



Minutes of the meeting of the AUDIT COMMITTEE held on TUESDAY 25 JUNE 2013 at 7.00 pm

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

Officers: I Ali (Deputy Assistant Director [Law and Governance]), L Baker (Head of Internal Audit), K Hulatt (Solicitor - Employment and Governance), N Jones (Assistant Director, Financial Management), I Ali (Principle Solicitor), D Wilkinson (Assistant Director [Audit and Risk Management]), and D Imbimbo (Committee Manager)

Independent Members: I Farookhi and W Preston

Also Present: C Ryan (Ernst and Young)
Councillor M Burke and Miles

Apology: Councillor McDonald, T Hannam (Corporate Director – Resources) and M West (Ernst and Young).

AC03 MINUTES

RESOLVED –

That the Minutes of the meeting of the Audit Committee held on 10 April 2013 and 22 May 2013 be approved and signed by the Chair as correct records

AC04 INTRODUCTION TO THE AUDIT COMMITTEE

The Chair welcomed members to the Committee and invited the Officers to give new Members an overview of the functions of the committee and their individual responsibilities.

AC05 CHAIR'S BRIEFING 2012/13

The Committee considered a report from the Chair which detailed the work of the Committee during the previous Council year.

RESOLVED

That the report be noted.

AC06 ANNUAL GOVERNANCE STATEMENT QUARTER 4 UPDATE

The Committee considered the Annual Governance Quarter 4 Update (AGS) for 2012/13

The Committee heard from the Principal Solicitor that the purpose of the report was to present the progress against the Annual Governance Statement Action Plan to the Committee, including highlighting any issues arising as a result of the collection process

The Committee heard that this was the final update for the year and that any outstanding actions would be rolled into the new 2013-14 Action Plan which would address the issues raised in the 2012-13 Annual Governance Statement.

The Committee noted that actions 10 and 15 had been closed following the previous meeting of the Committee and considered the recommendation that actions 3, 9, 12 and 14 in the Annual Governance Statement Action Plan be closed and noted the updates in the report.

That the Committee also noted that actions 1, 2, 4, 5, 6, 7, 8, 11 and 13 had been rolled forward into the Annual Governance Statement Action Plan for 2013/14

RESOLVED –

1. That the Milton Keynes Council Annual Governance Statement Action Plan Progress Report (at Annex A of the report) and those actions which have been reported as key issues for Quarter 4 be noted.
2. That actions 3, 9, 12 and 14 be closed.
3. That the closure of actions 10 and 15 at the January Audit Committee meeting be noted.
4. That actions 1, 2, 4, 5, 6, 7, 8, 11 and 13 be rolled forward into the Annual Governance Statement Action Plan for 2013/14.

AC07

DRAFT ANNUAL GOVERNANCE STATEMENT 2013/14 AND ACTION PLAN

The Committee considered the Annual Governance Statement (AGS) 2012/13 and 2013/14 Action Plan.

The Committee heard from the Principal Solicitor that this had been drawn up in consultation with the Chair and spokespersons and asked the Committee to consider appointing Members to the AGS Overview Working Group to assist with scrutiny and assurance in the process and drafting of the Annual Governance Statement 2013/14. Members felt that it was more appropriate that the appointees be nominated by their Political Groups rather than the Committee.

Members heard that the Accounts and Audit Regulations 2011 required the Authority to agree an Annual Governance Statement (AGS), prepared in accordance with proper practices published by CIPFA in relation to internal control, for publication with its Statement of Accounts and that a review of the effectiveness of the

Council's system of internal control that underpins the Annual Governance Statement must be carried out at least annually

The Committee was told that the Annual Governance Statement was presented to the same Audit Committee meeting as the Statement of Accounts. The Annual Governance Statement sets the context, describing the internal control and governance environment of Milton Keynes Council, and the controls that have been in place during the last year.

Members expressed concern that there was no specific reference to Equality issues within the Action Plan, Councillor Long stated that he would prepare and submit a report to Officers outlining measures he would ask the Committee to consider to address this issue, he also expressed a concern that Scrutiny within the Council was not totally independent.

Members considered specific points within the action plan and asked that the following amendments be reflected:

- (a) An additional action to include understanding and communication in respect of the LLPs. This was requested as a briefing session for Members and officers on the role of the LLPs, with a focus on the links between the LLPs and the Local Authority and arrangements for governance.
- (b) An action for Human Resources to demonstrate how they consider the impact of internal audits and their use in performance management and appraisals.
- (c) Inclusion of the CIL and S106 agreements in the tariff briefing, and that;
- (d) In respect of Member relationships with officers to develop and implement standard processes to understand how best to interact with individual councillors and ensure that information is received at the appropriate time in order to allow members to be appropriately involved in decision making, and to consider an addition of this point into the member/officer protocol. This should also take account of Ward Boundary changes set to be introduced in 2014.

RESOLVED –

- 1. That the Committee approve the Annual Governance Statement for 2012/13 and accompanying action plan (amended as below), attached at Annex A and Annex B
- 2. That each Political Group would appoint Members to an AGS Overview Working Group to assist with scrutiny and assurance in the process and drafting of the Annual Governance Statement 2013/14, together with any amendment to the Local Code of Corporate Governance, for the coming year.

3. That Councillor Long be invited to submit a report to Officers outlining suggestions to take account of Equality within the Action Plan.
4. That the below amendments and additions be made to the action plan.
 - (a) Action 1. be amended to reflect the additional action to include understanding and communication in respect of the LLPs.
 - (b) A new Action be added to link internal audit outcomes with appraisals
 - (c) Action 9 be amended to reflect the inclusion of CIL, and,
 - (d) Action 15 be amended to include the development and implementation of standard processes to inform how best to interact with individual councillors and ensure that information is received at the appropriate time to allow members to be appropriately involved in decision making.

AC08

STATEMENT OF ACCOUNTS

The Committee noted that the Accounts and Audit Regulations 2011 required the Chief Finance Officer to formally approve the Statement of Accounts by 30 June 2013, reflected by a signature and date in the Statement of Responsibilities within the Statement of Accounts. There was no longer a requirement for Audit Committee to approve the Statement of Accounts before 30 June 2013; however the Audit Committee are required to approve the Accounts once audited by way of a Committee resolution by 30 September 2013.

The Committee heard from the Assistant Director, Financial Management, that the Statement of Accounts was to be presented to the External Auditor on 1 July 2013 and would be available to the general public throughout the statutory deposit period of 28 days starting on Monday 29 July 2013 and ending on Friday 23 August 2013. During this time, members of the public may view the document and ask questions.

Any material changes arising from the audit of the 2012/13 accounts will be reported back to the September meeting of the Audit Committee, prior to approval.

The Committee heard that there were four exceptional items of note in the accounts these being;

1. Renegotiation of the Mouchel Contract
2. The additional debt associated with the purchase of assets from the Homes and Community Agency

3. The Housing Revenue Account Net Expenditure, which differs from 2011/12 due to the ending of the housing Subsidy System
4. The potential risks associated Milton Keynes Tariff

The Assistant Director (Financial Management) gave an explanation of the impact of these factors on the accounts.

Members noted that the accounts demonstrated that there remained significant sums in 'earmarked reserves' and that these have been increasing substantially year on year, and asked what process was used to establish the appropriate level for reserves. The Committee heard that reserves were reviewed annually and ear-marked reserves were set to mitigate against assessed risks that were identified. It was also noted that new reserves had been created to take account of the present financial climate and increased risks that the Council faces. The Section 151 Officer ultimately holds responsibility for determining the level at which reserves should be set, this being done after risk assessment.

Members asked that the external Auditors give an opinion on the role and level of reserves within the account. The representative from Ernst and Young advised the Committee that this was not within their remit but they could comment on the arrangements in place for the governance of reserves and the robustness of the process

Members asked that they be provided with detail of how the assessments of reserve levels were made and whether these were robust.

Members raised questions or noted the following matters within the Statement of Accounts:

- The increase in housing rental arrears.
- The underspend in adult social care,
- The major repairs reserve,
- The impact of Members joining the pension fund,
- Heritage assets,
- Use of income from Car Parking Charges,
- Governance of Reserves, and,
- Interest rates on loans.
- Members identified some minor errors in the report.

The Assistant Director (Financial Management) gave explanations in respect of these items.

RESOLVED –

1. That the minor errors identified be amended, with clarifications provided to committee members as appropriate,
2. That the accounts be approved for passing to the external auditor,
3. That the external auditors be asked to comment on the arrangements in place for the governance of reserves and the robustness of the process, and,
4. That the Committee, on receipt of the audited accounts determine whether scrutiny of reserves be referred to either Overview and Scrutiny or the Budget Review Group.

AC09

WHISTLEBLOWING POLICY AND ANTI-FRAUD STRATEGY

The Committee considered a report in respect of the revisions to the Whistleblowing Policy and the Anti-Fraud Strategy and the protections these policies provide.

The Committee heard from the Head of Internal Audit that the Whistleblowing Policy was presented to the Committee alongside the Anti Fraud Strategy in November 2012 when the Committee requested some amendments to the Whistleblowing policy and set up a working group to review this. The recommendations of the working group had been included in the circulated copy of the policy.

The Committee heard that the Anti-Fraud Strategy was agreed at the Committee meeting in November 2012, however there were now a few minor changes necessary to it to reflect changes of named personnel which made no difference to the substance of the Strategy.

RESOLVED –

1. That Cabinet be recommended to approve the revised Whistleblowing Policy and Anti-Fraud Strategy.
2. That Cabinet be recommended to approve the amended Anti-Fraud strategy, subject to minor amendments, and the final document submitted to Cabinet be circulated to Members.

AC10

INTERNAL AUDIT AND ANTI-FRAUD 2012/13 ANNUAL REPORT

The Committee considered the Internal Audit and Anti-Fraud 2012/13 Annual Report.

The Committee heard from the Head of Internal Audit (HIA) that the Internal Audit Service produces an Annual Report to support the Annual Governance Statement (AGS) of the Council and to provide the Audit Committee with a summary of the work of the service for the year.

Members heard that it is the HIA's opinion that Milton Keynes Council's internal control environment and systems of internal control provide satisfactory assurance over the exercise of its

functions, and that any significant issues identified within the report had been taken account of within the AGS Action Plan.

Members asked for clarification as to why Maternity Leave, Sickness, Suspension and Special Leave had been grouped as one within the Audit Directorate Productivity Ratio Table. Members heard that this was a CIPFA benchmarking measure but that should members wish them to be separated in future years this could be facilitated.

The Committee heard from the HIA that a report on the work conducted and ongoing in the new Council Year would be presented to the next meeting of the Committee in September.

Members asked for clarity as to the purpose of a proposal to transfer the Audit Service to the Milton Keynes Partnership (MKSP) and whether the inability to recruit suitable staff due to pay options was a driver.

The Committee heard from the Assistant Director (Audit and Risk Management) that the proposal would allow for greater flexibility in the structuring of the Service and also had a potential to generate income through out-sourcing specialist services that could be engaged under the MKSP but not the Council.

Members asked that in future reports to the Committee any unimplemented actions are categorised, and also that where Audit timescales were missed these be reported to include those 'stuck' at the draft stage. The Chair offered support in this area. It was felt that a reminder to all divisions, highlighting the benefits and need to engage with the Audit process would reduce the number of Audits that fail to meet timescales.

RESOLVED –

1. That the report be noted
2. That the Productivity Ration figures for Maternity Leave, Sickness, Suspension and Special Leave be reported for each element separately in future reports.
3. That the Corporate Leadership Team be requested to remind all departments of the benefits of, and need to, engage fully with the Audit function.

AC11 EXTERNAL AUDIT ITEMS – ERNST & YOUNG LLP

The Committee noted that there was nothing to report under this item.

AC12 REFERRAL FROM EXECUTIVE SCRUTINY PANEL – 23 APRIL / 1 MAY 2013

The Committee considered a referral from the Executive Scrutiny Panel in the terms;

'That the Audit Committee, possibly using the Provision of Older People's Services contract as an example, be requested to consider the Council's procurement processes with respect to procurement options and costing, particularly the relationship with the voluntary sector with regard to social care procurement, including specifically the initial 'make or buy' process and how this influences the resulting financial evaluation methodology'

The Principal Solicitor explained the background of the referral and advised the Committee that it was necessary to consider whether there was a concern with the robustness of the governance of the decision making process or this was a concern in respect of an isolated incident.

Members recognised that where there existed a concern in respect of whether the policy and procedures were not being followed an Audit investigation would be beneficial, however, as the referral was unclear in so far as it appeared to be questioning a specific decision and the Committee heard from the Assistant Director (Audit and Risk Management) that the process had previously been deemed to be satisfactory, it was suggested that the matter be referred to the Overview and Scrutiny Management Committee to conduct a review of the case if the Committee held any concerns.

RESOLVED –

That the matter be referred to the Overview and Scrutiny Management Committee to conduct an investigation into the specific case should it have concerns in respect of the decision making process

THE CHAIR CLOSED THE MEETING AT 10:15 PM