



Minutes of the meeting of the AUDIT COMMITTEE held on TUESDAY 24 SEPTEMBER 2013 at 7.00 pm

Present: Councillor Brackenbury (Chair)
Councillors S Burke, Jury, Long, and Marland

Independent Members: I Farookhi and W Preston

Officers: T Hannam (Corporate Director Resources), M Hodgson (Partnership Director [MKSP LLP]), M Shaw (Assistant Director [HR Strategy]), D Wilkinson (Assistant Director [Audit and Risk Management]), L Baker (Head of Internal Audit), S Gerrard (Interim Head of Legal Services), and T Milner (Committee Manager)

Apology: Councillor McDonald

Also Present: Councillor Bald, C Ryan (Ernst and Young) and M West (Ernst and Young)

AC13 MINUTES

RESOLVED –

That the Minutes of the meeting of the Audit Committee held on 25 June 2013 be approved and signed by the Chair as a correct record.

AC14 STATEMENT OF ACCOUNTS 2012/13

The Committee considered the Annual Statement of Accounts for 2012/13.

The Committee heard from the external auditors Ernst and Young that this was the first time Milton Keynes Council had to prepared its Accounts following the incorporation of Milton Keynes Service Partnership and Milton Keynes Development Partnership.

It was reported that a small number of significant audit risks were identified during the planning phase of the Audit, these being, the preparation of group accounts, detection of fraud and 'value for money'. Ernst and Young had since gained audit assurances from the Council in respect of these matters.

The Committee heard that Ernst and Young was confident that all statutory deadlines for the external audit would be met. Ernst and Young had tested the Council's internal controls, however, only to the extent necessary to complete the audit, and therefore was unable to express an opinion as to the overall effectiveness of the Council's internal controls.

It was noted that the Annual Governance Statement had been reviewed by Ernst and Young who had confirmed that the Council complied with the requirements of the CIPFA/SOLACE 'Delivering Good Governance in Local Government Framework', and that it was consistent with the audit of the financial statements.

Members expressed their concern that the Ernst and Young report was still in draft form and requested that an updated version be provided once the report was finalised. Members also expressed a desire to see the Statement of Accounts 2013/14 in a more timely manner.

In answer to a question officers undertook to investigate the need for a budget sub-heading in the Housing Revenue Account of televisions.

Members also commented that under Notes to the Accounts 'Statement of Accounts', there was a sub heading of 'exit packages' that made reference to 'Officers Remuneration'. The Partnership Director and/or Director Resources were asked to investigate and report on the relevance of this.

Members expressed concern about the increased level and scale of reserves that the Council appeared to have, and requested that a review be undertaken.

Ernst and Young requested that their thanks be expressed to the staff of the Service Partnership for the manner in which the accounts had been presented. This was endorsed by the Committee.

RESOLVED -

1. That the Statement of Accounts 2012/13 be approved, subject to the Corporate Director Resources being delegated authority, in agreement with the Chair of the Committee, unless, if in the Chair's judgment, any changes are so significant that the Committee should be reconvened, to make any further changes arising from additional comments from the Council's External Auditors.
2. That the Chair of the Audit Committee and the Corporate Director of Resources be authorised to sign both the audited Statement of Accounts and the Letter of Representation on behalf of the Council, subject to the deletion of paragraph 5.1 of the previously published Letter of Representation.
3. That further information be provided by the Director of Resources on the figures relating to exit packages, the discrepancies in Adult Social Care outturn figures and digital TV's.

4. That it be recorded that Ernst & Young LLP expressed thanks to the MKSP Finance Team, in particular to A Hodgson and V Armiger.
5. That the Committee's thanks be extended to the MKSP Finance Team for their hard work and commitment in working with Ernst & Young LLP.
6. That the Committee were concerned the Audit Opinion and Annual Report from Ernst & Young LLP were still in draft status, and had a clear expectation that these should have been ready for the Committee meeting.
7. That a referral be made to the Budget Review Group 'To conduct a full review of the increasing level and scale of reserves of the service groups to determine whether they are appropriate'.

AC15

ANNUAL GOVERNANCE STATEMENT 2012/13

The Committee considered the Annual Governance Statement for 2012/13 that had been initially submitted to and approved by the Audit Committee in June 2013.

Ernst and Young confirmed that the Annual Governance Statement complied with the requirements of CIPFA/SOLACE 'Delivering Good Governance in Local Government Framework'.

RESOLVED –

That the Annual Governance Statement for 2012/13 and accompanying action plan be approved.

AC16

EXTERNAL AUDIT ITEMS – ERNST & YOUNG LLP

The Committee heard from C Ryan, Ernst and Young that audit training for the Committee could be provided by Ernst and Young.

RESOLVED –

That Ernst and Young be requested to provide a clear specification and costs for a training session.

AC17

REFERRAL FROM COUNCIL – 10 JULY 2013: IMPROVING HIGHWAYS REPAIRS IN MILTON KEYNES

The Committee considered the following referral from the meeting of Council held on 10 July 2013 (Minute CL45 refers):

“That the Audit Committee be requested to undertake a comprehensive value for money audit on all road repair spending since 2011 to establish if funds have been spent effectively”.

The Committee welcomed that, where appropriate, future contracts, including the new Highways Contract, would have Key Performance Indicators written into them and was of the view that value for money assessments should also be part of new contracts as appropriate.

Members noted that the Council had invested in a 'Road Planer' for road repairs, at considerable expense to the Council, but the equipment was no longer being used. The Assistant Director (Public Realm Service) undertook to provide an explanation for this.

The Committee heard that during a recent internal audit into Highways Inspections it had become evident that there were issues in respect of the data recording systems in use and anomalies and errors in the historic data which meant that Internal Audit was only able to provide a subjective opinion at best on the referred work.

The Assistant Director (Public Realm) indicated that he was aware of the issues and his team was in the process of verifying the data. It was reported that Internal Audit proposed a follow-up audit at the end of October 2013.

RESOLVED –

1. That the referral from Council from 10 July 2013 be noted.
2. That the Committee expressed their disappointment with the historic and current issues with highways data that meant Internal Audit were unable to carry out an effective value for money study.
3. That the Assistant Director (Public Realm) and the Cabinet Member for Highways and Transport be requested to attend a future meeting of this Committee and provide an update on:
 - (a) The implications of and reasons for the Road Planer no longer being used;
 - (b) The historic logging of road defects;
 - (c) The data quality issues; and
 - (d) The inability to identify repeat works instances.
4. That the Assistant Director (Public Realm) be requested to present an action plan to address the issues identified in resolution 3.
5. That the Cabinet be advised of the Committee's strong concerns and expectations regarding the quality of highways data, and asked to ensure that processes and structures were in place to enable the Council to determine value for money in the new highways contract.
6. That any findings of the follow-up audit into Highways Inspections be reported back to the meeting of this Committee on 14 January 2014.

AC18

PROGRESS UPDATE ON 2013/14 ANNUAL GOVERNANCE STATEMENT

The Committee considered the Progress Update on the 2013/14 Annual Governance Statement from the Interim Head of Legal Services.

The Committee noted the following actions for Quarters 1 and 2 (April to September 2013) which could be closed:

1. Action 8 – Wolverton Station review, project Health Checks to be considered regarding depth and scope.
2. Action 9 – Risks with the Tariff regularly reviewed and actively managed, with a financial position being incorporated into the Budget Monitoring report and risks and issues highlighted through the existing reporting framework.
3. Action 19 – The Contract Procedure Rules to be finalised.

The Committee also noted the following key issues for Quarters 1 and 2 (April to September 2013) which remained to be completed:

1. Action 4 – Review LLP services to ensure that the current MKSP structure is the best possible structure going forward.
2. Action 7 – To review the weaknesses in procurement and project planning processes highlighted in the Wolverton Station Project Overspend audit report.
3. Action 14 – Member Personal Development Plans.
4. Action 26 – To address key issues arising from the Taxi Licensing audit, as raised by the Head of Internal Audit, in respect of areas identified as receiving ‘weak assurance’.

The Committee considered the proposed revised outcomes against action 7 (Wolverton Station Project Overspend) and an extension to the timeframe to allow Internal Audit to complete its report.

The Committee noted that a number of actions required their time lines be extended as follows:

1. Action 21 (Appointment of Monitoring Officer) - The post of Monitoring Officer was currently held by the Interim Head of Legal Services and noted that the Council was under a legal duty to appoint to the post of Monitoring Officer. The Committee heard that the recruitment process for the substantive post of Assistant Director (Law and Democratic Services), who would be appointed as the Council’s Monitoring Officer would be underway shortly.
2. Actions 1 and 5 (Limited Liability Partnerships) - Ongoing work remained in relation to these actions in respect of the two Limited Liability Partnerships.

The Committee commented that it considered that scrutiny of Limited Liability Partnerships was important and requested reassurance that both Partnerships were effectively scrutinised.

RESOLVED –

1. That the Milton Keynes Council Annual Governance Statement Action Plan Progress Report be noted.
2. That the closing of actions 8, 9 and 19 of the Action Plan be agreed.

3. That the actions reported as key issues for Quarters 1 and 2 be noted.
4. That, in respect to action 14, the item be re-opened for 2014/15 with Member Development Group Champions and HR involvement.
5. That, in respect of action 4, the time limit be extended to October 2013.
6. That the action 7 outcome be altered to read, "the Audit Committee to receive satisfactory assurance that the action plan had been completed through an Internal Audit report to the Committee detailing the actions completed".
7. That the time limit for action 7 be extended until January 2014 to allow for the completion of the Audit report.
8. That, in respect of action 21, it was agreed that it remain open and that Members receive further updates during the year.
9. That, in respect of action 26, the time limit be extended until March 2014, and Members were reassured by the Chair (Councillor S Burke) of the Licensing Committee that the Licensing Committee was looking at the data retention issues.
10. That the Partnership Director be requested to present a paper to either the 5 November 2013 or 14 January 2014 Audit Committee meeting on the LLP (MKSP) in relation to actions 1 and 5.

AC19

PERFORMANCE APPRAISALS

The Committee considered a report in respect of Performance Appraisals from the Assistant Director (HR Strategy).

The Committee heard that progress had been made towards achieving the performance appraisal completion targets as set out in the Annual Governance Action Plan 2013/14. The Council had exceeded the target of 90% completion rate having achieved a 94% completion. It was hoped that the remaining 6% could be achieved through senior manager intervention and the provision of additional training to senior managers and more linkage to strategic objectives.

The Committee also heard that the robust use of 'quality sampling', started during 2011, and the data this collected during 2012 informed HR in respect of additional training needs. It was likewise recognised that further improvements could be made by ensuring that the quality of targets set by staff and managers were smarter and clearer. Likewise a review of dates for completion and the identification of job related, and training needs together with training provided to managers would bring about a greater completion rate.

Members wanted to see a greater correlation between the content of appraisals and individual and departmental Key Performance Indicators.

Members reinforced their desire to see a linkage between performance appraisals and Internal Audit outcomes as part of the appraisal process.

The Committee heard from the Director Milton Keynes Service Partnership that the human resources function was to become the responsibility of the Partnership with effect from January 2014 and the opportunity would be taken to review appraisal content and targets.

Members welcomed the report and recognised there was a clear desire to monitor the quality of appraisals and asked that HR provide an update on the quality sampling testing to a future meeting of the Audit Committee.

RESOLVED –

1. That the progress made towards achievement of the performance appraisal completion target in the Annual Governance Action Plan 2013/14, be noted.
2. That the arrangements for ensuring that internal audit outcomes were linked with performance appraisal, including the actual and proposed responsibilities of Human Resources, Internal Audit and line managers, be noted.
3. That a review of the sampling process be conducted in 3 months time to determine whether the process was working and a report be brought back to the Audit Committee.

AC20

LOCAL GOVERNMENT OMBUDSMAN'S ANNUAL REVIEW 2012/13

The Committee considered a report in respect of the Local Government Ombudsman's Annual Review 2012/13.

The Committee heard from the Interim Head of Legal Services that there had been a finding of Maladministration that related to a complaint about the Children and Families Service Group made in February 2011 to the Local Government Ombudsman. It was reported that the action taken by the Council was welcomed by the Ombudsman, as noted in a letter to the Council dated 8 July 2013. The letter also formally recorded that the Ombudsman was satisfied with the Council's response in accordance with Section 31(2) of the Local Government Act 1974.

RESOLVED –

That the position regarding the Ombudsman's Annual Review 2012/13 be noted.

WOLVERTON STATION OVERSPEND

Members were reminded that, at the Audit Committee on 10 April 2013, a resolution had been passed requesting that Internal Audit write to three ex-employees of the Council, who had previously worked on the Wolverton Station project, inviting them to respond to questions in respect of the management of the project (Minute AC52 2012/13 refers).

The Committee heard that the Head of Internal Audit had received responses from two of the three ex-employees and that the content of the letters would not have changed the findings of the Internal Audit report into the Wolverton Station Project Overspend.

Members noted that the management action plan that had been drawn up following the Internal Audit investigation did not include any reference to what could have been improved to capture data and performance management information during the lifetime of the project. It was reported that Internal Audit would provide a follow-up report to the meeting of the Audit Committee on 14 January 2014 detailing the progress being made in implementing the actions identified within the action plan. However, this would not include any reference to the capture of data or performance management arrangements as this had not formed part of the resolution passed at the meeting of the Audit Committee meeting 10 April 2013 (Minute AC52 2012/13 refers).

The Committee asked that Internal Audit include in the report any identified weaknesses of processes that were identified through the implementation of the action plan, together with any suggestions of how they might be mitigated.

The Committee further asked that Internal Audit review their procedures and policies to establish a protocol for seeking information from ex-employees, or former Members of the Council in the event of an Internal Audit investigation.

RESOLVED –

1. That the report be noted.
2. That, having given consideration to the responses received from the former Project Manager and former Assistant Director (Highways and Transport), no additional work be commissioned.
3. That Committee Members be circulated with a copy of the updated action plan.
4. That, the request made at the Audit Committee on 10 April 2013, for Internal Audit to conduct a follow-up audit and to report the outcomes back to the meeting of the Audit Committee on 14 January 2014, be confirmed.

AC22**INTERNAL AUDIT PROGRESS UPDATE**

The Committee considered a report in respect of the Internal Audit Progress Update for 2013/14.

The Committee heard from the Head of Internal Audit that a number of significant issues had been raised, including those that were reported as weak or limited reports. In particular, it was felt that the Troubled Families Grant audit and the Car Parks audit lacked information.

Members expressed concern that there was a lack of clarity in identifying the criteria that determined the classification of a 'Troubled Family'. The Head of Internal Audit undertook to provide a more detailed briefing note to aid Members in respect of the audit.

In respect of Car Parks, Members heard that due to a lack of independent verification of contractor data on Car Parks and Pay and Display, it was not possible to confirm the levels of income due to the Council. The Head of Internal Audit informed the Committee that the only verification available was that undertaken by Internal Audit which had not found any discrepancies.

Members heard that the Corporate Affairs Select Committee would be examining contract management and that the over reliance on contractor data would form part of the discussion.

As part of the ongoing improvements to the function of Internal Audit, the Committee heard that at the Committee's meeting in November 2013 there would be an opportunity for the Committee to consider how it worked with Internal Audit.

RESOLVED –

1. That the report be noted.
2. That the following be circulated to Members of the Committee:
 - (a) A briefing note on Troubled Families Grant Audit; and,
 - (b) The recent Car Parks audit report.

AC23**DATE OF NEXT MEETING**

It was noted that the next meeting of the Audit Committee would be held on 5 November 2013 at 7.00pm.

THE CHAIR CLOSED THE MEETING AT 10.33 PM