

## AUDIT

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### MINUTES OF THE AUDIT MEETING HELD ON 18 JUNE 2013 AT ALAMEIN SUITE - CITY HALL, MALTHOUSE LANE, SALISBURY, SP2 7TU.

#### Present:

Cllr Richard Britton, Cllr Tony Deane (Chairman), Cllr Stewart Dobson, Cllr Howard Greenman, Cllr David Jenkins, Cllr Julian Johnson, Cllr Stephen Oldrieve, Cllr Helen Osborn, Cllr Linda Packard, Cllr Sheila Parker (Vice Chairman), Cllr David Pollitt and Cllr James Sheppard

#### Also Present:

Cllr Jane Scott OBE and Cllr Dick Tonge

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#### 36 Apologies and Membership Changes

There were no apologies or membership changes.

#### 37 Chairman's Announcements

The Chairman reported that, as part of Audit Committee members on-going training the South West Audit Partnership were holding a training session on Friday 28 June 2013 from 9:00am – 12:00noon at Haynes Motor Museum, Sparkford. He explained that it was vital for members and substitutes to attend this event as it would give them the essential background knowledge necessary for them to fulfil their role on the Committee.

#### 38 Minutes of the Previous Meeting

The minutes of the meeting held on 20 March 2013 were presented and it was

#### **Resolved:**

**To approve the minutes as a true and correct record.**

#### 39 Members' Interests

There were no declarations of interest however, Councillor Linda Packard did report that in relation to minute number 44 below - Internal Audit Annual Report - under the section 'Summary of Key Points Relating to 'Partial Assurance' Reviews' in particular Litigation Management that she was a solicitor and aware of the Solicitors Code of Conduct mentioned in the report.

40 **Public Participation and Committee Members' Questions**

There was no public participation.

41 **Role of External Auditors**

The Committee received a presentation from Darren Gilbert, KPMG about the role of the external auditor.

The committee were informed of the framework in which KPMG operated and that as external auditors they were appointed independently by the Audit Commission, however this would change in the future with the Local Audit and Accountability Bill, which proposed that external auditors would be appointed for a five year period by Auditor Panels which are made up of an independent Chairman and members. The scope of the external auditors work was not confined to undertaking audits but also aspects of corporate governance and arrangements to secure the economic, efficient and effective use of resources.

KPMG also spoke about the following areas during the presentation:

- Relationship between KPMG and the Audit Commission
- The key output from KPMG – Audit report including financial statements and Value for Money
- The integrated approach between the audit of accounts and the value for money conclusion
- The auditors statutory powers and duties
- The auditors work on certification of grants
- The audit cycle
- The balance of internal controls and substantive testing
- Practical examples of controls testing, including the approach to value for money work
- Future changes to the external audit regime

The Committee had the opportunity to raise points of interest, in particular comments were made and questions asked about the ability of KPMG to report aspects of their work to the public and other external key stakeholders, value for money and critical accounting matters and the key principles of the appointing process under the Local Audit and Accountability Bill.

The Chairman thanked KPMG for a very informative presentation.

**Resolved:**

That the presentation on the work of the external auditor be noted.

42 **Interim Report for 2012/13**

The Committee considered the report of Michael Hudson, Service Director, Finance and KPMG on the Interim Audit for the 2012/13 financial year.

The Service Director, Finance explained that KPMG's report concluded that the Council's control environment was effective overall and noted a significant improvement in the control environment, in particular reliance on internal audit and actions on the IT control environment. The KPMG report made a range of recommendations, and management actions had been identified to address them.

Darren Gilbert, Director, KPMG, introduced his report explaining that it was a very positive report. He commented on the organisational and IT control environment, Controls over key financial systems, review of internal audit, accounts production and specific risk areas and Value for Money risks.

In particular KPMG commented on the IT control environment and confirmed that improvements had been made from the previous year. However KPMG were unable to fully rely on the Authority's general IT control environment.

Jacqui White, Service Director, Business Services explained the background to ongoing discussions with KPMG about the IT control environment and that the issue surrounded the level of certification for security controls provided by the Councils provider – Logica. KPMG were asking for a higher level of certification not asked of other Councils who also used Logica as provider and at considerable cost to Wiltshire Council, which could be on-going year on year. Members were assured that controls were in place to manage the issue. It was stressed that KPMG did not regard the identified issues as meaning there had been fundamental failings in operational concerns. In commenting on the areas detailed above the following points and comments were raised by the Committee:

- Concern was expressed about the assessment of two aspects of the IT control environment, (i) Access to systems and data and (ii) system changes and maintenance. Concerns were also highlighted about the comments from KPMG that it remained critical that the weaknesses were fully addressed to enable the IT control environment to strengthen overall and to be able to continue to progress to the next level. KPMG confirmed that management had now looked at this area and reassured the Committee that action had now been taken by the council on this issue.
- Members sought reassurance that risks were looked at and identified and informed judgements were made. The Service Director, Finance confirmed that within any system there was an inherent risk that something could go wrong. Officers look at putting controls in place to mitigate these risks. Having the level of certification referred to above would mitigate the risk. Due to the considerable expense of raising the level of certification other controls had been put in place. Members noted that there was a ceiling with residual risk where putting in place additional controls wouldn't add any further value and that was the point that the Council had reached with the level of certification. Further discussions would take place to resolve the issue.

The Chairman suggested that officers report further to the Committee on the current position in relation to the level of certification, with costs defined for the various levels.

**Resolved:**

1. That the report be noted and KPMG be thanked for the update.
2. That officers be asked to report further on the current position in relation to the level of certification, with costs defined for the various levels.

43 **Audit Fee Letter for 2013/14**

The committee received a letter from the Council's external auditors, KPMG, which set out the proposed indicative annual audit fee for 2013/14.

The letter highlighted that the proposed audit fees detailed below were unchanged from the planned fees for 2012/13 and were in line with the scale fee recommended by the Audit Commission. Michael Hudson, Service Director, Finance spoke further on the proposed fees and explained that the fee structure was in line with budget discussions, within budget and commended it to the committee.

The proposed fees for 2013/14:

Code of Audit Practice Audit Fee	£222,156
Certification of grant claims & return	£28,000
Audit of Pension Fund	£24,246

**Resolved:**

That the proposed annual audit fee for 2013/14 is noted.

44 **Internal Audit Annual Report**

The Committee considered the report of Michael Hudson, Service Director, Finance and the South West Audit Partnership – SWAP on the Internal Audit Annual Report and Opinion 2012/13

The Service Director, Finance explained that the report highlighted a considerable amount of work undertaken by SWAP during 2012/13, and reminded the Committee that they had received quarterly reports throughout the year which summarised the outcomes of audits carried out during that period, the results and outcomes from follow-up reviews and updates on the delivery of the internal audit plan. The Committee were informed that they could take assurance from the Council's overall arrangements, as outlined in section 3 of the report, that an effective internal audit function was in place.

The Committee also heard from Dave Hill, Group Audit Manager, Denise Drew, Audit Manager, and Suella Coman, Audit Manager all representing SWAP.

Dave Hill, Group Audit Manager, SWAP reported that over the year Senior Management of Wiltshire Council were found to be supportive of SWAP findings and responsive to the recommendations made. SWAP were able to offer reasonable assurance in respect of the areas reviewed during the year, as most

were found to be adequately controlled. Generally risks were well managed but some required the introduction or improvement of internal controls to ensure the achievement of objectives. SWAP did not consider there to be any areas of significant corporate concern.

The report provided further information about the 110 audits undertaken during the year, a summary of control assurance and recommendations, SWAP performance against targets, a summary of the key points raised relating to partial assurance reviews and audit framework definitions. In relation to partial assurance reviews it was noted that all management actions were agreed and either implemented or in the process of being implemented.

Members in considering the report in detailed raised the following points:

- Concern that in some cases the time between a draft report and final report being produced was up to two months. SWAP explained that this delay was connected to the complexity of the service being audited as the audit could stretch across 3 services. In some instances receiving responses and reaching agreement across the services took slightly longer than expected. However, some background work was already being undertaken by management to implement the recommendations. It was suggested that the Audit Working Group previously set up by the Committee to shadow and evaluate a complete audit of a Council service could include an investigation into the length of time between draft and final reports in their programme of work and report their findings back to the Committee.
- The term 'Reasonable Assurance' was defined for the Committee as it was felt that the term was slightly misunderstood by the lay person.
- Assurances were given that the management actions for the review of Litigation Management, which had received a partial assurance, had been agreed and complied with.

**Resolved:**

That the opinion of the Chief Internal Auditor be noted

45 **Annual Governance Statement 2012/2013 Draft**

Ian Gibbons, Service Director of Law and Governance and Monitoring Officer, presented the draft Annual Government Statement for 2012-2013, a required part of the annual review of the effectiveness of the Council's governance arrangements, which would proceed to Cabinet, then Standards Committee, before returning to the Audit Committee for final approval.

The Monitoring Officer took the Committee through the report, highlighting key issues including the following:

- Safeguarding Children and Young People
- Managing significant reductions in Government funding and changes in legislative
- Information Security

The Monitoring Officer particularly highlighted the action plan agreed by the Corporate Leadership Team to strengthen and improve the Council's information governance arrangements. Progress against the plan was being monitored and the Committee would be updated as to whether this should remain as a significant governance issue.

The Leader of the Council and Carolyn Godfrey – Corporate Director, reminded the Committee of the work that had and was currently being undertaken in relation to safeguarding children and young people. The Leader and Corporate Director were pleased to report that Wiltshire were making steady progress to address the issues raised by Ofsted and noted in the Improvement Plan. The strengthened focus on safeguarding by the Lead Member for Children's Services, Portfolio Holder for Safeguarding, the Safeguarding Scrutiny Task Group and the Director of Children's Services had been commended. There was also consensus that good frameworks had been established for example a set of practice standards, a new auditing programme, revised supervision policy and introduction of a model for managing risk.

It was noted that paragraph 15 of the Draft Annual Governance Statement that referred to the Police and Crime Panel should indicate that the Panel was a joint Panel with Swindon Borough Council and should read 'the Wiltshire Police and Crime Panel'.

**Resolved:**

That the draft Annual Governance Statement would be revised in light of the comments of the Audit Committee, Cabinet, Standards Committee and ongoing review work by the Governance Assurance Group, before final approval by the Audit Committee and publication with the Statement of Accounts in September 2013.

46 **Appointment of Representatives to Working Groups**

The Committee was asked to make appointments to the following bodies for the rest of the municipal year:

- Focus Group on the Review of the Constitution
- Governance Assurance Group

The Committee were also reminded that they had previously agreed, prior to the Local Authority elections in May 2013, to set up a Working Group of three members to shadow the work of SWAP when undertaking an Audit of a Council Service. The Working Group would then highlight those areas that they felt would be of benefit to other members and should be incorporated within a training programme for the Committee.

**Resolved:**

1. That Councillor Helen Osborn be nominated to represent the Audit Committee on the Focus Group on the Review of the Constitution, subject to no other member of the Committee wishing to attend the meetings.

2. That Councillor Sheila Parker continues to represent the Audit Committee on the Governance Assurance Group.
3. That the Audit Working Group be re-established with three members of the Audit Committee to shadow the work of SWAP on one or two Audits of a Council Service.
4. That the Audit Working Group report on those issues raised during the shadowing exercise to be included in a training programme for the Committee.

47 **Date of next meeting**

That the next meeting will take place on 4 September, 2013 starting at 10:30am in the Council Chamber at Monkton Park, Chippenham.

The Chairman asked members for areas of concern in relation to the safeguarding of adults and responses received included nursing homes for the elderly and living at home.

48 **Urgent Items**

There were no urgent items.

(Duration of meeting: 3.00 - 5.00 pm)

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