

AUDIT COMMITTEE

Wednesday, 2 September, 2009 at 6.00 p.m.

Conference Room at the Council House, Walsall

Present

Councillor Martin (Chairman)
Councillor Rochelle (Vice-Chairman)
Councillor Ault
Councillor Chambers
Councillor Robertson
Councillor D. Shires
Councillor Sears
Ms. K.M. McLeod (Independent Member)

621/09

Minutes

Councillor Chambers referred to the minutes of 25th June, 2009 (Page 7 paragraph 1) which related to a lack of monitoring of the Serco contract. He asked if a report had been prepared on this matter. It was reported that the matter would be considered at the October meeting of the Committee.

Resolved

- (1) That the minutes of the meetings held on 25th June and 29th June (Special), 2009, copies having previously been circulated to each Member of the Committee, be approved and signed by the Chairman as correct records;
- (2) That a report on the lack of monitoring of the Serco contract be submitted to the October meeting of the Committee.

622/09

Declarations of Interest

Councillor Robertson indicated that he had been involved in an organisation which had received ERDF funding.

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Deputations and Petitions

No deputations were received or petitions submitted.

624/09 **Local Government (Access to Information) Act, 1985 (as amended)**

Resolved

That the public be excluded from the meeting during consideration of the item set out in the private part of the agenda for the reasons set out therein and Section 100A of the Local Government Act, 1972.

Non-Executive Functions

625/09 **Risks 26 and 27**

Tim Ferguson explained that Risks 26 and 27 related to 'insufficient governance arrangements of partnerships' and 'partners do not fulfil their responsibilities' respectively. He handed copies of the strategic risk assessment to Members present at the meeting:-

(see annexed)

and reported that greater emphasis was now placed on partnership working. He referred to the fact that Walsall Partnership was the over arching partnership for all organisations in Walsall and that it also liaised with Government Office West Midlands and other government organisations regarding the third sector.

Referring to Risk 26 – insufficient governance arrangements of partnerships – Tim Ferguson reported that the Council could be financially liable for a partner organisation as the accountable body. He indicated that accountable body agreements were drawn up and the corporate performance management team registered all new partnerships and supplied best practice toolkits to those organisations. He added that Clive Wright was leading on work linking guidelines to joint working in an attempt to avoid the Council being financially liable for the action of partner organisations.

With regard to Risk 27 – partners do not fulfil their responsibilities – Target Action Planning (TAP) ensured that partners delivered actions plans. Work was in progress on local improvement and a new advisor was hoping to improve the process.

Councillor Robertson asked whether partners would comply with the tool kits. Tim Ferguson replied that annual stock taking of partners would be undertaken to ensure tool kits and best practice were being followed. It needed to be shown that major partnerships were being governed effectively.

Jamie Morris reported that a robust action plan was in place and the tool kit had proved successful. It had been copied from other successful authorities and part reviewed and refreshed annually.

Ann Johnson stated that a partnership register was also in place now.

Jamie Morris stated that the tool kit was an invaluable part of risk management. However, some partnerships work was prescribed by central government which meant there could be no consistency of approach. He added that officers tried to be consistent and robust for Walsall.

Councillor Chambers indicated that the real test was how the Council's officers complied with the procedures that had been put in place.

Resolved

That the presentation be noted.

626/09

EU Funding Position

A report was submitted:-

(see annexed)

Jamie Morris, Executive Director – Neighbourhood Services, enlarged upon the report and explained how ERDF and ESF monies had been used to fund projects in Walsall. He indicated that grants had been channelled through Central Government to Government Office West Midlands and on to the Council, as accountable body, then on to the community based projects themselves. The accountability for how the money was spent then rose upwards from the projects to the accountable body and the quality of that accountability had increased year on year. The EU had pushed the risk down to the UK Government which had passed it further down the chain. The Council as the accountable body had done its best to minimise the risk to the authority. He referred to the question submitted to Council on this matter which had led to the report before the Committee now and stated that steps had been put in place to manage the risk and limit the Council's liability.

Julie Gethin, Head of Neighbourhood Partnerships and Programmes, referred to paragraph 3.1 of the report and indicated that approximately 40% of the borough had been eligible for European Funding assistance. A total of 29 projects had been approved by the Council committing £3.9 million of grant. She drew attention to section 4 of the report and to the fact that final claims had to be submitted by the 7 August, 2009. She added that the potential net loss to the Council in repayment amounted to approximately £700,000.

Referring to paragraph 4.3, Julie Gethin outlined the reasons why the Council had been unable to claim grant, which included organisations going into liquidation and being unable to provide adequate audit trails for how grant had been spent.

Julie Gethin also referred to paragraph 4.4 of the report which detailed a stand alone project (Enhanced Access to Learning) where the council was still in negotiation with Government Office West Midlands to reduce the risk of grant being reclaimed in the sum of £206,000. She then drew attention to section 5 of the report which explained the lessons learnt. More could have been done at the application stage and a grants manual had been produced to assist organisations with the process. She continued that the Council might be the subject of an article 15 inspection by the EU and that the article 10 inspection report referred to in paragraph 2.4 of the recommendations had now been received from Government Office West Midlands.

Councillor Robertson stated that he was pleased to receive the report and encouraged that this report was in the public domain. He expressed concern that the report to Cabinet on this matter had been considered in private session. Jamie Morris reported that the matter had been considered in private by Cabinet because there was possibility of litigation by Government Office West Midlands. This was no longer an issue so the matter could now be considered in the public domain.

Steven Morris, Programme Manager, reported that it was a peculiarity of European Funding that there were a plethora of governing bodies involved. He referred to the final deadline for claims on 7 August, 2009 and indicated that there had been three earlier deadlines which the EU had allowed to lapse. He drew attention to the regulations which required accountable bodies to 'take reasonable steps to ensure monies were safeguarded'. The audit trails provided by local organisations had not always been robust enough to comply.

Councillor Robertson referred to the fact that organisations had completion certificates signed by the district auditor. He queried why these were not acceptable to Government Office West Midlands. Jamie Morris replied that the standard of record keeping required had gone up.

Julie Gethin stated that officers had revisited a number of projects to attempt to obtain new levels of documentation.

Steven Morris reported that the density of audit required by the EU was exceptional and projects did not always have the backup to show proper audit trails in the detail required.

Jamie Morris reported that one of the lessons learnt was that the levels of control had not been designed properly for some of the earlier projects.

Councillor Rochelle asked if the EU had produced a tool kit for organisations to follow when claiming grant. Steven Morris replied that as the goal posts were moved regularly and some of the requirements had even been backdated it would not have been possible to produce a tool kit.

Councillor Ault asked if systems and training were now in place to ensure this situation could not arise again. Jamie Morris confirmed that they were.

Julie Gethin indicated that the work that the local authority had gone through in the last 18 months should ensure that such a situation should not occur again. Lessons had been learnt; appropriate training had been given and records were much more robust and able to withstand scrutiny.

Jamie Morris added that under the new system the Council would no longer be the accountable body for all third sector organisations so that would place it in a better position in the future.

Councillor Chambers asked where the £700,000 of de-commitment from the ERDF and the ESF programmes would be found. James Walsh, Assistant Director – Finance, reported that the monies would come from the general reserves.

Charles Barber, Internal Audit, indicated that it was easy to judge in hindsight but EU funding had been notoriously difficult to comprehend. He felt that the authority had learnt a great deal from the process and the key risk to the Council was now carefully managed.

Councillor Chambers expressed concern that a fraud could have been carried out in the past and the audit trail would not have been robust enough to detect it. James Walsh replied that as far as he was aware EU monies had always been spent on the requisite outcomes and the people of Walsall had not lost out as a result.

Resolved

That the Committee:-

- (1) notes the steps taken to minimise the financial exposure of the Council to ensure that final claims to Government Office West Midlands contained only eligible expenditure;
- (2) notes the de-commitment of just over £700,000 from the ERDF and ESF programmes as set out in paragraph 4.2 to the report now submitted and the potential of up to a further £206,000 clawback on a separate project which is subject to an ongoing negotiation with Government Office West Midlands;
- (3) notes the lessons learnt that will be applied to any future European Funding rounds where the Council is the accountable body;

- (4) notes that there may need to be further adjustments to the final claim following receipt of the article 10 inspection report from Government Office.

627/09

Corporate Financial Performance 2009/10

A report was submitted:-

(see annexed)

James Walsh, Assistant Director – Finance, enlarged upon the report and indicated that the end of year forecast showed a council wide revenue pressure of £5.3 million. He added that the economic situation was still worsening and a shortfall of £2 million in income was forecast. He drew attention to the increase in the number of looked after children in children's services from 452 to 481 which had not been budgeted for and added that the baby Peter case had exacerbated this situation. He indicated that managers were attempting to manage these pressures but it would be difficult to achieve large reductions. He added that action plans currently in place would need to be amended significantly if a break even situation was to be achieved.

Councillor Robertson reported that children's scrutiny and performance panel was looking at the high number of looked after children in Walsall. James Walsh replied that in 2003 there were 487 looked after children. The number had dropped to 447 before going up again. He added that deprivation played a major part in the increase.

Councillor Chambers referred to the reduction in the number of schools operated by Serco as a result of the academies being set up in Walsall and suggested that their costs should be reducing as a result. He asked for a report to Committee on this matter. James Walsh replied that it was already being investigated by the children's scrutiny and performance panel.

Councillor Rochelle asked whether those looked after children based outside the borough were monitored. James Walsh replied that the scrutiny panel was also monitoring this matter.

Councillor Martin referred to the late notification of redundancies. James Walsh replied that these costs could be mitigated by offering alternative employment. However, if redundancies were declared then a cost resulted.

Councillor Mrs. Shires referred to the fact that building schools for the future could lead to redundancies in primary schools as a result of cuts in funding. She asked if this could be investigated.

Resolved

That the Committee:-

- (1) notes the currently predicted year end forecast and the action being taken to address it;
- (2) that a report be submitted to a future meeting of the Committee on the effects of building schools for the future on primary school staffing levels.

628/09

Submission of Internal Audit Reports for Scrutiny

A report was submitted:-

(see annexed)

Charles Barber, Internal Audit, enlarged upon the report and indicated that the catering service had received a limited assurance opinion. 56 actions for improvements had been made, 16 of which were high priority. Implementation had been good with 43 of the 56 recommendations already implemented. 12 were not yet due for implementation and 1 low priority action had not been agreed because of resource constraints. With regard to Leighswood Children's Centre, Charles Barber reported that a low assurance opinion had been given and areas for improvement had been listed. The project had been completed over three years ago, however, so some current practices were not reflected in the report. He added that perceived risk had been considerably mitigated since then.

With regard to catering establishments, Jackie Groves, Operational Manager, reported that some of the agreed actions that had been put in place from previous audits had not been monitored properly. All the high priority recommendations had been fully implemented and staff received on the job training to ensure they were carried out. Monitoring would be carried out through unit inspections to ensure that there was no slippage. She indicated that training was the key to success and managers were confident that bad practices would not occur again. She added that as a result of change to procedures service delivery would be much improved.

Councillor Chambers commented that it was good to see that internal audit's actions had produced a positive result.

Councillor Martin referred to the fact that with monitoring systems in place both staff and the organisation benefited.

Jackie Groves indicated that the staff restructure had given officers greater responsibility which had improved the situation.

Charles Barber was pleased to hear that internal audit inspections were seen as a force for good. He added that controls were not suggested to create problems but to resolve them.

Councillor Rochelle suggested that it might be advantageous to monitor the monitors to ascertain how far things have improved after audit.

Charles Barber reported that time had been included in the work programme for the year so that auditors could go back to check that high priority recommendations had been fully implemented.

With regard to Leighswood Children's Centre, Kevin Kendall, Head of Property Services, reported that Property Services had been formed in 2006 and had been greatly improved by their transformation plan which had looked at compliance issues. In August 2007 a new manager had been appointed and problem staff had been weeded out. The audit workbook was followed now. Staff were trained and centrally controlled contract rules were in place. The tendering process had also been overhauled. The national construction framework was being used and the service liaised with both internal audit and legal services on a monthly basis.

Further action to be taken included replacing agency staff and setting up an internal monitoring programme. He added that training would be ongoing. Corporately intrigated systems had been introduced and the service had improved considerably since the audits had been carried out.

Councillor Chambers stated that he had served on the property services working group and the new service was unrecognisable from the old one.

Councillor Rochelle asked if property services would be involved in building schools for the future. Kevin Kendall replied that they would.

Charles Barber reported that audit would be looking at current contracts and the Committee could select it for scrutiny at a future meeting.

James Walsh stated that procedures and rules did not in themselves guarantee internal control, it was the compliance with the procedures and the monitoring that provided the assurance.

Resolved

That the report be noted.

629/09

Private Session

Exclusion of Public

Resolved

That, during consideration of the remaining item on the agenda, the Committee considers that the item for consideration is exempt information by virtue of the appropriate Paragraphs of Part 1 of Schedule 12A of the Local Government Act, 1972, as amended, and accordingly resolves to consider that item in private session.

630/09

Risk Management Update 2009/10

A report was submitted:-

(see annexed)

Ann Johnson (Corporate Risk and Project Manager) enlarged upon the report and drew attention to the corporate risk register and to those risks relating to compliance and monitoring problems. She referred to the meeting of CMT on 6 August, 2009 when the register had been agreed. She then drew attention to the new risks (40-43) which had been added to the register. She added that the register would be refreshed by CMT on 30 September, 2009 after which it would be considered by this Committee.

Ann Johnson stated that the Committee's own risk register appeared in appendix 3 and an action plan was in place. Opportunity management and core risk champions had been investigated during the last quarter and the core risk champions were looking at possible new risks that could be added to the register.

Several Councillors referred to single status and what was happening. James Walsh replied that resources scrutiny and performance panel was investigating this matter.

Resolved

That the Committee:-

- (1) notes the current Corporate Risk Register (CRR) contained in appendix 1 to the report now submitted;
- (2) notes that the Corporate Management Team (CMT) are to undertake a comprehensive refresh of the Corporate Risk Register on 30 September, 2009. The revised document would be brought to a future Audit Committee;

- (3) notes the action taken in progressing the corporate risk management action plan (CRMAP) contained in appendix 2 to the report now submitted;
- (4) notes the updated risk management action plans relating to Audit Committee's risk register and the action taken in managing those risks (appendix 3 refers);
- (5) notes the update on actions taken since the last report.

(Exempt information under Paragraphs 1 and 4 of Part I of Schedule 12A of the Local Government Act, 1972) (as amended)

Termination of meeting

There being no further business, the meeting terminated at 8.00 p.m.

Chairman:

Date: