



Minutes of the meeting of the AUDIT COMMITTEE held on TUESDAY  
26 JANUARY 2016 at 7.00 pm

**Present:** Councillor McDonald (Chair)  
Councillors Bradburn, Burke, Cannon (Liberal Democrat Group  
Spokesperson), Ganatra, Hosking, White (labour Group  
Spokesperson) and Wilson

**Independent**

**Members:** Mr I Farookhi

**Officers:** T Hannam (Corporate Director Resources), D Sharkey (Corporate  
Director Place), D Wilkinson (Assistant Director Audit and Risk), S  
Gerrard (Interim Service Director Legal and Democratic Services), P  
Strangward (Audit Services Manager) N Jones (Service Director  
Finance and Resources), A Rulton (Capital Finance Manager) and D  
Imbimbo (Committee Manager).

**Also Present:** Ms C Ryan and Mr N Harris (Executive Director)(Ernst and Young)  
and Councillors Bald and Bint

**Apologies:** Ms B Cole (Independent Member)

**AC25 CHAIRS WELCOME**

The Chair Welcomed Members and Officers.

**AC26 MINUTES**

RESOLVED –

That the Minutes of the meeting of the Audit Committee held on 22  
September 2015 be approved and signed by the Chair as a correct  
record, subject to an amendment to AC16 to replace the last word  
'him' with 'the Committee'.

**AC27 DISCLOSURE OF INTERESTS**

No disclosures were made.

**AC28 A421 PINCH-POINT PROJECT AUDIT AND MANAGEMENT  
REVIEW**

The Committee considered a report in respect of the A421 'Pinch-  
point' project audit and management review.

The Committee heard from the Assistant Director (Audit and Risk)  
that following a significant overspend on the projected budget an

Audit review was undertaken at the request of the Director Place to identify what had led to the overspend. It was noted that the final account was due on 31 January 2016 and therefore due to several disputed compensation submissions from the contractor a final figure would not be available until that had been resolved.

The Assistant Director (Audit and Risk), advised the Committee that overall project management had been good, however key contributors to the overspend were;

1. A delay in appointing a project manager.
2. The project was initiated in a short timescale in order to secure government funding and meet framework procurement deadlines and this had resulted in a number of cost estimates on minimal information.

The Corporate Director (Place) informed the Committee that one of the key findings was that the project manager should have been given more resources in terms of internal support. The Committee was informed that a contingency had been included in the initial estimates, however this was insufficient and the overspend had been funded by cancelling other key capital projects which was a reputational issue for the Authority.

The Committee heard from Mr Alan Francis who asked the Committee to seek further information about which capital budgets had been cut and what impact this had on delivery of them. He expressed particular disappointment at the cuts to the 'Smarter Choices' budget which he believed had set the project back significantly.

The Corporate Director (Resources) undertook to provide the Committee with a detailed list of projects affected and the impact of the cuts on them.

The Committee also heard from Councillor Bint, who stated that he was the Cabinet member responsible for taking the initial decision. He asked the Committee to consider seeking the following information in addition to that already provided;

- A schedule of what overspends (actual or projected) senior officers (Heads of Service & Directors) were made aware of, and when,
- A schedule of what overspends Members (especially Cabinet Members) were advised about, and when,
- A schedule showing the original expected conclusion date for the project, and each occasion when it was changed (i.e. the date a change was made and the new expected completion date)
- A schedule of the project's RAG rating throughout the entire period, showing when and how it changed.

- Who decided (informally amongst the officer corps and formally, whether by officers or Cabinet) what projects would be deferred or cancelled in the light of this overspend, and when did these decisions take place?

Councillor Bint further commented that he believed that feedback and concerns from Councillors was not taken seriously.

Members of the Committee recognised that it was not unusual for an overspend to occur in a project of this nature but expressed concern that the level of overspend did not seem to be appreciated or communicated immediately to the Cabinet.

Councillor White reminded the Committee that it had been stated that lessons had been learnt from a similar project overspend in respect of the Wolverton railway Station project, however, there is little evidence that those lessons had been fed into this project. The Assistant Director Audit & Risk referred the Committee to the section of the report that considered previous lessons learned and that highlighted lessons were inapplicable/different to this scheme or had been addressed with the exception of the project management being sourced from the relevant technically proficient service area, in this case Highways.

The Director Place added that staff turnover had prevented that as key officers were fully occupied with the Highways and Landscape procurements.

Councillor White also reminded the committee that the A421 'pinch-point' problem had been discussed for a number of years and it was disappointing that no form of resolution had been drawn up earlier resulting in a project having to be designed in a short timescale when a problem had been known about for a long time.

Councillor White further informed the Committee that he had concerns that the Cabinet members had not received any training in how to examine a project to recognise potential risks or how to continue monitoring any identified risks.

The Assistant Director (Audit and Risk) undertook to provide training for Cabinet members and provide targeted guidelines.

Members of the Committee expressed concerns that there had been a three month delay in appointing a project manager as outlined in the report, the Corporate Director (Place) explained that ownership of the project had been a major contributory factor in so far as it had initially been envisaged that 'Highways' would be responsible but due to resourcing issues had not been able to undertake the management role and it had instead been picked up by 'Transport'.

RESOLVED –

1. That the report be noted.

2. That the Corporate Director (Resources) provide detail of all other Capital projects that had been cancelled or seen funding diverted and the impact of those decisions.
3. That the Assistant Director (Audit & Risk) investigate the provision of training to the Cabinet and other Councillors in respect of identifying and monitoring risk,
4. That the questions raised by Councillor Bint be responded to and copied to the Committee.

## **AC29**

### **INTERNAL AUDIT UPDATE**

The Committee considered a report in respect of Internal Audit Plan

The report sets out a number of revisions to the plan together with the rationale for those revisions.

The Assistant Director (Audit and Risk) informed the Committee that Lynda Baker (Head of Internal Audit) had left the Council and he offered to write on behalf of the Committee to thank her for the work she had done for the Council, the Chair asked that he do so.

The Assistant Director (Audit and Risk) highlighted progress against the annual audit plan, the restructure undertaken and key issues/ reports issued since the last Committee. In respect of the Consultants audit reported as weak this, had been recently followed up and was now granted a 'good' assessment.

The Corporate Director (Resources) confirmed that the volume and value of HMRC liabilities were potentially of low significance and measures had been put in place to ensure that line managers were aware of their responsibilities, with only 1 recent case challenged by HMRC. Members of the Committee recognised that there was a potential for reputational damage if an issue of this nature was to be identified and asked that the Corporate Director provide a report with assurances to the next meeting of the Committee.

The Chair proposed that the revisions to the audit plan as detailed in the Committee report be agreed. This was agreed by acclamation.

**RESOLVED –**

1. That the report be noted,
2. That the revisions as detailed in the Committee report be agreed,
3. That the Assistant Director (Audit & Risk) provide the Committee with a briefing note on the work supporting the Consultants follow up including the figures associated with the 1 case queried by HMRC

## **AC30**

### **LOCAL GOVERNMENT SHARED SERVICES INTERNAL AUDIT OUTLINE BUSINESS CASE UPDATE**

The Committee considered a report in respect of the Local Government Shared Services (LGSS) Internal Audit Outline Business case.

The Committee was reminded that the members of the Committee had attended a workshop on 22 December 2015 where the outline business case was presented and comments invited, those comments and answers to questions raised have been published in the annexes to the Committee report.

The Chair invited comment initially from those members of the Committee who had not been present at the workshop.

The Independent member of the Committee commented that he held concerns in respect of the proposal as, it was his view, that there was no strong case for outsourcing Internal Audit. He cautioned the Committee to consider the risks associated with the fact that the Internal Audit Service was a strategic service that could see resources being directed where the greatest demand was across the three Authorities, that might prove to be to the detriment of Milton Keynes Council's audit programme. He did not believe that this was a model widely used in councils and that the risks were disproportionate to the benefits that might be had.

The Corporate Director Resources reminded the Committee that this was not a proposal to outsource and was a model seen elsewhere in public services particularly the National Health Service.

Councillor Hosking asked for confirmation that the LGSS currently provided Audit services for Northampton Borough Council and Norwich Council as income generation opportunities, in addition to the member Councils. The Assistant Director Audit & Risk confirmed the arrangement, but pointed out that trading was not the primary driver for the proposals.

It was commented by members of the Committee that there appeared to be significant risks associated with the proposals for, what on the surface, appeared to be small gains.

Members of the Committee sought further clarification in respect of the following points;

- Had there been consultation to establish the views of the public?
- Is the proposal to amalgamate the Internal Audit Service reliant on the entire LGSS proposal being adopted by the Council?
- How much 'business' was expected to be generated by the LGSS Audit Service?

- If the Council was to agree to join the LGSS what was the exit strategy?
- Who would employ the various officers within the Audit Service and which Terms and Conditions and HR Policies would they be employed under?
- Should the Head of the LGSS Audit Service remain an employee of Milton Keynes Council would this mean that the Council would be paying for a post that would be delivering services to two other Councils as well, and therefore this council would get less value for the post?
- As it was anticipated that the Assistant Director Audit & Risk, was likely to be appointed Head of the LGSS Audit Service, should the proposals go ahead, did he have a conflict of interest in presenting this Item?
- Was there any potential problem with the LGSS being comprised of a Unitary and two County Councils?

The Committee heard from the Assistant Director (Audit and Risk) that if the Council did not support amalgamating with the LGSS the proposal to include the Internal Audit Service would fall. It was proposed within the arrangements that Officers would remain employed and subject to the terms and conditions of their respective 'home' Councils and any replacements would be employed by those individual Councils.

The Assistant Director (Audit and Risk), reminded the Committee that there was to be no enhanced salary for the Head of Audit within the LGSS and therefore, having sought legal advice, he was confident that he had no prejudicial personal or pecuniary interest, he had presented the paper and was present to assist the Committee as the best informed person to do so re the detail of the service. The Committee was also reminded that whilst the fact was that the Head of Audit for the LGSS would divide his time with the other member Authorities the services of all officers employed within the wider Audit Service would be available to Milton Keynes Council and should provide a wider cross section of skills and specialisms as detailed in the Outline Business Case.

The Service Director (Finance and Resources), informed the Committee that there was an 18 month exit strategy in the contract, whilst this seemed lengthy, in such an event it would be necessary to put in place systems to reverse such matters as integrated payroll and accounts payable, including the potential need for updated hardware and software being installed to run internal systems, this would take a minimum of 18 months to put in place.

The Committee heard from Mr Harris from the External Audit Service (Ernst and Young) that he had been asked to conduct an independent review of the business case and in principle had no concerns. He did however urge the Committee to seek to obtain a clear timeline of the decision making process and the rationale and what considerations were taken account of in that procedure, together with an evaluation of all appropriate options that had been considered. He also stated that the Council should review its Constitution to ensure that all relevant sections catered for the proposed changes and that the proposals would ensure that all the Councils lawful obligations are discharged. Mr Harris confirmed that he did not see any conflict in respect of the LGSS partners being one Unitary and two County Councils.

The Corporate Director Resources undertook to provide a timeline of the decision making process with rationale and considerations taken to be circulated to the Committee.

The comments and concerns of the committee were in summary;

- Did the potential benefits justify the risks,
- Had there been adequate consultation with the public,
- The potential income generation from external business arrangements was unclear and what impact might that have on the services provided to Milton Keynes Council,
- There was a risk that the level of service provided to Milton Keynes could be reduced if demands were greater in other authorities and did the proposal offer Milton Keynes Council value for money,
- What were the long term employment obligations and implications for Milton Keynes Council,
- Did the exit strategy provide for a suitable mechanism should the Council wish to withdraw from the arrangement,

The Chair told the Committee that he remained unconvinced by the business case and that he proposed that the Committee recommend to Council that the Internal Audit Service be excluded from the proposal to join the LGSS. Councillor White informed the Committee that whilst the Labour Group had debated the matter at length it had reached no view either way and therefore the Labour members of the Committee would abstain from voting were such a proposal put forward, this was also stated to be the position of the Liberal Democrat Group.

It was proposed that the comments and concerns of the Audit Committee be made known to the Scrutiny Management Committee for consideration and inclusion in its report and recommendation to Council. This was agreed by acclamation.

## RESOLVED

1. That the Local Government Shared Services Internal Audit Outline Business Case update be noted.
2. That the comments and concerns of the Audit Committee be reported to the Scrutiny Management Committee for consideration of inclusion in any report or recommendation to Council;
3. That the Corporate Director Resources provide the Committee with a timeline of decisions together with details of rationale and considerations were taken account of in that procedure.

### AC31

#### EXTERNAL AUDIT UPDATE

The Committee considered a report in respect of the 2014/15 Annual Certification Report and a report in respect of the Annual Audit progress.

The Committee heard that in respect of the certification report there was nothing of significance to report to the committee and that a full report would be made to the meeting of the Committee in march, and it was recommended that the report and recommendation be noted.

The Committee heard that there had been changes to the guidance in respect of the Value for Money conclusion effective from 2015/16 and a presentation in respect of these changes would be given to the Committee later in the year.

It was noted that this was the last meeting that Ms Carol Ryan would attend on behalf of the external auditors after 7 years and the thanks of the Committee were extended to her for her services to the Council.

## RESOLVED –

1. That the Reports be noted,
2. That a presentation be made to the next meeting of the Committee to explain the changes to guidance in respect of Value for Money

### AC32

#### POLICIES ANNUAL REVIEW

The Committee considered a report in respect of the Annual review of the Anti-Fraud and Corruption Policy, the Anti-Money laundering Policy and the Whistleblowing policy.

The Assistant Director (Audit and Risk) informed the Committee that there were a few minor changes in respect of contact details and references to the MK Partnership revised to reflect the reversion to the Council, together with a few minor typographical amendments as detailed in the Committee report.



The Assistant Director (Audit & Risk) agreed to undertake the required Whistleblowing and customer survey.

The Committee was asked to agree the revisions to the policies and refer them to the relevant Cabinet member for approval under Delegated Decision.

The Committee was given assurances that the policies had been written in accordance with best practice guidelines and heard that feedback exercises had been conducted to ensure that they were fit for purpose. The Committee also heard that leaflets and management communication had been used to make the existence of the policies known to staff

RESOLVED –

That the Anti-Fraud and Corruption Policy, the Anti-Money laundering Policy and the Whistleblowing policy be agreed and referred to the relevant Cabinet member for adoption by way of a delegated decision.

**AC33**

**EXCLUSION OF PUBLIC AND PRESS**

RESOLVED:

That the public and press representatives be excluded from the meeting by virtue of Paragraph 2 (Information in respect of which a claim to legal privilege could be maintained in legal proceedings) of Part I of Schedule 12A of the Local Government Act 1972, in order that the Committee may consider the following matters:

ITEM 13 Asbestos Audit and Management Review

**AC34**

**ASBESTOS PROCUREMENT AUDIT AND MANAGEMENT REVIEW**

The Committee considered a report in respect of the Asbestos Procurement Audit and Management Review

RESOLVED –

1. That an update report be presented to the Committee at its meeting in June setting out the final position if resolved,
2. That the findings of the proposed peer review into the procurement process be provided to the Committee once it is completed,
3. That the concerns expressed by the Committee be made known to the Corporate Leadership Team

THE CHAIR CLOSED THE MEETING AT 10:50 PM