

M I N U T E S

meeting: **AUDIT COMMITTEE**

date: **18 JULY 2011**

PRESENT:-

Councillor Inston (Chair);
Councillors Claymore, Dr Hardacre, Mrs Keirle, Leach, Mrs Mills,
Simkins and Mrs Thompson

OFFICERS IN ATTENDANCE:-

B Burgess	-	Delivery
D Johnston	-	Delivery
D Kane	-	Delivery
S Kembrey	-	Delivery
P Main	-	Delivery
R Morgan	-	Delivery
C W Craney	-	Delivery

PRESENT BY INVITATION:-

J Howse	-	PricewaterhouseCoopers)
R Vialard	-	PricewaterhouseCoopers) (External Auditors)

Wolverhampton
City Council



PART I – OPEN ITEMS
(Open to Press and Public)

Apologies for Absence

9 No apologies for absence had been received.

Declarations of Interest

10 The Chair, Councillor Inston, declared a personal interest in Agenda Item No. 11(a) (Audit Plan 2011/12 and Audit Work Update) insofar as it related to the Deansfield Community School – Health Check, in his capacity as a Governor of the school and withdrew from the meeting during the consideration of that item.

P Main, Assistant Director, Corporate Services, Delivery Directorate, declared a personal interest in Agenda Item No. 7(b) (2010/11 Draft Statement of Accounts) insofar as it referred to Officers Remuneration.

Minutes

(a) Audit Committee – 6 June 2011

11 Resolved:-
That the minutes of the meeting of the Audit Committee held on 6 June 2011 be confirmed as a correct record and signed by the Chair.

(b) Audit (Final Accounts Monitoring and Review) Sub-Committee - 30 June 2011

12 Resolved:-
That the minutes of the meeting of the Audit (Final Accounts Monitoring and Review) Sub-Committee held on 30 June 2011 be noted.

13 **Matters Arising**

There were no matters arising from the Minutes of the Audit Committee held on 6 June 2011 or from the Minutes of the meeting of the Audit (Final Accounts Monitoring and Review) Sub-Committee held on 30 June 2011.

Schedule of Outstanding Minutes (Appendix 1/5)

The Committee received a report which gave an indication of dates on which reports on individual items would be submitted for consideration. The Committee noted that the Briefing Note in relation to the Audit Work Update (Minute No 105 – 11 April 2011) had been circulated on 15 July 2011.

14 Resolved:-
That the report be received and noted.

Work Programme 2011/12 (Appendix 6)

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Resolved:-

That the Audit Committee Work Programme 2011/12 be approved.

Final Accounts/Annual Governance Statement

(a) 2010/11 Annual Governance Statement (Appendix 7)

P Main, Assistant Director, Corporate Services, Delivery Directorate presented the Annual Governance Statement 2010/11 and drew to the attention of the Committee section 5 of the Statement – Significant Governance Issues.

Councillor Keirle commented that at the last meeting of the Committee she had raised the issue of the Governance Statements, which were background documents to the overall Annual Governance Statement, had been signed off by the Interim Strategic Directors and queried, again, whether such Officers were duly authorised to sign off such documents. S Kembrey, Assistant Director Governance, Delivery Directorate, explained the employment position of the Interim Strategic Directors. Councillor Simkins suggested that for the comfort of Members a definitive statement should be given in relation to the propriety of the Director Statements being signed by the Interim Directors. S Kembrey undertook to check out the position from a legal perspective, to ascertain the current position with the recruitment process to the Strategic Director posts with the Chief Executive and to circulate a Briefing Note to Members. Councillor Simkins requested that the Briefing Note be circulated to all Members of the Council. P Main reminded the Committee that the Director Statements were supporting documents and that the Annual Governance Statement itself was signed by off the Chief Executive and the Leader of the Council. Councillor Keirle enquired as to whether the Council's liability insurance extended to the Interim Strategic Directors. D Johnson, Head of Risk and Insurance, Delivery Directorate advised that the appropriate insurance was extended to these officers if and when deemed necessary. J Howse, PricewaterhouseCoopers, confirmed that the Chief Executive and the Leader of the Council were required to sign off the Governance Statement and that the status of the Interim Directors was not an issue of concern to PricewaterhouseCoopers, as the Council's external auditors, but that he understood the position of Members in seeking a reassurance on the propriety of the current arrangements.

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Resolved:-

(i) That the signed version of the Annual Governance Statement for 2010/11 be noted

(ii) That the Assistant Director, Governance be requested to clarify the position with regard to Interim Directors signing Director Statements in support of the Annual Governance Statement and to issue a Briefing Note in relation to the propriety of this arrangement.

(b) 2010/11 Draft Statement of Accounts (Appendix 8)

P Main presented the Draft Statement of Accounts for 2010/11, which was subject to audit and which had been approved by her on 30 June 2011 in accordance with the Regulations. D Kane, Corporate Services, Delivery Directorate, explained the various elements of the report to the Committee and drew attention to the fact that the Statement had been prepared for the first time in accordance with the International Financial Reporting Standards (IFRS) and which had led to very wide ranging changes in the format of the primary statements, together with a number of other supporting notes.

Councillor Mrs Keirle referred to page 7 of the report in relation to Capital Spending and enquired as to whether the analyses in the report statement would need to be changed in subsequent years to reflect the restructuring of the Council. D Kane confirmed this to be the case.

D Kane responded to various queries raised by Members in relation to the statement of accounts.

17

Resolved:-

(i) That it be noted that the Assistant Director, Corporate Services (Section 151 Officer) had approved the Draft Statement of Accounts 2010/11 on 30 June 2011 as required by the Accounts and Audit Regulations;

(ii) That it be noted that the 2010/2011 Draft Statement of Accounts was to be audited by PricewaterhouseCoopers LLP during July/August and that any material changes required as a result of the audit be reported to the Audit Committee in due course;

(iii) That it be noted that formal publication of the 2010/2011 Statement of Accounts was required by 30 September 2011 (Accounts and Audit Regulations 2003, as amended 2010);

(iv) That the best thanks of the Committee be extended to all staff involved in preparing the Draft Statement of Accounts in the International Financial Reporting Standards (IFRS) format;

(v) That the Assistant Director, Corporate Services be requested to provide additional information about the Capital Outlay Statement with regard to details of the expenditure of £2.9m on private sector housing;

(vi) That the Assistant Director, Corporate Services be requested to provide additional information to Members in relation to the increase in debtors from local taxpayers from 2009/2010 to 2010/2011;

(vii) That the Assistant Director, Corporate Services be requested to provide further information to Members with regard to the NHS Creditors balance;

(viii) That the Assistant Director, Corporate Services be requested to provide additional information to Members with regard to remuneration and allowances paid to the Chief Executive, Directors and Assistant Directors.

Internal Audit Reports

(a) Review of the System of Effectiveness of Internal Audits 2010/11 (Appendix 9)

B Burgess, Head of Internal Audit, Delivery Directorate, reported that the Accounts and Audit Regulations 2011 required audited bodies to conduct a review at least once a year of the effectiveness of its systems of internal control. In addition, Regulations 4 and 6 of the aforementioned Regulations placed a number of additional requirements on audited bodies with regard to the responsibility for financial management and internal audit. He presented a report which outlined these requirements. Councillor Mrs Keirle commended the self assessment which had been conducted and the self critical manner in which it had been carried out.

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Resolved:-

(i) That the report be received;

(ii) That the report be approved as a satisfactory completion of the requirement to discharge the responsibility of the Committee under Regulation 6 of the Accounts and Audit Regulations 2011 to review the systems of Internal Audit.

(b) Annual Internal Audit Report 2010/11 (Appendix 9)

B Burgess presented a report which gave a brief description of the role of the Internal Audit, the control environment within which it operated and provided a summary of the work carried out during the year to 31 March 2011. He advised the Committee that a statement of the overall opinion on the internal control environment had also been given in support of the Annual Governance Statement which the Council was required to include in the Annual Report and Accounts for the year.

Councillor Mrs Thompson enquired as to whether an audit had ever been carried out in relation to the number of Freedom of Information Requests received and the times in which such requests were responded to. B Burgess reported that the Internal Audit Service was aware of the issues but that a specific audit had not been conducted in relation to the failure to respond to requests for information within the statutory timescales. He commented that the Council was effectively on notice from the Information Commissioner in relation to a breach of the Data Protection Act.

Councillor Dr Hardacre commented on the valuable function carried out by the Internal Audit Service especially in relation to schools. He expressed some concern in relation to the number of weak and unsatisfactory outcomes of audit investigations and suggested that an exercise should be undertaken to monitor the number of repeated occurrences over successive years in order to satisfy Members that they were fulfilling their fiduciary relationship with Council Tax payers. B Burgess reminded the Committee that all weak or unsatisfactory opinions resulting from an audit were reported to Committee and responsible Officers could be required to attend to provide further explanation and information. Similarly, if there was a failure to follow up the recommendations made as a result of Internal Audits, then these were also reported to Committee. Councillor Mrs Keirle suggested that the reduction in the number of audits undertaken during the 2010/11 financial year was partly as a result of the change in accounting reporting. She drew to the attention of the Committee that with the various changes in financial rules and the resulting potential for lack of awareness of changes and current procedures there was an increased opportunity for financial irregularities and fraud and that it was important that all whistleblowing reports were pursued. B Burgess offered the Committee some comfort and explained that whistleblowing had increased and that all such reports were followed up. Councillor Mrs Thompson expressed concern at the percentage of weak and unsatisfactory audit outcomes and enquired as to whether this was as a result of management failure. Councillor Dr Hardacre enquired as to whether the number of unsatisfactory/weak outcomes was as a result of managers without a financial background being required to oversee budget management. B Burgess responded that there were indeed some problems in small or satellite offices but it was only possible for audit to provide advice and training to the relevant Officers. Councillor Simkins suggested that in the event of fraud and financial irregularity being identified any perpetrators should be subject to the force of law and that the findings should be publicised. B Burgess reiterated that all whistleblowing reports were followed up but that it was necessary for some investigations to be abandoned if no appropriate evidence was obtained. He also drew to the attention of the Committee the difficulty in responding to vexatious complaints.

Councillor Simkins enquired as to the reporting process in relation to the discovery of fraud or financial irregularity inasmuch as to whether it was reported to both the relevant Director and the relevant Cabinet Member. B Burgess advised that the relevant Director was informed by the Internal Audit Service but that this was not the case with the Cabinet Member. Councillor Mrs Keirle suggested that there was a mechanism in place where the Audit Committee Members would draw such incidents to the attention of the Cabinet Member. Councillor Mrs Thompson reminded the Committee that a police officer previously attended meetings of the Committee and suggested that this practice should be reintroduced.

- 19 Resolved:-
- (i) That the contents of the internal audit annual report and the overall opinion that the control environment was satisfactory be noted;
 - (ii) That an report of the trends of the level of weak/unsatisfactory audit outcomes be submitted to the Committee in six months time;
 - (iii) That the Officers investigate the possibility of the reintroduction of the attendance of an officer from West Midlands Police at meetings of the Committee and circulate a Briefing Note with the answer to Committee Members.

(c) PwC Review of the Effectiveness of Internal Audit – Progress Report (Appendix 10)

B Burgess presented a report on progress against the recommendations in the PwC Review of the Effectiveness of Internal Audit.

- 20 Resolved:-
- That the Action Plan be received and noted with regard to the recent PwC Review of the Effectiveness of Internal Audit.

External Audit Reports and Inspection

(a) Annual Grants Certification Report 2009/10 (Appendix 11)

J Howse presented a report in connection with the Annual Grant Certification Report 2009/2010.

- 21 Resolved:-
- That the report be received and noted.

(b) External Audit Update and Report 9appendix 12)

J Howse reminded the Committee that the external auditors had presented the 2010/11 Audit Plan to the Audit Committee on 20 December 2010 and presented an update report on progress in delivering the Audit Plan, PwC's approach to the risk of fraud and on some recent publications from PwC's Public Sector Research Centre.

- 22 Resolved:-
- That the report be received and noted.

Exclusion of the Public and Press

- 23 Resolved:-
- That in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from consideration of the items of business in Part II of the agenda on the grounds that, in view of the nature of the business to be transacted or the nature of the proceedings, exempt information falling within paragraphs 1, 2 & 3 of Schedule 12A of the Act is likely to be disclosed.

PART II - EXEMPT ITEMS
(Press and Public Excluded)

Internal Audit Report

(a) Audit Plan 2011/12 and Audit Work Update (Appendix 13)

(The Chair, Councillor Inston, declared an interest in this item insofar as it related to Deansfield Community School – Health Check and withdrew from the meeting during the consideration of the item.)

(Councillor Mrs Keirle – Vice Chair – in the Chair.)

B Burgess presented a report on the Audit Plan for 2011/12 and Audit Work Update.

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Resolved:-

(i) That the Audit Plan for 2011/12 be approved and that the information contained with the report relating to current audit work be noted;

(ii) That the Assistant Director, Corporate Services be requested to submit a report to a future meeting in relation to the Human Resources development programme that was now underway including the action being taken to review HR policies and procedures;

(iii) That the Assistant Director, Corporate Services submit a report to a future meeting in relation to the scheme of delegation for schools and associated governance and sanctions framework.