

AUDIT COMMITTEE

Monday, 12th November, 2012 at 6.00 p.m.

Conference Room, Council House, Walsall

Present

Councillor Hughes (Chairman)
Councillor Illmann-Walker (Vice-Chairman)
Councillor Chambers
Councillor J. Fitzpatrick
Councillor Flower (arrived at 6.40 p.m.)
Councillor Murray
Councillor D. Shires
Mr. A. Green (Independent Member)

In attendance

James Walsh, Chief Finance Officer
Rory Borealis, Executive Director, Resources
Rebecca Neill, Head of Internal Audit
Rose Collinson, Interim Executive Director of Children's Services
Michael Tomlinson, Treasury, Financial Administration and Systems
Manager
Jon Roberts, Grant Thornton
Perminder Sethi, Grant Thornton

1008/12 **Apologies**

There were no apologies for non-attendance.

1009/12 **Minutes**

The minutes of the meetings held on 3rd September and 25th September, 2012 were submitted:-

(see annexed)

Further to Minute No. 988/12 (Independent Member on Audit Committee), James Walsh reported that he had investigated the matter of providing Independent Members with remuneration and had now researched how other Authorities addressed such issues. James confirmed that the majority of other Authorities paid only expenses to Independent Members as did Walsall. However, a small number of

Authorities did pay an allowance. Some Authorities did so on a per meeting basis whereas others did so on an annual basis.

James then went on to explain to the Committee that should it be minded to recommend that Independent Members be remunerated, it would need to be considered by the Independent Remuneration Panel (IRP) which was scheduled to meet during December, 2012. In view of this, the Committee would need to make a recommendation to the IRP.

Rory Borealis clarified that although the IRP did consider and recommend at what level it felt remuneration should be set at, it was actually Council which approved the allowance scheme, having taken the IRP's recommendation into consideration. Furthermore, Rory explained that Council had the power to either accept or reject the IRP's recommendation.

The Committee felt that remunerating Independent Members should be considered by the IRP and Councillor Chambers recommended that the IRP should look at how the Fire Authority and the Transport Authority remunerated their Independent Members to give the IRP a good comparison to consider. In view of this, James recommended that any Independent Member remuneration scheme should be on an annual basis rather than a per meeting basis and that the current expenses scheme should be assimilated within the proposed Independent Member Remuneration Scheme rather than in addition to it.

In addition, Rebecca Neill sought nominations for three Members, one from each Group, to constitute an Interview and Appointment Panel. The Panel would consider applicants for the two extra Independent Member positions on Audit Committee for which the increase had recently been approved by Council. Councillors Hughes, Illmann-Walker and D. Shires were duly nominated and selected to constitute this Panel.

Resolved

- (1) That the minutes of the meetings held on 3rd September and 25th September, 2012, copies having previously been circulated to each Member of the Committee, be approved and signed by the Chairman as correct records;
- (2) That the Independent Remuneration Panel be requested to consider extending the current Member Allowance Scheme to allow for the remuneration of Independent Members and that the Panel consider the schemes run by the Fire Authority and the Transport Authority for remunerating their Independent Members as a local comparison;

- (3) That an Interview and Appointment Panel consisting of Councillors Hughes, Illmann-Walker and D. Shires be established with a view to considering future applicants for the two additional Independent Member vacancies on the Committee.

1010/12 **Declarations of Interest**

Councillor Chambers declared non-pecuniary interests in relation to agenda item nos. 11 - Ofsted Report and 13 - No and Limited Assurance Report.

1011/12 **Deputations and Petitions**

There were no deputations submitted or petitions received.

1012/12 **Local Government (Access to Information) Act, 1985 (as amended)**

Resolved

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

1013/12 **Notification of any issues of importance for consideration at a future meeting**

Councillor Illmann-Walker wished to know if there was any correlation between the number of cost centre codes within each service area and how difficult it was to audit that area. Rebecca Neill responded to Councillor Illmann-Walker at the meeting and agreed to send him a more detailed briefing note on the matter.

1014/12 **Annual Audit Letter 2011/12**

A report was submitted:-

(see annexed)

Jon Roberts, Grant Thornton, presented the report and highlighted the salient points contained therein.

Councillor Murray highlighted a part of the document where it appeared that there was some text missing. Jon clarified that the text was indeed present, but that it was difficult to see because of the shading and colour of the document/text. Jon agreed to ensure that this issue was rectified.

Referring to the certification of grant claims returns, as set out in Appendix B of the report, Councillor Hughes sought clarification on when the work on this matter was scheduled to be completed. Jon confirmed that it was likely to be completed within the next six weeks.

Resolved

That the annual audit letter 2011/12 be noted.

1015/12 **Financial Health Indicators 2012/13**

A report was submitted:-

(see annexed)

James Walsh presented the report and highlighted the salient points contained therein.

Responding to a question from Councillor Chambers, James agreed that it would be clearer if the figures in the 2011/12 (post-audit) column were to contain the 'actual' figures and agreed to amend it accordingly.

Members then asked a series of questions, to which officers responded, in relation to how interest rates were fixed and how far ahead they were set and predicted in light of an ever changing market.

Mr. Green requested that a briefing note be sent to him detailing the descriptions of the indicators and he also wished to know what exactly was included in the prudential expenditure figure, as set out within the management of resources section of the report. In addition, Mr. Green referred to the capital expenditure, as set out within the management of resources section, which was showing some underspend and asked why the capital finance requirement, within the treasury management section, hadn't reduced. James agreed to provide Mr. Green with a briefing note on these matters.

Resolved

- (1) That the financial health indicators be noted;
- (2) That James Walsh be requested to provide a briefing note to Mr. Green in relation to the issues as set out above.

1016/12

Treasury Management Mid-Year Position Statement 2012/13

A report and supplementary paper were submitted:-

(see annexed)

Michael Tomlinson presented the report and highlighted the salient points contained therein.

Members held a general discussion on this item and asked a series of questions for clarification to which officers responded. In particular, Mr. Green, in referring to Indicator PR1 in Appendix 1, with regard to the capital expenditure figure of £93.070m, asked why this differed from the figure of £68.818m, as detailed in the management of resources section within agenda item no. 8. Michael Tomlinson agreed to provide a briefing note on the matter to Mr. Green.

Resolved

That:-

- (1) the mid-year position statement April to September, 2012 be noted and endorsed;
- (2) Council be requested to note the mid-year position statement April to September, 2012;
- (3) Michael Tomlinson provides a briefing note to Mr. Green regarding the difference in the figures highlighted.

1017/12

Internal Audit Progress Report for the Six Months ending 30th September, 2012

A report was submitted:-

(see annexed)

Rebecca Neill presented the report and highlighted the salient points contained therein.

Members expressed their confusion in relation to the information contained in Appendix 1 in which it detailed the quantity of high, medium and low findings for each auditable area. Specifically, Members queried whether there was a correlation between the number of findings, particularly high findings, and the level of assurance being given. In particular, the Council payable audit was referenced which contained 32 high and 33 medium findings but which had been given a significant (borderline) assurance.

Rebecca responded, explaining that although there was generally a link between the number of findings and the assurance being given, it was not an exact science and there could be exceptions to this, for example, 30 high priority findings would not always indicate that a limited or no assurance opinion would be given. A number of factors were required to be taken into account in arriving at the audit opinion, for example, the size of the system, the number of transactions which had been tested and the type of system control weakness that had been identified. Auditors considered all of the above as well as applying their own professional judgement before arriving at an audit opinion.

In the case of the accounts payable audit, this had been an audit of a large fundamental financial system and a number of transactions had been sample tested as part of the audit. The overall opinion for this audit was significant (borderline) assurance because the findings on the review fell within the standard definition of “significant assurance in that there was a generally sound system of control designed to meet the organisation’s objectives. However, some weaknesses in design or inconsistent application of controls had put the achievement of particular objectives at risk”. This was the standard definition for significant assurance.

In contrast for example, the skip permit income audits which had previously been considered by the Committee at a prior meeting, was a much smaller system. The overall opinion for this audit was limited assurance as the findings of the review best fit that standard definition of limited assurance in that “weaknesses in the design or inconsistent application of controls for achievement of the organisation’s objectives at risk in the areas reviewed”.

Rebecca stated that it was a complex area but she would consider how best to simplify and present this information for such future reports.

Resolved

- (1) That the report be noted;
- (2) That Rebecca Neill considers how to simplify and present this information to Committee in the future.

1018/12

Post Ofsted Improvement Planning

A report and supplementary paper were submitted:-

(see annexed)

Rose Collinson presented the report and highlighted the salient points contained therein.

Rose guided Members through the report and supplementary paperwork and provided context to the background of the Ofsted inspection and its findings. Furthermore, Rose explained the current position in relation to the Improvement Board which had been set up to oversee the implementation of the Improvement Notice.

Rose responded to some general questions by Members, including clarification on the role of the Audit Committee in this matter and agreed with Members that it would be relevant and appropriate for the Committee to be kept abreast of how this issue progresses. Rose then identified key review intervals as detailed in Paragraph 2.4 of the report and suggested that update reports for the Audit Committee should co-incide with when those reviews had been carried out.

Councillor Chambers, who was also a Member of the Improvement Board, stated that he would be happy to report any update/progress on this matter to the Committee at future meetings. In addition, he suggested that it could be useful to invite Mr. Spencer, who was the Independent Chair of the Improvement Board, to a future meeting for him to address the Committee on his feelings in relation to how the matter was progressing.

Resolved

That:-

- (1) the Improvement Notice which has now been issued to the Council be noted;
- (2) the Committee feels assured that suitable action is being taken to address the weaknesses identified within the Ofsted inspection report;
- (3) the Committee receive update reports to future meetings at the key review intervals as detailed in Paragraph 2.4 of the report;
- (4) Mr. Spencer, Chair of the Improvement Board, be invited to attend a future meeting of the Committee to report how the implementation and Improvement Notice is being progressed.

1019/12

Private Session

Exclusion of Public

Resolved

That, during consideration of the remaining items on the agenda, the Committee considers that the items for consideration are 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 those items in private session.

Summary of items considered in private session

1020/12 **Human Resources recruitment, procurement and regrades investigation audit report 2012/13 - progress against action plan**

The Committee noted the report.

1021/12 **No or Limited Assurance Report**

The Committee noted the report.

1022/12 **Internal Audit Unplanned Summary for the Six Months ending 30th September, 2012**

The Committee noted the report.

Termination of meeting

The meeting terminated at 7.50 p.m.