



Minutes of the meeting of the AUDIT COMMITTEE held on TUESDAY 31 MARCH 2015 at 7.00 pm

Present: Councillor McDonald (Chair)
Councillors M Burke, S Burke, Cannon, Hosking and White

Independent Members: Ms B Cole and Mr I Farookhi

Officers: T Hannam (Corporate Director Resources), D Wilkinson (Partnership Director), N Jones (Service Director Finance and Resources), L Baker (Head of Internal Audit), A Hudson (Head of Environment and Waste), D Proctor (Waste Contracts Manager) and D Imbimbo (Committee Manager).

Also Present: Ms. M Grindley (Audit Director, Ernst and Young)

Apologies: Councillor R Gifford and Ms C Ryan (Ernst and Young)

AC45 CHAIRS WELCOME

The Chair Welcomed Members and Officers and offered his thanks for the support afforded over the year.

AC46 MINUTES

RESOLVED –

That the Minutes of the meeting of the Audit Committee held on 27 JANUARY 2015 be approved and signed by the Chair as a correct record.

AC47 DISCLOSURE OF INTERESTS

Councillor McDonald asked that it be recorded that, whilst not a prejudicial interest, he has been employed on a part time basis for a company located opposite the residual waste treatment plant.

AC48 RESIDUAL WASTE TREATMENT PLANT

The Committee received a presentation from the Head of Environment and Waste and the Waste Contracts Manager in respect of the residual waste treatment plant project. The presentation set out the expectations of the project including an explanation of the financial considerations, the project governance structure, project management arrangements and risk management regime that had been adopted.

An explanation of the financial implications to the Council was given by the Corporate Director Resources and Service Director Finance and Resources. Members of the Committee asked that the Head of Environmental Waste, in conjunction with the Corporate Director Resources, produce a simple income and expenditure account based on original papers compared to our latest expectations. A sensitivity analysis needs to be added because of the dependence on a number of key variables. A comparison of the original with forecast capital expenditure would also be required. Original and forecast Payback periods and internal rates of return should be covered.

The Committee was assured by the presentation and explanations, that a robust project and risk management exercise was being undertaken using the 'MK Approach' and 'GRACE' procedures, it was held that this was an exemplary case that ought to be highlighted to the responsible Cabinet member as an example of best practice and the lessons learnt from the exercise thus far should be shared throughout the Council as a learning tool.

The Head of Internal Audit told the Committee that an Internal Audit into the project would follow on from the presentation.

RESOLVED –

1. That the presentation be noted, and,
2. That the Head of Environmental Waste in conjunction with the Corporate Director Resources, be asked to produce a simple income and expenditure account based on original papers compared to the latest expectations. A sensitivity analysis is also to be added. A comparison of the original with forecast capital expenditure also be provided covering original and forecast payback periods and internal rates of return, and,
3. That the responsible Cabinet Member be recommended to promote the example of the residual waste treatment plant project as an example of best practice of project management throughout the Council.

AC49

2013/14 ANNUAL GOVERNANCE STATEMENT FINAL CLOSURE

The Committee considered a report in respect of the final closure of the 2013/14 Annual Governance Statement Action Plan.

The Head of Internal Audit told the Committee that it was proposed that the 2013 – 14 Annual Governance Statement action plan be closed and 4 outstanding actions be carried forward to the 2014 – 15 Action Plan. The Committee heard that in previous years it had been the practice to run the old action plan alongside the new, however it was deemed more efficient to carry actions over rather than refer to two documents.

The Committee noted that actions 7, 8, 9 and 10 had not been completed although work had been progressed and would be carried

over to the 2014 – 15 Action Plan. The Committee asked that where an action was carried forward to a future year this was clearly indicated on the new plan.

Councillor S Burke commented that changes to the wording of action 3 to reflect the problems that had been associated with the notification to the relevant Ward Councillors after the change of boundaries, had not been incorporated into the final action plan and asked that this be completed before it was closed.

RESOLVED –

1. That the report be noted, and,
2. That the Milton Keynes Council 2013-14 Annual Governance Statement Action Plan be closed subject to amended wording in respect of Action 3, and,
3. That Actions 7, 8, 9 and 10 be carried forward into the Milton Keynes Council 2014 – 15 Governance Statement Action Plan.

AC50

INTERNAL AUDIT UPDATE

The Committee considered a report in respect of an update from Internal Audit

The Head of Internal Audit told the Committee that since writing the report additional audits had been completed and the completion figure now stood at 77% all other audits were now in progress. The Actions implemented figure has been revised to read 88%.

The Committee heard that there remained 3 significant issues where a weak or limited audit opinion was given, these were;

Parking and the Parking Contract –

The issue here being that there was no procedure or control in place to ensure that cash income from ‘Pay and Display’ machines and payments to Vinci Park were accurate. Also there was no independent audit of the scratch card and permit stock, these issues could have an impact on collection.

Members of the Committee expressed deep concern in respect of the potential risks associated with the lack of control identified and noted that significant cash sums were involved. It was stressed that there was no evidence that there was a problem but the absence of a control meant no assurances could be given. The Head of Internal Audit confirmed that the relevant Cabinet Member was made aware of the audit findings as they are routinely copied into the final audit reports.

The Chair told the Committee that he proposed to ask the Parking Strategy and Implementation Manager and the Revenues & Benefits Service Delivery Manager to attend the next meeting of the Committee to provide a presentation in respect of measures that

were being taken to address the identified issues and provide assurances that the necessary control measures had been put in place to avert any potential fraud.

ControCC (Adult Social Care Payment Systems) –

The Committee heard that payments had not been made to new service users/carers/providers for several months as there was no-one in post to input records. This may have resulted in delays in those who had been assessed as needing care being able to receive it, temporary staff had been employed to address the backlog.

There remained a lack of regular reconciliations between 'ControCC' and 'Frameworki' this could result in incorrect payments being made. Additionally staff with business roles also had system administration level access and there was a lack of clarity over the responsibilities between MKC and the software vendor.

The Committee was reminded that in the past it had been identified that data imputing had failed in another service area and no procedure had been in place to highlight the risks that arose as a result of that. There had been an undertaking that there would be safeguards in place to ensure that there was no repeat of that failure elsewhere within the Council, this situation demonstrated that no safeguards had been present and it was clear that the lessons previously learnt had not been applied, it was therefore essential that once this situation was resolved a clear message is passed throughout the Council that it was essential for early warnings to be recognised. The Corporate Director Resources confirmed that in the event that such a matter was brought to his attention immediate action would be taken to address it.

The Chair told the Committee that he proposed that the Head of OP and PD Services and the Head of Policy and Performance be asked to attend the next Committee to explain what safeguards are being put in place.

Emerson Valley Junior and Moorland Nursery School –

The Committee heard that there had been inadequate segregation of duties in the 'procure to pay' cycle found at both of these schools despite the completed Schools Financial Value Standards (SFVS), which had been signed by the Chair of Governors, stating that there was segregation of duties. There had been many instances at both schools, where one member of staff had performed all of the key tasks in the procurement process on the Schools Finance System (FMS6). Additionally, there were high numbers of orders raised after receipt of an invoice which meant effective payment controls were bypassed and commitment accounting was undermined.

Awareness training had been provided to address these issues.

The Committee heard that it was proposed that five audits be carried forward to next year due to service requests arising mainly as a result of less than expected progress.

RESOLVED –

1. That the Report be noted, and,
2. That the revisions to the Audit Plan be agreed, and,
3. That the Head of OP and PD Services and the Head of Policy and Performance in respect of Adult Social Care and the Parking Strategy and Implementation Manager and the Revenues & Benefits Service Delivery Manager in respect of Parking be asked to attend the next meeting of the Committee to report on the findings of the Internal Audits and measures being taken to address identified weaknesses.

AC51

2015/16 ANNUAL INTERNAL AUDIT PLAN

The Committee considered a report in respect of the Annual Internal Audit Plan.

The Committee heard that since writing the report additional staffing issues had arisen in that a newly recruited auditor had declined the appointment and two members of staff were leaving. This presented a risk to the completion of audits as planned but would be managed as the year progressed.

Councillor White reminded the Committee that the previous Chief Executive had given an undertaking to ensure that Internal Audit remained a fully functioning service and had written a letter to that effect. He asked that the Corporate Director Resources note the importance placed on the Internal Audit Service.

The Head of Internal Audit told the Committee that no definition of what the minimum level of Audit had been forthcoming from CIPFA and this meant that it was proving difficult to evidence the minimum staffing required to meet all obligations.

The Audit Director, (Ernst and Young), asked that the Committee note that in respect of paragraph 3.6 of the Committee report the External Audit would not at any time direct a particular audit to be conducted by the Internal Audit Service.

It was noted that the Audit of 'Public Access' had been recently started, this was focused on IT systems, The Committee asked that the physical aspect of public access, reception and service desks be added to the 2015/16 plan.

The Head of Internal Audit told the Committee that the Corporate Management Team was due to review the plan on 9 April and may request some changes to be made, these would be reported to the Committee at its next meeting.

RESOLVED –

1. That the report be noted, and,
2. That the physical element of Public Access be audited in 2015/16, and,

3. That the 2015/16 Audit Plan be approved, subject to any amendments requested by CMT

AC52 AUDIT CHARTER AND STRATEGY ANNUAL REVIEW

The Committee considered a report in respect of the Audit Charter and Strategy. The Head of Internal Audit reminded the Committee that a complete review had been undertaken the previous year and told the Committee that the documents it was being asked to approve had only a few minor grammatical and title changes.

RESOLVED –

1. That the report be noted, and,
2. That the Milton Keynes Audit Strategy and Charter be approved.

AC53 EXTERNAL AUDIT ITEMS

The Committee considered a report in respect of the External Audit Progress Report and Audit Plan.

The Audit Director, (Ernst and Young), told the Committee that there were two issues she needed to bring to its attention, however these were not singularly related to Milton Keynes Council but rather across the board;

1. Risk of Management Override

It had been identified that management was in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial assessments by overriding controls that otherwise appear to be operating effectively.

2. Medium Term Financial Planning

The Authority continued to face financial challenges, The medium term financial plan sets out the Council's strategic approach for closing the gap and key deliverables that are critical to the future financial sustainability of the Council.

RESOLVED –

That the report be noted.

AC54 STRUCTURE OF MKSP

The Committee received a verbal report on the outcome of the external review of the of the Milton Keynes Service Partnership and the implications for the Council.

The Committee heard that The MKSP Board met on 27 February 2015, the findings of the external review undertaken were considered and a recommendation was made to the Council that a new model be developed in respect of the services provided by MKSP. The model proposed to transfer those services provided to the Council into the

Council, those services delivered commercially be done so via a dedicated limited company. This would see the MKSP limited partnership wound up when those services are transferred and structures fully implemented. As owners of MKSP the Council must go through a decision making process as to whether the recommendation from the MKSP board was supported. That procedure was currently being assessed by counsel. It was proposed that the procedure be considered by a Scrutiny Task and Finish Group. The Committee heard that the deadline for the decision processes had been set as 31 July 2015, this was subject to any potential changes resulting from the elections in May. An implementation programme would seek to see a completion by the end of the calendar year, with a 31 March 2016 end date.

The Committee was assured that during the transformation process, services would continue 'business as usual' with an undertaking to ensure that any business improvement opportunities would be incorporated immediately rather than delayed until after the project was complete.

RESOLVED –

That the report be noted.

AC55

EXCLUSION OF PUBLIC AND PRESS

RESOLVED –

That the public and press be excluded from the meeting by virtue of Paragraph 7 (Information Relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime) of Part 1 of Schedule 12A of the Local Government Act 1972, in order that the Audit Committee may consider the Annexes to the following presentation:

ITEM 14 – Audit Commission Fraud Briefing

AC56

AUDIT COMMISSION FRAUD BRIEFING

The Committee received a presentation prepared by the Audit Commission in respect of the measures and results of fraud investigation in the Council. The figures presented were set against other Unitary Authorities as comparators.

Members of the Committee asked that if available comparative data with previous years be provided to enable an understanding of any trends or issues.

RESOLVED: -

That the presentation be noted.

THE CHAIR CLOSED THE MEETING AT 9:50 PM