

AUDIT COMMITTEE

6.00 P.M.

15TH FEBRUARY 2012

PRESENT: Councillors Malcolm Thomas (Chairman), Jon Barry (for Minute Nos. 23 (part) to 28 only), Roger Dennison (substitute for Geoff Knight), Richard Newman-Thompson and Ian Pattison

Apologies for Absence:

Councillors Geoff Knight, Vikki Price and Peter Williamson

Officers in Attendance:

Nadine Muschamp	Head of Financial Services and Section 151 Officer
Derek Whiteway	Internal Audit Manager
Sarah Taylor	Head of Governance and Monitoring Officer (for Minute Nos. 18 to 25 only)
Mark Davies	Head of Environmental Services (for Minute Nos. 18 to 25 only)
Keith Hawkard	Repairs & Maintenance Manager (for Minute Nos. 18 to 25 only)
Mark Cullinan	Chief Executive (for Minute Nos. 18 to 25 only)
Jane Glenton	Democratic Support Officer

Also in Attendance:

Richard Lee	KPMG LLP (UK)
Anne Seex	Local Government Ombudsman (for Minute Nos. 18 to 23 only)

Councillors Eileen Blamire, Tim Hamilton-Cox, Ron Sands, Dave Smith and Susan Sykes

18 MINUTES

The minutes of the meeting held on 21st September 2011 were signed as a correct record by the Chairman.

19 ITEMS OF URGENT BUSINESS AUTHORISED BY THE CHAIRMAN

There were no items of urgent business.

20 DECLARATIONS OF INTEREST

There were no declarations of interest.

21 AUDIT COMMITTEE TERMS OF REFERENCE – COMPOSITION OF THE COMMITTEE

Committee received the report of the Head of Governance to remind Members of the composition requirements of the Committee with regard to chairing, and to ask the Committee to appoint a Vice-Chairman who was not a member of Cabinet or Overview

and Scrutiny.

It was reported that when Councillor Ian Pattison had been appointed Vice-Chairman at the first meeting of the Committee, it had not been noted that he was also a member of the Overview and Scrutiny Committee and ineligible to chair meetings of the Audit Committee.

The report proposed that Committee elect a new Vice-Chairman who was not a member of Cabinet or Overview and Scrutiny to ensure that the Committee was chaired in line with the Constitutional requirements.

It was proposed by the Chairman and seconded by Councillor Newman-Thompson:

“That Councillor Peter Williamson be Vice-Chairman of the Audit Committee for the Municipal Year 2011/12.”

There were no further nominations and the Chairman declared Councillor Williamson to be nominated.

Resolved:

That Councillor Peter Williamson be Vice-Chairman of the Audit Committee for the Municipal Year 2011/12.

22 ANNUAL AUDIT LETTER 2010/11

Committee received KPMG's Annual Audit Letter summarising the key findings from their 2010/11 audit of Lancaster City Council (the Authority), which covered the Authority's 2010/11 financial statements and the 2010/11 Value for Money (VFM) conclusion.

Richard Lee of KPMG advised Members that KPMG's certificate had been issued on 30th September 2011, alongside the audit opinion and VFM conclusion. The certificate confirmed that KPMG had concluded the audit for 2010/11 in accordance with the requirements of the Audit Commission Act 1998 and the Audit Commission's Code of Audit Practice.

KPMG were satisfied that the Authority had proper arrangements for securing financial resilience and challenging how economy, efficiency and effectiveness were secured, and an unqualified value for money (VFM) conclusion had been issued for 2010/11.

One significant risk had been identified to the VFM conclusion in relation to the financial pressures faced by the Authority following the Comprehensive Spending Review (CSR). This was detailed in KPMG's Audit Plan for 2010/11. The Authority had undertaken planning ahead of the outcomes of the CSR, however, which meant that many of the savings options had already been identified for 2011/12.

A number of control recommendations had been raised during the course of the 2010/11 audit, and whilst their implementation would strengthen the Authority's control environment, none of the recommendations raised was deemed critical (high priority) to the operation of the Authority. The Authority's progress in implementing them would be followed up as part of the 2011/12 audit.

Following the report and questions by Members, the Chairman thanked Richard Lee for his presentation.

Resolved:

That the report be noted.

Councillor Barry arrived during the following item.

23 LOCAL GOVERNMENT OMBUDSMAN

The Local Government Ombudsman, Anne Seex, gave a detailed presentation on the work of the Local Government Ombudsman (LGO).

Committee was advised that the LGOs were employed by the Commission for Local Administration in England, which had been established under the Local Government Act 1974 to investigate complaints about authorities in England, and was an independent body funded by annual grant from the Government.

The Commission currently comprised the Parliamentary Ombudsman and three LGOs, based in London, York and Coventry. Under the Local Government and Public Involvement in Health Act 2007, the LGOs were appointed for a period not exceeding seven years. It was expected that the number of LGOs would be reduced to two in future, however.

It was reported that allegations of maladministration that had caused injustice to the complainant could be investigated in connection with most authorities' functions, including education and social services. The 2007 Act had widened the remit to allow an LGO to investigate alleged or apparent service failures by an authority, even where no injustice was found.

Many of the complaints received were 'premature' because they had not been to an authority first. The LGO would refer these back to an authority's complaints procedure. If the complaint was urgent, the LGO would try to speed the process up. Over half of all complaints were decided within thirteen weeks.

Where an LGO reported that there had been maladministration or service failure, the report would be sent to the authority concerned for follow-up action. This happened in less than 0.5% of complaints in 2010-11. Local settlements, in which an authority made a satisfactory offer to the complainant, accounted for just over 25% of total complaints in 2010-11.

Following questions from Members, the Chairman thanked Anne Seex for her presentation.

The Chairman advised that, with the agreement of Members, the following item of business would be brought forward to allow officers to leave the meeting.

24 EXEMPT ITEMS

In accordance with Section 100A(4) of the Local Government Act 1972, the press and public were excluded from the meeting for consideration of Appendices B, C and D, on the ground that it could involve the possible disclosure of exempt information, as defined in paragraph 3 of Schedule 12A of that Act.

25 COUNCIL HOUSING CAPITAL PROGRAMME - HALA FLATS PEBBLEDASHING PROJECT

Committee received the report of the Internal Audit Manager and Head of Environmental Services, which provided details into the conduct of the Hala Flats Pebble-dashing contract, with particular reference to the costs of the work and the value for money obtained.

The report had been prepared to address questions raised by Cabinet and members of Budget & Performance Panel (B&PP) and points raised by other Councillors following the issuing of the internal audit report.

Members were advised that in July 2007, Cabinet had given approval for Council Housing Services (CHS) to develop a three to five year partnership with an external partner for the delivery of the Council Housing Capital Programme. The work was to be split between the Council's in-house Repairs and Maintenance Service (RMS) and the external partner, Herbert T. Forrest (HTF), who had been appointed following a competitive tendering exercise to deliver the Council Housing Five-Year Capital Programme, commencing on 1st April 2010.

Committee considered the report's response to questions raised by Members in the following areas:

- The form of partnering contract used;
- Pricing and payment mechanisms;
- The Hala pebbledashing project and leaseholder charges;
- Training;
- Quality of work;
- Preliminary costs; and
- Benefits of the partnership.

Members were advised that the PPC2000 was a standard form of partnering contract already in use by the RMS for other programmes (Rota Painting and Gas Servicing), and provided an appropriate framework for the partnership. Whilst the PPC2000 was designed to cope with complex, project-based and multi-party arrangements, it was also suitable for a simpler client and constructor relationship. Regarding the scope of the agreement, Members were advised that HTF had not been required to carry out pre-construction work and had not been paid for any.

A key feature of the PPC2000 contract was the integration of members of the partnership and a team-based approach to the project. The Audit review suggested that whilst the scope for integration and sharing was limited under a two party partnership, each team member had been given clearly defined roles and responsibilities.

Members were advised that Internal Audit had found no evidence that any of the

circumstances applied under which the Council could contractually seek to terminate the agreement.

Set out comprehensively in the report, and considered at length at the meeting, were details relating to the pricing mechanism for the partnership and leaseholder charges, together with information, which Members had requested, regarding costs per property for work carried out on the Kingsway Estate by VMC Developments Ltd. as part of the 2009/10 programme of works.

Members were advised that Internal Audit had not encountered any evidence to suggest there were any difficulties or shortcomings regarding the measurement and pricing of the Hala re-rendering project. Sufficient evidence had been produced for Internal Audit to conclude that the RMS officers' management of the projects demonstrated appropriate levels of diligence and professionalism to protect the Council's interests and secure value for money.

It was reported that training, including a workshop session, funded by HTF, had been scheduled for Council and HTF staff, and appropriate arrangements had been established to monitor the quality of the work and identify and remedy any defects. Working practices would be reviewed to ensure that future arrangements were as efficient and effective as possible.

It was proposed by the Chairman and seconded by Councillor Newman-Thompson:

- "(1) That, having considered the report and appendices in detail, and having had the opportunity to raise concerns with officers at the meeting, Members are satisfied that sufficient assurance has been provided regarding the RMS partnering contract and the outcome of the Hala Flats pebbledashing project, and that no further action or analysis be recommended to Cabinet.
- (2) That the Internal Audit Manager liaise with managers to develop an action plan arising from this report and that progress be reported to a future meeting of the Audit Committee in accordance with established procedures."

Resolved unanimously:

- (1) That, having considered the report and appendices in detail, and having had the opportunity to raise concerns with officers at the meeting, Members are satisfied that sufficient assurance has been provided regarding the RMS partnering contract and the outcome of the Hala Flats pebbledashing project, and that no further action or analysis be recommended to Cabinet.
- (2) That the Internal Audit Manager liaise with managers to develop an action plan arising from this report and that progress be reported to a future meeting of the Audit Committee in accordance with established procedures.

The Chief Executive, Head of Governance, Head of Environmental Services and Repairs and Maintenance Manager left the meeting at this point.

26 INTERNAL AUDIT MONITORING

Committee received the report of the Internal Audit Manager to advise of the latest monitoring position regarding the 2011/12 Internal Audit Plan and to seek Members' approval for proposed adjustments to the plan. A detailed monitoring report was included at Appendix A to the report.

Members were advised of the monitoring position up to 18th January 2012, taking account of ongoing and planned work commitments. It was reported that the main programme of assurance work, the audits of core financial systems and the Revenues and Benefits Shared Service had exceeded the approved plan by a total of 41 days.

There was a significant overspend of resources (87 days) on the Risk Based Assurance audit section of the plan arising mainly from the audits of the RMS Partnering Contact. This was partially offset by an underspend of 51 days in the 'Core Procurement Arrangements' section of the plan and 10 days in conducting follow-up reviews.

Other areas of the plan showing a minor overspend were 'Support Work' (10 days) and 'Audit Management' (6 days).

It was intended to meet those shortfalls (83 days total) by applying 22 days from the General Contingency and through savings identified elsewhere in the plan, under the following:

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|---|---------|
| • Efficiency and VFM | 30 days |
| • Ad-hoc Advice | 10 days |
| • Reduction in the investigations contingency | 21 days |

Members considered the options and options analysis (including risk assessment) set out in the report, which were to either endorse the proposed changes to the plan and the schedule of future audits, or to propose an alternative course of action.

Resolved unanimously:

- (1) That the current monitoring position be noted.
- (2) That the proposed adjustments to the 2011/12 Internal Audit Plan, as reflected under the 'Proposed Plan' column of the table setting out the monitoring position as at 18th January 2012, be approved.

27 RESULTS OF INTERNAL AUDIT WORK

Committee received the report of the Internal Audit Manager to inform the Committee of the results of Internal Audit work for the period to 18th January 2012.

Members were advised that the following assurance opinions had been issued for areas audited since the last Audit Committee:

Audit Title		Report Date	Assurance Level	
New Audit Reports				
11/0810	Payroll	07/09/11	Substantial	✓
11/0822	NNDR	15/09/11	Substantial	✓
11/0826	Consultancy Commissioning & Procurement	20/09/11	Substantial	✓
11/0821	RMS Partnering Contract (Forrest)	27/10/11	Substantial	✓
11/0828	Business Continuity	28/11/11	Substantial	✓
11/0824	Housing & Council Tax Benefits	02/12/11	Maximum	✓✓
Follow up Reviews				
10/0817	Main Accounting	27/09/11	Substantial	✓
09/0755	Contaminated Land	01/11/11	Substantial	✓
10/0816	Income Management	02/11/11	Maximum	✓✓
10/0738	Information Management & Security	09/11/11	Limited	⚠
10/0812	Car Parking	16/11/11	Maximum	✓✓
10/0795	Capital Contract Management	23/12/11	Limited	⚠

Where at least a 'substantial' level of assurance had not been achieved, it was reported as follows:

10/07/38 – Information Management and Security Follow-Up Review (Limited)

The Council's Information Management Group would provide ongoing management and review. Outstanding actions had been organised into the following four categories:

- Longer term actions;
- Shorter term actions covering policy development, education and promotion;
- Actions to be considered as part of a shared service arrangement; and
- Physical access controls and overall building security arrangements.

It was proposed that Internal Audit continue to monitor progress and report to future Audit Committee meetings.

10/0796 – Capital Contract Management (Limited)

Although progress had been made in a number of areas, there were a number of issues outstanding, which were to be addressed through training associated with the rollout of revised Contract Procedure Rules. It was expected that new procedures and further related training would result in a raised level of assurance. It was proposed that Internal Audit carry out a further review in six months' time.

Resolved unanimously:

- (1) That the report be noted.
- (2) That, regarding audit reference 10/0738 – Information Management and Security, the Internal Audit Manager continues to track and report on progress to the Committee.
- (3) That, regarding audit reference 10/0795 – Capital Contract Management, Internal Audit carries out a further review in six months' time and report on progress to the Committee.
- (4) That, regarding audits reference 07/0708 – Income Management (Housing Rents Direct Debit Payments) and 07/0709 – Payroll, the Internal Audit Manager continues to track and report on progress to the Committee.

28 ANTI-FRAUD, BRIBERY & CORRUPTION POLICY

Committee received the report of the Internal Audit Manager to advise of developments affecting the Council's position regarding the threat of fraud and corruption and seeking Members' approval for a revised Anti-Fraud, Bribery and Corruption policy.

It was reported that the Council's current Anti-Fraud and Corruption Policy and associated Strategy had been approved in 2002, and it was necessary to review the policy and strategy to bring them up to date.

The Bribery Act 2010 had introduced four key offences, which might have an impact on the activities of the Council, namely:

- Bribery of another person (section 1);
- Accepting a bribe (section 2);
- Bribing a foreign official (section 6); and
- Failing to prevent bribery (section 7).

It was proposed that the draft Anti-Fraud, Bribery and Corruption Policy be introduced in place of the previous policy and strategy documents, supported by an annually updated action plan.

The Committee would be responsible for approving the policy and monitoring the effectiveness of the Council's strategy and operational arrangements in relation to combating fraud and corruption.

The options and options analysis (including risk assessment) were set out in the report as follows:

- a) approve the draft policy as presented;
- b) approve the draft policy with suggested changes/additions; or
- c) recommend a different approach and the submission of further draft documents.

Options a) or b) were preferred options, involving the introduction of a single, concise policy statement with a range of associated documents and activities to support development and the implementation of strategic objectives.

Resolved unanimously:

- (1) That the draft Anti-Fraud, Bribery and Corruption Policy, attached at Appendix A to the report, be approved.
- (2) That the Action Plan, attached at Appendix B to the report, be endorsed.
- (3) That the draft Anti-Fraud, Bribery and Corruption Policy be integrated with the Whistleblowing Policy.

Chairman

(The meeting ended at 8.39 p.m.)

**Any queries regarding these Minutes, please contact
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