



## **AUDIT AND GOVERNANCE COMMITTEE**

- MEETING** : Monday, 24th June 2013
- PRESENT** : Cllrs. Wilson (Chair), Hobbs (Vice-Chair), McLellan, Noakes, Llewellyn, Porter and Gilson

### **Others in Attendance**

Darren Gilbert, KPMG LLP  
Councillor Wood, Cabinet Member for Performance and Resources  
Peter Gillett, Corporate Director of Resources  
Terry Rodway, Group Manager Audit and Assurance  
Sue Mullins, Monitoring Officer and Group Manager Legal and Democratic Services  
Kevin Buckerfield, Interim Finance Change Manager  
Robert Spence, Project Accountant  
Parvati Diyar, Democratic Services Officer

### **21. APPOINTMENTS MADE AT ANNUAL COUNCIL**

The appointments of Councillor Wilson as Chair and Councillor Hobbs as Vice Chair were noted.

### **22. DECLARATIONS OF INTEREST**

Councillors Hobbs and Porter declared a personal interest as Members of the Aspire Trust Board.

### **23. MINUTES AND ACTION SHEET**

#### Minute 17 Combined Heat and Power Installation

Councillor Porter enquired on the progress of this item.

The Corporate Director of Resources advised that the Asset Manager had been asked to review the situation as part of the council's energy plans. Some initial work had been undertaken and the Asset Manager was currently in the process of drafting an energy action plan. Comments and suggestions would be presented to the Gloucestershire Leadership Team (GLT) and Cabinet.

The Chair requested that an update be made to the action plan for the next meeting.

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Minute 17 Purchase of stock control software for the Guildhall

The Corporate Director of Resources advised on the staffing changes underway at the Guildhall. When the new manager is appointed at the Guildhall, they will be tasked with reviewing existing processes and preparing a business case for a replacement system. This will need to include stock control facilities.

Minute 14 2012/13 Statement of Accounts Action Plan / Financial Services Improvement Plan

The Corporate Director of Resources suggested that the Financial Services Improvement Plan should be included as a standing item on the agenda and action sheet. Members agreed that this matter should be maintained as a rolling agenda item.

Item 15 Internal Audit – Quarterly Monitoring Report

The Chair enquired whether a representative from the Markets Service would be invited to update the Committee.

The Corporate Director of Resources confirmed that the Manager would attend the next meeting in September.

Councillor Noakes suggested further improvements to the action sheet including the use of a blue or grey coding for completed items.

The Corporate Director of Resources said he would liaise with colleagues in Democratic Services to improve the action sheet.

**24. PUBLIC QUESTION TIME (15 MINUTES)**

There were no questions from members of the public.

**25. PETITIONS AND DEPUTATIONS (15 MINUTES)**

There were no petitions or deputations.

**26. KPMG - ANNUAL AUDIT LETTER 2011/12**

Mr. Gilbert, KPMG, presented the Annual Audit Letter which provided a summary of the results of the audit work undertaken during the 2011/12 financial year.

Members would be aware that KPMG had been required to issue an Annual Audit Letter by the Audit Commission's deadline of 26 October 2012. As the 2011/12 audit had not been completed by this date, an Interim Annual Audit Letter had been issued to the Committee in November 2012. The audit was now complete and the financial statements had been signed.

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In response to a question from the Chair, the Corporate Director of Resources confirmed that the processes for the 2013/14 budget had been arranged and were in place.

In response to a question from Councillor McLellan regarding staffing structures, the Corporate Director of Resources confirmed that an appointment had been made to the position of Head of Financial Services and would be starting in early September.

The Chair enquired about the Management Accountant position. The Corporate Director of Resources advised that the post was currently being advertised externally. Members agreed that there would be a handover period with the Interim Finance Change Manager to ensure the knowledge and processes would be sustained.

**RESOLVED** that the Annual Audit Letter from KPMG be noted.

**27. KPMG - LETTER TO GLOUCESTER CITY COUNCIL - AUDIT PROGRESS 2012/13**

The Audit and Governance Committee considered the audit progress from the external auditors, KPMG.

Mr. Gilbert updated Members of the work KPMG had performed to date. It was noted that KPMG had delayed their visit to the finance department to enable the team breathing space as the 2011/12 audit had just been completed. Specific audit procedures had been discussed and reviewed with the Internal Audit team.

Members noted that the City Council's overall IT controls were effective but some areas required improvement. Given the IT issues identified, no new recommendations would be made.

Mr. Gilbert advised that the external auditors were onsite from today and would produce a full Interim Audit Report to the Committee in September 2013.

The Chair enquired on the audit fees and reconciliations. It was noted that a timetable had been agreed with the Finance team and the external auditors would be onsite on 22 July.

Councillor Noakes enquired about removal of employees from the systems after they had left the Council. The Group Manager Audit and Assurance advised that he had raised this issue with colleagues at KPMG because the results of internal audit testing in this area had produced a different result. It appeared that the KPMG testing covered the whole year and had identified a small number of staff who had left in the early part of the year who had not been removed from the list of IT users. However, KPMG testing of leavers during the latter part of the year identified that leavers had been removed. This was consistent with the results of the internal audit testing. The Group Manager Audit & Assurance referred to the Internal Audit Plan Quarterly Monitoring Report which was also on the agenda where the Internal Audit team had looked into the key controls in this area and a good level of assurance had been provided.

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Councillor Porter suggested better communication between the Council and KPMG. He believed that some form of notification from KPMG should have been presented before any information was placed in the public domain to show that the City Council had made significant improvements over the last 12 months.

Mr. Gilbert advised that an in depth process had not been carried out and therefore a letter style feedback had been produced. He added that the initial findings looked promising.

The Corporate Director of Resources said that wherever possible, a covering report would accompany correspondence from KPMG when timing allowed.

**RESOLVED** that the Audit Progress 2012/13 letter be noted.

**28. KPMG - LETTER TO GLOUCESTER CITY COUNCIL - ANNUAL AUDIT FEE 2013/14**

Mr. Gilbert introduced the Annual Audit Fee letter and advised Members of the proposed indicative audit and certification fees for 2013/14.

Mr. Gilbert explained that as the audit for 2012/13 had not yet been completed, the audit planning process for 2013/14, including the risk assessment would continue and fees would be reviewed. This fee was not in line with the scale fee as recommended by the Audit Commission.

Councillor Porter enquired on the scale fee of £83,700 and asked when the City Council would be able to benefit from the scheme. Mr. Gilbert explained that as the City Council was a big organisation it would be expected to pay a higher fee. Once the audit processes are implemented, this would be reflected in the audit fee.

**RESOLVED** that the Annual Audit Fee 2013/14 letter be noted.

**29. INTERNAL AUDIT PLAN 2012/13 - QUARTERLY MONITORING REPORT**

The Group Manager Audit and Assurance presented the report which provided details of the audits completed as part of the approved Internal Audit Plan 2012/13.

He referred to the performance monitoring information for the revised Internal Audit Plan which was based on the number of completed audits vs. the number of planned audits (i.e. an output measure). The indicator for the revised Internal Audit Plan was 86% (12 out of 14 planned audits completed) compared to a target of 90%. These figures did not include one audit which was substantially completed at the end of the audit year. Staff absence had been the main reason for non-achievement of the 90% target.

The Group Manager Audit and Assurance referred to Appendix A which detailed the audits completed and the overall conclusion reached on each audit. Members noted that measures had been implemented and addressed against many of these areas.

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The Chair raised concerns regarding the Payroll Audit and Client Monitoring of the County Council SAP contract. The Corporate Director of Resources referred to the number of disciplinary issues which had arisen last year. As a result, internal audit had reviewed controls within this area as part of their payroll audit.

The Group Manager Audit and Assurance confirmed that recommendations to improve controls had been made following the disciplinary issues.

Councillor Llewellyn referred to the Establishment Lists and enquired whether the procedures and protocols were in place. The Corporate Director of Resources confirmed that procedures were in place as part of the financial services plan. As S151 Officer it was essential these were followed up.

In response to a question from Councillor Llewellyn, the Group Manager Audit and Assurance confirmed that the proposed risk management training for Members was being reviewed.

Members noted that the table 'Ranking of Recommendations' included in the report was used as the basis for providing the opinion on controls following the completion of an audit. Councillor Noakes suggested more information should be included to detail the improvements which had been made.

Councillor Porter made reference to the level of assurance where the levels are split and asked how this view had been arrived at. The Group Manager Audit and Assurance advised that the split opinion was provided in order to highlight areas covered by the audit where controls were working well, and the areas where the controls were not working so well.

Councillor Porter said that it wasn't clear from the content of the report how much of the outcome of the audits were satisfactory and those that were not. The Group Manager Audit and Assurance agreed to take on board the comments raised and provide more information on future reports.

Councillor McLellan enquired on the rankings in terms of individual audits. The Group Manager Audit and Assurance referred to the two definition tables at page 26 of the report. He advised that if a 'Limited' level of assurance had been provided on an audit, this was as a result of a number of mainly Rank 2 'Medium Priority' recommendations, and one or two Rank 1 'High Priority' recommendations being made. He added that previously a report detailing all recommendations had been provided to the Audit Committee who, at that time, commented that the report contained too much information and requested to be only provided with information relating to the 'High Priority' recommendations that had not been implemented.

Members recognised the improvements that had been made.

The Chair suggested the Payroll Client Officer be invited to a future meeting of the Audit and Governance Committee to explain what actions have been implemented.

**RESOLVED** that Members endorse the audit work undertaken to date and the assurance given on the adequacy of internal controls operating in the systems audited.

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**30. INTERNAL AUDIT ANNUAL REPORT 2012/13**

The Group Manager Audit and Assurance presented the report which provided Members with a summary of the Internal Audit work undertaken, which was carried out to the standards outlined in the CIPFA 'Code of Practice for Internal Audit in Local Government in the United Kingdom 2006'.

The Code required the Head of Internal Audit to provide a written report to those charged with governance timed to support the Annual Governance Statement.

Members noted that the overall opinion was that a satisfactory level of assurance could be given that there was a generally a sound system of internal control, designed to meet the Council's objectives, and that controls were generally being applied consistently. The opinion was based upon the work completed as part of the agreed 2011/12 Internal Audit plan.

The Group Manager Audit and Assurance referred to the number of other performance indicators to monitor performance, as detailed in the report. It was noted that the benchmarking figures for 2012/13 included the 'group average' figures obtained from the CIPFA Internal Audit Benchmarking Club.

At the completion of an audit, the auditee was asked to complete a questionnaire giving their views on the audit. Only a minimal number of survey forms had been completed as at the end of March 2013.

In response to a question from the Chair, the Group Manager Audit and Assurance advised that a small amount of chasing was required in relation to the feedback forms. Members were informed that GLT had mandated managers to complete the survey form and they would now be asked to complete the survey form at the same time that they respond to the audit recommendations.

Councillor Porter asked if it was uncommon to receive poor responses. The Group Manager Audit and Governance advised that he had received a better return in previous years. As the Audit Manager at Stroud District Council he had seen a similar situation there.

In addition to the annual review of effectiveness, the Council's External Auditors, KPMG, also carried out an assessment of internal audit work that had been undertaken as part of the agreed joint working protocol.

Councillor McLellan referred to paragraph 4.4 which indicated that a third of audits were of limited or unsatisfactory level of assurances. He asked what percentage of audits levels of assurance would be acceptable. The Corporate Director of Resources advised that ideally there should be no unsatisfactory audit reports, and it was essential to maintain a strong internal audit function

Councillor McLellan asked why the overheads had increased in the last year. The Corporate Director of Resources said this had been a result of a combination of recharges and each service area had been asked to review their charges.

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Councillor McLellan thanked the Group Manager Audit and Assurance for the work undertaken over the year and the criticisms were no reflection on the work he had carried out.

The Group Manager Audit and Assurance reported on the staffing changes within the Internal Audit service. A member of staff was currently on maternity leave and there had been difficulties in recruiting cover for this post. An appointment had now been made and the officer was due to start on the following Monday.

Members expressed their thanks to the Group Manager Audit and Assurance and his team for the work they had undertaken.

**RESOLVED** that Members endorse the assurance from the Group Manager Audit and Assurance that a satisfactory level of assurance can be given that there is a generally sound system of internal control, designed to meet the Council's objectives, and that controls are generally being applied consistently.

**31. FINANCIAL SERVICES IMPROVEMENT PLAN**

The Interim Finance Change Manager circulated the updated version of the Financial Services Improvement Plan which detailed the progress undertaken by the Finance Team.

He advised that the 2012/13 accounts had now been completed. A total of 15 green matters had been achieved out of the 36 recommendations. The three amber status actions had not been completed but were being dealt with. Each balance sheet line had been verified. The Finance Team had worked closely with the Internal Audit team. It was noted that more changes within the Finance Team would be required to improve Rigor.

Members noted that the date of the spreadsheet should be updated. The Interim Finance Change Manager confirmed that the previous template had been used and this date did not reflect the final date of input, and the statement represented the current up to date position.

Councillor Noakes thanked the staff for the work they had undertaken. She suggested that once the green items had been completed, they should be coded blue or grey and then taken off the list once the item had been reported to Committee.

The Corporate Director of Resources advised Members that the Financial Services Improvement Plan would be standing agenda item to keep members updated on progress.

Members expressed their thanks and noted that improvements had been made to ensure accounts were now in a satisfactory position.

**RESOLVED** that the Financial Services Improvement Plan be noted.

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**32. DRAFT STATEMENT OF ACCOUNTS 2012/13**

The Corporate Director of Resources presented the full set of accounts and group accounts including GCH and Aspire.

The Interim Finance Change Manager commented that he was confident with the overall quality of the accounts and the City Council's financial position as at 31 March 2013.

The Corporate Director of Resources referred to the CIPFA work on collection fund, which should minimise external audit review in this area compared to the 2011/12 audit process. He confirmed that a considerable amount of work had been undertaken in this area and CIPFA, who had been onsite last week, had been engaged to carry out an independent review.

Councillor Noakes suggested that this information should be shared with members advising them that a number of accounts had now been closed down and draft accounts were in place. Councillor Wood informed the Committee that a Members' Briefing Sheet was currently in progress.

Councillor Llewellyn commented on the General Fund and HRA expenditure and asked how the forecast was measured. The Corporate Director of Resources commented that the approval rate recognised this should have been a higher level. The budget projection had been £2.1 million and the final figure was £2.2 million.

Councillor Llewellyn believed it was important to recognise the improvements made and the work undertaken by officers to date.

**RESOLVED** that the draft Statement of Accounts 2012/13 be noted.

**33. ANNUAL GOVERNANCE STATEMENT**

The Corporate Director of Resources presented a report on the requirement to prepare and obtain approval on the Annual Governance Statement 2012/13. He apologised for the late circulation but wanted to give members the opportunity to see the latest version of the report as soon as possible.

Members were reminded of the importance of this document in ensuring that Governance arrangements for the City Council were appropriate and they were given brief details of the purpose and process in producing the Statement.

The Corporate Director of Resources commented that the 2012/13 Annual Governance Statement had been prepared by the Corporate Governance Group and was based on best practice guidelines issued by the CIPFA Finance Advisory Network. The Statement included an Action Plan detailing the significant governance issues identified, together with actions to be undertaken during 2013/14 to improve the overall governance arrangements.

He added that actions arising from the 2011/12 Annual Governance Statement Action Plan had either been addressed or continued to be implemented.



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Reference was made to the Action Plan and the four key areas designated for improvement and action. Members noted that:

- A peer review process would be undertaken during 2013/14
- The implementation of the Financial Services Improvement Plan
- Investigations into the options for increasing Member development opportunities
- Review of the Council's Whistleblowing Policy. Members noted that this item was on the agenda.

Councillor Noakes requested that the item be deferred to the next meeting to enable full consideration of the statement.

The Corporate Director of Resources advised that the item could be deferred to the next meeting and the report as the requirement is to include it with the final published Statement of Accounts in September 2013.

**RESOLVED** that the Annual Governance Statement 2012/13 be deferred to the next Audit and Governance Committee in September.

**34. REVIEW OF EFFECTIVENESS OF INTERNAL AUDIT**

The Corporate Director of Resources presented the report which informed Members of the outcome of the review of the effectiveness of Internal Audit as required under the Accounts and Audit (England) Regulations 2011.

He advised that one of the main areas of partial compliance related to Customer Feedback on the service, which was important to help assess the quality of the service provided to the user. Although a survey form was sent out at the conclusion of each main audit, only a minimal number were completed and returned. As a result of this a mandate has been issued to managers to respond to the survey at the same time as responding to audit recommendations.

The Corporate Director of Resources drew Members' attention to the level of benchmarking that had been undertaken.

**RESOLVED** that the review process be approved and that the outcome of the Review of the Effectiveness of Internal Audit be noted.

**35. REVIEW OF WHISTLEBLOWING POLICY**

The Group Manager Audit and Assurance presented the report which detailed the revisions to the Council's Whistleblowing Policy.

At the Audit and Governance Committee held on 28 February 2013, Members considered the governance issues arising out of a series of anonymous allegations against Members and Officers of the Council and resolved that the Whistleblowing Policy should be reviewed.

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The Policy had been updated to include that the Council had the right not to investigate anonymous allegations which appeared frivolous or malicious and were unsupported by credible evidence.

In response to a question from Councillor Porter, the Group Manager Audit and Governance advised that this policy had been in place for a number of years. He had consulted with colleagues at other County and District Councils and obtained copies of their policies. The City Council's policy was very similar in content to those used by other Council's.

**RESOLVED** that the Whistleblowing Policy, as detailed in Appendix A of the report, be approved.

**36. TREASURY MANAGEMENT STRATEGY 2013/14**

The Committee considered a report outlining the Treasury Management Strategy and the treasury implications of the potential CoCo.

The Corporate Director of Resources advised that specific training would be provided to Members of the Audit and Governance Committee to monitor achievements.

Members' welcomed the training and asked that it was arranged before an Audit and Governance Committee meeting. The Corporate Director of Resources said future dates of the Committee had been forwarded and he was awaiting feedback.

Councillor Noakes commented that as the report had been presented to Council in May 2013, she suggested that a two page document summarising the report would have been sufficient.

**RESOLVED:**

1. That the report is noted
2. That Members of the Audit and Governance Committee receive training.

**37. PUBLIC SECTOR INTERNAL AUDIT STANDARDS**

The Group Manager Audit and Assurance presented the report informing Members of changes to the Internal Audit standards.

The 1 April 2013 saw the introduction of the new United Kingdom Public Sector Internal Audit Standards (PSIAS) that apply across the whole of the public sector. The PSIAS are based on the Institute of Internal Auditors (IIA) Standards, with a limited number of additional requirements and interpretations that allow the PSIAS to be adopted for the public sector.

The new Standards are intended to promote further improvement in the effectiveness of internal audit across the public sector.

Members' noted that an external assessment must be undertaken at least once every five years. The Group Manager Audit and Governance advised that the Audit

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and Governance Committee could determine when the review should be undertaken.

The Group Manager Audit and Assurance informed Members' of the internal Audit Charter which would require updating to take account of the requirements of the PSIAS. A report on this, together with any other changes identified from implementing the Standards, would be presented to the Audit and Governance Committee at its next meeting in September 2013.

**RESOLVED** that the report be noted.

**38. ANNUAL COMPLAINTS MONITORING**

The Committee considered a report by the Monitoring Officer on the statistics relating to complaints and compliments received by the Council between April 2012 and March 2013 and complaints made to the Local Government Ombudsman during the same period.

The Monitoring Officer to Appendix 1 which contained the summary of the total numbers of complaints and compliments for each municipal year from 2010/11 onwards. Appendix 2 showed the complaints received in 2012/13 which had been broken down by service area, together with the numbers of those complaints which were found to be justified or unjustified.

Members noted that complaints regarding Neighbourhood Management Services (NMS) related to bins/recycling issues and a large proportion of complaints regarding Enterprise also related to bins.

The Monitoring Officer advised that if a complainant was dissatisfied with the Council's response to their complaint, they could refer the matter to the Local Government Ombudsman. She added that in 2012/13, a total of 3 complaints were made to the Ombudsman, all of which they had decided not to investigate.

Members asked what the 28 complaints relating to Customer Services were about. The Monitoring Officer advised that she did not have details of this readily available but would contact the Customer Services Manager for further information.

Councillor McLellan asked how vexatious complaints were dealt with. The Monitoring Officer advised that the City Council did not receive many complaints which became vexatious but guidance was available from the Information Commissioner on how to deal with such complaints.

In response to a question from Councillor Llewellyn, the Monitoring Officer advised that Stage 1 of the complaint related to an initial complaints being received by the Council at the appropriate level. If the complainant is dissatisfied, the complaint would then be passed to another manager as a Stage 2 complaint.

Members found the statistics encouraging and noted that the Council had been resolving complaints when raised.

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Councillor Noakes suggested that information relating to bins should be detailed on a separate line. The Monitoring Officer said she would amend the report.

**RESOLVED** that the report be noted.

**39. REVIEW OF THE COUNCIL'S STANDARDS ARRANGEMENTS**

The Committee considered a report by the Monitoring Officer providing background information to review the operation of the Council's standards arrangements.

The Monitoring Officer referred to the Localism Act 2011 which had made fundamental changes to the system of regulation of standards of conduct for elected and co-opted Councillors which had been implemented on 1 July 2012.

She advised that a minor issue had been identified in the course of updating and revising the documents which related to the appointment of one Independent Person.

Members noted that the Council would need to seek the views of its Independent Person and take their views into account before a decision was made on any allegation to be investigated. Under the Council's standards arrangements, the Monitoring Officer would be required to consult with the Independent Person on every complaint received, whether or not these complaints are investigated. Under the legislation, there was no obligation for the Independent Person to be consulted on every complaint.

As the Council currently only had one appointed Independent Person, the requirement to consult with the Independent Member for all complaints could lead to delays in dealing with complaints. The Audit and Governance Committee were asked to consider whether or not it wished to remove the requirement to consult with the Independent Person for all complaints.

Members agreed that having one Independent Person would not generate more than a week's delay and proposed to continue with the current arrangement.

**RESOLVED** that the report be noted.

**40. PEER REVIEW**

The Corporate Director of Resources presented a report on behalf of the Chief Executive. He explained that it was important to update Members on progress for the arrangements on the proposed peer challenge for 2013/14. At a recent meeting of the Audit and Governance Committee, Members were keen to see a review take place.

He advised that the Chief Executive had been working closely with the Local Government Association who had produced a proposal tailored for the City Council's particular circumstances.

Members noted the review would include a financial 'health check' resulting in a report which would provide an overall view of the Council's current financial status,

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a workforce capacity which would be undertaken in the Autumn and the 'peer challenge plus' which would give Members comfort that extensive steps would be in place to take the organisation forward.

The Corporate Director of Resources advised that the review would be undertaken in September and carried out by Sir Bill Roots, former Chief Executive of London Borough of Westminster. There would be no costs to the Council as support would be provided by the LGA.

**RESOLVED** that the report be noted.

**41. DATE OF NEXT MEETING**

Monday, 23 September 2013 at 6.30pm.

**Time of commencement: 18:30 hours**

**Time of conclusion: 20:50 hours**

**Chair**