

DECISIONS OF THE AUDIT COMMITTEE

6 SEPTEMBER 2011

COMMITTEE:

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

*Councillor Brian Schama (Vice-Chairman)

Councillors:

* Alex Brodkin

* Geof Cooke

* Hugh Rayner

* Sury Khatri BSc (Hons), MSc

* Graham Old

Independent Members:

* Richard Harbord

* Debra Lewis

*denotes Member present

1. MINUTES:

RESOLVED – That the decisions of the meeting held on 16 June 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:

Details are appended of the questions asked of, and the answers given by, the Chairman. Verbal responses were given to supplementary questions at the meeting.

5. MEMBERS' ITEMS (Agenda Item 5):

There were no Members' Items.

6. ANNUAL REPORT AND SERVICE PLAN OF THE CORPORATE ANTI FRAUD TEAM 2010 (Report of the Acting Head of the Corporate Anti Fraud Team (CAFT) and of the Director of Corporate Governance – Agenda Item 6)

The Acting Head of the Corporate Anti Fraud Team introduced the report.

RESOLVED - That the Committee endorses the Corporate Anti Fraud Team Annual Report 2010-11 and Corporate Anti Fraud Team Service Plan for 2011-12.

7. ANNUAL GOVERNANCE STATEMENT (Report of the Director of Corporate Governance/ Monitoring Officer – Agenda Item 11)

The Director of Corporate Governance/ Monitoring Officer introduced the report.

RESOLVED – That the Annual Governance Statement be approved for inclusion with the Statement of Accounts for 2010/11.

8. EXTERNAL AUDITOR'S REPORT UNDER INTERNATIONAL AUDITING STANDARD (ISA) 260 FOR THE YEAR 2010/11 (Report of the Deputy Chief Executive and Chief Finance Officer – Agenda Item 7)

The Assistant Director Financial Services introduced the report.

The Committee noted an addition to Recommendation 1.1 as reflected in (1) below.

RESOLVED -

- (1) That the Committee approves the audited Statement of Accounts 2010/11 and they be signed by the Chairman and the Deputy Chief Executive/Chief Finance Officer as having been approved.
- (2) That the matters raised by the external auditor relating to detailed aspects of the 2010/11 accounts audit, including the pension fund accounts, be noted.
- (3) That the officer response to matters raised by the external auditor be noted.

9. PROCUREMENT CONTROLS AND MONITORING PLAN PROGRESS REPORT – AUGUST 2011 (Report of the Deputy Chief Executive and Chief Finance Officer – Agenda Item 8)

The Director for Commercial Services introduced the report.

RESOLVED -

- (1) That the Committee notes the contents of the report and the actions being taken to address the deficiencies in contract management.
- (2) That the Assistant Director of Finance – Audit and Risk Management reports to the December 2011 Audit Committee providing assurance that the Procurement Controls and Monitoring Plan has been actioned according to plan.

10. INTERNAL AUDIT PROGRESS REPORT – 2011-12 QUARTER 1 (Report of the Assistant Director of Finance - Audit and Risk Management – Agenda Item 9)

The Assistant Director of Finance - Audit and Risk Management introduced the report.

RESOLVED - That the Committee notes the contents of the report and the actions being taken to address any deficiencies noted.

11. EXCEPTION RECOMMENDATIONS REPORT (Report of the Assistant Director of Finance - Audit and Risk Management – Agenda Item 10)

The Assistant Director of Finance - Audit and Risk Management introduced the report.

RESOLVED - That the Committee notes the contents of the report and the actions being taken to address some cases of non implementation of recommendations.

The meeting finished at 9.31pm.

**AUDIT COMMITTEE
TUESDAY, 6 SEPTEMBER 2011**

ITEM 4 – PUBLIC QUESTION TIME

Agenda Item 7 - External Auditor's report under International Auditing Standard (ISA) 260 for the year 2010/11

From Mr John Dix:

Response to Question

- | | |
|--|---|
| 1. How many supplier payments did Grant Thornton sample as part of their audit exercise and what tests did they carry out on those supplier payments? | The approach to the audit, including supplier payments, is in accordance with the firm's national audit methodology. Our methodology is designed to meet all relevant professional and ethical standards. Compliance with our methodology is ensured through our internal review processes, as well as internal peer review and external inspection. As such, the scope and level of our work is sufficient to support the conclusions reached from the audit. |
| 2. Is the Audit Committee completely satisfied that no duplicate supplier payments have been made in the last 12 months? | There are a number of controls, both automatic and manual, that prevent a payment being duplicated, the requirement to have a valid purchase order in place enables the 3-way match, (as detailed in the answer to question 4), to be utilised, and provides the primary control. Additionally, within SAP there are in-built controls that for example, identify during input any potential duplicated invoices, thus allowing the input clerk to manually check previous records and stop a duplicate invoice being processed. The process for minimising the risk of duplicate payments has been documented and internal audit has been satisfied in the year of testing to that regard. |
| 3. Is the Audit Committee concerned that many supplier invoices are submitted without a purchase order number in breach of the Council Procedure Rules, Financial Administration 12.7? | The Audit Committee are concerned with ensuring management have a sound system of internal control. It is not the Committee's role to consider individual exceptions, however it is concerned where internal or external audit has made a recommendation that management seek to rectify the situation. The biggest risk to the Council is that invoices are being paid without the goods or service being provided to the |

Council. There is a goods receipting function in place as an additional control measure. This issue was raised by internal audit during the year, a recommendation was raised and now management have rectified this process.

4. On page 13 (*page 14 of 162 of printed copy*) of the Audit report under Supplier Payments, it states that “We note that this issue was raised by internal audit during the year and that the Council has since made changes to the IT system to rectify the problem”. Given that a significant number of the supplier payments I reviewed showed no evidence that the invoice had been checked how will changes to the IT system rectify that problem?

The processing of invoices within SAP does not rely on the invoices being manually evidenced. Until the goods/services have been electronically ‘goods receipted’ the payment of the invoice is ‘blocked’. On receipt of the goods/services the procurer goods receipts the appropriate items on the purchase order and this electronic process removes the ‘block’ and allows the invoice to be processed. Furthermore, there must still be a 3-way match between the value of the goods/services as per the purchase order, the quantity goods receipted by the procurer, and the corresponding items on the invoice. Failure to achieve this 3-way match results in the invoice automatically being blocked and payment prevented.

5. Amongst other matters, I drew the Auditor’s attention to an invoice that had the description: **“Supply of vehicle and driver for the month of November 2010 - £71,936.85”**. Given that the Auditor has stated that they found no evidence of inappropriate payments, what views they have on the quality of descriptions on supplier invoices.

In the stated example we saw a supporting schedule from the supplier that broke down the total to a significant number of separate driver and vehicle hire transactions over the month, which supported the total charge. In our other testing of supplier payments we found that sufficient supporting information was available, between the invoice and supporting schedules, to support payments made. It would have been better for the invoice to have said supply of vehicles and drivers and to refer to the supporting schedule.

6. On page 30 of the report Appendix C (*page 31 of 162 of printed copy*), recommendation 3 the report notes “that some in some (sic) specific service areas there was evidence that internal audit recommendations had not been progressed in line with agreed timescales. In these areas there is a need for improved management oversight and more proactive risk management in their work to address the issues raised. The Council should take steps to change and improve the management culture in this regard.” Are the Audit Committee

The Audit Committee is concerned with the direction of travel and step changes in improving the culture of improving the internal control environment. At times officers have accepted unrealistic deadlines and hence the progress against recommendations has slipped. Reports from internal audit in this quarter highlight that there is improvement from the previous quarter, if this continues we expect that by the April Committee date there will be full compliance (there is only one more meeting in between then and now and hence when

satisfied with the management comments and the timescale for compliance of March 2012?

the Committee would expect delivery).

7. On page 31 (*page 32 of 162 of printed copy*) of the report Appendix C, recommendation 6, the report states that: "The Council should carefully manage the completion of a number of current actions to improve contract management controls..." Given this is a recommendation and is noted as a high priority, does this mean that the Auditor has concerns that this process may not be being carefully managed currently?

No, we are satisfied that the intended actions that have been carried out to date, have been appropriately managed and have involved significant attention from senior management. The purpose of the recommendation is to help ensure that the current level of momentum is maintained until the issue is resolved.