

Minutes of the meeting of the **AUDIT COMMITTEE** held on **TUESDAY 20 JUNE 2017** at 7.00 pm

Present: Councillor P Geary (Chair)
Councillors Bald, R Bradburn, Dransfield, Khan, C Williams
(Substituting for Councillor Cannon) and K Wilson

Independent

Member: Mr I Farookhi, Mr N Nyamazana

Officers: N Jones (Corporate Director Resources), D Sharkey (Corporate Director Place), D Wilkinson (Chief Auditor), S Bridglalsingh (Service Director [Legal and Democratic Services]), S Richardson (Service Director for Finance and Resources), V Errington (Corporate Accounting Manager), S Tinkler (Interim Audit Services Manager), L Wilson (Leisure Facilities Officer), and D Imbimbo (Committee Manager)

Also Present: Mrs P Hillie (Ernst and Young)

Apologies: Councillors Cannon and C Wilson, Mr W Bush and Ms M Grindley

AC03 DISCLOSURE OF INTERESTS

Councillor Dransfield asked that it be noted that he had a non-pecuniary interest in Item 12a Hertsmere Leisure Members Item, in so far as he had previously held the position of Chair of the Woughton and Shenley Management Committee and was a Trustee of the Shenley Leisure Centre Trust.

Councillor C Williams asked that it be noted that he had a non-pecuniary interest in Item 12a Hertsmere Leisure Members Item, in so far as he was presenting the Item and held a pre-determined view on the matter. He would therefore step down from the Committee to present his paper and would take no part in the debate or any subsequent vote.

Councillor Bald asked that it be noted that she had a non-pecuniary interest in Item 12a Hertsmere Leisure Members Item, in so far as she was a Ward Councillor on Tattenhoe where one of the premises was located.

AC04 MINUTES

RESOLVED –

That the Minutes of the meetings of the Audit Committee held on 28 March 2017 be and 17 May 2017 approved and signed by the Chair as correct records, subject to the correction of typing at AC50, where the word ‘now’ be amended to read ‘no’.

DRAFT STATEMENT OF ACCOUNTS 2016/17

The Committee considered a report in respect of the draft Statement of Accounts and heard a summary from the Corporate Director Resources of the Councils procedure prior to their submission to the External Auditors. The Committee was invited to make any Comments for inclusion.

It was noted that there had been no requirement to include the accounts for MK Business Excel or YourMK in the Statement of Accounts for the 2016 Accounts.

The Corporate Director Resources told the Committee that there were no significant matters to report.

The Committee was reminded that it was required to sign off the Accounting Policies as set out in the Draft Statement of Accounts.

Members sought clarification in respect of the increased level of reserves. The Corporate Director Resources explained the rationale for the amounts held in reserves and their proposed purpose. The Committee also heard that the Budget Scrutiny Committee had set up a working Group to examine the reserve funds.

Following discussion in respect of the £30m reserve fund for the HSA Councillor Dransfield asked that the External Audit were tasked to look at the Value for money options in respect of holding a reserve rather than using funds to build social housing to house homeless persons who were presently being accommodated in Bed and Breakfast or similar facilities which were currently being used at significant expense from the General Fund. The Corporate Director Place told the Committee that HSA funds were ring-fenced for the regeneration programme.

The Committee also sought assurances that sufficient provision had been made for any delay in the Residual Waste Treatment facility going online, and the reduction in car parking income that was being experienced.

The Corporate Director Resources assured the Committee that the present position in respect of the Waste Treatment facility was on schedule and that taking account of the present situation reserves were sufficient, in the event this situation changed there would be a need to reconsider strategy choices when budgeting in future years, which would present a significant challenge for the Council.

The representative of the External Auditors confirmed that they would be able to consider the issue the HRA Value for Money issues should the Committee wish them to do so, it was further confirmed that the Residential Waste project had already been identified as a risk.

It was noted that the issues being raised were in respect of Policy and it would be for the Committee to raise any concerns in respect of Policy with Cabinet, an External Audit view on those matters could

support any such referral and ought to be requested by the Committee.

RESOLVED –

1. That the draft 2016/17 Statement of Accounts be noted,
2. That the Accounting Policies for Milton Keynes Council within the accounts be approved, and,
3. That the External Audit Service be requested to conduct a Value for Money review in respect of the HSA reserve fund being utilised to build social housing set against the General fund pressures to provide temporary accommodation for homeless persons.

AC06

REVIEW OF PREVIOUS DECISIONS – DECISION TRACKER

The Committee heard from the Chief Auditor that there remained 3 outstanding matters. In respect of the Budget Scrutiny Referral – Waste, this was dealt with at Item 13 on the agenda 'Budget Management Added Value' and the other two 'Asbestos Contract' and 'A421 project' these were ongoing matters and outcomes would be reported when available. The Corporate Director Place told the Committee that negotiations in respect of the Asbestos Contract were being undertaken and it was hoped that an update could be presented at the next meeting.

RESOLVED –

That the report be noted.

AC07

EXTERNAL AUDIT UPDATE

The Committee considered the External Auditor's letter setting out the Certification and Audit fees for the External Audit Service and heard an explanation from the representative of the External Auditors in respect of how the rates are determined.

The Committee noted that in addition to the Auditing of the General Accounts, an audit of the teachers Pensions, the Corporate Director Resource's explained that this was a mandatory annual audit that had to be undertaken in addition to the main audit which could be outsourced.

It was further noted that fees may vary should adverse issues arise during the audit, or any additional work be required by the Council.

RESOLVED –

That the report be noted.

AC08

DRAFT ANNUAL GOVERNANCE STATEMENT 2016/17

The Committee considered a report in respect of the draft Annual Governance Statement 2016/17 (AGS)

The Chief Auditor reminded the Committee that the AGS whilst a separate document, formed part of the Annual Accounts and as such had to be submitted to the External Audit Service and was before the Committee for approval in advance of that.

The Committee heard that the document was set out in compliance with CIPFA guidance, and had been drawn up using the recommended procedure engaging with all relevant stakeholders.

The Committee sought assurances that measures were in place to recognise and respond in the event of any delay or other technical issues with the implementation of the new Enterprise Resource Planning system (ERP). The Corporate Director Resources told the Committee that she would not move over to the new system until completely satisfied testing had been undertaken and proven the system to work adequately, it was for this reason that the implementation had been delayed until October 2017. In the event that the new system had any issues there was provision to continue with the existing arrangement.

Councillor Bald told the Committee that she believed that in light of recent catastrophic events in other parts of the Country it may prove prudent to add an additional risk area of 'Disaster Recovery' to the Action Plan. The Chief Auditor confirmed that he would make provision to include this in the Audit Plan.

Councillor C Williams, in recognition of the fact that concerns were being aired in respect of Disaster Recovery due to the heightened awareness following a serious tower block fire in London, asked that when a report on a review of the Councils arrangements for Disaster Recovery was available, this be presented to the Housing Committee.

Discussions were had in respect of actions that would result should an adverse OFSTED report be received and the implications and responsibilities for the Committee and the way Milton Keynes Council deals with Governance in comparison with the LGSS.

It was noted that the AGS sought to include information in respect of who was accountable for actions identified, this followed comments from the Management Team.

RESOLVED –

1. That the report be noted.
2. That the 2016/17 Annual Governance Statement and Action Plan attached be approved.
3. That the Chair and Vice Chairs be appointed as the Committee's AGS Overview Working Group to assist with scrutiny of the draft Annual Governance Statement 2017/18, together with any amendment to the Local Code of Corporate Governance, during the forthcoming year.

4. That the Annual Governance Statement 2017/18 be referred to external audit
5. That Disaster Recovery and Business Continuity be added to the Audit Plan

AC09

HERTSMERE LEISURE MEMBERS ITEM AND HERTSMERE LEISURE ADDED VALUE

Councillor C Williams stood down from the Committee during consideration of these Items having disclosed a personal interest.

The Committee considered a Members Item in respect of Hertsmere Leisure presented by Councillor C Williams and report in respect of Hertsmere Leisure Added Value from the Chief Auditor.

Councillor C Williams told the Committee that he and fellow Ward Councillors, together with the Parish Council, of which he was a member, held serious reservations in respect of the present management of the Tattenhoe, Westcroft and Furzton Pavilions.

Councillor C Williams detailed the concerns held and presented photographs and testimonials in support of the concerns raised. He told the Committee that he hoped that Committee would share his concerns and request that a full Audit investigation be conducted to examine the relationship between the Council and the Service provider (Hertsmere Leisure), how the Contract was managed and whether the obligations of the service provider were being delivered and whether the contract was itself fit for purpose.

Councillor C Williams also told the Committee that the concerns were shared by various user groups, he believed that there were breaches in respect of Health and Safety obligations and failings in basic servicing of the premises to meet such obligations.

The Chief Auditor told the Committee that an audit had been conducted in 2016 and the report issued in August of that year. The report had been entitled 'Added Value' as there were elements which fell outside the usual remit of an internal audit but its work could be revised on the basis of the user concerns alluded in late 2016. The investigation included examination of Schemes of Governance which applied some case study within, the Hertsmere Leisure contract had been used as a case study. The report had also included finance and contract management.

The Chief Auditor confirmed that the overall Audit opinion had been 'Good', he told the committee that this had been reached following assessment of the evidence provided. Although the general nature of concerns were highlighted in late 2016 it was only recently (June 2017) that the specific issues had been drawn to his attention and as a result of this he was happy to revisit the audit.

It was also noted that where the issues highlighted tonight included apparent failure to have conducted electrical or fire systems testing these matters would be treated as urgent and not await the

outcomes of enquiries under the usual audit programme, with legal advice taken where appropriate and to be supported by evidence.

The Committee heard from Mr A Ridgeway, (Youth Leader, Shenley Brook End and Tattenhoe Parish Council), who gave examples of difficulties he and other users were experiencing due to the management style being adopted by Hertsmere Leisure.

The Chair asked that the speaker pass details of his concerns to the Chief Auditor and provide any evidence he may hold.

Councillor Bald told the Committee that as a Ward Member she had experienced similar concerns, and did not accept the findings of the Internal Audit that had been conducted in 2016 and welcomed a review and new audit being conducted. Councillor Bald further commented that the audit had not been based on adequate performance indicators and what evidence it did provide lacked explanation.

The Chief Auditor told the Committee that he noted the concerns in respect of the quality of the audit that had been conducted, he advised the committee that an external review of the Internal Audit Service had been conducted and that a report in respect of that would be presented to the Committee at its next meeting. He again assured the Committee that all audit reports are published to ensure that any challenges to an audit opinion can be made at an early stage and should a challenge be received the service would and has reviewed findings in the light of any additional evidence that is presented. In respect of this audit it is only in the last 7 days that evidence has been provided to the auditors and in light of this he had undertaken to revisit the audit and if appropriate a revised opinion may be given.

The Committee discussed the methodology and sources of evidence that the auditors should use to conduct the revised audit, including seeking independent feedback e.g. via feedback on the internet from users of the various facilities managed by Hertsmere Leisure.

Councillor Khan gave his apologies but had to leave the meeting at this point.

Councillor Bald told the Committee that having listened to the Members Item discussion and the evidence provided to the Committee and noting that the issues have been ongoing for a number of years proposed;

1. That the Audit Committee took a view that on the evidence available the Internal Audit report presented to Committee appeared to inadequately address the concerns of users about effective management by Hertsmere ; for example cleaning standards, security, safety, complaints and management availability.
2. That in respect of Value for money – The Audit Committee noted that investment claims made in the contract appeared to bear

little relation to the experience on the ground.

3. That the Audit Committee notes that Contract Management from the Council appears very weak; there is scant evidence of effective contract management; users concerns appear to have been side-lined and there appears to be no formal record of concerns raised or actions taken.
4. That the Audit Committee request that an audit investigation into the performance of Hertsmere Leisure and the efficacy of the management of the contract by the Councils Leisure Management Department, to be completed within 2 months, with a full report to the next meeting of the Audit Committee.

Councillor Dransfield in seconding the proposition, proposed an additional element;

5. That the Internal Audit Investigation consider the adequacy of the contract with Hertsmere Leisure and whether it can be considered fit for purpose. This was accepted by Councillor Bald.

Members added a caveat that if it were not possible to conduct the audit in the depth that the Committee sought within the two month timescale it would rather see a comprehensive report than something rushed, the Chief Auditor confirmed it would be treated as a priority and all measures would be taken to seek to meet the timescales but he would be dependent on other stakeholders engaging with him. He further undertook to engage with key stakeholders should it become apparent that the deadline could not be achieved.

The Corporate Director Place, confirmed his support for a new evidence based investigation.

Members further asked that when a report is published it should be made known to all stakeholders that it was complete and available. Similarly in future as a general observation when audits are being conducted interested parties, so far as is reasonable should be made aware so that they may offer evidence should it be available.

On being put to the vote the proposition was carried unanimously by those members with voting rights.

RESOLVED –

1. That the Audit Committee took a view that on the evidence available the Internal Audit report presented to Committee appeared to inadequately address the concerns of users about effective management by Hertsmere ; for example cleaning standards, security, safety, complaints and management availability.
2. That in respect of Value for money – The Audit Committee noted that investment claims made in the contract appeared to bear

little relation to the experience on the ground.

3. That the Audit Committee notes that Contract Management from the Council appears very weak; there is scant evidence of effective contract management; users concerns appear to have been side-lined and there appears to be no formal record of concerns raised or actions taken.
4. That the Audit Committee request that an audit investigation into the performance of Hertsmere Leisure and the efficacy of the management of the contract by the Councils Leisure Management Department, to be completed within 2 months, with a full report to the next meeting of the Audit Committee.
5. That the Internal Audit Investigation consider the adequacy of the contract with Hertsmere Leisure and whether it can be considered fit for purpose.

AC10

INTERNAL AUDIT ANNUAL REPORT 2016/17

The Committee considered the Internal Audit annual report. The Chief Auditor told the Committee that the report gave a precis of work undertaken for the year 2015/2016.

The Committee heard that the report included a precis in support of the overall opinion. The Committee was reminded that where a 'weak' or 'limited' opinion had resulted the report sought to identify any concerns outstanding once a follow up audit had been conducted. The service had established that 91% of the actions advised out of audit findings had been implemented and tested as implemented. Of the remaining 9% none were considered as being of significant importance.

Members of the Committee re-iterated the concerns in respect of awareness by the wider Council of what audits were to be conducted. It was also a concern that there appeared to be a number of reports that had been completed without necessarily having engaged in discussion with relevant Councillors.

It was further commented that information should be published in Councillors News, the Chief Auditor undertook to look at options to raise awareness of planned, ongoing and completed audits.

RESOLVED –

1. That the report be noted
2. That comments on the content of the Internal Audit Service Annual Report 2016/17 be noted and where applicable the document amended to take account of them
3. That the overall assurance opinion provided by the Chief Internal Auditor for 2016/17 be noted.
4. That the Chief Auditor be asked to ensure that notice of on going and completed Audits be notified to Councillors via 'Councillor News'.

AC11 AUDIT COMMITTEE CHAIR'S ANNUAL REPORT

RESOLVED –

That the report be noted.

AC12 BUDGET MANAGEMENT ADDED VALUE

RESOLVED –

That the Item be deferred until the next meeting due to the time.

THE CHAIR CLOSED THE MEETING AT 10:03 PM