



Minutes of the meeting of the AUDIT COMMITTEE held on TUESDAY 8 APRIL 2014 at 7.00 pm

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

Independent Members: Mr I Farookhi

Officers: T Hannam (Corporate Director Resources), M Hodgson (Partnership Director [MKSP LLP]), D Wilkinson (Assistant Director Audit & Risk Management), L Baker (Head of Internal Audit), J Pryor (Assistant Director Public Realm Service Group), A Rulton (Capital Finance Manager), S Gerrard (Interim Head of Legal and Democratic Services) and D Imbimbo (Committee Manager).

Apologies: Councillors Long and Marland

Also Present: M West (Ernst and Young [External Audit])

AC38 CHAIRS WELCOME

The Chair Welcomed Members and Officers. It was noted that Mr W Preston (Independent Member) had tendered his resignation due to other commitments. The Chair asked that his and the Committee's thanks to Mr Preston for his contribution to the Committee be recorded.

AC39 MINUTES

RESOLVED –

1. That the Minutes of the meeting of the Audit Committee held on 14 January 2014 be approved and signed by the Chair as a correct record.
2. That it be noted that in respect of Minute AC34 the Categorisation Strategy of defects and the repairs schedules had not yet been publicised but work was ongoing around the public access programme to complete this action in May 2014
3. That it be noted that in respect of Minute AC34 the Chair had not yet completed a report to present to full Council but would include this in his annual report to Council.

AC40 DISCLOSURE OF INTERESTS

None were made.

AC41 APPROVAL OF INTERNAL AUDIT STRATEGY AND CHARTER

The Committee considered a report in respect of the Internal Audit Strategy and Charter. The Committee heard from the Head of Internal Audit that there had been a number of changes made since the draft had been circulated to the Committee in November 2013, to comply with the new Public Sector Internal Audit Standards and that the comments from the Committee had been incorporated in the document. The documents had been agreed by the Corporate Leadership Team (CLT).

Members heard that an additional document had been produced as a guide to the audit process for managers and service staff. The CLT had made some amendments to the papers circulated with the committee report, the testimonials had been removed as it was felt that it was inappropriate to include these. A section had been added to advise Managers to contact the Head of Internal Audit if any concerns were held about the procedures being adopted during the course of an audit. The document had been amended to include information relating to potential additional charges where flexible solutions to meet business needs was engaged as this would be over and above the core business of an audit, also in the organisational chart the Corporate Directors had been removed as they were covered under CLT, this has been changed to Heads of Service and Assistant Directors.

The Chair identified a number of typographical errors and some omissions to include;

- More detail of 'sources' of referrals for special investigations to include whistleblowing, Audit Committee requests and Cabinet requests.
- In respect of Conduct of Work to include enquiry of ex-contractors and partners as well as ex-employees.
- In respect of follow-up the emphasis is put on services to pro-actively engage with Internal Audit rather than audit make the follow-up in the case of outstanding actions.

Members heard that it was the aim of Internal Audit to have Heads of Service and Assistant Directors take ownership of actions coming out of audits and the follow-up provisions had been written to encourage this approach, it was anticipated that Assistant Directors would be contacting Internal Audit with evidence to confirm actions were completed.

The Head of Internal Audit told Members that the requirement to undertake an external review of Internal Audit had been introduced in April 2014 and it was intended to conduct this at the end of a 5 year period.

Members expressed a view that they supported the inclusion of testimonials from service receivers as long as they were representative of all comments both positive and negative. Members heard that there had been no negative feedback received.

The Partnership Director (MKSP LLP) undertook to take the view of the Committee back to the CLT for reconsideration of the decision to remove the testimonials from the information document.

RESOLVED –

1. That the Charter and Strategy be accepted subject to amendments as detailed above and any further amendments agreed between the Chair and spokespersons
2. That the Partnership Director (MKSP LLP) be requested to ask the CLT to reconsider the removal of the testimonials from the information document.

AC42

INTERNAL AUDIT PLAN 2014-15

The Committee considered a report in respect of the draft 2014-15 Internal Audit Plan.

Members heard from the Head of Internal Audit (HoIA) that the plan had been drafted using a risk based approach and that this was reflected in the categorisation adopted. Members heard that there were a number of Audits that had to be completed annually, others are considered high priority due to the complexity, financial implications or other risks associated with them.

Members heard that the plan had been presented to the CLT, the following changes had been made to the plan since it was published in the agenda these included;

- Accounts receivable had been incorrectly categorised and now appeared under ‘Managed audits’
- Self-Assessment Review of Internal Audit had been added
- Security and Access of Framework ‘I’ had been added
- Capital Asset Register had been added

Members noted that the plan was reliant on successful recruitment to vacant positions in June 2014 and were given assurances from the HoIA that arrangements were being made to ensure that staff were recruited through a realignment of the staffing budget to attract suitable candidates.

Members recognised that there was no reference to the new recycling plant at Wolverton on the plan, The HoIA confirmed that this should have been included but had been missed off the list but was on the Health-check plan and would be added.

The External Auditor commented that they are no longer able to direct the work of Internal Audit and felt that the terminology of

'managed' audits may cause some confusion. The HIA agreed to reclassify these audits as 'fundamental'.

RESOLVED –

1. That the Internal Audit Plan be approved
2. That the amendments be agreed and noted.
3. That the proposed strategy to recruit staff be welcomed

AC43

MILTON KEYNES COUNCIL ANNUAL GOVERNANCE STATEMENT ACTION PLAN PROGRESS REPORT– QUARTER 3

The Committee considered a report in respect of the Council Annual Governance Statement (AGS) Members noted that in November 2013 it had been resolved to form a Working Group, on a political balance of 1:1:1, to assist in the drafting of the 2013-14 AGS. Councillor Brackenbury would represent the Liberal Democrat Group.

Members heard from the Interim Head of Legal and Democratic Services that the report before the Committee was the penultimate report for the year 2012-13 and that the final report would be presented to the Committee in June 2014. The report provided details of ongoing actions that were being undertaken.

Members raised concerns that action 19 'IT facilities for Members' had not been completed as no outcomes had been agreed from the Member Working Group. Without Member input it was not seen as likely this would be completed by June. Members were concerned that they did not receive the same quality and standard of equipment as was provided to other Councils.

Members noted that there appeared to be a discrepancy between the action plan and the report in respect of action 24 'Taxi Licensing' where the plan indicated it had been completed, however, the report suggested that two essential actions were still outstanding. This would be looked at and accurately reported in the final report.

RESOLVED –

1. That the report be noted and agreed other than;
2. That action 19 be left as outstanding for completion and carried forward to next year's plan.
3. That the formation of the Working Group be progressed in advance of the elections.

AC44

UPDATE NOTE ON THE LOCAL AUDIT AND ACCOUNTABILITY ACT 2014

The Committee considered a report in respect of the Local Audit and Accountability Act 2014

The Interim Head of Legal and Democratic Services reminded the Committee that the Audit Commission was being dissolved and

these emerging regulations set out the requirements for auditing of Local Authority accounts and other specified bodies.

Members heard that the regulations also extended to Parish Councils, there was however a consultation ongoing in respect to what degree the regulations to extend to small local authorities including parish and town councils.

Members noted that after 2016-17 the decision as to who the Council appointed as external auditor would be that of the Council, decisions would need to be taken to decide who would be responsible for that appointment.

RESOLVED –

1. That the report be noted
2. That the link and details of the consultation in respect of the smaller local authorities be circulated to Parish Councils for their information and any action they wish to take.

AC45

EXTERNAL AUDIT ANNUAL AUDIT LETTER

Members heard from the representative of the External Auditors that the Audit Plan was being progressed and explained various aspects of the content. Members heard that there were no significant risks identified.

Members heard that the Auditors had identified one area that required special consideration which was in respect of the appeals provision for business rates under the new arrangements. The External Auditors had determined that this was something that should be highlighted as a potential significant risk due to the number of such appeals that may be forthcoming and therefore the Audit Plan may need to be amended to take account of this. The Committee received an explanation of various factors in the Plan.

The Committee heard from the Corporate Director Resources that the changes to the business rates issues were being considered and was given an explanation of the arrangements for business rates and the division of funds between the Council and Central Government. Members heard that any business rate appeals would in future be dealt with at local authority level rather than by central government, these could cover appeals for a period over the previous 6 years, this had a significant impact on finances.

The Corporate Director Resources told the Committee that he would welcome the opportunity to give the committee an in depth review of the issue when the final accounts were presented in June as the figures were considerable.

RESOLVED:-

1. That the update be noted.

2. That the Corporate Director Resources be invited to give a presentation in respect of Business Rates and the accounts at the meeting of the Committee in June 2014.

AC46 WOLVERTON STATION ACTION PLAN PROGRESS AND FINANCIAL SUMMARY

The Committee considered reports in respect of the progress of the Wolverton Station Action Plan and Financial Summary.

The Committee heard from the HoIA that Internal Audit had undertaken some detailed testing on the Wolverton Station Action Plan after it was closed off to be able to provide to the Committee assurance that the actions within had been embedded in the organisation.

It had been the case that Tendering had been an area the committee were particularly concerned with and to this end an audit of the corporate procurement practices had been undertaken and as a result Internal Audit was satisfied with the robust challenge that Cabinet Procurement Committee provided in respect of tendering decisions. There was now a clear indication that the problems associated with the tendering process of Wolverton Station could not be repeated.

In respect of the remainder of the Action Plan Internal Audit were able to give a satisfactory opinion over project management as a whole.

It was noted that there remained some concern over the use of GRACE for risk management of projects and that this needed to be fully embedded in the organisation. There would also be further work in the 2014-15 audit plan to ensure post project benefits realisation were properly undertaken..

There was some concern in respect of the use of the M.E.A.T. Template throughout the organisation there remaining some units within that Council that were still not utilising the corporate template.

Members heard that an Integrated Assurance Group had been set up, chaired by Members of the CLT and made up of senior officers from across the Council with a remit to maintain an overview of the project dashboard ensuring that they are able to conduct a robust challenge of reports being presented to CLT.

Members heard from the Corporate Director Resources that having conducted a review of the financial aspects of the project he was able to report that the best estimate of the overspend following negotiation with contractors came to a figure in the region of £225k. It was clear that in the early stages of negotiating the main contract, elements had been removed from the estimate that should not have been taken out and these had then had to be added at a later stage, this had given a distorted picture of the overall initial and final costs of the project. Making adjustment to recognise that the essential elements that had been removed should have featured in the initial tender reduced the real overspend from the earlier reported figure of approx. £725k to £225k.

Members heard from the Assistant Director Public Realm Service Group confirmation that in his opinion the original tender had items taken out that should have remained in the scheme and an award made on that basis.

Members expressed concern that there remained areas where the M.E.A.T evaluation was not being used and heard that this was primarily within the adult social care area and proposed that a referral be made to the Chair of the Overview and Scrutiny Committee to consider examining the issue through the Corporate Affairs Select Committee.

Members welcomed the formation of the Integrated Assurance Group and asked that they be made aware of the Terms of reference of the Group. The HoIA agreed to circulate them to the Committee

RESOLVED:-

1. That the update and reports be noted,
2. That a referral be made to the Chair of the Overview and Scrutiny Committee to consider a review of the M.E.A.T. evaluation procedures and the usage of the standard corporate template across the Council, to identify any areas where this did not happen and identify means to ensure that there is 100% compliance through the Corporate Affairs Select Committee.
3. That the Terms of Reference for the Integrated Assurance Group be circulated to the committee

AC47

WAIVERS AND CONTRACT PROCEDURES RULES

The Committee considered an information report in respect of Waivers and Contract Procedure Rules.

Members heard from the Assistant Director Audit & Risk Management that the Corporate Procurement Team had been seeking to tighten procedures and increase scrutiny around any waivers or any non-compliance with contract procedure rules since 2011. Each request is subject to scrutiny before S151 Officer approval. Any issue involving a waiver for a contract in excess of £100K must include a contribution from the relevant Cabinet Member.

Members heard that the increased figures for the amount of waivers and the general trend should be taken in context of the more robust scrutiny of the process identifying instances that might previously have not been 'visible' and also in the light of a significant highways improvement contract where Cabinet approved a pro-active waiver in August 2013. Nevertheless the process undertaken for that award of contract was pre-existing contract frameworks and did involve competitive procurement.

Taking this particular contract out and adjusting the figures the total value of waivers is seeing a fall through scrutiny and control. Members heard that waivers represented 3% of the budget for all contracts in 2013.

The Assistant Director Audit & Risk Management told Members that Member Scrutiny of Waivers was welcomed as a key element of improving compliance across the Council. Members recognised that this was being undertaken by the Cabinet procurement Committee but welcomed an annual report being presented to the Audit Committee so that an overview could be maintained.

RESOLVED: -

1. That the report be noted.
2. That a summary report be presented to Audit Committee on an annual basis setting out the numbers and reasons for Waivers

AC48

INTERNAL AUDIT UPDATE

Members considered a report in respect of the Internal Audit Update.

Members heard from the HoIA that a more detailed report would be presented at the end of year but that the report before committee gave a summary of the present position. Members heard that where an Audit had not been started it would be carried over to the 2014-15 Audit Plan.

The Committee heard that the organisational implementation of actions arising from audits sat at 87% which was not as high as could be expected and more emphasis was being put on Assistant Directors and the CLT taking ownership of the actions and being accountable for their implementation.

Since the last update a 'significant issue' had been identified in respect of purchasing cards. Systems for testing were being introduced to ensure that there was full compliance with policy of authorising spends. It was clear that this was a system issue rather than any concerns held about unauthorised spends none of these had been identified as happening.

There remained 4 unimplemented essential actions which have been outstanding for some time. In respect of attendance management Internal Audit were confident that now that the previously unimplemented essential action had been addressed through ESS/MSS.

Members expressed some concern that the outstanding actions from 'Troubled Families' and Taxi Licensing had not been fully implemented to date, it was suggested that representatives from those units attend a future meeting of the Committee to explain the issues.

Members raised concerns about the impact of unplanned audits on the plan, and what was displaced as a result of this. Also taking account of the fee raising status of audit since the transfer to MKSP what impact this had. Likewise there were concerns that the commercial nature of the MKSP would see resources directed at lucrative income generation other than the Council to the detriment of the Council.

Members heard that there would be a breakdown of work days generated by unplanned audits, it was also the practice to involve the committee in deciding the priority of unplanned work, this usually involved a discussion with the chair.

The costs have recently been met by additional funding to pay for an agency worker, however the process is risk assessed and a request will not automatically result in an audit being conducted.

The Partnership Director (MKSP LLP) confirmed that Milton Keynes Council remained the primary 'customer' for the MKSP and would see resources focused in that direction before considering any other requests.

The Chair confirmed that he believed that there was a need to give these concerns serious consideration in the new council year.

The Chair requested that in future update reports plan completion also be stated as a % of the original agreed plan prior to any amendments. HIA agreed to do this.

RESOLVED: -

1. That the report be noted
2. That at the November meeting of the Committee, full consideration be given to the impact on the Internal Audit service of operating out of MKSP and the allocation of resources.
3. That members of the management from Taxi Licensing and Troubled Families be invited to attend the June meeting of the Committee to provide an update on the outstanding actions.

THE CHAIR CLOSED THE MEETING AT 9:35 PM