



# Audit Committee

## Minutes – 10 March 2014

### Attendance

#### Members of the Committee

Cllr Keith Inston (chair)  
Cllr Harbans Bagri  
Cllr Phil Bateman  
Cllr Alan Bolshaw  
Cllr Mike Hardacre  
Cllr Jasbir Jaspal  
Cllr Mrs Wendy Thompson

#### Independent members

Mike Ager  
Terry Day

#### Employees

Jane Alexander	Client Lead Auditor
Peter Farrow	Head of Audit
Dereck Francis	Democratic Support Officer
Keith Ireland	Strategic Director Delivery
Katy Morgan	Client Lead Auditor
Richard Morgan	Senior Audit Manager
Narinder Phagura	Strategic Risk Manager
Martyn Sargeant	Democratic Services Manager
Mark Taylor	Assistant Director Finance
Simon Warren	Chief Executive

#### External Auditors

Richard Vialard	PricewaterhouseCoopers
John Sawyer	PricewaterhouseCoopers

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## Part 1 – items open to the press and public

*Item Title*  
*No.*

### MEETING BUSINESS ITEMS

- 1. Apologies for absence**  
Apologies for absence were submitted on behalf of Cllr Matthew Holdcroft.
- 2. Declarations of interest**  
No interests were declared.

3. **Minutes**

**(a) Audit Committee – 16 December 2013**

Cllr Mrs Thompson reported that she had asked a number of questions to the external auditor from PricewaterhouseCoopers (PWC) on the Council's financial position, monitoring and reserves and these were not reflected in the minutes. She reported that she had no confidence in the accuracy of the minutes and had expressed her concerns to the Democratic Services Manager.

Resolved:

1. That the minutes of the meeting held on 16 December 2013 be approved as a correct record and signed by the Chair.
2. That the objections of Cllr Mrs Thompson to the accuracy of the minutes be noted.

**(b) Audit (Monitoring of Audit Investigations) Sub-Committee – 9 December 2013**

Resolved:

That the minutes of the meeting held on 9 December 2013 be noted.

**(c) Audit (Monitoring of Audit Investigations) Sub-Committee – 20 January 2014**

Resolved:

That the minutes of the meeting held on 20 January 2014 be noted.

4. **Matters arising**

There were no matters arising from the minutes.

5. **Work programme 2013/14**

The Committee received the updated work programme for the remainder of the municipal year 2013/14. Peter Farrow, Head of Audit reported that there was only one item of business, an external audit report on 'annual grants certification', scheduled for the meeting on 14 April. He advised that it made sense to cancel the April meeting and roll forward the external audit report to the meeting on 22 July.

Resolved:

1. That the updated Audit Committee work programme for 2013/14 be received and noted.
2. That the meeting scheduled for 14 April 2014 be cancelled.

**EXTERNAL AUDIT REPORTS AND INSPECTION:**

6. **External Audit Plan 2013/14**

Richard Vialard from the Council's external auditors PricewaterhouseCoopers' (PwC) presented their external audit plans for 2013/14. He advised that the audit would take place between July and August. In presenting the report he touched on the audit approach and the summary of the significant and elevated audit risks identified for 2013/14.

Referring to reserves, and specifically the movement of reserves from specific to general reserve, Cllr Mrs Thompson asked PwC how long that term should be. Against the background of the Audit Investigation reports referred to at items 15 and 16 on the agenda, she also asked whether PwC had confidence in the robustness of all the Council's budgets. PwC informed the Committee that the Council had the power to determine how it structured and used its reserves. The Council had a clear policy on the use of reserves which indicated that within two years reserves would have to be built back up to an acceptable level if they dipped too low. On the question of the robustness of the Council's budgets PwC explained that the responsibility of the external auditors was to look at the Council's financial statement once it had been audited and determine whether what was planned to be delivered had in fact been done. He added that it would not be right for him to comment on individual budgets, notwithstanding that the two audit investigation reports were important areas. He acknowledged that there may be lessons to be learned from the circumstances in the two reports but added that these were two specific issues. Peter Farrow added that the introduction of the Agresso system would provide real time budgetary information that would address a number of the issues referred to in the specific audit investigation reports.

Mike Ager asked whether the risks within the external audit plan were tailor-made for the Council. He was advised that the first two risks 'managing override of controls' and 'risk of fraud in revenue and expenditure recognition' were standard but the other four are specific to Wolverhampton.

Resolved:

That the contents of the external audit plan 2013/14 from the Council's external auditors, PricewaterhouseCoopers be noted.

## **RISK MANAGEMENT- ASSURANCE ON CORPORATE RISKS**

### **7 Corporate Risk Register**

The Committee received, for information, a report on the corporate risk register as at February 2014 which identified the key risks the Council faced in delivering its corporate themes of 'Encouraging new business'; 'Empowering people and communities'; 'Reinvigorating the city'; and 'Confident, capable Council'.

Additional risks were currently being considered by the Strategic Executive Board (SEB) and the Corporative Delivery Board, the outcomes of which would be reported to the Committee in due course. It was also reported that the Committee would receive information on the individual risk management action plans developed to address the risks and an accompanying corporate assurance map to identify how the risks were being managed and where the Committee could get the assurance on such activity.

Cllr Bateman reported that during the run-up to the consultations and approval of the Council's budget for 2014/15, the ability of the city to increase business activity and regeneration had featured heavily. He indicated that this issue was fundamental to the improvement of the city and he found it surprising that this issue did not feature in the risk register. The Chief Executive informed the Committee that it was addressed in risk reference 9. 'City centre regeneration'. Narinder

Phagura also advised the Committee that the report before the Committee was a high level risk register. Operational risk registers would capture issues like attracting businesses into the city centre and other regeneration programmes in other parts of the city. The SEB would be reviewing the register on an ongoing basis to ensure that it represented the risk profile of the Council. Simon Warren, Chief Executive added that the risk did not just encompass the city centre area but the description would be looked at to ensure it was clear.

Referring to risk reference 1 (Looked After Children), Cllr Bolshaw reported that this could be a sub-category of risk reference 7 (Safeguarding). He also suggested that improving safeguarding procedures might well lead to the number of looked after children increasing. Simon Warren reported that the two risk areas were associated but different. Risk reference 1 was about costs whilst risk 7 was about processes and procedures.

Regarding to risk references 2 (community skills) and 14 (school improvement), Cllr Mrs Thompson, commented that in terms of job creation and job opportunities, anyone with maths and literacy qualifications would find it easier to access job opportunities. She asked how many specialist maths colleges the city had and what was being done to extend good maths learning across all schools in the city. In response Simon Warren reported that the community skills was focussed on work readiness skills such as, being articulate, punctual, smart in appearance etc. The school improvement risk related to the Council's changed role in challenging its schools to raise standards. The specific focus on maths would be picked up in an operational risk register.

Responding to a question from Cllr Mrs Thompson about whether the Council was following other local authorities and providing Saturday classes to support children in passing their maths examinations earlier. Simon Warren reported that he would ask the appropriate Assistant Director to respond to her direct.

Mr Ager reported that for an organisation with eight high risk items on its risk register, it was challenging. He suggested that the Committee needed to receive assurances that appropriate arrangements are in place to address the risks. Narinder Phagura, Strategic Risk Manager confirmed that at its next meeting the Committee would receive more detail behind the items on the corporate risk register. A corporate assurance map would also be developed to identify where the Committee could gain assurance on such activity and this would be presented to the Committee in due course.

Resolved:

That the latest summary of the Council's corporate risk register be noted.

## **INTERNAL AUDIT REPORTS**

### **8 Internal audit update-quarter three**

The Committee received a report on progress made against the 2013/14 internal audit plan and on recent work which had been completed. Peter Farrow, Head of Audit drew the Committee's attention to the three limited opinion reports issued and

advised that they were not particularly high risk issues and action had been taken to address them. Referring to the appraisals review update that the Committee discussed at its last meeting, he advised that the findings to date had demonstrated low compliance with the corporate appraisals process. Audit Services were following up on questionnaires issued to heads of service and would present the results on the outcome of their review to the next meeting.

Cllr Keith Inston (Chair) reported that he was appalled at the level of response from head of service to the Audit Services questionnaires. He instructed that a letter be sent to the heads of service who had not responded instructing them to do so within seven days. The Chief Executive informed the Committee that he shared their concerns and undertook to arrange for a letter to be circulated in his name.

Referring to the financial implications of the report Cllr Ian Bolshaw asked whether all of the money from duplicate payments would be recovered. Peter Farrow reported that his team would be working with finance to hopefully recover all of the money. He also reported on the recovery of payments through the National Fraud Initiative.

Resolved:

1. That the content of the latest internal audit update at the end of quarter two be noted.
2. That the Chief Executive be requested to write to all heads of service who had not responded to the Audit Services questionnaires on appraisals, instructing them to respond within seven days otherwise the Committee would take appropriate action.

## **9 Internal audit plan 2014/15**

Peter Farrow, Head of Audit presented the proposed internal audit plan for 2014/15.

Cllr Wendy Thompson asked PwC for their view on the 'level of materiality' at the Council. In response she was advised that it was 2% of the Council's gross service expenditure. Further details were set out on page 12 of their external audit plan 2013/14 (Minute No. 6 above refers).

Cllr Dr Mike Hardacre expressed concern regarding self-started academies and single starter academies and the opportunities for things to go wrong in school finances. He reported that the Council had some control over local authority schools but he questioned what control the Council had over academies on their accounting and audit financial control. Kate Morgan advised that the School's Education Funding Agency was responsible for academies. The Chief Executive added that the Council was a co-sponsor the city's Academy trusts, and therefore had an elected member involved with the governance of the Trusts.

Terry Day, Independent Member reported that he was pleased to see ICT contract procurements and processes included in the audit plan but indicated that he could not see anything in the plan regarding technical audits proposals around ICT services. Peter Farrow advised that a lot of this aspect would be picked up with the introduction of the Agresso system under the FutureWorks programme. He

undertook to go through the plan and highlight for Mr Day where the technical aspects would be.

Resolved:

That the risk based internal audit plan for 2014/15 be approved.

**10 Payments transparency**

Peter Farrow, Head of Audit reported on the latest update position on the Council's payment transparency activity since the last meeting of the Committee.

Cllr Phil Bateman requested the details of the web link for the Spotlightsonspend, that could be accessed via the Council's transparency and accountability internet pages.

Cllr Wendy Thompson asked about a payment of £12,500 to the Plough and Harrow. Mark Taylor, Assistant Director Finance reported that it was a sum of £10,800 relating to a grant for building works to the Plough and Harrow. Referring to recent media interest in items identified as a result of payment transparency Mark Taylor also reported that the Council provided the raw data on all its spending to. Spikes Cavell which then undertook the necessary review and analysis before publishing on Spotlightsonspend. Employees within his team were reviewing any foreign transactions to ensure that they are converted and in the right currency.

Resolved:

That the Council's continued compliance with the Code of Recommended Practice, regarding the publication of all payments over £500 be noted. Also, that from 1 April 2013 the Council had continued to publish all of its payment data, rather than just restrict it to that with a value of over £500

**11. Review of fraud related policies and procedures**

Peter Farrow presented four updated Council fraud related policies and procedures. The documents had been produced following a review of a number of policies, plans and guides and combining them into four new documents that had been updated to reflect best practice.

In response to questions from the Committee's two independent members, it was confirmed that the annual report summarising the activity undertaken under the whistleblowing policy would be submitted to the Committee and key details of concerns raised under the policy and their outcomes would be reported to the Monitoring of Audit Investigations Sub -committee. Awareness raising activities, using a variety of approaches would also be taking place to alert employees to the updated policies and procedures.

Resolved:

That the following updated Council's fraud related policies and procedures be noted:

- Whistleblowing policy and procedure
- Anti-fraud and corruption policy procedure
- Anti-money laundering policy and procedure
- Raising fraud awareness guide.

12. **The FRAUDitor: The Council's Anti-Fraud Corruption Newsletter**

The Committee received, for information, issue number two - spring 2014 of the Council's anti-fraud and corruption newsletter produced by Audit Services

Resolved:

That the newsletter be received and noted.

13 **Audit Committee Terms of Reference**

Peter Farrow, Head of Audit presented a report on updated terms of reference for the Committee which reflected the Chartered Institute of Public Finance and Accountancy's (CIPFA's) new position statement, "Audit Committee in Local Authorities. The report also included proposals to absorb the work of the Final Accounts Monitoring and Review Sub- committee within the main Audit Committee and to increase the membership of the Monitoring of Audit Investigations Sub-committee to reflect its expanding role and to enable additional councillors to play a more active part in this high profile area.

Resolved:

1. That it be recommended to the Special Advisory Group that the work of the Final Accounts Monitoring and Review Sub-committee be absorbed into the main Audit Committee terms of reference.
2. That it be recommended to the Special Advisory Group that the membership of the Monitoring of Audit Investigations Sub-committee be increased from four to six members.
3. The updated terms of reference for the Committee that reflects the new Chartered Institute of Public Finance and Accountancy (CIPFA) Practical Guidance for Local Authorities Audit Committees be noted.

14. **Exclusion of press and public**

Resolved:

That in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item(s) of business as they involve the likely disclosure of exempt information falling within the paragraphs of Schedule 12A of the Act set out below:

<i>Item No.</i>	<i>Title</i>	<i>Applicable paragraph</i>
15.	Audit investigation education and enterprise overspend	2 and 3
16.	Audit investigation - property services recharges	2 and 3

15. **Audit investigation education and enterprise overspend**

The Committee received a report on an investigation undertaken into the Education and Enterprise directorate overspend of £1.8 million. A number of finance management failures were identified. A detailed

internal audit report had been issued for this investigation which included a series of recommendations that have been agreed and were in the process of being or had already been implemented.

Keith Ireland, Strategic Director Delivery reported on action in relation to employees referred to in the report. He also reported on the structural issues within the Council's budget which had been put right.

Cllr Wendy Thompson reported that it seemed that the areas of concern had been put right. She suggested that they should have been identified earlier and asked why this had not occurred. She added that the failure had caused an extra problem to the Council because of the considerable amount of money involved. In response Keith Ireland advised that historically when the overall budget was in a better position there may have been a tendency not to focus on these sorts of issues.

Mr Mike Ager asked how the Committee could be assured that there were no more similar issues waiting to be uncovered. In response Keith Ireland explained that a lot of work had been done to put things right. He explained how the Council's ageing mainframe computer had contributed to the situation occurring. He went on to inform the Committee that he was confident that the vast majority of issues in the budgets are now recharged correctly. The two audit reports were specific to Education and Enterprise and Property Services. He also reported that the Council's external auditors have been contacted regarding the two issues and concurred with the Council's approach to addressing them.

Resolved

That the outcome of an internal audit investigation on the 2012/13 overspend within the Education and Enterprise directorate be noted.

16. **Audit investigation - property services recharges**

The Committee received a report on an investigation undertaken into the recovery of charges by the Property Design and Commissioning Service. The investigation had highlighted a number of significant failures. A detailed internal audit report had been issued which included a series of recommendations that had been agreed and were in the process of being or already been implemented.

The Committee was informed that following a meeting with PwC it had been agreed that the Committee would receive follow up reports on both audit investigation to review the progress on actioning the recommendations from the audit investigations. This would include an update on the action taken to recover some of the charges.



Cllr Wendy Thompson asked how has the culture within the service area had changed. Keith Ireland advised that the culture had not been changed yet. A report was being taken forward to create a corporate landlord function. Following this, work would be undertaken to review the corporate assets at which point changes to the culture would be addressed.

Resolved

That the outcome of the Internal Audit investigation on the 2012/13 under recovery of property services recharges be noted.