



## **AUDIT AND GOVERNANCE COMMITTEE**

**MEETING** : Monday, 23rd September 2013

**PRESENT** : Cllrs. Wilson (Chair), Hobbs (Vice-Chair), Noakes, Llewellyn, Gilson and Field

**Others in Attendance**

Darren Gilbert, KPMG LLP

Tara Westcott, KPMG LLP

Councillor Wood, Cabinet Member for Performance and Resources

Peter Gillett, Corporate Director of Resources

Terry Rodway, Audit, Risk and Assurance Manager

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

**APOLOGIES** : Cllrs. Porter and McLellan

**42. DECLARATIONS OF INTEREST**

There were no declarations of interest.

**43. MINUTES**

The minutes of the meeting held on 24 June 2013 were confirmed as a correct record and signed by the Chair.

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

There were no questions from members of the public.

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

There were no petitions or deputations.

**46. RESPONSE TO INTERNAL AUDIT REPORT RECOMMENDATIONS - MARKETS**

The Audit, Risk and Assurance Manager introduced the Markets Manager, Sheila McDaid, who had been invited to attend the meeting to provide Members with an update in relation to the implementation of audit recommendations for the markets

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service. Members were reminded that this item was on the agenda for the meeting as a result of a recommendation from a previous meeting of the Audit and Governance Committee.

The main areas of weakness identified were:-

Eastgate Market:

- Lack of documentary evidence that the gross service charge costs, which are used to calculate the Eastgate stallholder charges, had been updated since 2010/11.
- There continues to be discrepancies within the monthly invoices to some of the Eastgate stallholders due to the monthly proportion of their annual charge being incorrectly calculated.
- Unable to demonstrate that appropriate approval had been obtained for variations to the charges, or for an extension past the maximum three month rental period, for short term lets at Eastgate Market.

Street Trading:

- One of the street traders had been undercharged for two days trading plus electricity per week and that the undercharge may go as far back as 1 April 2012.

The Markets Manager advised Members that all issues identified were being worked on. The undercharging of a street trader was due to an administrative error and this matter had now been resolved. The Markets Manager reported that she now had delegated authority to waive monthly rental in order to keep businesses open and that she had been working closely with the Audit team and Asset Management in relation to the service charge costs issue which had been caused due to the changeover of systems.

In response to a question from Councillor Llewellyn, the Markets Manager advised that the discrepancies related to the different basis of recharge used for calculating the charges payable by market stallholders. A spreadsheet had been used to calculate the charges which when compared to the amounts actually being invoiced, identified minor discrepancies.

The issues had now been resolved and the spreadsheet values agree to the amounts being invoiced.

Members thanked the Markets Manager for her attendance.

**RESOLVED that an update be provided by the Audit, Risk and Assurance Manager at the next Audit and Governance Committee in November.**

**47. RESPONSE TO INTERNAL AUDIT REPORT RECOMMENDATIONS - CLIENT MONITORING OF PAYROLL SYSTEM**

Members were advised that the Civica Client Liaison Officer was currently on leave and it was agreed to postpone this item until the next meeting.

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**RESOLVED that the response to internal audit report recommendations – client monitoring of payroll system be deferred to the next Audit and Governance Committee in November.**

**48. ACTION PLAN**

The Corporate Director of Resources presented the action plan which had been updated following the comments raised by Members at the last meeting. Members were advised that all completed action points would be taken off the list and only ongoing actions would be presented to the next Committee meeting.

The Chair queried action point number 15 on page 18 which related to an issue raised at the meeting held on 18 March 2013 regarding Internal Audit – Quarterly Monitoring Report. Members had asked to see some of the action plans produced by Service Managers following internal audits.

The Audit, Risk and Assurance Manager advised that he had emailed the Chair and Vice Chair on 19 September 2013 seeking clarification on how this action should be implemented. He reported that the Committee could and did request Managers to attend the Committee where ‘Rank 1’ recommendations had not been implemented by the agreed date. This had resulted in the appropriate Manager detailing the actions taken or to be taken to implement the recommendations.

The Chair and Vice Chair queried whether they had received the email, although it was subsequently confirmed that the email had been sent and received.

It was agreed that this matter would be discussed at the next pre-meeting with the Chair and Vice Chair.

**RESOLVED:**

- 1. That the action plan be noted.**
- 2. That the action plans produced by Service Managers following internal audits be discussed at the next pre-meeting with the Chair and Vice Chair.**

**49. KPMG ISA 260 REPORT TO THOSE CHARGED WITH GOVERNANCE**

The Audit and Governance Committee considered the report by the Corporate Director of Resources and the appended report to “Those charged with governance (ISA 260) 2012/13” which had been produced by the Council’s external auditors, KPMG, on 19 September 2013.

The external auditor was required to produce an annual report and the ISA 260 report summarised the key issues identified by KPMG during the audit of the City Council’s financial statements for 2012/13.

The Committee noted that the report commended the Council for improvements seen over the last year, and confirmed that KPMG anticipated issuing an unqualified audit opinion on the City Council’s financial statements by 30 September 2013, and based on the improvements put in place since the previous

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audit, also anticipated issuing an unqualified Value for Money Conclusion by 30 September 2013. This followed completion of the first full draft set of accounts before 30 May, and certification by the Corporate Director of Resources on the pre-audit statements before the deadline of 30 June 2013.

Members also noted that the ISA 260 report highlighted only four key issues and recommendations which included clear management responses from the City Council.

Mr. Gilbert, KPMG, commended the Council on the significant improvements seen over the last year although there was still a need for improvement in some areas. Subject to all outstanding queries being resolved to the satisfaction of KPMG, an unqualified audit opinion would be issued by 30 September 2013.

Mr. Gilbert commented that the Council was actively recruiting permanent post holders to key finance positions and said it was important that adequate knowledge and handover processes from the Interim Team are put in place.

Ms. Westcott, KPMG, referred to the audit differences as set out in Appendix 3 of the report, which had been agreed by the Council. She commented that the audit process had been considerably smoother than in previous years and that Officers had dealt with queries promptly and within the timescales.

The Chair commented that it was refreshing that all accounts had been completed and commended all officers involved. He was pleased that the Council would now be in a better position and that the certified accounts would be ready one week before the deadline. He added that the process would need to be sustained and that a sufficient handover period would need to be carried out.

Councillor Llewellyn asked why the certified accounts would only be completed in September when the on-site audit had commenced on 22 July and finished on 8 August and questioned why it had not been possible for Audit to sign-off the accounts in advance of the Committee. Mr. Gilbert said this was due to the subsequent period of off-site review KPMG had to carry out.

Councillor Llewellyn asked if the fees would be lowered as a result of the improvements. Mr. Gilbert informed the Committee that although improvements had been made, he would need to review further progress to enable a reduction in fees.

The Corporate Director of Resources proposed to the Committee that the four recommendations in the report be included in the ongoing Financial Services Improvement Plan, and asked Audit and Governance Committee to both endorse this approach and review progress against the recommendations as part of the routine monitoring of the plan now established as a standing agenda item at each meeting.

Members expressed their thanks for the excellent work undertaken by the Finance Team.

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**RESOLVED:**

1. That the ISA 260 report to those charged with governance be noted.
2. That the improvements made since the previous external audit process be noted and agreed that the recommended actions identified in the ISA 260 report are included in the Council's ongoing Financial Services Improvement Plan.

**50. AUDITED STATEMENT OF ACCOUNTS**

The Audit and Governance Committee was presented with a copy of the final financial statements for 2012/13, including changes arising as a result of the audit process. The report also outlined the Council's key accounts and balances.

Given confirmation from KPMG that an unqualified opinion would be issued, the Committee were asked to approve the final version of the Statement of Accounts.

**RESOLVED that, subject to the minor presentational adjustments discussed at the meeting, the audited Statement of Accounts for 2012/13 be approved.**

**51. TREASURY MANAGEMENT 2012/13 - QUARTER 4**

The Committee considered a report by the Corporate Director of Resources fulfilling one of the requirements of the revised Code of Practice for Treasury Management, which recommended that Members should be updated on treasury management activities at least twice a year, but preferably quarterly.

It was noted that Audit and Governance Committee Members had received training on Treasury Management prior to the start of the meeting.

The Committee was advised that during the financial year, the Council had operated within the treasury and prudential indicators as set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. These indicators were detailed in Appendix 2 of the report.

The Corporate Director of Resources commented that during 2012/13 the Council had successfully moved to an under-borrowing position.

**RESOLVED that the report and compliance with the prudential indicators be noted.**

**52. ANNUAL GOVERNANCE STATEMENT 2012/13**

The Committee received a report on the Annual Governance Statement for 2012/13, which had been prepared by the Corporate Governance Group based on best practice guidelines issued by the CIPFA Finance Advisory Network. It 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.

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The Corporate Director of Resources thanked the Audit, Risk and Assurance Manager and the Group Manager Legal and Democratic Services for their assistance in helping to prepare the Statement.

The Committee were advised that the actions identified in the 2012/13 Annual Governance Statement Action Plan were being addressed.

Councillor Noakes commented that the Annual Governance Statement Action Plan as detailed on page 51 of the report did not contain any target dates or how the actions would be implemented.

The Corporate Director of Resources confirmed target / completion dates would be included in the Action Plan.

**RESOLVED that the Annual Governance Statement for 2012/13 be approved.**

**53. TREASURY MANAGEMENT PERFORMANCE 2013/14 - QUARTER 1**

The Committee considered a report by the Corporate Director of Resources fulfilling one of the requirements of the revised Code of Practice for Treasury Management in November 2011 recommending that Members should be updated on treasury management activities at least twice a year, but preferably quarterly.

The Interim Finance Change Manager advised the Committee that the Council had continued to remain compliant with the approved prudential indicators.

In response to a question from the Chair, the Finance Change Manager advised that regular emails were received from the Council's Treasury Management advisors, which provided information on borrowing and investments. In addition to receiving regular updates, Sector-Capita were also obliged to visit the offices and complete a balance sheet review twice a year. This was a helpful process when setting the Treasury Management Strategy.

**RESOLVED that the report be noted.**

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

The Corporate Director of Resources presented a report outlining the Treasury Management Strategy for 2013/14 which had been approved by Full Council.

Councillor Llewellyn suggested training should be provided to Members to enable them to have a better understanding of the CoCo model for Housing. The Corporate Director of Resources advised that a special meeting of Council had been scheduled to take place on 17 October 2013 for an update on the proposals relating to the housing stock transfer and confirmed that he was arranging specific Member training / briefing sessions with input from the project advisors for each Group beforehand.

**RESOLVED that the Treasury Management Strategy be noted.**

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**55. FINANCIAL SERVICES IMPROVEMENT PLAN**

The Interim Finance Change Manager presented the latest update to the Financial Services Improvement Plan which detailed progress undertaken by the Finance Team.

Members noted that considerable recommendations had now been rated as Blue as these matters had now been resolved. Work to recommendations that had been RAG rated Green were still in progress.

Councillor Noakes suggested that the recommendations highlighted in Blue should now be hidden. Given the size of the documents, she requested that printed copies of the report be made available to the Committee, even though Members would be issued with tablet devices.

Members noted the good progress and improvements that were being made.

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

**56. INTERNAL AUDIT PLAN 2013/14 - QUARTERLY MONITORING REPORT**

The Audit, Risk and Assurance Manager presented the report which informed Members of the audits completed during the period April 2013 to August 2013 as part of the approved Internal Audit Plan 2013/14.

The Committee was advised that the report included details of the Audit Commission Data Matching exercise which produced a total of 62 reports, of which 39 reports related to Housing Benefit matches. These reports were being checked by the Benefit Fraud team. The remaining reports covering data matches relating to housing tenancies, payroll, creditors and licences were checked by the Audit and Assurance team.

The Committee was also advised that the report included the results of the audit of the Financial Services Improvement Plan. The audit had identified that, of the 42 recommendations that had been RAG rated as Green, 34 were agreed as being implemented. For the remaining eight, the audit indicated that they were partially implemented; however the response from the Finance Change Manager was that these were still work in progress.

The Audit, Risk and Assurance Manager informed the Committee that details of the other audits completed, together with the overall conclusion reached on each audit, had been provided in Appendix A of the report. This included more detailed information and the ranking of recommendation as to how the level of assurance had been obtained.

The Chair commented on the agreed implementation dates relating to the completion of the Council's website as referred to in Appendix B of the report. The Audit, Risk and Assurance Manager advised that he had received detailed management responses with agreed implementation dates. Any Rank 1 'High Priority' recommendations which had not been completed by the agreed date would be reported to the Audit and Governance Committee.

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Councillor Noakes suggested that the original agreed implementation date should be put in brackets with a revised date included.

The Corporate Director of Resources confirmed that he would contact the Asset Manager regarding his attendance at the next meeting of the Audit and Governance Committee in relation to the Response Repairs Contract which had resulted in an unsatisfactory level of assurance.

**RESOLVED:**

- 1. That the audit work undertaken to date be endorsed and the assurance given on the adequacy of internal controls operating in the systems audited be noted.**
- 2. That the Asset Manager be invited to attend the next meeting of the Audit and Governance Committee.**

**57. PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS)**

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

At a previous meeting of the Audit and Governance Committee, Members received a report on the new PSIAS. The report indicated that a review of the Standards was being undertaken and that any changes identified from implementing the new Standards would be presented to the Committee at its next meeting.

The review had now been completed and Members were referred to paragraphs 4.0 – 6.0 of the report which identified gaps between the previous CIPFA Standards and the new PSIAS, together with details of the proposed action.

The Audit, Risk and Assurance Manager referred to the revised Internal Audit Charter as detailed in Appendix A of the report. He commented on the external assessment to be carried out at least every five years and the proposed actions to be implemented.

**RESOLVED:**

- 1. That the identified changes be noted.**
- 2. That the proposed actions to help demonstrate compliance with the PSIAS be accepted.**

**58. UPDATE ON THE PEER REVIEW - DRAFT TERMS OF REFERENCE**

The Corporate Director of Resources updated Members on the peer review.

Members recalled that as part of the peer review, a 'peer challenge plus' had been designed, which would include a financial 'health check' and a review of the organisation's business planning.



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The main peer challenge had been scheduled for 11-13 December 2013 and the financial health check, which was being undertaken by Sir Bill Roots, was in progress. The Corporate Director of Resources reported that Sir Bill Roots had been onsite last week and had met with some Members and officers. Sir Bill Roots would be writing up his report to identify areas of improvements discussed and good practice to further improve medium term financial planning and risk management.

In response to a question from the Chair, the Corporate Director of Resources confirmed that the report would be available in time for the peer challenge in December.

**RESOLVED that the report be noted.**

**59. FIXED ASSET REGISTER**

The Interim Finance Change Manager updated the Committee on the Fixed Asset Register.

He advised that the register would be fully implemented in March 2014 as part of the Cedar financial system upgrade. He reported that the current version was now unsupported.

**RESOLVED that the report be noted.**

**60. SERVICE RISK REGISTERS**

The Audit, Risk and Assurance Manager provide an update on Service Risk Registers.

He advised Members that the Audit team continued to give advice to Managers on completing their risk registers. The Gloucester Leadership Team (GLT) had been reviewing services risk registers and business plans on a regular basis. The Audit and Assurance risk register had been presented to GLT and received positive feedback.

**RESOLVED that the report be noted.**

**61. WORK PROGRAMME**

The Corporate Director of Resources presented the proposed work programme for the Audit and Governance Committee.

Members were satisfied with the content and noted the volume of information presented to the Committee.

**RESOLVED that the Audit and Governance Committee Work Programme be noted.**

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**62. DATE OF NEXT MEETING**

Monday, 25 November 2013 at 6.30pm.

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

**Time of conclusion: 20:00 hours**

**Chair**