



## AUDIT

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### DRAFT MINUTES OF THE AUDIT MEETING HELD ON 23 MARCH 2011 AT COMMITTEE ROOM III - COUNTY HALL, TROWBRIDGE.

#### **Present:**

Cllr Richard Britton, Cllr Nigel Carter, Cllr Chris Caswill, Cllr George Jeans, Cllr David Jenkins, Cllr Julian Johnson, Cllr Helen Osborn, Cllr Sheila Parker (Vice Chairman), Cllr Roy While (Chairman)

#### **Also Present:**

Cllr Jane Scott OBE

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#### **1. Apologies**

Apologies were received from Councillors Bridget Wayman, Fleur de Rhee-Philippe, Rod Eaton and from Darren Gilbert and Chris Wilson from KPMG.

#### **2. Chairman's Announcements**

The Chairman welcomed everyone to the meeting. He went on to inform the members that he had attended a KPMG seminar in February for Chairman of Audit Committees, and that this had been very valuable.

He stated that there would be an additional audit committee meeting on 13 May, to address SAP progress and changes within Internal Audit. He went on to explain that Steve Memmott, Head of Internal Audit, would be leaving later in the year and that staff resourcing levels had been re-arranged. Further details would be given later in the meeting.

Councillor Britton informed the Committee that he had attended an excellent SAP seminar in February. However he expressed his disappointment that more Councillors had not attended. He asked that the seminar be held again later in the year and strongly urged members of the Audit Committee to attend. Councillor Britton raised concerns over the SAP development plan, and would like to see a plan in place demonstrating key delivery dates. Councillor Osborn agreed that it had been an excellent seminar and again aired her concerns regarding the lack of a SAP development plan.

The Chairman informed the Committee that he had spoken with the Director of Resources, Carlton Brand, and that a development plan would be contained within the overarching Information Technology Plan, which will be taken to the ICT task group shortly, chaired by Councillor Carter. Michael Hudson assured the Committee that a development plan would be available for the meeting in May.

3. **Minutes of the Previous Meeting**

The minutes of the last meeting held on 15 December 2010 were presented.

**Resolved**

**To approve as a correct record and sign the minutes of the meeting held on 15 December 2010.**

4. **Members' Interests**

There were none.

5. **Public Participation and Committee Members' Questions**

There was none.

6. **Review of Benefits Realisation**

John Oldroyd from KPMG, gave a brief summary of the report detailing that the Council had demonstrated many of the elements of benefit realisation when delivering the changes required following LGR. Key findings were:

- The Council has monitored progress well against the overall savings target. There are further opportunities to strengthen monitoring at project level.
- The Council has applied regular monitoring arrangements that show that strong progress in realising the non – cash savings from the creation of one Council and
- The Council has developed a programme benefits tool to monitor and deliver future change management programmes.

In response to member questions over the Program monitoring process which was highlighted in the Action Plan. Service Director Performance, Sharon Britton explained that there is a generic approach applied to project monitoring across the Council. John Oldroyd explained that KPMG had no issues regarding this.

Michael Hudson, Interim Chief Finance Officer, welcomed the report and the recommendations. The recommendations would be broken down and reported on using a 'traffic light' system. He went on to explain that currently his team

were working on the appropriate layers of reporting to ensure that formal quarterly reporting was robust and effective.

Members requested that all reports being taken by the Audit Committee should be accompanied by a covering report from the appropriate lead officer.

The Chairman thanked John Oldroyd and Council officers for their input.

**Resolved**

**That the report be noted.**

7. **Certification of Grants and Returns 2009/10**

Rachael Tonkin, Auditor from KPMG, updated the Committee on the Certification of grants and returns for 2009/10. Six grants with a value of £147M and three returns with a total of £404M were certified. Eight unqualified certificates were issued, an unqualified means that KPMG were content that the Council had complied in all significant respects with the terms and conditions. This was a good result.

A qualification was necessary for the housing benefit grant claim due to testing identifying a small incidence of underpayments.

The overall fee had been reduced by £16K, which reflected efficiencies from the Unitary Authority and enhanced co-ordination arrangements within the Council.

**Resolved**

**That the report be noted.**

8. **VFM Audit Approach**

Rachael Tonkin, Auditor KPMG, led the Committee through the salient points of the KPMG audit approach.

The new approach no longer requires KPMG, the external auditor to carry out the Use of Resources scored assessment, which was abolished with the Comprehensive Area Assessment (CAA) in 2010. The statutory responsibilities and powers set out in Audit Commission Act 1998 and Code of Practice summarises KPMG's responsibilities in two objectives;

- Use of resources, that arrangements are in place for securing economy, efficiency and effectiveness.
- Financial statements, providing an opinion on accounts.

Although the purpose of the VfM audit remains the same which is to form a view on the adequacy of the Council's arrangements for securing economy,

efficiency and effectiveness in its use of resources there are some notable changes namely;

- A more risk-based approach
- No scored judgements
- Reduction to two themes
- Key lines of enquiry focused on current issues such as savings and efficiencies

A number of Members voiced concern over the change in the audit process. Reassurance was given that the new regime would look at the processes that the Council has in place, coupled with the flexibility to drill down should they find risk that needs further investigation. KPMG have existing experience of Wiltshire Council and this would be used as a bench mark against new work. The Audit Commission has developed a range of tools and review guides that can be used in audit work on any detailed risk area.

Several Members enquired over future reporting requirements, however it was reported that the Audit Commission was an ever changing environment, but it was likely that in the future, work would be based on outputs. The Leader informed the Committee that the Coalition Government felt that there had been a heavy over monitoring, and the changes from the Audit Commission reflected DCLG.

Councillor Caswill stated that he was not pleased with the new approach and requested that a paper detailing risk based auditing be brought to a later meeting.

**Resolved**

**That the report be noted.**

**9. Financial Statements Audit Plan 2010/11**

Rachael Tonkin Auditor from KPMG led the committee through the report. The plan has been drawn up using a risk based approach to audit planning.

KPMG have identified the key audit risk relating to the implementation of International Financial Reporting Standards (IFRS). Work will encompass;

- A specific IFRS re-statement to consider a number of IFRS implementation issues.
- Review of controls over the completion of accounts in conjunction with Internal Audit to avoid duplication.
- A detailed audit of financial statements and the Annual Governance Statement.

Several members conveyed their concern over the level of materiality which has been set at £15.7M which is 1.5% of gross operating expenditure. Individual errors above £0.7M would be reported to the Committee, members believed this to be too high. Michael Hudson Interim Chief Financial Officer assured members that all errors were tracked and that what are considered to be non trivial items would be brought to the Committee in the form of a regular report.

Matthew Tiller, Chief Financial Accountant, informed the Committee of changes to the approval of Accounts. The Committee would no longer need to approve the draft set of financial accounts but would need to approve the final set of accounts at September's meeting.

**Resolved**

**That the report be noted.**

**10. Risk Management Update**

Eden Speller, Head of Business Arrangements, updated the Audit Committee on the Council's Risk Management arrangements and review of the Risk Register. He introduced Ariane Compton, Head of Climate Change, who briefed the board on the Climate Change risk, as the Committee had requested an update. Two key points raised were;

- Reputational risk to the Council – league tables are published in October according to performance.
- Financial risk to the Council – carbon output will be charged and fine levied. Eco strategy has been approved by Cabinet.

Members asked what triggered a carbon fine; it was explained that any large operating company had to pay a fixed amount of money per tonne of CO<sub>2</sub> emitted.

The Head of Business Arrangements explained that the Corporate Risk Management Group highlights 7 risks rated as high, and these have supporting Risk Action Plans attached, the information in the action plan will be used to inform CLT and the Audit Committee. There is 1 reduced risk and 3 emerging risks all of which are being monitored. All risks can be accessed via Sharepoint. Officers would be available to Members, to discuss issues, concerns or they required further information.

<http://wccportal/resources/performance/risk/Risk%20Action%20Plans/Forms/AllItems.aspx>

Members asked to be supplied with the details of the CRMG, and that the Risk Register should be subjected to an Independent Review. The Leader stated

that the independent challenge to the Register comes from members and Cabinet challenging the relevant officers.

The Chairman thanked the Head of Business Arrangements for a comprehensive report.

11. **Accounting Policies Report**

Matthew Tiller, Chief Accountant, updated the Committee on the accounting policies that are reviewed each year. The new statement does not propose significant changes to the existing policies. Policy wording has changed to reflect the movement this year to International Financial Reporting Standards (IFRS).

Three policies have been significantly expanded to give extra clarity, and three new policies have been added to give more detail.

**Resolved**

**That the report be noted.**

12. **Internal Audit Progress Report 2010/11**

Michael Hudson, Interim Chief Finance Officer explained to the Committee some of the changes that were going to take place within Internal Audit over the coming months. A full discussion and debate would take place at the Audit Committees May meeting where a report would be available. He explained as Section 151 officer he had a number of statutory powers in order to allow his role to be carried out such as the right to ensure that the authority makes sufficient provision for the cost of internal audit. He explained that currently the resource is less now than at the start of the year to deliver the current plan. The plan has been revised to match the available resource.

Members asked what the specific changes to the internal audit team were. The Interim Chief Financial Officer explained that there had been a reduction in the number of principal auditors from 5 posts to 3 posts, but there had been an increase to the number of auditor posts by 1 post. The current incumbent in the role of Head of Internal Audit, had opted for redundancy, the post would remain.

The Chairman reiterated that the report being brought to the May meeting would enable the committee to have an informed debate and help shape the future role of internal audit.

Head of Internal Audit, Steve Memmott, presented the latest Internal Audit Progress Report for 2010-11. In summary;

- The actual productive audit days have fallen short of the target by 110 days due to a reduction on staff resources following the management review and relocation from County Hall.
- The audit plan has been revised to take account of the shortfall, with some work carried forward to 2011-12.
- The future delivery of internal audit service currently is being considered. The progress will be reported on at the May meeting.

During the course of the debate Councillor Caswill moved that the Committee regretted the way on which major changes in Internal Audit have been brought before it and registers concern at its capacity to deliver effective and independent internal audit in the future. On being put to the vote the motion was lost. Councillors Caswill, Osborn and Jenkins asked for their votes in favour to be recorded.

**Resolved**

**That the report be noted.**

**13. Forward Work Programme**

**Resolved**

**That the programme be noted.**

**14. Date of next meeting**

An interim Audit Committee meeting is scheduled for 13 May 2011 to discuss issues surrounding SAP and Internal Audit.

The next scheduled meeting will take place on 29 June 2011.

**15. Urgent Items**

There were none.

(Duration of meeting: 10.30 am - 12.20 pm)

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