



## **AUDIT AND GOVERNANCE COMMITTEE**

**MEETING** : Thursday, 26th June 2014

**PRESENT** : Cllrs. Wilson (Chair), Haigh and Taylor

### **Others in Attendance**

Darren Gilbert, KPMG LLP  
Tara Westcott, KPMG LLP  
Sue Mullins, Head of Legal and Policy Development  
Terry Rodway, Audit, Risk and Assurance Manager  
Jon Topping, Head of Finance  
Andrew Cummings, Finance  
Richard Webb, Asset Manager  
Tanya Davies, Democratic and Electoral Services Manager

**APOLOGIES** : Cllrs. Hobbs, Llewellyn, Noakes and McLellan

### **1. APPOINTMENT OF CHAIR AND VICE-CHAIR**

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

### **2. DECLARATIONS OF INTEREST**

There were no declarations of interest.

### **3. MINUTES**

The Chair noted that the revised Committee Action Plan did not reflect what was agreed in the minutes and would need to be amended.

**RESOLVED** – That the minutes of the meeting held on 17 March 2014 be confirmed as a correct record and signed by the Chair.

### **4. PUBLIC QUESTION TIME (15 MINUTES)**

There were no questions from members of the public.

### **5. PETITIONS AND DEPUTATIONS (15 MINUTES)**

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There were no petitions or deputations.

**6. UPDATE ON COMBINED HEAT AND POWER INSTALLATION AT GL1**

The Committee considered an update on the Combined Heat and Power (CHP) Installation at GL1 from the Council's Asset Manager.

The Asset Manager summarised history of events and advised that recommended changes had been made to the CHP controls, which were in the process of being monitored on site and would be assessed to identify what savings were being achieved as a result.

The Chair welcomed the progress and requested a further update in January 2015.

Councillor Haigh welcomed the opportunity to compare the savings when the next update was presented to the Committee.

**RESOLVED** – that the update be noted.

**7. AUDIT AND GOVERNANCE COMMITTEE ACTION PLAN**

The Audit, Risk and Assurance Manager presented the updated action plan.

The Chair noted that the rating for Item 17 concerning the Combined Heat and Power Installation at GL1 could be changed to green.

The Audit, Risk and Assurance Manager stated that the Corporate Director Services & Neighbourhoods had advised that the purchase of software with a modern stock control facility for The Guildhall was on hold pending the outcome of a wider service review and that it would be considered as part of the review; options for future service delivery would be considered and therefore it was not desirable to invest further in the service until the review was complete. The Audit, Risk and Assurance Manager added that an audit of the Guildhall was included in the Audit Plan for the quarter ending September 2014 and that he would report the results back to the next meeting of the committee. Councillor Haigh expressed concern about the further delay and stated that the stock control issues should be resolved more quickly outside of the service review. The Chair noted the committee's concern in respect of the further delay and wanted these concerns to be reported to the Corporate Director. The Chair agreed to await the outcome of the audit before pressing for further action.

**RESOLVED** – That the Action Plan be updated with the suggested amendments.

**8. KPMG INTERIM AUDIT REPORT 2013/14**

The Committee considered the Interim Audit Report 2013/14 presented by Darren Gilbert from KPMG.

Mr Gilbert reported that the audit was going well and that the interim audit was positive, with a small number of areas to consider in more detail.

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Tara Westcott of KPMG reported that the interim audit had found the Council's financial controls to be generally sound, with some areas of weakness that would be followed up and that organisational controls were effective overall. KPMG were pleased to be able to place full reliance on the work of Internal Audit and noted significant improvements in the account production process.

The Chair welcomed the largely positive report and asked for further explanation of the decision not to rely on the work of the external auditors of Gloucester City Homes and Gloucestershire Airport Limited.

Mr Gilbert stated that it was most efficient to conduct their own tests and that it was not a comment on their ability to rely on the audit work.

In response to a question from Councillor Haigh regarding the Peer Challenge report, Mr Gilbert explained that the recommendations from the report were of interest, but that they would not be placing significant reliance on it. He advised that they looked for broad comfort in respect of the organisational environment, but that other areas carried more importance.

**RESOLVED** – that the Interim Audit Report 2013/14 be noted.

**9. KPMG ANNUAL AUDIT FEE LETTER 2014/15**

The Committee considered the KPMG Annual Audit Fee Letter 2014/15 presented by Mr Gilbert.

Mr Gilbert reported relative stability in respect of the planned audit fee and, in response to a question from the Chair, advised that KPMG would reassess the fee on completion of the audit and give consideration to revising the figure.

**RESOLVED** – that the Annual Audit Fee Letter 2014/15

**10. KPMG PROTECTING THE PUBLIC PURSE FRAUD BRIEFING 2013**

The Committee received a briefing from KPMG on fraud and 'Protecting the Public Purse' presented by Ms Westcott.

Ms Westcott took Members through the briefing and advised that it aimed to encourage Members to consider the how best to deploy counter fraud activity. She advised the audit included consideration of the potential for internal fraud and tested to ensure controls were working well.

**RESOLVED** – that the briefing be noted.

**11. KPMG EXTERNAL AUDIT PROGRESS REPORT AND TECHNICAL UPDATE**

The Committee considered the External Audit Progress Report and Technical Update from KPMG.

Ms Westcott explained that the report was technical in nature and largely for the purpose of the Council's finance officers.

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In response to a question from the Chair concerning changes to council tax calculations, Mr Gilbert confirmed that the draft Order proposed some refinement to the existing process rather than a completely new process.

**RESOLVED** – that the report be noted.

**12. INTERNAL AUDIT PLAN 2013/14 - MONITORING REPORT**

The Committee considered a report of the Audit, Risk and Assurance Manager concerning the remaining audits completed as part of the approved Internal Audit Plan 2013/14.

The Audit, Risk & Assurance Manager reported that Internal Audit had achieved a completion rate of 88% against a target of 90% for the 2013/14 Audit Plan. The report detailed the audits that had been completed and noted a split-level of assurance in a number of areas. In respect of the Rank 1 'high priority' recommendation from the audit of the payroll contract that had not been implemented by the specified date, he explained that the payroll contract was currently operating without a service level agreement (SLA) as there were a number of operational issues to resolve before an SLA could be agreed. The service provision was still under review and it was anticipated that the recommendation would be implemented by the end of the calendar year.

Members expressed concern about the delay in implementing the payroll Rank 1 recommendation and requested that the responsible manager be asked to attend the next meeting. The Audit, Risk & Assurance Manager undertook to invite the Head of Human Resources and Organisational Development to the next committee meeting.

The Chair requested that the Committee be informed if the Rank 1 recommendation from the audit of the Revenues and Benefits contract was not implemented by the deadline and, if that was the case, then the responsible manager be requested to attend the next meeting.

In response to concerns from Councillor Haigh in relation to audits on two catering operations reporting only a 'limited' level of assurance, the Audit, Risk & Assurance Manager noted the concerns and advised that officers were working to implement the agreed recommendations. It was agreed that the Audit, Risk & Assurance Manager would report back to the next meeting on the implementation of the agreed recommendations..

**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.

**13. AUDIT, RISK AND ASSURANCE MANAGER'S ANNUAL REPORT 2013/14**

The Committee considered a report of the Audit, Risk & Assurance Manager concerning an overview of Internal Audit work, compliance with Financial Regulations, Contract Standing Orders, and general probity issues for the financial

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year ending 31st March 2014, and, providing an opinion on the overall adequacy and effectiveness of the organisation's control environment.

The Audit, Risk & Assurance Manager reported that his overall opinion was that a satisfactory level of assurance could be given that there was a generally sound system of internal control. In response to a query from Councillor Haigh regarding the monitoring of progress in the areas where the audit opinion was either limited or unsatisfactory, he explained that managers undertake to implement the agreed audit recommendations by a specified date and that a further audit would be carried out to check for successful implementation. He advised that any Rank 1 recommendations not implemented by the deadline set would be reported to the Committee and that Members could request the attendance of the responsible manager.

In response to a question from the Chair regarding the low return rate for feedback questionnaires, the Audit, Risk & Assurance Manager explained that feedback on internal audits was not mandatory because it could result in questionnaires being completed without proper consideration. He advised that it was anticipated that a new, intranet-based form would improve the response rate.

**RESOLVED** – That the assurance from the Audit, Risk & Assurance Manager 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 be endorsed.

**14. REVIEW OF EFFECTIVENESS OF INTERNAL AUDIT**

The Committee considered a report of the Corporate Director of Resources concerning the outcome of the review of the effectiveness of Internal Audit as required under the Accounts and Audit (England) Regulations 2011.

The Head of Finance reported that overall conclusion from the review was that internal audit at Gloucester City Council was effective.

The Chair asked whether the 'gaps' in conformance with the Public Sector Internal Audit Standards (PSIAS) identified should be of concern.

The Audit, Risk & Assurance Manager advised that there was no penalty associated with non-conformity and was aware that other District Councils reported gaps in conformance against the Standards. He explained that it was important to consider the impact of any partial or non-conformity, but that the gaps identified did not adversely affect his responsibility to provide an overall opinion on the effectiveness of the system of internal control. He advised that, as per the requirements of the Standards, an external review of effectiveness of internal audit was due to be scheduled.

**RESOLVED** - That the review process be approved and the outcome of the review of the effectiveness of Internal Audit be noted.

**15. TREASURY MANAGEMENT UPDATE - QUARTER 4 REPORT 2013/14**

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The Committee considered a report of the Corporate Director of Resources concerning the Treasury Management Update for quarter 4 of 2013/14.

The Head of Finance summarised the report and confirmed that one prudential indicator had been exceeded during 2013-14. He explained that the limits for fixed rate borrowing had been set incorrectly, resulting in the breach, and that all of the relevant levels had been revised to a more reasonable level for 2014/15.

**RESOLVED –**

**(1)            *That the report be noted and it be noted that no changes are required to the prudential indicators.***

**(2)            *That it be noted that one prudential indicator has been exceeded during 2013-14.***

**16. ANNUAL GOVERNANCE STATEMENT**

The Committee considered a report of the Corporate Director of Resources on behalf of the Corporate Governance Group concerning the Annual Governance Statement.

The Audit, Risk and Assurance Manager summarised a number of minor presentational amendments to the statement detailed in an addendum circulated to Members (see Appendix 1). In response to a question from the Chair he confirmed that the accompanying Action Plan would come back to the Committee to monitor progress.

Councillor Haigh noted that all Members had been invited to respond to the recent Peer Challenge report.

**RESOLVED –** that, subject to the amendments detailed at Appendix 1 to the minutes, the Annual Governance Statement for 2013-14 be approved.

**17. AUDIT & GOVERNANCE COMMITTEE ANNUAL REPORT 2013/14**

The Committee considered the Audit & Governance Committee's Annual Report 2013/14 from the Audit, Risk and Assurance Manager.

**RESOLVED –** that the report be noted and recommended to Council for approval.

**18. INDEPENDENT PERSON PROTOCOL**

The Committee considered a report of the Monitoring Officer seeking the adoption of a protocol in relation to the Independent Person.

The Monitoring Officer reported that the protocol had been considered by a Working Group and that the Independent Person had been consulted and proposed no further changes. She advised that the protocol would be incorporated into the Council's Constitution.

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In response to a question from the Chair, the Monitoring Officer confirmed that the Independent Person received copies of all agendas and minutes for the Audit and Governance Committee.

**RESOLVED** – that the draft Independent Person Protocol at Appendix 1 be approved.

**19. COMMITTEE WORK PROGRAMME**

The Committee considered their revised work programme.

The Chair noted that the work programme had not yet been amended to reflect the change to the frequency of meetings and that he and the Vice Chair would consider the new timetable and allocate items to the revised meeting dates.

**RESOLVED** – that the items in the work programme be noted and the work plan be amended to reflect the change to the frequency of meetings.

**20. DATE OF NEXT MEETING**

The date of the next meeting to be confirmed following Council approval of a change to the frequency of meetings.

**Time of commencement: 19:00 hours**  
**Time of conclusion: 20:25 hours**

**Chair**