

Audit and Risk Committee – Meeting held on Thursday, 19th September, 2013.

Present:- Councillors Nazir (Chair), Chohan and Sharif (from 7.00pm)

Apologies for Absence:- Councillors Abe, Bal and Mr Kwatra

PART 1

8. Declarations of Interest

None were declared.

9. Minutes of the last meeting held on 25th June 2013

Resolved – That the minutes of the meeting held on 25th June 2013 be approved as a correct record.

10. Audit & Risk Management Update - Quarter 1 2013-14

The Assistant Director, Finance & Audit introduced a report which included the Internal Audit Progress Report; progress on the implementation of Internal Audit recommendations; and an update on anti-fraud activity.

RSM Tenon had issued 15 audit reports from the 2013-14 Annual Plan, 6 of which had been finalised to date. Members were informed that the draft Children's Service Procurement audit received a draft 'red' opinion. It was noted that Head of Internal Audit opinion had previously highlighted procurement as an area of significant weakness and this was reflected in the Annual Governance Statement for 2012-13. Members asked a number of questions in relation to issues identified during the audit and it was noted that on the basis of the draft opinion for Children's Services Procurement, and previous internal audits on procurement more widely in the Council, management had authorised that all staff with responsibility for procurement undertake mandatory training to ensure compliance with the Council's financial procedure rules.

The Assistant Director and the Head of Internal Audit reported a number of other matters to the Committee which included:

- A draft 'red' opinion had also been issued for Training & Development, although this did not have significant impact on the overall control framework.
- The proportion of 'green' or 'amber green' reports issued during Quarter 1 was significantly higher than the previous year.
- The speed at which reports were being finalised was also continuing to improve on the previous year.
- The progress on the implementation of 'high' or 'medium' recommendations continued to be monitored and 79% had either been implemented, part implemented or superseded.

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- RSM Tenon had been engaged to investigate and, if required, take action on data sets obtained through the National Fraud Initiative. A more detailed report on these matters would be presented to the Committee at a future meeting.
- The Corporate Risk Register had been revised and the Committee were updated on the summary of corporate risks identified.

(Councillor Sharif joined the meeting)

The Head of Internal Audit reported that 21 audit reports had been finalised since the Committee met in June including 2 outstanding reports from 2011/12, 13 from 2012/13 and 6 from 2013/14. Four of the 57 reports from the 2012/13 Internal Audit Plan remained as draft reports and all had been outstanding for more than 50 working days, including the Asset Register report for which Internal Audit had been unable to provide assurance on the control arrangements and had issued a draft 'red' report. The Committee were very concerned that these four reports from 2012/13 remained in draft and it was agreed that an update would be provided at the next meeting in October, and if they remained outstanding the relevant officer would be asked to attend the Committee meeting in December to explain the position and give assurance that the matters raised during the audits were being addressed.

Resolved – That the report comprising the Internal Audit Progress Report; implementation of Internal Audit Recommendations; and update on anti-fraud activities be noted.

11. Internal Audit Charter

The Head of Internal Audit introduced a report seeking endorsement of the Internal Audit Charter.

The Committee were informed that the Council were required to have an internal audit service in place which met Public Sector Internal Audit Standards, which came into effect in April 2013, and RSM Tenon's Internal Audit Manual. The Charter set out matters including the definition of internal audit; roles and responsibilities; and reporting lines. It also gave a commitment on behalf of the Council that the internal auditors be given unrestricted access to all documents, functions and personnel necessary to carry out its work.

Members considered the draft Charter which had been circulated and agreed that it would be endorsed and signed by the Chair.

Resolved – That the Internal Audit Charter be endorsed.

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12. External Audit Governance Letter and Audit of the 2012-13 Financial Statements

Process of Approval of the Financial Statements 2012-13

The Assistant Director, Finance & Audit updated the Committee on the progress of the audit of the Council's financial statements 2012-13. It was noted that the external audit was unlikely to be completed in line with the 30th September 2013.

Members were informed of the revised timetable and process for completing the audit and approving the financial statements. The Assistant Director reported that the Council would be asked to approve the draft financial statements at its meeting on 26th September 2013, subject to the Council making the required adjustments highlighted by the external auditor; the external auditor issuing an unqualified opinion; and that the Audit & Risk Committee being satisfied these requirements had been met following consideration of the final draft financial statements at an additional meeting to be held in October 2013.

The Assistant Director explained the reasons for the delay and commented that the Council had met the June 2013 deadline for publishing its draft financial statements, however, BDO had identified a number of risks including key adjustments relating back to the audited financial statements from 2011-12.

Interim External Auditors Report

The external auditor, Mr Grant of BDO LLP, presented his interim report on the financial statements which set out the findings of the external audit to date. It was noted that the Committee had been informed by letter in July 2013 that a number of errors effecting the opening balance had been identified. The Committee were informed that a significant factor in the delay was the problems caused by the legacy of closing accounts in previous year and contributory factors such as the fact this was the first years for both BDO as the Council's external auditors and for the new finance team at the Council.

Mr Grant summarised the results of BDOs audit work to 13th September 2013 as set out in the report. He advised Members of a number of material and other significant misstatements found in the draft financial statements, some of which had already been highlighted by management in closing the accounts. As the external audit was not yet complete, it was possible that further issues may be identified although it hoped the substantive issues had been identified. The Committee were advised the Audit Commission would publish a list of those authorities, and auditors, who had not met the statutory deadline of 30th September.

Members asked a number of questions and discussed the factors which had contributed to the delay in the auditing of the financial statements. Mr Grant explained that different auditors set varying levels of materiality; that some

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work carried out this year would not be required in future audits; and that the working papers requested may have varied from those specified by previous auditors. The Assistant Director stated that a significant amount of work was being put in to improve procedures and avoid any of the issues recurring in the closedown of the 2013-14 financial statements. He also reported that the Council had issued a press release explaining the reasons why the process had been delayed.

Mr Grant also updated the Committee on the interim findings of the audit, over and above the financial statements. These included the proposal to issue an unqualified value for money conclusion and that they were satisfied with the Annual Governance Statement. He reported that the deadline for the Whole of Government Accounts return would be delayed due to the fact the financial statements had not been finalised. An amendment was made the cumulative resource gap referred to on page 9 of the report from £18.5m to £30m. Members discussed a number of issues including the Council's asset register; reporting of Members' interests; and potential future revision to the terms of reference of the Audit & Risk Committee.

The Committee noted the interim report and agreed to hold an additional meeting on Tuesday 22nd October 2013 to consider the financial statements.

Resolved –

- (a) That the External Auditors update report in Appendix A be noted.
- (b) That it be noted that the Council's external auditors were unlikely to complete their audit work in line with the 30th September 2013 timescales.
- (c) That a set of revised financial statements and a full audit letter from the external auditor be considered at an additional Audit & Risk Committee meeting to be held on Tuesday 22nd October 2013.

13. Members Attendance Record

Resolved – That the report be noted.

14. Date of Next Meeting

Resolved – That the next meeting of the Committee be held on Tuesday 22nd October, 2013 at 6.30pm

Chair

(Note: The Meeting opened at 6.42 pm and closed at 8.00 pm)