



Audit Committee

Minutes - 9 March 2015

Attendance

Members of the Audit Committee

Cllr Keith Inston (Chair)
Cllr Christine Mills (Vice-Chair)
Cllr Wendy Thompson
Cllr Harbans Bagri
Cllr Philip Bateman
Cllr Alan Bolshaw
Cllr Dr Michael Hardacre
Cllr Jasbir Jaspal
Mike Ager (Independent Member)

Employees

Peter Farrow	Head of Audit
Keith Ireland	Managing Director
Orlen Johnson	Principal Officer School Funding
James McElligott	Director of Education
Katy Morgan	Client Lead Auditor
Richard Morgan	Senior Audit Manager
Mark Taylor	Director of Finance
Dereck Francis	Democratic Support Officer

Part 1 – items open to the press and public

Item No. *Title*

1 **Apologies for absence**
Apologies for absence were submitted on behalf of Terry Day, Independent Member and Richard Bacon, PricewaterhouseCoopers.

2 **Declaration of interests**
Mike Ager, Independent Member declared a personal interest in item 12 (Secondary school balances) in so far as he is a Governor of Coppice Community School.

Cllrs Alan Bolshaw, Dr Mike Hardacre and Wendy Thompson all declared a personal interest in item 9 (Internal Audit update – quarter three) in so far as they are Governors on schools referred to in the report.

3 **Minutes of previous meetings**

(a) **Audit Committee – 15 December 2014**

Resolved:

That the minutes of the meeting held on 15 December 2014 be approved as a correct record and signed by the Chair.

(b) **Audit (Monitoring of Audit Investigations) Sub-Committee – 2 February 2015**

Resolved:

That the minutes of the meeting of the Sub Committee held on 2 February 2015 be noted.

4 **Matters arising**

There were no matters arising from the minutes of the previous meetings.

5 **Update on Work Programme 2014/15**

The Committee received the updated work programme for the remainder of the municipal year 2014/15.

Resolved:

That the updated Audit Committee work programme for 2014/15 be received and noted.

6 **External Audit Plan 2014/15**

Richard Vialard from the Council's external auditors PricewaterhouseCoopers (PwC) presented their external audit plans for 2014/15. He reported that this would be their tenth and final audit plan for the Council as the Audit Commission had appointed Grant Thornton UK LLP as the Council's auditors from 2015/16. In presenting the report he touched on the audit approach and the summary of significant and elevated audit risks identified for 2014/15; the Minimum Revenue Provision (MRP); implementation of Agresso; the Council's Medium Term Financial Strategy, Equal Pay, Materiality; and the Committee's views on fraud risks and arrangements to mitigate them.

Cllr Wendy Thompson asked PwC how many items above the materiality level of £17.25 million had they identified in the last year and by a random testing how many items they would expect to find at the materiality level. PwC confirmed that the Materiality figure was based on an industry standard. The figure was used to assist its planning of the overall audit strategy and to assess the impact of any adjustments identified. He explained that they also had a planning materiality level lower than £17.25 million. He also confirmed that their work involved random testing of small value transactions as well as large value issues.

PwC also informed the Committee that it had clarified its and the Council's responsibilities regarding the MRP. It was for the Council to determine its position regarding MRP and for the External Auditors to audit the numbers affected by the Council policy.

Resolved:

That the External Audit plan 2014/15 from the Council's external auditors, PwC be noted.

7 **Annual Certification Report 2013/14**

Richard Vialard from the Council's external auditors PricewaterhouseCoopers (PwC) presented an overview of their certification work and fees for the year ended 31 March 2014.

Referring to the certification work on 'Housing Benefit Subsidy Claim', Cllr Dr Mike Hardacre commented that he found the benefits system to be complex and warranted guidance in order to understand it. He suggested that some of the non-compliance in this area of work was probably due to the complexity of the benefits system. PwC agreed that it was a complex area on which there were several sources of guidance setting out the rules. It was an area of work identified by most Council's because the complexity.

Cllr Keith Inston (Chair) commended that he was sorry to see that the relationship the Committee and the Council had built up with PwC would soon end following the decision of the Audit Commission to appoint Grant Thornton UK LLP as the Council's new auditors from 2015/216. Members of the Committee endorsed the Chair's remarks and asked that they be conveyed to PwC.

Resolved:

That the Annual Certification report 2013/14 be received and noted.

8 **Strategic Risk Register and Strategic Assurance Map**

Peter Farrow, Head of Audit outlined the salient points of the report on the key risks the Council faced and how it could gain assurance that the risks are being mitigated. He highlighted that some of the risks had been managed down from Red to Amber.

In response to the Committee's request at its last meeting, Jim McElligott, Director of Education presented a high level overview of progress made on school improvement since the strategy on the Council's change in approach to governance and school improvement was approved in December 2014. He reported that 75% of the local authority's schools were performing as they should, with 60 schools currently rated 'good' and 11 'outstanding'.

During the ensuing discussion on the Director of Education's high level snapshot of the framework in operation for school improvement and in response to the Committee questions:-

- The Head of Audit reported that the review on the effectiveness of the School Improvement Strategy in 2015 to provide the further assurance the measures in place to manage risk, would involve the Audit team working with schools and there would be an element of a third tier review.
- The Director of Education reported on the range of factors that could trigger an intervention in a school such as the stability of the School Governing, local intelligence, and intelligence from teams, parental complaints and budgets. The Council would use and engage with the good performing schools to work with those needing support.

Mike Ager, Independent Member commented that all the audit work taking place on Agresso would mean that some of the planned audit work might not happen. He

added that he hoped the Committee would not be left with any gaps. In response the Head of Audit reported that he was satisfied that all of the risks in the register would be managed.

Cllr Wendy Thompson, referring to risk 16 (Equal Pay), asked whether there was a figure for the amount paid out under Equal Pay. Mark Taylor, Director of Finance responded.

Resolved:

1. That the latest summary of the Council's strategic risk register be noted.
2. That the identification of two new strategic risks in respect of the 2015 elections (risk 18) and a Combined Authority (risk 19) be noted.
3. That the reduction in the assessments of risks 3 and 7- Information Governance and Safeguarding respectively be noted.
4. That the reduction in the assessment of risk 5- FutureWorks and the ending of this risk which would result in it being removed from the strategic risk register be noted.
5. That the main sources of assurance available to the Council against its strategic risks be noted.

9 **Internal Audit Update - Quarter Three**

The Committee received a report on progress made against the 2014/15 internal audit plan and on recent work which had been completed.

Cllr Alan Bolshaw reported that he was disappointed that Information Governance and Protective marking had received a limited assurance report and queried whether it related to protective markings on emails. Peter Farrow, Head of Audit confirmed that to be the case and from the sample tested the majority of emails contained the security marking. Some employees were overcautious in the category used and some emails were under categorised.

Cllr Christine Mills expressed concern at the report relating to the City of Wolverhampton College on the audited area 'Compliance with learners and learning difficulties and /or disabilities post 16 service level agreement. She requested a follow up report on this item.

Mike Ager, Independent Member reported that he felt it worrying to see the number of limited assurance reports. He noted that there had been seven this year and that the numbers seemed to be increasing. Referring to the two red recommendations on Contract management Agreements (Community), he requested that future reports identify the areas.

Keith Ireland, Managing Director reported that the Audit Service was improving and was providing a firmer challenge to the organisation. The increase in limited assurance reports was part of that improvement and robust challenge.

Referring to the audit work on the Agresso system and a backlog of invoices, Cllr Wendy Thompson commented that she was surprised that after the bedding in period the system was not working as effectively as she felt it should. The Managing Director reported that the system was working well. He acknowledged that there are blips with invoices but that they were as a result of suppliers not following the laid down process. He suggested that at the Committee's next meeting the Hub Manager provide the Committee with the detail.

Resolved:

1. That the contents of the latest internal audit update as at the end of quarter three be noted.
2. That a follow up report be submitted to a future meeting on the 'Compliance with learners and learning Difficulties and /or Disabilities post 16 Service Level Agreement.
3. That an update report from Internal Audit on the Agresso system be submitted to the next meeting.

10 **Internal Audit Plan 2015/16**

Peter Farrow, Head of Audit presented the proposed internal audit plan for 2015/16.

Resolved:

That the risk based internal audit plan for 2015/16 be approved.

11 **Payment Transparency**

The Committee received for information an update on the current position with regards to the publication of all the Council's expenditure since the last meeting in December 2014.

Resolved:

That the Council's current position with regards to the publication of all its expenditure be noted.

12 **Secondary School Balances**

Further to the request at the last meeting, Orlen Johnson, Finance Manager presented a report on the level of balances held by secondary schools as at 31 March 2014 and which provided details on schools current projections on balances to 2016/17.

In response to the Committee's questions the Finance Manager reported that where a school operating a deficit budget decides to convert to an Academy, that organisation would take the deficit budget with them. However, if the Secretary of State determines that a local authority school should become an Academy the local authority would take on the deficit.

Cllr Dr Mike Hardacre commented that 38% of the local authority's secondary schools were in deficit. He was also concerned that there were another ten schools within the city about which neither the local authority nor the Education Funding Agency had any idea on their financial position. He also reported that he found it worrying that he was not clear on the implications through Audit how it would

manage the issue of up skilling the Wolverhampton population when the local authority had no curriculum or financial control over all schools in the city. This was a risk that had not been quantified.

Referring to the financial position at Coppice Community High School, Cllr Phil Bateman commented that there was still a challenge for the school in meeting its deficit plan. He also asked whether the energy cost issue and the unpaid invoices had all been resolved.

Mike Ager, Independent Member reported that the Governors of Coppice Community School would be considering the information at its meeting. He added that the biggest concern for the Governors was the energy cost issue and they would need the support of local authority to identify the cause of the problem.

In response Jim McElligott reported that the invoices had been resolved but it had affected the deficit. The issues had been dealt with by Council employees and governors of the school going through the budget line by line. The issues regarding the building programme would be one strand of that process. On the general management of the deficit, he informed the Committee that the Finance Manager and his team were working closely with the school on the deficit plan.

Resolved:

1. That the position on school balances and the action taken with regard to schools with deficit budgets.
2. That a follow up report on Coppice Community High School be submitted to a future meeting of the Committee.

13 **2014/2015 Statement of Accounts Progress Update**

Mark Taylor, Director of Finance presented, for information, a progress report on the planning and delivery of the annual statement of accounts for 2014/15. He reported that the plan and timetable for the production of the annual statement of accounts was on track.

Resolved:

1. That the progress on planning and delivering the Statement of Accounts for 2014/15 be noted.
2. That it be noted that the Director of Finance continues to be of the opinion that the Council has provided sufficient resources to allow the statutory responsibilities in relation to the statement of accounts to be fulfilled.

14 **Appointment of External Auditor**

The Committee received a report which advised of the Audit Commission's decision to appoint Grant Thornton UK LLP to audit the accounts of the Council for the two years from 2015/16.

Resolved:

That the appointment of Grant Thornton UK LLP to audit the accounts of the Council for two years from 2015/16 be noted.

15 **Audit Committee - Terms of Reference**

Peter Farrow, Head of Audit presented the terms of reference for the Committee as approved on 10 March 2014. In accordance with best practice the Committee was asked undertake its annual review of the terms of reference to ensure they remained fit for purpose and reflected the Chartered Institute of Public Finance and Accountancy's (CIPFA's) new position statement, "Audit Committee in Local Authorities".

Resolved:

That it be noted that the terms of reference for the Committee as approved on 10 March 2014 still reflect the CIPFA new position statement Audit Committees in Local Authorities.

16 **Audit Committee - Self Assessment of Good Practice and Effectiveness**

Peter Farrow, Head of Audit delivered a presentation by way of introduction to the Committee carrying out a review of its performance and effectiveness alongside a number of other self-assessment activities. The first part of what would be a three stage review was for members of the Committee to individually complete a self-assessment of good practice, based on the model provided by the Chartered Institute of Public Finance and Accountancy (CIPFA). Once completed and analysed the results would be reported to the next meeting.

Resolved:

That members of the Committee complete the model CIPFA self-assessment of good practice form and return it to the Democratic Support Officer.

17 **Exclusion of the press and public**

Resolved:

That in accordance with Section 0DA(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business as it involves the likely disclosure of exempt information falling within the paragraphs of Schedule ANA of the Act set out below:

<i>Item No.</i>	<i>Title</i>	<i>Applicable Paragraph</i>
18	Procurement cards - briefing note	7

18 **Procurement Cards - Briefing Note**

Further to the request at the Audit (Monitoring of Audit Investigations) Sub Committee on 2 February 2015 Andy Moran, Head of Procurement presented a briefing note on procurement cards (p-cards). He reported that p-cards were an efficient way of dealing with the purchase of goods or services of a low value level but that following a review it was proposed to introduce new controls on the issue and operation of p-cards within the Council.

During the ensuing discussion members of the Committee accepted the efficiency and value for money reasons for some employees being issued with p-cards. Others were not convinced that it was impossible for employees to follow the standard invoicing arrangements for the purchase rather than use a p-card. Referring to the p-cards issued to schools, a member of the Committee also commented that he had

not heard about p-cards at his School Governing Body meetings. He suggested that perhaps a briefing note should be issued to school governing bodies.

Resolved:

1. That the Committee receive an itemised breakdown on the top ten categories of p-card spend between April 2014 to January 2015.
2. That a monitoring report on p-cards issued and usage for the period 1 April to 31 July 2015 be submitted to a future meeting of the Committee together with an updated table on the top ten categories of p-card spend for that period.