

## **ANNUAL REPORT OF THE AUDIT COMMITTEE 2012/13**

Author: Councillor Ric Brackenbury (Chair 2012/13)

### **1. Purpose**

This report aims to inform Councillors, officers, and the residents of Milton Keynes of the work of the Audit Committee in the council year 2012/13. It highlights both the standard items of business considered by the Committee (as part of the annual cycle) and key one-off items which have been scrutinised.

### **2. Committee Membership**

The Councillor membership of the Audit Committee has been Councillors Brackenbury (Chair), Burke, Jury (Vice-Chair), Marland, McDonald, & White (Vice-Chair.)

The Audit Committee also appoints 2 (non-voting) Independent Members. Both existing members Mr Chris Fogden and Mr Andrew Peck expressed a desire to move on at the start of the year. They both served the Committee with dedication and made significant contributions to meetings; I am particularly grateful to Andrew for travelling a substantial distance to attend meetings until a replacement could be recruited.

Over 20 applications were received for new Independent members; it was encouraging to see such strong interest in the work of the Committee. 6 candidates were shortlisted, encouraged to attend the November meeting and interviewed by a cross-party panel. Imtiaz Farookhi and Wayne Preston were the successful candidates and appointed as Independent Members of the Committee.

### **3. Review of Meetings**

The Committee has met 6 times during the year; 5 substantial meetings and the formal meeting to appoint the Chair / Vice-Chairs following the Council's AGM. All minutes and agendas are on the Council's website, and every item has been heard in public session over the year. The Committee has taken comments from members of the public at 3 of its meetings in the year.

### **4. Changes to the External Environment**

Two significant changes have taken place outside the council this year which should be noted in this report.

## **4.1 External Auditors**

The 2011-12 accounts were the last to be audited by the Audit Commission. The Government has now closed the Audit Commission and appointed Ernst & Young as the Council's external auditors (as part of a wider contract for the South East.) The personnel the Committee are dealing with have largely remained the same as existing staff have been TUPE'd across. The Council is anticipated in future to be in a position to select/tender for its External Auditor and the mechanism for doing this will need to be agreed.

## **4.2 MKSP and MKDP**

The Council has set up 2 Limited Liability Partnerships (LLP) this year, and will be required to lodge group accounts for the first time in 2012-13. Each LLP will have its own Governance arrangements, however, an open book principle has been agreed with at least MKSP.

## **5 Recurring Items**

### **5.1 Annual Accounts**

The Audit Committee has delegated responsibility for approving the Council's accounts; in many authorities this is a function of full Council. This was the first year where accounts had to be presented in a standardised format to meet International Financial Standards (IFS) which added to the workload involved in preparing the accounts. For 2011-12, these were approved for external audit in June 2012. Auditors raised issues around the valuation of heritage assets, and accounting for redundancy packages across the financial year boundary. The Committee asked for a feasibility study on valuing such heritage assets, and the audited accounts were formally approved at the September meeting. The Committee will continue to monitor and make recommendations to improve those areas highlighted by the Audit Commission as areas of weakness.

### **5.2 The Annual Governance Statement (AGS)**

Following deliberations of a cross-party working group, this was approved at the June meeting, together with its associated action plan and quarterly updates were considered throughout the year. There were several items where the planned action had taken place but the Committee were unconvinced that the core issue had been addressed. As a result the 2012-13 action plan (for the year 2013-14) will separate the actions to take place from the outcomes expected, in order to be able to monitor closely and recognise whether any objectives not met are down to actions omitted, or the action being insufficient to meet the governance issue identified.

### **5.3 Internal Audit Progress Updates**

The Committee has received regular updates on the progress against the Internal Audit Plan at each meeting, including key findings where Weak/Limited opinions have been issued. The Committee has raised concerns about staffing levels of the Internal Audit service and the risk this poses to the completion of the Annual Audit Plan.

## **5.4 Whistle-blowing and Anti-Fraud policies**

The Committee is expected to review the Whistle-blowing Policy annually and this is explicitly mentioned in the Committee's Terms of Reference. The Committee considered this at its November meeting, and requested several amendments. Although a Members' group has met to agree a draft, this has not been ready in time for the final meeting of 2012-13 and the revised text will be taken to the June 2013 meeting of the Committee. I take responsibility for this not being approved during the Committee year and do not anticipate that this will slip again. The Committee see this as a vital policy to ensure that there is an effective mechanism for raising serious concerns about the Council's activities, and with recent news of whistleblowers (including the NHS, Cumbria Police and the CIA, just in the last few weeks) as well as high-profile examples of serious issues within the Council highlighted via whistle-blowing referrals (e.g. fleet management and bridge inspections) this is an increasingly high-profile policy. I believe there is a need for the Council to recognise and affirm the importance of the Whistleblowing Policy.

## **5.5 Annual Approvals**

In addition to the Whistleblowing Policy which is scheduled to be approved at the June meeting, the Committee has approved the Internal Audit Charter and Strategy, Risk Management & Business Continuity Strategy, Contract Procedure Rules, and received the annual Local Government Ombudsman's report during its meetings this year.

## **6 Significant one-off items**

### **6.1 Fleet Management**

The Committee considered a report (originally arising from a whistle-blowing referral) at its June meeting about misuse of fleet vehicles for personal purposes, and disciplinary actions taken as a result. The Committee commended Council management for dealing effectively with a difficult issue which could have been ducked.

### **6.2 Wolverton Station**

At the request of the Audit Committee, Internal Audit in conjunction with the Highways department produced a report on the issues and failings of the Wolverton Station construction project, which was received at the April Committee meeting. The report identified serious failings throughout the project, with many opportunities to prevent the later problems missed during the procurement phase. Committee Members were concerned that lessons from previous high-profile overspends had not been applied, and that incorrect assumptions were not highlighted and challenged appropriately. By the time that Corporate Leadership Team as a whole were aware of the extent of the problems, it was too late to prevent them. A settlement was reached with the original contractor and a new contractor appointed to complete the on-site works. The Committee approved the proposed action plan arising from the report, after asking for several actions to be strengthened.

The report itself was inevitably challenged. This is no criticism of the officers drafting it; I see it as an impossibility to arrive at a single version of the truth from several conflicting accounts. The Committee asked for those criticised in the report who have since left the Council to be given the opportunity to respond, and I would like to record my thanks to all officers involved in putting such an involved and sensitive report together.

### **6.3 Proposed Transfer of Audit & Risk Services to MKSP**

At the Committee's April meeting, the current proposal to transfer Audit and Risk Management services to the Council-owned LLP Milton Keynes Service Partnership was discussed. Concerns were raised about the lack of a robust business case, the independence of the Audit function, and role of the Head of Internal Audit. Members asked that the decision was to be made by Cabinet rather than as an officer decision, and this has been agreed and is on the agenda of June's Cabinet meeting.

### **7. Acknowledgements**

I would like to put on record my thanks to elected and non-elected members of the Committee who have shown their dedication, skill and commitment in dealing thoroughly with a number of items of complex business during the year. I would like to thank Brian White in particular who has given me every assistance in taking on the role of Chair.

I am also grateful to the officers who have serviced the Committee through the year, in particular Lynda Baker and Duncan Wilkinson who have reported to the committee on all aspects of the Internal Audit service, Tim Hannam and Nicole Jones who have led on budget monitoring and the approval of the accounts, and Ifty Ali and Kat Hulatt for legal input and their work on the Annual Governance Statement. Finally we would have got nowhere without Tina Milner who has organized and managed the Committee with great enthusiasm and dedication for the year.

***June 2013***