

## COMMISSION FOR LOCAL ADMINISTRATION IN ENGLAND

### Minutes of the meeting of the Audit Committee held at Millbank Tower, Millbank, London SW1P 4QP on Tuesday 17 July 2007 at 10.30am

**Present:** Chris Swinson (Chair), Tony Redmond, Jerry White, Anne Seex, Nigel Karney, Ann Abraham, Neville Jones, Neil Hobbs, Michael King, Peter MacMahon, Stephen Jones, Andrew Lovett, Jamie Paterson, Richard Weighell, Tim Drew

**Apologies:** none

#### 1. Minutes of 27 March meeting

The minutes of the 27 March meeting were confirmed as an accurate record.

There was one matter arising from the minutes.

##### Item 1: Risk management

The risk management workshop had taken place on Monday 18 June.

#### 2. External Audit (Baker Tilly)

##### a) Annual Accounts and Audit Opinion 2006/07 (AC249)

Stephen Jones explained that two changes had taken place since the previous year. Firstly, the pension disclosures of top management and secondly the consolidation of the fixed asset note. Further improvements would be made to other elements of the presentation in future years.

Chris Swinson said that he had some editing points, which he would raise with Stephen Jones outside the meeting.

Ann Abraham referred to the CETV entry in the *Senior staff emoluments* table (page 20 of the Accounts). She reported that she had written to the National Audit Office (NAO) about this entry in respect of PHSO's Accounts, because the basis on which this had been calculated was not clear to her. The NAO in their response had promised to undertake further work on this. She asked the external auditors whether they were comfortable with the CETV figures shown in the accounts.

Andrew Lovett confirmed that they understood the principles on which this entry had been calculated. The figures had been supplied to them by the LPFA, and Baker Tilly was therefore reliant upon the accuracy of the LPFA actuaries' calculations.

Ann Abraham said that, on this basis, she had no further comment to make on the entry.

**Subject to further editing changes, the Committee agreed to recommend to the Commission that the 2006/07 Annual Accounts should be approved, and signed by Tony Redmond as Accounting Officer.**

Chris Swinson suggested that the Committee should return to the Letter of Representation, which Tony Redmond would also need to sign, after they had considered PKF's Annual Report (agenda item 5 iii). This was agreed by the Committee.

Finally, the Committee thanked the Baker Tilly for their work. It was noted that Baker Tilly's report raised no issues of concern in respect of the preparation of the accounts, and this reflected a lot of hard work on the part of Stephen Jones and his finance team. The Committee requested that their appreciation of this be recorded in the minutes.

**b) Auditors Report (AC 250)**

Andrew Lovett reminded the Committee that, at their last meeting, when he had presented their 2006/07 External Programme, he had felt the audit to be low risk. This had proved to be the case. The finance team had produced a good set of draft accounts, which had been audited to the agreed timetable. He was grateful to PKF for their internal audit of financial systems, upon which Baker Tilly had drawn.

Andrew Lovett reported that the only significant change arising from the audit (page 1) was a correction to the income and expenditure account. The draft accounts had incorrectly showed service costs in excess of pension contributions as a negative rather than a positive amount, and this correction had moved the year's result from a deficit to a surplus.

The most notable feature in the Accounts, as for the previous year, was the net liability of £9 million in the balance sheet which was largely due to the pension fund deficit.

Andrew Lovett confirmed that Baker Tilly was content that the Accounts represented a true and fair view of the Commission's financial position, and was happy to sign them.

He added that public sector bodies would have to comply with international financial reporting standards from 2008/09, but this would not make a significant difference to the Commission's accounts.

Anne Seex asked about the actions agreed to reduce the Commission's pension liability.

Tony Redmond responded that, as part of the CLG funding arrangements, the Commission had sought, at each triennial valuation of the pension scheme, to ensure that emerging liabilities were put to the CLG so that increased superannuation costs were included in the grant as a separate item, and that the Commission was not held to account over an exceptional cost. So far, this strategy had worked, but there could be no confidence that this would continue to be the case in future.

Chris Swinson drew attention to page 24 of the accounts, which showed the substantially increased level of employer superannuation contributions paid by the Commission in 2006/07. It was unsatisfactory that, over the past few years, Governments had tended to reduce funding requirements in local government pension schemes to levels which would not be permitted in private schemes.

Tony Redmond agreed, and pointed out that the Commission was one of a number of members of the local government pension scheme that were in difficulties. But the Commission was in the worst position of all of them because of past underfunding and the higher age profile of its workforce.

This was noted by the Committee.

### **3. Internal Audit (PKF)**

#### **a) IT Audit (AC251)**

Richard Weighell began by introducing Tim Drew, who would be taking over the LGO assignment from him.

Summarising the report, Richard Weighell said that controls were generally in place in the areas reviewed. However, one key area which had pulled the rating down had been the lack of penetration testing of the Commission's Firewall. He understood that this had been considered in 2004, when an external IT consultant had estimated £7,600 to undertake this testing, and the decision had been not to proceed on cost grounds. He would be interested in the Committee's view as to whether it was content with its exposure to risk in this area.

Anne Seex asked whether, if the Commission's approach to this area was changed, this would result in the "Adequate in most respects" rating being brought up to "Satisfactory" or "Sound". Richard Weighell responded that it would not be possible to achieve these ratings without further invasive testing, and so the highest achievable would be "Adequate".

Nigel Karney confirmed that the external IT consultant had undertaken an IT security review in 2004, and various recommendations had been put in place. The decision had been taken not to undertake Firewall penetration testing, because £7,600 represented significant additional expenditure. He would need to take Ricky Duveen's advice on this matter before commenting further.

Richard Weighell observed that the nature of threat changed rapidly to firewalls, and he suggested that a cycle of testing every year would be appropriate, although ideally this should be more frequent. He stressed that the key point was that the Commission had not taken a conscious decision on the level of exposure it was comfortable with in terms of the risk of penetration, or on the frequency of testing.

**Nigel Karney confirmed that he would examine this point further with Ricky Duveen and report back to the next meeting of the Committee.**

#### **b) Governance Audit (AC252)**

Richard Weighell explained that the report was in draft form because this was a management report for the Committee to consider. He did confirm, however, in response to a question from Chris Swinson, that there was no uncertainty in the report's recommendations. Richard Weighell also explained that Tony Redmond had commented on the report.

Tony Redmond pointed out that references in the report to lobbying Government for further amendments to the Commission's governance arrangements by means of the Local Government and Public Involvement in Health Bill should be amended, because the chances of achieving any further changes were remote in the extreme at this stage. The dates of the likely enactment of the Local Government Bill quoted in the report also needed to be corrected.

Ann Abraham commented that she wondered if this report affected signing off the accounts. Richard Weighell confirmed that the requirements were satisfied because PKF's view was that the Commission's corporate governance arrangements are working.

Ann Abraham went on to say that she considered that the further question considered by the report "are these the right corporate governance arrangements for the Commission?" would be more appropriately considered by the Commission rather than the Committee. She also reported that BOIA had recently set up a working group to look at governance arrangements in different member schemes.

Tony Redmond agreed with Ann Abraham that there was assurance that the Commission's current governance arrangements are working, but also that any attempt to bring the Commission's arrangements into line with best practice had to recognise the statutory constraints and the particular requirements of an ombudsman scheme. He felt that the BOIA work to which Ann Abraham had referred would prove to be useful in considering this issue.

Chris Swinson drew the Committee's attention to paragraphs 4.19 to 22 in the PKF internal audit annual report dealing with risk management, which pointed out for example that the Commission's approach to risk management is not truly embedded in day-to-day operations. He also referred to one of the outcomes of the risk management workshop, which was to ask whether the Commission's management of risk is as it should be. He suggested that such issues may be difficult to address with current governance arrangements.

Richard Weighell recognised that the current structure was not best practice in terms of governance, and that there were constraints arising from the statute. But he endorsed Chris Swinson's point about the Commission's approach to risk management, which worked better on paper than operationally.

Nigel Karney pointed out that since the report had been written in March, a lot of work had been done to action the points raised concerning risk management, and more would be done over the coming months.

Jerry White suggested that, in the light of the statutory constraints, the Commission should focus on areas where it does have some freedom of action, such as how the Audit Committee is structured and operates. He added that, for his part, his understanding of this area had been helped by the work that had been undertaken on the Commission's strategic risks.

Ann Abraham observed that one point that had not come out of the report, and over which she urged caution, was the risk of taking a standard template of best practice and laying it over the non-standard practice of an ombudsman scheme. It was important that PKF showed understanding of the particular issues of governance in an ombudsman context. BIOA recognised that governance arrangements for ombudsman schemes are difficult and complex, and PHSO's own governance statement acknowledged this point.

Richard Weighell agreed that governance arrangements should fit the Ombudsmen's circumstances, and the multiple roles of the Commissioners/Ombudsmen were a case in point.

**In conclusion, the Committee agreed that the following areas of work (the first two of which had already been assigned to Tony Redmond for action) should be progressed outside the meeting, perhaps at a special Commission awayday/seminar, with a report back on progress to the next meeting of the Committee:**

- **Work arising from the risk management workshop**
- **Audit committee structure/arrangements**
- **Discussion of the longer term governance issues outlined in the PKF report, including the interface with risk management.**

**Tony Redmond would consider further the suggestion of an awayday/seminar.**

In response to a question from Richard Weighell about whether to finalise the report to take into account the actions agreed by the Committee, Chris Swinson advised that the paper should be left as it is at this stage.

#### **c) Annual Report (AC253)**

Richard Weighell explained that the report underpinned the statement of internal control, and that its overall conclusion was that the system of control within the Commission was "Adequate in most respects". He pointed out that the scope of the 2006/7 report was different from previous years, in that it looked less at operations and more at infrastructure, and so it included fewer quality control reviews.

Richard Weighell then went through the summary of key findings, and commented that, compared with 12 months ago, progress had been made in the number of areas, but that implementation of recommendations had not been as quick as hoped.

Anne Seex asked about the five recommendations that had not been implemented, and whether this had been with the informed/active consent of the Committee. Richard Weighell confirmed that this was not the case.

This led Anne Seex to raise the issue of how frequently progress on implementation of recommendations should be reported to the Committee. This was currently only reported to the Committee on an annual basis.

**It was agreed that, in future, reports on implementation of audit recommendations should be given to every meeting of the Committee.**

**The Committee then reviewed the Letter of Representation and statement of internal control in the light of the audit report, and recommended that Tony Redmond should sign both of them.**

**d) Internal Audit programme 2007/08 (AC253)**

Tim Drew introduced the 2007/08 programme. He said that this took account of comments made by the Committee in March; Chris Wicks' initial thoughts; and subsequent discussions with Chris Swinson. Summarising the programme, he said that this comprised 38 days in total, excluding health and safety. Indicative dates had not been set, since these would be agreed in discussion with Nigel Karney once the programme had been approved by the committee.

Jerry White asked about the 12 days' work for the Access and Advice implementation. Nigel Karney pointed out that this would look at current work to implement the new service from April 2008.

Ann Abraham queried the reference to Government's scrutiny of complaints handling bodies. Tim Drew would check the reference and advise the Committee.

Mick King said that the reference to "Project Hydra" should be changed to "COIN."

**Subject to these amendments, the Committee agreed to approve the 2007/08 internal audit programme.**

**4. Losses and Special Payments: 16 March 2007 – 30 June 2007**

Nil return.

**5. Waiving of Financial Regulations (AC255)**

Ann Abraham asked for further information about the reasons for acceptance of the single tender for the customer satisfaction survey.

Nigel Karney explained that the timescale had been very tight, because the Commission had specified that the results of the survey would need to be available in time for drafting the next Corporate Plan ie September 2007. It would not have been possible to meet this timescale if the process of going out to tender and assessing bidders had been carried out. Also, the chosen supplier for the survey had undertaken the same work for the Commission in 1999 and, as a GCAT supplier, the work could be carried out at standard rates and he could therefore be satisfied that these represented value for money.

Jerry White added that a further factor was that the planned date for the survey had been brought forward by the Commission from 2008/09 to 2007/08.

The waiver was noted.

## **6. Performance Indicators (AC256)**

Nigel Karney explained that this had been circulated because he felt that he would be helpful for the Committee to have this background information to hand when they discussed AC 257.

## **7. Strategic Risk Register and Strategy Update (AC257)**

Jerry White made the following comments on the “Maximise value and impact on services” section of the Strategic Risk Register.

He agreed that the residual risk for risk area 1 “Our complaint decisions/ recommendations are considered sound, relevant, timely, consistent and appropriate by the Council” should remain at red until the Commission was close to meeting its business goal targets.

He queried whether the residual risk for risk area 3 “their advice publications are considered relevant/well communicated” should be marked as red, since the two recently published Special reports had been well received.

Nigel Karney pointed out that the logic of this was that there are currently no follow-up procedures in place for checking that the recommendations made in Special Reports are being put into practice. Anne Seex endorsed this point; there was a robust system of collecting feedback in respect of risk area 4 (council complaints training), but not in respect of advice/guidance publications.

Jerry White commented that, especially in respect of the Governance in Partnerships Special Report, it would be appropriate to raise this in the 2008 round of Annual Letters, by asking councils what they had done to put in place means of redress in any partnerships they had set up. A revised version of the Report could perhaps then be issued to reflect findings from the Annual Letters. Tony Redmond agreed with this point.

Nigel Karney stated that, ideally, it would also be good practice to cold call councils six months or so after publication to see whether recommendations are being implemented amongst officers and front-line staff.

Ann Abraham said that care should be taken to draw the distinction between collecting/surveying customer feedback, and compliance monitoring which in her view would go beyond the ombudsman’s role and stray into the role of regulators/auditors.

Nigel Karney raised the possibility of grouping the strategic risks in different ways if the Committee wished to do this, and suggested that this could be discussed at the Awayday/seminar agreed under agenda item 5ii. This could be timed to fit in with the drafting stage of the Corporate Plan in early Autumn. Tony Redmond said that he would give this further thought.

Peter MacMahon said that the implications of the Cave Review had been raised at the risk management workshop, and suggested this should be included in Register. This was noted by Nigel Karney.

**8. Any other business**

None.

**9. Date of next meeting**

The next meeting would be at 10.30am on Tuesday 11 December 2007, at Millbank Tower.