

## AUDIT

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### **DRAFT MINUTES OF THE AUDIT MEETING HELD ON 29 JUNE 2011 AT COUNCIL CHAMBER - MONKTON PARK OFFICES, CHIPPENHAM.**

#### **Present:**

Cllr Chris Caswill, Cllr George Jeans, Cllr David Jenkins, Cllr Julian Johnson, Cllr Jacqui Lay, Cllr Alan Macrae, Cllr Sheila Parker (Vice Chairman), Cllr Bridget Wayman and Cllr Roy While (Chairman), Cllr Jeff Osborn

#### **Also Present:**

Cllr John Brady, Cllr Fleur de Rhe-Philippe

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#### 28. **Apologies**

Apologies were received from Cllrs Jane Scott OBE, Peter Doyle, Richard Britton and Nigel Carter.

#### 29. **Chairman's Announcements**

The Chairman had two announcements.

- He welcomed Cllr Jacqui Lay as a new member of the Committee and Cllr John Brady as a non-voting committee member.
- The Chairman informed the Committee that the next meeting would start earlier, due to the nature of business on the agenda.

#### 30. **Minutes of the Previous Meeting**

The Chairman of the Audit Committee welcomed Cllr Jeff Osborn, Chairman of the Scrutiny Committee to update members on a meeting between Scrutiny and Audit representatives, where the roles and responsibilities regarding SAP were discussed.

The outcome of this meeting was that Scrutiny, through the ICT Task Group would assume the lead role in reviewing the development of SAP as part of its responsibility for monitoring the implementation of the ICT plan. It was recognised that SAP was not simply an ICT application and therefore other

Business Plan priorities about transformation and shaping the future were interlinked. It was also noted that there was common membership across Audit and Scrutiny function which would help facilitate wider discussions.

The Chairman of the Audit Committee explained that financial implications related to SAP would be brought to the Audit Committee.

In response (para 27, page 6 of the agenda refers) Michael Hudson, Interim Chief Finance Officer explained that Option 2 was now in formal process, he was able to add that there was a timetable and that targets were being made.

The minutes of the previous minutes were deferred for signing until the next meeting.

31. **Members' Interests**

There were no declarations of interest.

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

There was no public participation.

33. **Interim Audit Report 2010-11**

The Interim Chief Finance Officer, Michael Hudson gave an overview of the interim audit findings, he explained that KPMG have carried out interim audit testing of processes and controls to inform the 2010/11 audit opinions in relation to the Council's statement of accounts and value for money conclusions. As part of that audit KPMG have sought to place reliance on internal audit's findings.

Rachael Tonkin, Manager, KPMG updated the Committee on the key findings of the report. The review of the Council's general control environment was completed in March 2011. The review of IT control environment is on-going and due to finish shortly.

- **Organisation Control Environment** – effective overall, no specific areas for further improvement.
- **IT Control Environment** – review is still on-going, work suggests that KPMG will be unable to rely fully on the Council's IT controls. Issues identified in last years report have been addressed and this has been noted but these improvements have not yet fully addressed all underlying issues. Detailed feedback will be given through *the Report to those charged with governance 2010/11* in September.
- **Controls over Key Financial Systems** – overall the majority of key financial systems are sound, some weaknesses were noted and recommendations provided. Some additional substantive work will occur at year end in some areas.

- **Review of Internal Audit** – Full reliance was given on internal audit's work on key financial systems, however this was not the case for internal audit's IT work where additional significant testing is taking place.
- **Accounts Production Process** – The Council's overall process for the preparation of the financial statements is sound. The Council has implemented all of the recommendations in ISA 260 Report 2009/10 relating to the financial statements.
- **IFRS Re-statement** – the transition to IFRS accounts has generally gone well.

Members of the Committee sought clarification on a number of points including;

Accounts production '**significant challenges**' - Rachael Tonkin explained that there was a lot more work to be undertaken when producing IFRS accounts. Michael Hudson made clear that this was the first time that the accounts had been produced in this way. The interpretation of CIPFA guidance would perhaps not be the same as that of KPMG and clarification would be sought.

'**Alter our audit strategy**' - Rachael Tonkin explained that significant additional testing would take place during the audit of the financial accounts. This would have implications on the amount of work KPMG would need to undertake and have an effect on the fee. Options have been discussed with Finance staff and KPMG would work closely with them to minimise costs.

**User Access, SAP** - Members questioned whether there were still issues. It was reported that the number of access users had significantly reduced but not enough for KPMG to issue a full assurance. Michael Hudson accepted that there was need for improvement. The advice given will be taken and the recommendations made will be a top priority for the finance team.

Assurance was sought that 'bolt ons' and 'add ons' to SAP would not be used. It was explained that the ERP system could integrate with a number of systems and that many systems had been inherited. Michael Hudson would seek confirmation and report back to the Committee.

Members sought reassurance from KPMG that the audit work was on schedule to inform the final report. Rachael Tonkin reported to the Committee that the audit work was broadly on track, being only slightly behind on the IT audit work but this should be back on track within the week. Planning discussions for 2011/12 were already taking place.

Michael Hudson re-iterated again that changes within the internal audit team had no reflection on the IT audit, the internal audit report had been written prior to the Head of Internal Audit leaving.

Cllr John Brady, Cabinet Member for Finance, Performance and Risk, stated that there were a number of very positive points and that this was an interim report. Darren Gilbert, Senior Manager, KPMG described that in the 2009/10

report there were 18 high risks, the interim report details a very different picture. The Chairman concluded that whilst there were still issues a considerable amount of progress had been made, he re-iterated that the interim report is work in progress. He thanked Rachael Tonkin and Darren Gilbert from KPMG for their report and input.

**Resolved:**

**That the report containing the interim audit findings was noted.**

34. **Annual Audit Fee 2011/12**

The proposed indicative external audit fee for 2011/12 is £370,260 excluding external grant audit fees that are proposed at £80,000. This represents a 15% or £65,340 reduction from the 2010/11 audit fees of £435,600.

**Resolved:**

**That the proposed fee is noted.**

35. **Internal Audit Report 2010/11**

Estelle Sherry, one of the three Principal Auditors presented the Internal Audit Annual Report 2010/11. She explained that the report had been drawn up differently than in previous years drawing attention in the report onto internal audit work and its outcomes. Internal audit opinion, work completed and key risks arising have been brought to the front of the report.

Key areas of note were;

- **The IA Opinion**

The Council has improved its overall control environment, the opinion given is substantial assurance in spite of;

- Realignment of services within directorates
- Budget cuts
- Management redundancies affecting service areas
- Implementation of new systems across many services

- **IA Work 2010/11 and Direction of Travel**

Internal audit finalised reports on a total of 44 planned audits and completed 30 follow up reviews. None of the planned audits received a no assurance statement.

- **Summary of Audits Completed** – key issues and high risks included

- Housing Rents – failure to conduct effective verification checks on standing data changes to rent liabilities prior to adjustment and implementation.

- Bridge Management – failure by the Bridge Team to undertake inspections of bridges formerly the responsibility of District Councils.
  - Passenger Transport Procurement – limited scope for further procurement savings due to pressures being experienced by suppliers.
  - 5 Rivers Leisure Centre – breach of CRB requirements through failure to hold evidence that staff are CRB checked.
- **Summary of Follow ups** – follow ups have found that management have taken effective action in response to reported risks in the vast majority of cases.
  - **Management Engagement with Internal Audit Process** – Internal audit has the responsibility to report on results of work and on management responses to risk reported. Effective and timely implementation of actions to mitigate or eliminate risks is management responsibility. Included within the internal audit report is a section (para 14, page 55 of the agenda refers) highlighting where management have not been acceptably responsive and have sought to avoid engagement.
  - **Key Risks Arising** – In year 48 high risks were reported in 23 of 44 audits completed. Examples where there were multiple high risks were:
    - The provision of care homes – inadequate legal involvement with OSJ contracts, methods for assessing usage was found to be confusing and variable, poor control over the control of the resident’s cash and records.
    - CRB records for schools and children’s centres – CRB check evidential failures, poor control over personnel records, inconsistent communications with schools and children’s centres.

In addition to the audit work undertaken internal audit staff have provided help and advice across the directorates. National Fraud Initiative (NFI) work has also been ongoing as has Financial Management Standard in Schools (FMSiS). The requirement to undertake FMSiS ceased in December 2010; final assessments were still completed as a service to schools. From Sept 2011 it is likely that Schools Financial Value Standard (SFVS) will start. Guidance from the Department of Education is awaited.

Despite a challenging year for the internal audit team, where there has been reduced capacity, and the proposal of an alternative vehicle for the delivery of the internal audit function, internal audit has delivered 91% planned audits with 96% of staff time being spent productively.

Members of the Committee congratulated the team for a good report under challenging circumstances.

Concern was raised regarding the high risk areas of CRB checks and care homes. Members agreed that 33 weeks was too long a timeframe for management response. The Chairman suggested that a letter be written to all managers stipulating their responsibilities in light of internal audit highlighting risk areas. A report would be brought to the next meeting to give the Committee guidance that these issues were resolved. It was noted that in respect of the CRB issue both OFSTED and CRB were issuing conflicting guidance to schools and youth centres.

Members of the Committee expressed concern over the issue of VAT receipts and allowances. Ian Gibbons, Monitoring Officer explained that this had been referred to Group Leaders and a further note had been issued to members confirming the position. He agreed to look into any particular concerns about VAT receipts.

Issues were raised over Land Charges and that discretion should be given. It was noted that there had been impact due to staff turnover. Should members know of delays then members of the public should be directed to Cllr Sturgis.

**Resolved:**

**That the internal audit report is noted and that internal audit reports should be sent to relevant Cabinet members where areas of concern have been highlighted.**

36. **Consultation on the Future of Local Public Audit (DCLG)**

Michael Hudson, Interim Chief Finance Officer, introduced a report which set out Wiltshire Council's proposed response to the consultation document issued by the Department for Communities and Local Government (DCLG), entitled the Future of Local Public Audit.

Committee members thanked him for the report. They agreed that a commissioning process was a healthy way forward. He explained that the appointment of auditors must come from the register of local public statutory auditors which would possibly consist of 4 – 5 external auditors. To ensure that the relationship between the Council and the auditor does not become too close a system of rotation is proposed. Members concurred that a system of rotation was appropriate and that it was in the public interest to see the process of rotation.

There was strong support for the inclusion of independent members, including that of the Chair and Vice Chair which would create more transparency.

On balance members felt that Option One of the consultation paper (para 23, page 97 of the agenda refers) was the appropriate way forward, with accounts produced resembling those in the private sector with increasing transparency and improving reporting to the Public .

The Interim Chief Finance Office thanked the Audit Committee for their comments and that these would be used to shape the final response to the proposals out for consultation.

**Resolved:**

**That the report be noted and a response is sent to the DCLG based on the draft responses and taking account of the comments from members.**

37. **Annual Governance Statement 2010-11 Draft**

The Monitoring Officer, Ian Gibbons, presented the Draft Annual Governance Statement (AGS) for 2010-11 for the Committee's preliminary comments.

It was noted that the Council was required to prepare and publish an AGS as part of its annual review of the effectiveness of its governance arrangements (para 4, page 115 of the agenda refers), meeting the six principles of good governance adopted in its Code of Corporate Governance.

The draft AGS would be revised in the light of any comments this Committee, or any other body consulted, wished to make and the ongoing review work by the Assurance Group.

The draft AGS would be presented to Cabinet, the Standards Committee and KPMG, External Auditors, with any comments being presented to this Committee at its meeting on 28 September 2011 when the AGS would be presented for final approval.

Members noted that significant progress had been in the Housing Landlord Service Improvement Plan and questioned whether this needed to remain a significant governance issue. The Committee asked the Assurance Group to keep this under review and to: refer in the AGS to the new requirement to send internal audit reports to Cabinet Members; review the governance arrangements for section 106 agreements; include outstanding harmonisation issues arising from LGR as part of the significance governance issue relating to the Transformation Programme.

**Resolved:**

**To ask the Assurance Group to review and amend the AGS in light of the above comments.**

**To note that the draft AGS will be revised further in the light of ongoing work by the Assurance Group and any comments of the Standards Committee and Cabinet, before being brought back to the Committee for final approval on 28 September 2011.**

38. **Forward Work Programme**

**Resolved:**

**The plan was noted.**

39. **Date of next meeting**

The next meeting will take place on the 28 September 2011, in the Council Chamber, Monkton Park starting at 10.30am with a working lunch. Members should note that this is likely to be a lengthy meeting continuing into the afternoon.

(Duration of meeting: 10.40 am – 1.05pm)

The Officer who has produced these minutes is Anna Thurman, of Democratic Services, direct line (01225) 718379, e-mail [anna.thurman@wiltshire.gov.uk](mailto:anna.thurman@wiltshire.gov.uk)

Press enquiries to Communications, direct line (01225) 713114/713115