

**MINUTES OF THE AUDIT COMMITTEE  
TUESDAY, 19 APRIL 2011**

Councillors Khan (Chair), Amin (Vice-Chair), Diakides, Meehan, Butcher and Strang

Apologies Councillor Gorrie

| <b>MINUTE NO.</b> | <b>SUBJECT/DECISION</b>  | <b>ACTION BY</b> |
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| <b>PRAC77.</b>    | <p><b>APOLOGIES</b></p> <p>Apologies for absence were received from Cllr Gorrie, for whom Cllr Strang was substituting.</p>  |                  |
| <b>PRAC78.</b>    | <p><b>URGENT BUSINESS</b></p> <p>There were no items of urgent business.</p>   |                  |
| <b>PRAC79.</b>    | <p><b>DECLARATIONS OF INTEREST</b></p> <p>There were no declarations of interest.</p>  |                  |
| <b>PRAC80.</b>    | <p><b>MINUTES</b></p> <p><b>RESOLVED</b></p> <p>That the minutes of the meeting of the Audit Committee held on 3 February 2011 be approved and signed by the Chair.</p>  |                  |
| <b>PRAC81.</b>    | <p><b>DEPUTATIONS AND PETITIONS</b></p> <p>There were no deputations or petitions.</p>   |                  |
| <b>PRAC82.</b>    | <p><b>FEE LETTER FOR 2011/12</b></p> <p>Grant Thornton presented their Fee Letter for 2011/12, and advised that the scale fee set by the Audit Commission for 2011/12 was £454,500. The letter included details of the areas to be focussed on as part of the Value for Money conclusion. In response to a question from the Chair, financial resilience was defined as how well-prepared the Council was to address the challenges of this spending review period and the robustness of the medium term financial plan, particularly the 2011/12 budget.</p> <p>The Chair asked the Director of Corporate Resources, as Section 151 Officer, to explain how the Council was prepared to meet the issues raised in the course of the Localism Bill, in response to which it was reported that, as the Bill became legislation and details became known, individual directorates would be putting actions in place and work would be undertaken to anticipate likely areas of risk and put measures in place to address these. It was confirmed that the budget had been set to</p> |                  |

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|                       | <p>include appropriate resources for dealing with the impact of new legislation, and that there was also a contingency in place to manage unexpected issues.</p> <p><b>RESOLVED</b></p> <p>That the content of the report be noted.</p>   |  |
| <p><b>PRAC83.</b></p> | <p><b>REVIEW OF ARRANGEMENTS FOR THE IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)</b></p> <p>Graham Oliver, Head of Finance – Accounting, Control, Income, presented the report on the review undertaken by external audit in respect of the implementation of International Financial Reporting Standards (IFRS). The overall assessment of the Council’s arrangements was amber, and the report highlighted areas for further work. Officers had accepted all of the recommendations made in the report, and it was anticipated that all of the relevant arrangements would be in place by the end of June 2011.</p> <p>In response to a question from the Committee regarding assessment of the adequacy of the accounting policies which had not been completed at the time of this review, Grant Thornton advised that, where issues were identified with the accounting policies subsequently, these would be picked up in the ISA 260 report on the accounts. The Committee asked about the inclusion of the Alexandra Palace and Park accounts, in response to which it was reported that guidance was still awaited from the Audit Commission as to whether charitable body accounts should be incorporated. It was intended that an update on this could be given at the first meeting of the successor committee.</p> <p>The Chair asked for examples of assets under Property, Plant and Equipment which should be written off from the revaluation reserve, in response to which there had been a change in the way the sale of assets was accounted and that the auditors had identified some areas in the past 2 years where an adjustment was necessary as a result. It was confirmed that these adjustments would have no impact on the bottom line. In response to a further question from the Chair regarding the assessment that was made when considering whether or not an asset was surplus, the Director of Corporate Resources, confirmed that officers looked across the Council to assess whether there was a need for the asset to be used for another purpose, and also anticipated whether there was a likely need for the asset in forthcoming years before determining whether it was surplus. Mr Oliver confirmed that an asset was only defined as surplus when, following such assessment, the Council had made a definite decision that the asset was surplus and it was anticipated that it would be sold within the next 12 months.</p> <p>The Chair noted that for Local Authorities, the accounts for 2010/11 would be the first to be prepared under IFRS and that the 2009/10 accounts would also be restated under IFRS. Noting the overall assessment as amber, the action plan attached to the report and that all of the recommendations had been agreed, the Chair moved and it was:</p> |  |

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|                       | <p><b>RESOLVED</b></p> <p>That the external audit recommendations and associated comments of the Director of Corporate Resources be noted.</p>   |  |
| <p><b>PRAC84.</b></p> | <p><b>PROGRESS REPORT</b></p> <p>The Committee considered the progress report from Grant Thornton, including work and reporting arrangements for the 2010/11 accounts audit, Value for Money conclusion, the 2011/12 fees letter, IFRS, and the Grants Report. In response to a question from the Chair, further details regarding the review of the Council's progress on Personal Budgets were provided and it was confirmed that this related specifically to Adult Social Services.</p> <p><b>RESOLVED</b></p> <p>That the content of the report be noted.</p>   |  |
| <p><b>PRAC85.</b></p> | <p><b>INTERNAL AUDIT PROGRESS REPORT - 2010/11 QUARTER 4</b></p> <p>Anne Woods, Head of Audit and Risk Management, presented the report on internal audit work undertaken during the 4<sup>th</sup> quarter in completing the 2010/11 annual audit plan, reports issued for outstanding 2009/10 audits, fraud investigation work and work by human resources to support disciplinary action across all Council departments.</p> <p>The Committee expressed serious concerns regarding the findings of Internal Audit in respect of Use of Consultants, in particular where cases had been identified of consultants being employed with no business case, no contract and no evidence of indemnity insurance. The Head of Audit and Risk Management advised that the audit work had been undertaken because Members had raised concerns around this area and it had been identified as high risk for the Council. During 2010/11 there had been a focus on reducing the number of consultants and work to achieve this was ongoing. All the auditor's recommendations had been accepted, an action plan was in place and follow up audit work would be undertaken and reported back on. The Director of Corporate Resources confirmed that there had been a reduction in the number of consultants employed, in addition to which the agreed action plan would be followed up and, where the auditor had identified areas of vulnerability, these would have been addressed as a matter of urgency. It was confirmed that the contracts referred to were not substantial.</p> <p>The Committee expressed serious concern regarding the findings, as this had an impact on public money, and asked how this situation had been allowed to develop. It was reported that it was the responsibility of individual directorates, where they were hiring consultants, to ensure that there was a business plan and that a contract was in put place, supported by the legal and procurement services. These issues were</p> |  |

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being addressed and there was ongoing work with procurement to support this process. The Director of Corporate Resources confirmed that this issue was being taken very seriously, particularly as public money was involved.

In response to a question from the Committee, it was confirmed that the audit had commenced in November 2010 and was reported on in January 2011; the figures used were to the end of October 2010. The Committee asked about the progress that had been made since the audit had been undertaken, and whether the issues identified had been addressed. The Committee also expressed concern that the recommendations did not appear proportionate to the severity of the issues identified, and asked how the actions and the controls to ensure that such a situation could not recur would be monitored on a regular basis at the highest level of the Council. The Head of Audit and Risk Management advised that compliance with the audit recommendations would be monitored by means of a follow up audit, and highlighted the ongoing work with corporate procurement and internal audit to review areas of spend and ensure that contract standing orders and financial regulations were being complied with and that as much spend as possible was on-contract. Any issues of non-compliance would be reported to the Section 151 Officer.

The Committee asked about the degree to which they could rely on assurances regarding compliance, especially at a time when financial support services were being reduced. The Committee asked what training was being provided to managers who would now need to take on responsibilities previously undertaken by finance staff, such as monitoring budget performance, in response to which it was confirmed that Corporate Finance staff were working to provide support to managers and to ensure that good practice was embedded in this transitional year. It was reported that checks and controls would still be delivered by using audit resources in a new way.

In respect of the Internal Audit findings regarding Payroll, the Committee expressed concern regarding the recommendation that Council confirm all new employees' right to work in the UK, and that this implied that it was not being done so already. The Head of Audit and Risk Management confirmed that, as set out in correspondence with the Chair prior to the meeting, the recommendation set out in the appendix to the report was incorrect and should have read "It is recommended that the payroll and SAP reconciliation should be reviewed and approved by an independent officer. Where there are discrepancies, explanations should be provided and these discrepancies promptly cleared from the systems." The response provided in the report, however, was accurate. The item relating to right to work in the UK was work which had already been completed, and had been included in the report as an outstanding issue erroneously.

In response to a question regarding the way in which the issues identified around Use of Consultants would be reflected in the Annual Governance Statement (AGS), it was reported that the issues of

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contracts and contract spend would be reported on in the AGS, including the work with corporate procurement to identify high risk areas and target resources accordingly. Grant Thornton advised that it was important for the AGS to provide specific assurances in the areas relating to business cases and contracts for consultants.

The Chair highlighted the concerns raised by Members in relation to the report, specifically the Use of Consultants, and requested that the external auditor and Section 151 Officer exercise additional caution to ensure that the issues identified in this area did not happen in the future. In the context of this discussion, the Chair noted that decisions on changes to processes and contract standing orders were due to be taken by the Constitution Review Working Group. The Chair noted that the reported performance was positive, particularly in relation to implementation of audit recommendations, where the number of recommendations outstanding was much lower now than it had been in the past, as a result of action taken by the Committee.

In response to a question from the Committee regarding the format of the progress report and the information provided, the Head of Audit and Risk Management advised that the report had developed in response to previous requests from the Committee, and would be reviewed further as the new governance arrangements came into place.

In considering the recommendations of the report, it was moved and agreed that these be amended to include a recommendation that no consultants be appointed unless a business case and contract was in place, and that a report on this issue be presented to the Cabinet and to the Corporate Committee at the first meeting of these bodies in the 2011/12 municipal year. The Head of Audit and Risk Management further suggested that the follow up audit work on Use of Consultants be carried out earlier than usual, and that an expanded sample be used to assess the level of compliance with the recommendations, the outcome of this work to be reported to the section 151 Officer and to the Committee as an assurance.

**RESOLVED**

- i) That the audit coverage and progress during the fourth quarter 2010/11 be noted.
- ii) That the progress and responses received in respect of outstanding audit recommendations be noted.
- iii) That, in light of the Committee's serious concerns about the use of consultants without a business case and contract being in place, a strong recommendation be made that no consultants be appointed unless there is a business case and contract in place, and that a report on the implementation of the audit recommendations and the current position regarding compliance with the Council's regulations in respect of Use of Consultants be presented to the Cabinet and to the Corporate

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|                       | <p>Committee at the first meeting of these bodies in the 2011/12 municipal year.</p>  |  |
| <p><b>PRAC86.</b></p> | <p><b>INTERNAL AUDIT ANNUAL PLAN AND STRATEGY 2011/12</b></p> <p>Anne Woods, Head of Audit and Risk Management, presented a report on the proposed Annual Internal Audit Plan for 2011/12 and the internal audit strategy. In response to a question from the Committee regarding HR processes and whether these had been sufficiently tested to ensure that they were ‘fit for purpose’ in the current circumstances, it was reported that, as part of the annual audit of payroll, internal audit were working with the Business Heads of services undergoing organisational change to agree the key risk areas and controls which would be expected to be in place. The supporting HR processes would be covered and tested within the individual service reviews. From an audit point of view, it was reported that they would be looking at the changes taking place and the assessments by individual units, such as Equalities, regarding whether the arrangements in place were fit for purpose. The Director of Corporate Resources advised that the HR department were working with change management personnel to share expertise and support managers to keep performance levels high during this time.</p> <p>The Committee asked how risks had been assessed, and whether this was reflected in the allocation of resources in the proposed audit plan. By way of example, the Head of Audit and Risk Management reported that Key Financial Systems were audited annually so that, while these represented very large risks, there was a cumulative knowledge of these systems in place, whereas risks in other areas of the Council changed from year to year. In response to a question regarding whether the basis on which risks were assessed and prioritised could be included in the report, it was reported that this was based on a range of supporting documentation, including the departmental risk registers, and that there might be cumulative reasons for changes in risk profile. Paul Dossett, Grant Thornton, advised that there should be a clear process in place for ensuring that the highest risks are allocated the appropriate audit resource; given the level of detailed work which would go into making these assessments, it was a question of how much information the Committee wished to see in its reports.</p> <p>Some Members of the Committee stated that they would not be comfortable agreeing the proposed audit plan without fully understanding the way in which this had been determined, given the significant amount of resources involved. The Chair noted that the report gave a detailed breakdown of the proposed plan, including a contingency of 155 days to address issues as they arose. It was noted that resources were limited in the current economic climate and that the proposed plan had been formulated on the basis of a wide range of discussions and consultation within the Council and in line with CIPFA guidance in order to best reflect the Council’s risks. The Head of Audit and Risk Management advised that the ‘Identifying Internal Audit Coverage’ section of the report set out</p> |  |

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|                       | <p>the way in which the plan was derived, and gave a list of some of the many factors taken into account. It was emphasised that the approach needed to allow for a degree of contingency and flexibility in reflecting the different risks facing the Council.</p> <p>In response to concerns raised by the Committee regarding overspends in certain departments, it was confirmed that progress against the overall Council savings plan would be monitored and reported back to the Section 151 Officer. The review of corporate expenditure set out in the plan would constitute a line by line examination, supported by evidence to ensure that things were really as stated. It was reported that internal audit could not comment on the original budget-setting process, but could provide assurance regarding compliance or non-compliance.</p> <p>The Chair clarified that the Corporate Committee would have the power to adjust the audit plan if it was decided that this was necessary during the year, but expressed his opinion that the plan currently put forward was adequate. In response to a question from the Chair regarding whether the plan took into account the need for the Council to be managed efficiently and economically, with fewer resources available, the Section 151 Officer confirmed that this was the case. The Chair asked where responsibility for overall control failures lay, in response to which the Head of Audit and Risk Management advised that, as set out in the Constitution, financial regulations and standing orders, responsibility lay with individual managers, with the responsibility for monitoring compliance resting with the auditors. It was confirmed that it was the specific and absolute responsibility of the Section 151 Officer to ensure that a framework of control was in place.</p> <p>Noting the comments made during the discussion and the Chief Financial Officer comments set out in the report, the Chair moved and it was:</p> <p><b>RESOLVED</b></p> <ul style="list-style-type: none"> <li>i) That the internal audit strategy be noted and approved by the Committee.</li> <li>ii) That the Annual Internal Audit Plan 2011/12 be approved by the Committee.</li> </ul> <p>It was noted that Cllrs Butcher and Strang abstained from the vote; they did not support the recommendations of the report on the basis that there was insufficient transparency regarding the process by which priorities had been determined to assess whether these had been correctly prioritised.</p> |  |
| <p><b>PRAC87.</b></p> | <p><b>ALEXANDRA PALACE - OUTCOME OF FOLLOW UP AUDITS AT THE CHARITABLE TRUST AND TRADING COMPANY</b></p> <p>Anne Woods, Head of Audit and Risk Management, presented the report on the outcome of the follow up audit work completed by the independent internal auditors for Alexandra Palace and Park Charitable</p>   |  |

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|                       | <p>Trust and Alexandra Park Trading Limited. The Chair explained why this report was presented to the Committee, as a previous report on the audit of the Alexandra Palace and Park Charitable Trust and Alexandra Park Trading Limited had been presented to the Committee on 28 October 2008, and the Monitoring Officer had previously given advice that the Section 151 Officer was responsible for the overall financial position of the Council, including Alexandra Palace</p> <p>The Committee asked for an explanation of why a business plan had not been put into place, in response to which the Director of Corporate Resources advised that the Trust had been developing a detailed work plan for its activities, but had been considering the future of the asset during the past year; a regeneration working group had been set up and, until its work had reached a certain point, it was difficult for the Trust to set out its business future and establish a full business plan. The intention to appoint a joint Chief Executive was part of this present transition phase.</p> <p><b>RESOLVED</b></p> <p>That the content of the report be noted.</p> |  |
| <p><b>PRAC88.</b></p> | <p><b>NEW ITEMS OF URGENT BUSINESS</b></p> <p>In response to a question from the Committee regarding the contract for internal audit services, the Head of Audit and Risk Management confirmed that the present contract would come to an end in March 2012, and that the Council was presently looking at the options available to determine how best to proceed going forward.</p> <p>The Chair expressed his gratitude to all the Members of the Committee, officers and auditors for their work with the Committee, as this was the final meeting of the Audit Committee. Cllr Meehan moved a vote of thanks for the Chair for all his work on the Committee, which was seconded by Cllr Butcher and supported by the Committee Members.</p> <p>The meeting closed at 9.25pm.</p>  |  |

COUNCILLOR GMMH RAHMAN KHAN

Chair