

## DECISIONS OF THE AUDIT COMMITTEE

16 JUNE 2011

COMMITTEE:

\*Councillor Lord Palmer OBE, BA, FCA (Chairman)

\*Councillor Brian Schama (Vice-Chairman)

Councillors:

\* Alex Brodkin

\* Hugh Rayner

\* Graham Old

\* Geof Cooke

\* Sury Khatri BSc (Hons), MSc

Independent Members:

\* Richard Harbord

\* Debra Lewis

\*denotes Member present

### 1. MINUTES:

RESOLVED – That the decisions of the meeting held on 24 March 2011 be approved as a correct record.

### 2. ABSENCE OF MEMBERS:

All Members were present.

### 3. DECLARATIONS OF MEMBERS' PERSONAL AND PREJUDICIAL INTERESTS:

There were no interests declared.

### 4. PUBLIC QUESTION TIME:

The Chairman opened the meeting with an explanation of the role of the Audit Committee and thanked members of the public for their contributions to the audit process. He stated that the Committee valued the public and local media's role in scrutinising the Council.

Details are appended of the questions asked of, and the answers given by, the Chairman.

### 5. MEMBERS' ITEMS (Agenda Item 5):

There were no Members' Items.

### 6. METPRO RAPID RESPONSE INTERNAL AUDIT REPORT (Report of the Assistant Director of Finance, Audit and Risk Management – Agenda Item 6)

The Assistant Director of Finance, Audit and Risk Management introduced the report. She informed the Committee that she was presenting the report of her professional view and in her name as the Chief Internal Auditor and that the terms of reference for the audit had been agreed with the Chairman of the Audit Committee and the Council's Chief Executive. She stated that the internal audit findings highlighted that the arrangements surrounding security company MetPro Rapid Response and related companies had failed to comply with the Council's

Contract Procedure Rules (CPR). She stated that on the basis of existing procedures, officers could not give assurance that this was an isolated incident. She asked the Committee to note the recommendations that officers had agreed to implement.

Mr John Dix addressed the Committee. He raised particular concerns around issues of data protection, safeguarding and unauthorised filming by MetPro and urged the Committee to investigate these issues. He asked which officers had taken responsibility for the failings and commented that seven out of the ten recommendations in the report says that officers should do what is already in the Contract Procedure Rules.

The Committee discussed and commented on the report in detail. The Deputy Chief Executive and Chief Finance Officer circulated a more detailed Action Plan to the Committee, indicating the steps taken by the authority in implementing the recommendations of the report.

The following points were made in the discussion of this item:

- Councillor Rayner commented that it was important for the Council to ensure systems were in place to prevent a similar incident happening again.
- The Deputy Chief Executive and Chief Finance Officer informed the Committee that it was his responsibility to oversee the day to day compliance with financial regulations and contract procedure rules. He accepted the challenge in the report, which had shown there has been a failing in the MetPro contract and that the systems in place could not be relied upon to identify other possible failings. He advised that his immediate response was focusing on compliance with existing rules and regulations, including ensuring an organisational foundation of compliance and good governance. The authority was committed to implementing the recommendations and Action Plan in full.
- The Chief Executive informed the Committee that the Action Plan has been discussed and agreed by the Council's Directors Group and would be included in the appraisals and be reinforced for every Director.
- Members discussed the possibility of the Council using a Due Diligence Template. Such a template could be a mechanism to ensure compliance through directoral sign-off prior to the paying of any invoices, together with checks on the viability of the company being contracted to. Members requested that there should be confirmation of assurances for single tender contracts. The Deputy Chief Executive confirmed that these procedures are in place however were not observed in this case.
- The Assistant Director of Finance, Audit and Risk Management confirmed that she met regularly with the External Auditors and particularly informing them of the progress of the MetPro audit and Annual Audit opinion..
- The Chairman confirmed that the Business Management Overview & Scrutiny Sub-Committee had established a Task and Finish Group on Purchasing and Procurement. It was envisaged that the Task and Finish Group would take a longer view of procurement within the Council, whilst the Audit Committee would focus on more immediate issues related to the control environment.
- The Commercial Director confirmed that the timescales for action on the ten recommendations in the report was between now and September 2011.

- The Chief Executive commented that he had deep concerns on the issues surrounding this case as it happened over five years ago and yet continued. He felt that the process of devolution of contract procurement had been taken too far and stressed the importance of the robust internal challenge that audit provides.
- The Chairman asked whether there was any fraud in relation to MetPro and the Director of Corporate Governance and Monitoring Officer responded that if there were any issues arising from the report, the Corporate Anti Fraud Team (CAFT), would investigate the matter however no instances of fraud had been identified as part of the audit.
- Members asked that in the absence of a written contract, how the terms of the contract were enforced, monitored and performance reviewed.
- The Commercial Director commented that from the report, a number of departments in the Council had used MetPro as a contractor. No one person had been seen as owning the relationship with MetPro.
- The Cabinet Member for Resources and Performance, who addressed the Committee and was asked some questions by the Committee, advised that the One Barnet Programme would continue and advised that the Council has an implementation partner to ensure contracts are in place. He stated that he welcomed the timing of the report as this would assist with ensuring that One Barnet procurements were strictly controlled and monitored.
- Members discussed whether the monitoring of contracts should be a standing item for all meetings of the Audit Committee.

Having given consideration to the report,

#### RESOLVED

1. That the Committee notes the contents of the report and the actions being taken to address the deficiencies.
2. That the Deputy Chief Executive and Chief Finance Officer report to the Committee how these deficiencies are being addressed and the actions being taken regarding audit arrangements with suppliers.

Following the consideration of this item, the Chairman adjourned the meeting for a break of approximately 10 minutes.

#### **7. ANNUAL REPORT AND SERVICE PLAN OF THE CORPORATE ANTI FRAUD TEAM 2010 (Report of the Acting Head of the Corporate Anti Fraud Team and of the Director of Corporate Governance/ Monitoring Officer – Agenda Item 15)**

Due to the number of items that were submitted to the meeting and the time that was spent on discussing and considering the MetPro Rapid Response Internal Audit Report, the Committee agreed that the report be noted and be submitted to the next meeting of the Committee for comments.

#### RESOLVED

1. That the Committee notes the Corporate Anti Fraud Team Annual Report 2010-11 and Corporate Anti Fraud Team Service Plan for 2011-12.
2. That the report be submitted to the next meeting of the Committee for comments and is the first item on the agenda.

**8. INTERNAL AUDIT ANNUAL OPINION (Report of the Assistant Director of Finance, Audit and Risk Management – Agenda Item 7)**

The Assistant Director of Finance, Audit and Risk Management introduced the report. She stated that the report provided details of all audits carried out during 2010/2011 and commented that “limited” assurance on the Council’s internal control environment was unsatisfactory. The Chief Executive informed the Committee that he and his management team had accepted the findings in full and gave the Committee an assurance that the findings are being addressed at a corporate level. The Chief Executive added that he and Directors were committed to addressing all of the issues raised in the report. Members queried as to why, Treasury Management had a “limited” assurance; the Assistant Director of Finance, Audit and Risk Management responded that the reason for the limited assurance rating on the Treasury Management audit was the one high priority recommendation in regards to the unencrypted laptops being taken off site and that the audit found no evidence that the Investment Policy was not being followed. The Assistant Director of Finance – Audit and Risk Management confirmed that the audit scope included a review of a sample of investments for the purpose of testing compliance.

Councillor Schama commented that he was concerned with the result of 72% of audits rated as “limited” assurance and asked what target the Council aspired to. The Chief Executive accepted that the figure of 72% of audits achieving “limited assurance” was unacceptable and that the target was to move to an overall position of “satisfactory” as soon as possible.

RESOLVED – That the Committee notes the contents of the Annual Opinion Report.

**9. INTERNAL AUDIT PROGRESS REPORT – QUARTER 4 (Report of the Assistant Director of Finance, Audit and Risk Management – Agenda Item 8)**

The Assistant Director of Finance, Audit and Risk Management introduced the report. She expressed concerns about the parking service and informed the Committee which were expanded upon by the Assistant Director, Environment and Operations.

The Assistant Director informed the Committee that there were four high priority findings for the parking service with cashless parking forming only a small part of the overall service. He added that parking service has been successfully managed in other local authorities through externalization and explained that management of the service by external specialist companies produced a cost benefit for the authority. He informed the Committee that the timetable was to have the outsourcing of parking service completed by March 2012.

In response to questions from Members regarding corporate procurement, the Assistant Director of Finance, Audit and Risk Management explained that the overall rating of “limited” rather than “no” assurance had been given because there were processes in place for the corporate procurement team which had been evidenced, however as a significant amount of procurement activity had been devolved to services the corporate procurement team were not responsible for these failings however their monitoring arrangements for contracts over threshold needed improvement.

The Deputy Chief Executive and Chief Finance Officer stated that a full review was being carried out to ascertain whether there were other arrangements without a formal contract being used by the authority.

The Committee made some additions to the recommendation as reflected below.

RESOLVED – That the Committee notes the contents of the Report and the actions being taken to address the deficiencies together with comments made by the relevant Directors and that for limited or no assurance audits, these should show a marked improvement by the next meeting of the Committee.

**10. USE OF RESOURCES REPORT AND ACTION PLAN (Report of the Deputy Chief Executive and Chief Finance Officer – Agenda Item 9)**

The Deputy Chief Executive and Chief Finance Officer introduced the report. He informed the Committee that the Use of Resources regime was now defunct however the results were valuable to the Council in seeking to address areas of concern, which would now be monitored as part of corporate performance monitoring.

RESOLVED

- (1) That the Committee reviews the Council's progress against the Use of Resources (UoR) action plan (Appendix A to the report) that was produced in response to the 2010 external audit by Grant Thornton.
- (2) The Committee considered that there were no specific elements of the action plan (Appendix A to the report) that it would like to receive a detailed follow up report on at its next meeting.

**11. ACCOUNTS AUDIT APPROACH MEMORANDUM (Report of the Deputy Chief Executive and Chief Finance Officer – Agenda Item 10)**

The Deputy Chief Executive and Chief Finance Officer introduced the report. Tom Foster of Grant Thornton LLP (External Auditors) gave a short verbal update to assure the Committee that the audit process was proceeding as planned.

RESOLVED

- (1) That Grant Thornton's Accounts Audit Approach Memorandum be noted.
- (2) The Committee considered that there were no areas on which they require additional information or action.

**12. CODE OF CORPORATE GOVERNANCE (Report of the Director of Corporate Governance and Monitoring Officer – Agenda Item 13)**

The Director of Corporate Governance and Monitoring Officer introduced the report. The Committee noted a technical amendment to recommendation 1.2 as reflected in (2) below.

RESOLVED

- (1) That the Committee considers the proposed changes to the Code of Corporate Governance.
- (2) That the revised Code of Corporate Governance be drafted for inclusion in the Constitution and considered at the next meeting of the Special Committee (Constitution Review) for onward referral to Council.

**13. DRAFT ANNUAL GOVERNANCE STATEMENT 2010/11 (Report of the Director of Corporate Governance/ Monitoring Officer – Agenda Item 14)**

The Director of Corporate Governance and Monitoring Officer introduced the report. He informed the Committee that the report will come back to the September

2011 meeting of the Committee after the External Auditors have looked at the statement.

RESOLVED – That the Committee approves the proposed Draft Annual Governance Statement for inclusion with the Statement of Accounts for 2010/11.

**14. UN-AUDITED STATEMENT OF ACCOUNTS 2010/11 (Report of the Assistant Director of Finance, Audit and Risk Management – Agenda Item 11)**

The Deputy Chief Executive and Chief Finance Officer introduced the report. The Committee noted an amendment to recommendation 1.1 as reflected in (1) below.

RESOLVED

- (1) That the Committee review and approve that the un-audited Statement of Accounts 2010/11 be signed by the Chairman and the Deputy Chief Executive and Chief Finance Officer as having been approved.
- (2) That the Accounting Policies included in the accounts be adopted.
- (3) That the Deputy Chief Executive and Chief Finance Officer, in consultation with the Chairman of the Audit Committee, be authorised to agree significant changes, if any, to the Statement of Accounts, following discussions with the external auditor, and to inform members of the Committee accordingly.

**15. INDICATIVE EXTERNAL AUDIT FEES 2011/12 (Report of the Assistant Director of Finance, Audit and Risk Management – Agenda Item 12)**

The Deputy Chief Executive and Chief Finance Officer introduced the report.

RESOLVED

- (1) That Grant Thornton's indicative external audit fee for 2011/12 be noted.
- (2) The Committee considered that there were no areas on which they require additional information or action.

The meeting started at 6.30pm and closed at 9.50pm.