committee on 15 June 2017, was incorporated within the Statement of Accounts be noted; and
3. That the Interim Corporate Director of Resources (S151 Officer), following consultation with the Chair, be authorised to make any final amendments to the Accounts arising from outstanding audit work prior to the signing of the accounts by the auditor.

## **AC21**

### **ANNUAL GOVERNANCE STATEMENT 2016/17**

The Committee heard that the Annual Governance Statement for 2016/17, which will be published along with the Statement of Accounts by 30 September, was included as a separate report on the agenda for this meeting. The Audit Committee should however consider this Statement as part of their consideration and approval of the Statement of Accounts.

The Committee heard that the Statement, as published on the agenda, would require some minor amendments before it was published in its final form to take account of the delay in the introduction of the ERP Gold system. This had been delayed until April 2018 as there had been some issues in respect of data migration for the payroll system. The change would also require the Chief Executive to sign off the revised version. Members of the Committee were also assured that full checks would be undertaken before the system was adopted.

RESOLVED –

That the report be noted

**AC22**

**EXTERNAL AUDIT REPORT**

The Committee considered the External Audit report.

The representative of the External Auditors told the Committee that the audit had not identified any material errors in the accounts.

It was noted that the following outstanding items remained:

- Completion of the work on the Movement in Reserves Statement;
- Completion of work around PPE valuations;
- Completion of payroll work on relevant disclosures;
- Completion of our testing in relation to the areas of MKDP that are material to the Council's statements;
- Clearance of remaining audit queries;
- Final Director review of the completed audit work;
- Completion of audit documentation;
- Review of the final version of the financial statements;
- Completion of subsequent events review up to the date of the audit report
- Whole Government Accounts; and
- Receipt of the signed management representation letter.

The Committee further heard that the External Audit had completed the work on the value for money conclusion and were satisfied that the Council had proper arrangements in place. Therefore the auditors would be issuing an unqualified value for money conclusion.

RESOLVED –

1. That the report be noted.
2. That the Committee agree that the Chair sign the letter of Representation.

**AC23**

**INTERNAL AUDIT AND COUNTER FRAUD – QUARTER 1 UPDATE**

The Committee considered an update report on the first quarter position of the Internal Audit and Counter Fraud progress against the delivery of the 2017/18 Annual Audit Plan.

The Committee heard that in addition to the completion of planned activities, 4 high profile audit assignments were in progress at varying stages of completion. These were:

- (a) Leisure Contract / Hertsmere Leisure Trust – commissioned by the Audit Committee and after significant stakeholder engagement to agree the terms of reference, this was now at the detailed testing stage. Completion was anticipated to be for the November Audit Committee.
- (b) A whistleblowing referral regarding alleged mismanagement within the Mental Health Service.
- (c) Property / asset disposals, a draft report had been circulated – evidence of fraud was not found but processes need strengthening.
- (d) Housing Committee referral in respect of health and safety compliance for all council buildings. Terms of reference for this review have been drafted and circulated for consultation as a joint project with relevant colleagues.

RESOLVED –

That the report be noted.

**AC24**

**PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) – EXTERNAL REVIEW**

The Committee considered a report in respect of the external review of the Audit Service.

It was reported that of the 14 inspection areas 9 were fully compliant (65%) and 5 partially compliant. Consistent with that positive assurance many of the recommendations related to consistency across the three core LGSS sites as opposed to non-compliance with the standards e.g. sharing best practice, unified follow up procedure etc. The report did highlight:

- (a) A lack of common practices across the three LGSS core sites;
- (b) Improvement needed in:
  - Formally incorporating risk issues within audits; and
  - Formalising terms of reference documentation across the three sites.

The Committee heard that the review also highlighted the importance for the Committee to adhere to the Terms of Reference for the Committee and avoid being drawn into political issues.

RESOLVED –

That the report be noted.

THE CHAIR CLOSED THE MEETING AT 9:33PM