

# AUDIT AND GOVERNANCE COMMITTEE

Tuesday 24<sup>th</sup> November 2009

**COUNCILLORS PRESENT FOR THE WHOLE OF THE MEETING:** The Chair (Councillor Beverly Hazell), the Vice-Chair (Councillor Craig Simmons), Councillors Stephen Brown, Clark Brundin, Bryan Keen and Oscar Van Nooijen.

**OFFICERS PRESENT:** Peter Sloman (Chief Executive), Nigel Pursey, Penny Gardner, Sarah Fogden, Carol Quainton, and Anna Winship (Finance), Melbourne Barrett (Director, City Regeneration), Maria Grindley, (Audit Commission), Richard Bacon and Katherine Bennett (Pricewaterhousecoopers). Jeremy Thomas, Mathew Metcalfe and Sarah Claridge (Legal and Democratic Services)

## **37. APOLOGIES FOR ABSENCE**

No apologies were received

The Committee welcomed Nigel Pursey, Interim Executive Director of Finance

## **38. DECLARATIONS OF INTEREST**

None declared.

## **39. NOTIFICATION OF URGENT BUSINESS**

None notified.

## **40. ANNUAL AUDIT LETTER**

The Committee agreed to refer to the Audit and Governance working Group the Annual Audit letter for discussion when the Working Group meets on a date to be arranged.

## **41. AUDIT COMMISSION - PROGRESS REPORT**

The Head of Finance submitted a report (previously circulated, now appended) on behalf of the Audit Commission, which set out the progress that the Audit Commission had made in delivering the work set out in the 2008/09 and 2009/10 Audit plans.

Maria Grindley from the Audit Commission introduced the report and answered questions from members of the Committee.

The Committee agreed to note the report.

## **42. AUDIT PROTOCOL – AUDIT COMMISSION**

The Head of Finance submitted a report (previously circulated, now appended) on behalf of the Audit Commission which set out the basis for the joint working arrangements between the Council Internal Audit Service and the Audit Commission as the Council's external auditors.

Maria Grindley from the audit Commission introduced the report and said that the Audit Commission was working closely with Internal Audit and sharing protocols and that there were only minor differences from the last report.

The Committee agreed to note the report.

## **43. REVIEW OF 2008/09 ACCOUNTS CLOSURE AND EXTERNAL AUDIT PROCESSES**

The Interim Executive Director of Finance submitted a report (previously circulated, now appended), which summarised the conclusions reached following the recent review of the 2008/09 closure of accounts and external audit processes.

Councillor Simmons said that extremely serious concerns had been raised and that he would welcome milestones for success being included in the Action Plan. In response Nigel Pursey said that possible milestones could be discussed at the proposed audit and Governance Working Group meeting.

Councillor Brown asked how had the Council been able to operate for the last two to three years without these issues being discovered. In response Nigel Pursey said that long standing issues were being addressed, and that the public needed to be assured that public assets were not being put at undue risk. Peter Sloam added that strengths and weaknesses had been shown in the annual Audit report, but since then financial accounting had improved and cash flow had been a one-off problem

Peter Sloman said that there has been no financial loss but the Council could use this exercise as an opportunity to deal with underlying issues such as reducing the audit fee. He said that each year 'the bar' is raised on local authorities and so continuing effort was needed.

Maria Grindley confirmed the bar had been raised but the required controls/ processes and systems hadn't changed and assessing these was still important.

The Committee agreed to note the conclusions reached in the report.

## **44. COUNCIL RESPONSE TO REVIEW OF 2008/09 ACCOUNTS CLOSURE AND EXTERNAL AUDIT PROCESS**

The Chief Executive submitted a report (previously circulated, now appended), which summarised the response to the Interim Executive Director of Finance's report into the Closure of the 2008/09 Accounts and the external audit process. the report also included an Action Plan against which progress was also reported.

Peter Sloman went through the required actions in the report and outlined the developments since the report was produced;

Action	Progress	Comment
<i>a) Corporate Leadership of Finance</i>		
We have agreed the Council needs to recruit a Director of Finance and Efficiency, who will carry s151 responsibilities, the process to start as soon as possible. This requires a change to senior management structure.	Achieved	
Internal consultation on the necessary senior management restructuring is due to finish on 10 November	Achieved	
Line Management arrangements, will change immediately decisions are made	Achieved	Change set to occur 1 <sup>st</sup> December
We aim to have appointed the Director of Finance and Efficiency by Christmas, or very early January 2010.	In Progress	On track for January appointment
The Interim Executive Director of Finance (whose role continues meanwhile) specifically will be driving forward changes on internal control, financial administration, and closure and audit process management. He will also be reviewing the structure of finance early in 2010.	In Progress	
<i>b) Heads of Service, Finance</i>		
A split of the duties of this role between the two post holders is due to be made, with their arrangement, by 12 November.	Achieved	
For each key area of responsibility, there will be clear and measurable objectives and these are due to be agreed by 17 November	Achieved	
Staff at the next level in the financial team are being informed of the changes made	Achieved	
<i>Closure Planning</i>		
The action points in the Interim Executive Director's report are being consolidated with the draft closure/statement/audit programme The next report in this sequence sets this out in more detail.	In Progress	Project plan in place
I have instructed that monitoring of progress should be part of the remit of the Transformation Board and team. We will also be changing our statement of corporate priorities to reflect the significance to the council of this work.	In Progress	
There is a critical milestone early in 2010. A trial closure is planned in January, once the December accounts are available. This will give us opportunity to review progress on the key outstanding issues from 2008/09 and obtain assurances that we are well on track for a clean 2009/10 audit.	In Progress	

<i>d) Quality Assurance</i>		
Work is beginning to introduce QA processes for the whole finance function. Priorities for this have to be set. This whole process will run well into 2010, but as a first step, those processes which are fundamentally linked with accounts closure will have to be in place in time for trial closure.	Achieved one month early	Pricewaterhousecoopers appointed.
<i>e) Internal Audit Plan</i>		
The Interim Executive Director of Finance has already begun discussions with the Chief Internal Auditor (PWC) over the current year's audit plan. This is to ensure that we: <ul style="list-style-type: none"> <li>- have reviewed all the major elements of internal control systems to be clear about areas of current weakness and risk.</li> <li>- Are making strong progress on all the areas of weakness identified in the District Auditor's Annual Governance Report.</li> <li>- Are able to give the Council added assurance as to the robustness of the closure of accounts/external audit programme.</li> <li>- Are adjusting and focusing the current year's internal audit plan accordingly.</li> </ul>	In Progress	Draft will be produced for the Working Group.
<i>f) Communications</i>		
There is to be a meeting of the whole finance service at which the changes will be explained and the importance of moving forward re-emphasised.	Achieved	
Internal controls processes and systems will be on the agenda for Wider Leadership Team meetings.	Achieved	
I will email the Council's senior managers a summary of the high level messages and their own individual role in moving forward	Achieved	
A copy of this report, along with the high level summary in the Interim Executive Director of Finance's report will be sent to all Councillors	Not Achieved	
<i>g) Inter departmental Responsibilities</i>		
The Interim Director's report recommends that, as soon as possible, clarity is given to 3 areas where responsibility are currently blurred		

<p>Asset management- the Head of Property and Facilities is responsible for all asset management within the Council and I am intending to transfer to his line management the delegated property functions within services wherever feasible. The delegated functions in HRA connected with asset management will also be made accountable corporately to the Head of Property and Facilities. Finally, the Head of Property and Facilities is accountable to the 151 Officer for ensuring proper records are maintained across the Council.</p>	<p>Achieved</p>	<p>Head of Property and Facilities has been notified and delegations to line managers have been given.</p>
<p>External audit relationship management-this will be resolved in the senior management restructuring referred to above. The new Director of Finance will be responsible for managing the relationship with external and internal auditors</p>	<p>In Progress</p>	
<p>Departmental finance teams- from the schedule of actions attached it will be seen that the structure of the finance service is to be reviewed by the Interim Executive Finance Director between now and the end of February 2010. The scope of that review will include departmental finance teams, their role and relationship to the central finance function.</p>	<p>Achieved</p>	

The following comments were made:

Peter Sloman commented that the Council would still go into next year's trial close down with risks but officers were working towards improvements, and he thanked all parties and Group Leaders for their continued support.

Councillor Hazell said that it was better to learn about these issues now rather than leaving them for years to come, as Members would be more disappointed if the same issues kept coming up year after year rather than new ones.

Councillor Simmons asked if February 2010 was a wise time for restructuring Finance? Nigel Pursey responded that he still needed time to work out how the restructure would happen.

Maria Grindley explained that she felt the Audit and Governance Committee's role was to 'ask the right questions' to the officers and internal and external auditors.

Councillor Keen felt there were gaps in communication between Council and Committee and that all Councillors needed to be kept up to date with the Committee's findings

Training for the committee was also mentioned but finding a suitable time was proving to be difficult.

The Committee noted the report;

#### **45. PROGRESS REPORT ON PREPARATION FOR CLOSURE OF ACCOUNTS 2009/10**

The Head of Finance submitted a report (previously circulated, now appended) which summarised the actions taken to date on the action list presented to the audit and Governance Committee in September 2009 and the actions which have emerged from the Interim Director for Finance and the chief Executives report..

Councillor Brundin requested that briefing documents on IFRS be circulated to Councillors and training on IFRS to be organised which Sarah Fogden agreed to undertake.

The Committee agreed:

- (a) To note the report and requested that a progress report to be a standing item on all future agenda for the audit and Governance Committee;
- (b) That the next report to the Committee provided an update on the outcome of the trial closure of accounts and how the appointment of the Director Of Finance had progressed.

#### **46. INTERNAL AUDIT PROGRESS REPORT – PRICEWATERHOUSECOOPERS (PWC)**

The Head of Finance had submitted a report (previously circulated, now appended) on behalf of the Council's Internal Auditor's, Pricewaterhousecoopers., which outlined the internal audit progress. A heat map was also submitted (circulated now appended) which showed the effectiveness of financial systems within each of the Council's service centres.

Richard Bacon from Pricewaterhousecoopers presented the report and highlighted that City Works had fared the worst and it had been agreed that that a specific audit be carried out in City Works during 2010. He further added that he felt that 30 extra days were needed by PWC to complete the allocated work load.

The Committee noted the report

**47. INTERNAL AUDIT REPORT ON THE GENERAL LEDGER –  
PRICEWATERHOUSECOOPERS (PWC)**

The Head of Finance submitted a report (previously circulated, now appended) on behalf of the Council's Internal Auditor's, Pricewaterhousecoopers, which provided the Committee with information on the general ledger.

Katherine Bennett from PWC highlighted a number of high risk areas which the Finance department would have to deal with to reduce any risk to the Council.

The Committee agreed to note the report.

**48. INTERNAL AUDIT REPORT ON TREASURY MANAGEMENT –  
PRICEWATERHOUSECOOPERS (PWC)**

The Head of Finance submitted a report (previously circulated, now appended) on behalf of the Council's Internal Auditor's, Pricewaterhousecoopers, which informed the Committee of PWC's findings from a review of the Council's financial controls and processes.

Katherine Bennett from PWC presented the report and highlighted the issue of the Council becoming the only issue raised was overdrawn and incurring an unnecessary fee. Nigle Pursey agreed to investigate this and take any immediate action necessary.

The Committee agreed:

- (a) To note the report:
- (b) To note that the Interim Director of Finance would investigate the issue of the Council becoming overdrawn and take any immediate action to deal with this.

**49. INTERNAL AUDIT REPORT ON ANTI FRAUD AND CORRUPTION –  
PRICEWATERHOUSECOOPERS (PWC)**

The Head of Finance submitted a report (previously circulated, now appended) on behalf of the Council's Internal Auditor's, Pricewaterhousecoopers, which reviewed the draft Avoiding Fraud and Corruption Policy.

Katherine Bennett from PWC, presented the report and stated that she had no concerns with the proposed policy.

The Committee agreed to note the report.

## **50. AVOIDING FRAUD AND CORRUPTION POLICY**

The Head of Finance submitted a report (previously circulated, now appended) which informed the Committee of the revised Avoiding Fraud and Corruption Policy.

Carol Quinton (Investigation Manager), presented a report and said that the new policy was robust with a clear statement of intent and included money laundering, which was a requirement of new legislation since the policy was last updated. The new policy would be linked to the Council's code of conduct.

The Committee agreed:

- (a) To thank the Investigation Manager for the policy.
- (b) To note the report and endorse the Avoiding Fraud and Corruption Policy.

## **51. CAPITALISATION PROCEDURE**

The Head of Finance presented a report (previously circulated, now appended), which provided the Committee with information regarding tightening up the Capitalisation Policy.

Maria Grindley in response to being asked if the proposed procedures were adequate, said it was a reasonable response to concerns raised. We will not know if they are adequate until results are presented. The limits seemed reasonable for the size of the organisation.

The Committee agreed to note the report.

## **52. Q2 CORPORATE RISK REGISTER**

The Head of Finance submitted a report (previously circulated, now appended) which provided a summary of the changes to the Corporate Risk Register (CRR) submitted as part of the Quarter 2 2009-10 update.

The Committee agreed

- (a) To hold a special meeting of the Committee, to carry out the 'blank sheet' exercise with the Executive Directors and the Chief Executive in January 2010.
- (b) To note the report and approve the inclusion of the two tier risks 'Failure to manage the negative impacts of swine flu on council services and objectives' and 'Internal control and standards of financial administration'



### **53. BENEFIT INVESTIGATION – 2008/09 OUTCOMES – MONEY LAUNDRING REGUALTION – IMPLICATIONS AND ACTIONS**

The Head of Finance submitted a report (previously circulated, now appended), which presented the outcomes of the benefit investigations and outcomes from these investigation during the period 1<sup>st</sup> April 2009 to 1<sup>st</sup> October 2009.

Carol Quinton (Investigations Manager) presented the report and said that performance targets were not going to be reached this year because they were set at the beginning of the Council year before the current economic recession. She added that all case loads would be thoroughly checked to achieve a performance level as close to the target as possible.

The Committee agreed to note the report

### **54. MINUTES**

The Committee resolved to approve the minutes (previously circulated) of the meeting held on 24<sup>th</sup> September 2009.

### **55. MATTERS ARISING FROM THE MINUTES**

None were raised.

### **56. MATTERS EXEMPT FROM PUBLICATION**

The Committee resolved that, under Section 100A(4) of the Local Government Act 1972, the press and the public be excluded from the meeting for the remaining item of business on the grounds that their presence would involve the likely disclosure of information as described in paragraphs 2, 3 and 7 of Part I of Schedule 12A of the Act and to record that in all the circumstances of the case, the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

### **55. ALLEGATIONS OF INTERNAL FRAUD, INVESTIGATIONS AND OUTCOMES**

The Head of Finance submitted a report (previously circulated, now appended), which detailed recent investigations and outcomes of cases of alleged fraud involving Oxford City Council staff.

The Committee noted the report.

The meeting started at 5.00 pm and finished at 7.15 pm