

Audit Committee

Minutes - 6 July 2015

Attendance

Members of the Audit Committee

Cllr Craig Collingswood (Chair)
Cllr Christine Mills
Cllr Harbans Bagri
Cllr Philip Bateman
Cllr Keith Inston
Cllr Jasbir Jaspal
Cllr Patricia Patten
Cllr Stephen Simkins
Mike Ager

Employees

Michelle Howell	Finance Manager
Richard Morgan	Senior Audit Manager
Narinder Phagura	Strategic Risk Manager
Mark Wilkes	Client Lead Auditor
Dereck Francis	Democratic Support Officer
Mark Taylor	Director of Finance
Erik Bagnall	West Midlands Pension Fund
Robert Spence	Finance Manager

External Auditors - PricewaterhouseCoopers

Richard Bacon
Sophia Mouyis

Part 1 – items open to the press and public

Item No. *Title*

- 1 Apologies for absence**
Apologies for absence were submitted on behalf Terry Day (Independent Member).
- 2 Declaration of interests**
Cllr Keith Inston declared a personal interest in agenda item 17 (Draft Statement of Accounts 2014/15) in so far as it relates to the Pensions Fund. Cllr Jasbir Jaspal and Stephen Simkins also declared a personal interest in agenda item 17 in so far as they are members of the Pensions Committee and the Pensions Board respectively.

Mike Ager, Independent Member declared a personal interest in agenda item 9 (Annual Internal Audit report 2014/15) in so far as it relates to Coppice Community School where he is a Governor.

3 **Election of Vice-Chair**

Cllr Christine Mills was elected Vice-Chair of the Committee.

4 **Minutes of previous meetings**

(a) **Audit Committee – 9 March 2015**

Resolved:

That the minutes of the meeting held on 9 March 2015 be approved as a correct record and signed by the Chair.

(b) **Audit (Monitoring of Audit Investigations) Sub-Committee - 27 April 2015**

Resolved:

That the minutes of the meeting held on 27 April 2015 be noted.

5 **Matters arising**

With reference to Minute No. 9 (Internal Audit Update – Quarter Three), Richard Morgan, Senior Audit Manager reported that the update report requested on the Agresso system was included within item 9 on the agenda (Annual Internal Audit Report 2014/15). He also reported that with reference to Minute No. 12 (Secondary School Balances), as a result of a piece of Internal Audit work undertaken at Coppice Community High School and the subsequent resignation of an officer at the School, Internal Audit would now be undertaking a full systems review of the finances of the School during the autumn.

Cllr Craig Collingswood asked that the Senior Audit Manager clarify a matter raised by Cllr Phil Bateman on whether the officer resignation was in addition to a previous resignation by a finance officer.

6 **Work Programme 2015/16**

The Committee's work programme for 2015/16 was received and noted.

7 **External Audit Progress Report 2014/15**

Richard Bacon and Sophia Mouyis from the Council's external auditors, PricewaterhouseCoopers (PwC) reported on their audit work on the Council's draft accounts for 2014/15. A copy of their audit plans for 2014/15 had also been circulated, particularly for new members of the Committee.

PwC also advised the Committee that the Council's gross expenditure for 2014/15 had exceeded £1 billion for the first time. This changed the regulations of the Council's audit and meant that the external auditors would have to work at a different level of detail. The 'materiality' level that had been set would need to come down. PwC would brief the Committee on this in their report to the next meeting.

In response to questions PwC explained that the Minimum Revenue Provision (MRP) was an alternative to depreciation. They explained their role in auditing MRP accounting entries made to ensure they are consistent with the Policy agreed by the Council. Mark Taylor, Director of Finance reported that the change in policy on the MRP was driven by the need for the Council to make financial savings. Advice had been obtained from Queens Counsel and accounting professionals before the change in policy was approved.

In response to a question on Equal Pay, PwC informed the Committee that it would be looking to make sure that the Council had set aside enough for the equal pay claim cases that it had coming through. The Director of Finance added that he was confident that the provision set aside for equal pay claims was sufficient and was satisfied that the Council had set aside enough for equal pay cases around the corner. The cut-off date for receipt of claims was now six years so the Council would be exposed for six years after the introduction of its Single Status arrangements.

Resolved:

That the report be received and noted.

8 **Draft statement of accounts 2014/15**

Mark Taylor, Director of Finance presented for information, the draft Statement of Accounts for 2014/15, which he had approved and which would be subject to audit by the Council's external auditors PwC. The West Midlands Pension Fund statement of accounts was also included in the report. The Director of Finance informed the Committee that some of the figures within the accounts would change as a result of comments received from PwC.

Cllr Phil Bateman asked about risks to the Pension Fund from outside bodies. The Director of Finance reported that there was a robust process for identifying risks to the Fund from outside bodies and that no significant risks were out there. PwC added through their national work with the Local Government Association; nationally risks to pension funds from outside bodies were not a huge issue.

Cllr Stephen Simkins asked about the robustness of the Council's data on employee contributions to the Pension Fund. The Director of Finance acknowledged that quality of data from employers to the Pension Fund had been an issue but that whilst the city Council's data would need some cleansing, he was confident that the data would be significantly accurate; particularly with the move to the Agresso system.

Resolved:

1. That it be noted that the Director of Finance approved the Draft Statement of Accounts 2014/15 on 30 June 2015, as required by the Accounts and Audit (England) Regulations 2011.
2. That it be noted that the 2014/15 Draft Statement of Accounts is to be audited by PricewaterhouseCoopers LLP from July through to September, and that any material changes required as a result of the audit will be reported to the Audit Committee.
3. That it be noted that formal approval by the Council and publication of the 2014/15 Statement of Accounts is required by 30 September 2015 (Accounts and Audit (England) Regulations 2011).
4. That it be noted that the Statement of Accounts incorporates a copy of the Annual Governance Statement as required by the Accounts and Audit (England) Regulations 2011.
5. That a report be submitted to a future meeting on the risks to the Council arising in respect of admitted bodies to the Pension Fund.

6. That an updated set of accounts be presented to the next meeting of the Committee.

9 **Annual Governance Statement - 2014/15**

The Committee received, for review and comment, the Council's Annual Governance Statement for 2014/15 which had been signed by the Leader of the Council and the Managing Director.

In response to questions concerning governance issues associated with the proposal to establish a West Midlands Combined Authority (CA), Narinder Phagura, Strategic Risk Manager reported that the Annual Governance Statement reflected work undertaken during 2014/15. Some of the work on the CA with partners in the West Midlands and other local authorities was mentioned in the Governance Statement. Moving forward, Internal Audit would be reporting on governance issues carried forward from 2014/15 and the regular 'strategic risk register' report to Committee would also include reference to the work on the Combined Authority.

Regarding scrutiny of the CA, the Committee it was reported that progress reports would be presented to the Committee. Reports would also be submitted to Scrutiny and Cabinet for each of the decision making milestones. Work was also taking place on drafting a Constitution for the CA. Mark Taylor, Director of Finance undertook to feed back the comments and questions raised to the CA Programme Office with a view to them reporting to the Committee at a future date. Cllr Craig Collingswood added that the Committee would receive information in so far as it related to its audit role.

Resolved:

That the contents of the Council's Annual Governance Statement for 2013/14 be noted.

10 **Annual Internal Audit Report 2014/15**

Richard Morgan, Senior Audit Manager summarised the key points of the report which aimed to provide the Committee with an annual Internal Audit opinion on the adequacy and effectiveness of the Council's governance, risk management and internal control processes.

Mike Ager, Independent Member expressed his disappointment that five out of 20 audit review reports were 'limited assurance'. He sought assurance from the Senior Audit Manager that actions agreed with managers were appropriate and would be implemented. The Senior Audit Manager confirmed that was the case and that a detailed follow-up report would be produced on the high risk areas.

Cllr Phil Bateman asked whether councillors had a role in highlighting fraud. He was advised that the Fraud Team had received cases from councillors as well as from the public and Council employees. They are all investigated and rated to determine what priority the Fraud Team would attach to the case. It was also confirmed that the whistleblowing policy was active and the Fraud Team received complaints from that source. All complaints were treated extremely seriously.

Resolved:

That the contents of the Annual Internal Audit Report and the overall opinion that “based on the work undertaken during the year, the implementation by management of the recommendations made and the assurance made available to the Council by other providers as well as directly by Internal Audit, Internal Audit can provide reasonable assurance that the Council has adequate and effective governance, risk management and internal control processes” be noted.

11 **Audit Committee Annual Report - 2014/15**

Narinder Phagura, Strategic Risk Manager presented the report which summarised the main areas of work undertaken by the Committee during 2014/15.

The Committee suggested that the key achievement relating to the work of the dedicated Sub Committee be reworded.

Resolved:

That the Audit Committee Annual Report for 2014/15 be endorsed and referred to Full Council for approval.

12 **Annual Review of the Effectiveness of Internal Audit**

Narinder Phagura, Strategic Risk Manager presented the report that provided the Committee with sources of information and measures in place to assist it in being able to reach a conclusion on the adequacy and effectiveness of the Internal Audit Service. In doing so she informed the Committee it had complied with the Public Sector Internal Audit Standard throughout 2014/15 and that the five principles contained in CIPFA’s ‘Role of the Head of Internal Audit in public service organisations’ had also been complied with.

Resolved:

That the annual review of the effectiveness of internal audit be approved in order to discharge the Committee’s responsibility under Regulation 6 of the Accounts and Audit Regulations 2011, where “the relevant body shall, at least once in each year, conduct a review of the effectiveness of internal audit.”

13 **Strategic Risk Register and Strategic Assurance Map**

Narinder Phagura, Strategic Risk Manager 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. The Strategic Risk Manager also drew the Committee’s attention to a reduction in the assessment of some risks from Red to Amber or from Amber to Green.

During the discussion Mike Ager, Independent Member welcomed the development of the risk report into a more useful document. He asked where the Committee could obtain independent assurance on risk 17 (The Care Act) and risk 19 (Combined Authority). The Strategic Risk Manager reported that the Care Act came into effect on 1 April. Prior to then Internal Audit worked with the Department for Health. Internal Audit would now be undertaking a stock take (one off assessment). It would be reviewing whether there are any areas to consider further as well as the second phase of the Care Act. A Programme Board had been established to manage the

risk. Internal Audit would keep a watching brief to ensure there are no issues of concern. Regarding the Combined Authority, she reported that the building blocks for this new area of activity were being put in place.

Referring to risk ref 10 (Economic Inclusion), Cllr Phil Bateman reported that economic inclusion was a key building block for the city going forward; and the city still needed the economic development activity to continue. The Committee would need to keep a close eye on this because the timescales involved were so long. He suggested that the Council identify other indicators to help it better determine the level of the risk and to help the Council to achieve its economic inclusion aims. He indicated that he did not believe the Council was collecting enough economic data or was good at that type of data. He queried how Internal Audit could show that the economic inclusion target had been delivered if the data remained patchy. Cllr Craig Collingswood noted that performance had improved from 15 Red to 12 Amber and that it was heading in the right direction.

Cllr Stephen Simkins commented that the Council was exposed to external bodies over which it had no control and whom had their own targets and priorities to achieve ahead of contributing to the delivery of the Council's. He asked how the Council could work with and influence outside bodies in order to achieve its targets. The Strategic Risk Manager reported that the Wolverhampton Skills Commission would be considering that question. The Commission would be developing its action plan and their success and influence could be judged by the delivery of their action plan.

Regarding risk ref 1 (Looked After Children), Cllr Simkins also asked when the Council would see to benefits of the extra resources allocated to Looked After Children (LAC). Mark Taylor, Director of Finance reported that following an initial reduction, LAC numbers had plateaued. The Service had also been reconfigured by Linda Sanders, Strategic Director People and the service was working with the Council's Legal Service in terms of Care Orders. Ambitious targets had been included in the budget for 2016/17 relating to LAC and he anticipated that the Council should begin to see in year savings in LAC budget and a reduction in funding in the following year.

Resolved:

1. That the strategic risk register be noted.
2. That the reduction in the assessment of the following risk be noted:
 - Risk 2- Skills for work
 - Risk 8- Business continuity management
 - Risk 10- Economic inclusion
 - Risk 14 – School improvement
 - Risk 15 – Emergency planning
3. That the transfer of risk 6 – Compliance with the Public Services Network to the corporate services directorate risk register. In June 2015, the Council received certification for the next 12 months. However, as there will be on-going work to do to remove legacy solutions and to upgrade systems to ensure future compliance it is proposed that this be overseen at an operational level rather than the strategic level.

4. That the closure and removal of risk 18 – Elections from the strategic risk register be noted.
5. That it be noted that although some progress has been made in the mitigation of risk 17 – Employee Management since last reported, further actions are being implemented to ensure this risk is mitigated to an acceptable level. As a result the target date has been amended to reflect this.
6. That the main sources of assurance available to the Council against its strategic risks be noted.
7. That a report on the progress on the transformation of the Looked After Service be presented to a future meeting.

14 **Protecting the Public Purse - Fraud Briefing**

Mark Wilkes, Client Lead Auditor presented a report on the Audit Commission's fraud briefing – Protecting the Public Purse.

Cllr Craig Collingswood commented that it was encouraging to see that the Council was performing well in detecting council tax fraud in comparison with other Metropolitan District Councils.

Resolved:

That the contents of the Audit Commission's fraud briefing- protecting the Public purse be received and noted.

15 **CIPFA Audit Committee Update - Issue 17**

The Committee received, for information, the latest of regular briefings issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) for audit committee members in public sector bodies.

Resolved:

That the contents of the latest CIPFA Audit Committee Update, Issue 17 – helping audit committees to be effective be received and noted.

16 **Payment Transparency**

Richard Morgan, Senior Audit Manager updated the Committee with the current position regarding the Council's publication of all its expenditure activity since the last meeting of the Committee.

Resolved:

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

17 **P-card Update**

Further to the discussion at the previous meeting (9 March 2015), Andy Moran, Head of Procurement presented a report on changes made to the use of the Council's procurement cards (p-cards). He reported on action taken to reduce the number of p-cards in issue and the number and value of transactions they were being used for.

Cllr Christine Mills welcomed that the number of p-cards in use had been substantially reduced since the last report on 9 March.

Resolved:

That the actions taken by the Council regarding the use of P-Cards be noted.