

COMMISSION FOR LOCAL ADMINISTRATION IN ENGLAND

Minutes of the meeting of the Audit Committee held at Millbank Tower, Millbank, London SW1P 4QP on Wednesday 21 May 2008 at 11.00 am

Present: Eugene Sullivan (Chair), Tony Redmond, Ann Abraham

In Attendance: Nigel Karney, Stephen Jones, Andrew Lovett, Neil Thomas, Jo Lees and David Stacey

Eugene Sullivan opened his first meeting as Chair by welcoming all attendees.

1. Minutes – 12 March 2008

The minutes of 12 March 2008 were confirmed as an accurate record of the meeting.

2. Matters Arising

a. External Audit Programme 2007/08 (AC259)

Stephen Jones reported that the pension fund deficit had fallen from £10.4m to £6.4m. The deficit in 2006/07 was based on the roll forward of the previous triennial evaluation which was on 31 March 2004 when the stock market was in severe decline. The reduction in deficit reflects the improvement in the market which was reported at the last triennial revaluation on 31 March 2007.

This improvement was noted by the Audit Committee.

b. Financial Systems Resource Audit (AC260)

Stephen Jones advised the meeting that the Commission had introduced a number of changes to the way the organisation accesses and controls funds through the bank. E-commerce has led to greater efficiency but has added a risk which is inherent to this way of working. However, there is no evidence that this change of working has led to any increase in risk.

It was noted that this issue would be raised with the new internal auditors as part of the Commission's annual review.

4. Internal Audit (KPMG)

i. Audit Recommendations (AC269)

Nigel Karney informed the meeting that in most cases work was still pending and he highlighted the following:

R7 – The Commission was working on ideas in relation to producing an emergency card for staff.

R13 – The next Business Continuity Exercise will take place in October 2008 and will be linked to the LGOAT Centre. The date for this exercise will not be announced.

R3 – The Commission is moving to a 5 by 5 matrix in risk areas and is looking further at the scoring criteria with a view to undertaking more training for staff in this area later in the year.

Neil Thomas informed the meeting that his view was that the Commission was responding to the audit recommendations and taking appropriate action within a reasonable timeframe. Ann Abraham concurred but asked that the new internal auditors look into whether an IT security review was required.

The Audit Recommendations were noted and it was agreed that a further update be provided at the next meeting.

ii. Governance Review Programme (AC267)

Eugene Sullivan considered that, as a newcomer to the organisation, he had found the paper to be very informative.

Neil Thomas said the content of the paper had built on the work carried out by the previous internal auditors. The two areas highlighted were:

- Compliance in areas of corporate governance
- Improvements to counter the different governance structure of the organisation

In conclusion, the paper recommended a number of performance improvements which are rated according to risk.

Tony Redmond stated that KPMG had managed to analyse the governance structure of the Commission in a succinct fashion.

Ann Abraham added that KPMG had done well to produce a paper to work with the unusual structure of the Commission.

Andrew Lovett expressed concern about the complex structure of the Commission and stated that a successful organisation depended on the strength and skills of the Chief Executive. He added that the organisation needed more non-executive involvement to provide outside influence and also provide support for the Chairman/Chief Executive.

Tony Redmond advised the meeting that following the LGPIH Act 2008 Commissioners were going to be appointed for a term not exceeding more than seven years and he would be proposing additional non-executive Commissioners be appointed for a period of three years. The Commission was also re-visiting the appointment of a further non-executive member to the Audit Committee. This was as far as the organisation could go in line with current legislative restrictions.

Ann Abraham added that it was a challenge sometimes as the only non-executive Commissioner so would welcome additional non-executive members for the Commission. She added that PHSO has managed to appoint three non-executive members to the Audit Committee two of whom are staff from other Ombudsmen schemes.

Nigel Karney informed the Committee that out of the 12 recommendations set out in the governance report nine had been accepted and three had been accepted in principle but were to be addressed in a different way.

Neil Thomas added that KPMG had agreed the management arrangements document.

Tony Redmond then said that he welcomed the formality being injected into the process and recognised that the Chairman's actions, on behalf of the Commission, should be formalised and transparent.

The Audit Committee agreed that:

- a. The Management Arrangements document be re-titled Governance Statement.**
- b. An additional non executive member be appointed to sit on the Audit Committee.**
- c. The Commission be asked to determine the appropriate course of action to recommend the appointment of additional non-executive Commissioners.**

iii. Internal Audit Programme for 2008/09 (AC268)

Eugene Sullivan stated that this document had been drafted well with an easy to read format. However, he asked for an explanation of the rationale for topic selection and reconciliation of the costing for the organisation to carry out the programme of work.

Jo Lees responded by stating that the initial draft programme identified potential areas and could be refined following discussion at this meeting.

Nigel Karney stated that it would be useful to the organisation to reconcile the understanding of risks within the organisation as they did not currently match.

Tony Redmond added the programme reflects work already being carried out within the organisation and also covers the areas of work that need to be done during the current year.

Ann Abraham raised the issue of the IT system review and said that reassurance needed to be given that this review could be deferred without risk to the Commission. Nigel Karney stated that a specific day could be set aside to revisit this issue. He also added that there was a separate COIN Project Board on which there was audit representation.

Tony Redmond further stated that the IT area required some audit work at the appropriate time and the organisation would contemplate this once it moves to Phase II of the IT development project. Effective use of Audit resources would need to be considered at that time in connection with the project.

The Audit Committee approved the plan and agreed that:

- a. **An additional day be added to the programme for an IT review.**
- b. **The Commission's current IT Strategy be circulated to Committee members and KPMG which sets out the strategic role of the IT function along with IT developments now and in the future.**
- c. **Nigel Karney draft an interim report for submission to the July Audit Committee on progress of the audit programme.**

5. Grant in Aid (CLA1645)

Stephen Jones informed the Committee that the report had been circulated for information and observations. The report sets out the current and new funding arrangements along with the next steps to implement the new regime which mirror those for the Standards Board for England. He added that meetings had been arranged with the SBE and DCLG to discuss the workings of this new arrangement.

Tony Redmond informed the Committee that he had discussed this issue with the DCLG and had expressed concern at using the same arrangements as one of the other grant in aid bodies; the DCLG felt that the arrangements set in place for the SBE best fit the Commission. Tony Redmond expressed that the Commission needed to preserve its independence and it was essential that the new arrangements did not lead to the Commission's work being controlled and closely monitored by Government departments. He added that the new funding regime needed to be in place by early autumn.

The Audit Committee agreed that a brief update be submitted to the next Audit Committee meeting.

6. Strategic Risk Register (AC270)

Nigel Karney reminded the Committee that the framework used by the Commission was set out in the pyramid diagram which was circulated with the register. He added that the organisation needed to be adjusted to deal with the impending budget reduction of 15% over the next three years.

Eugene Sullivan state that it was important to link the risks to management controls and asked whether future planning was affected.

Neil Thomas stated that it was important to look at the register on a regular basis and adjust any planning accordingly. He added that KPMG would be reviewing how well this process was working.

Andrew Lovett said that the document was useful as it provided a picture of the organisation.

Ann Abraham added that the document has been developed and used well.

The Audit Committee noted the report.

7. Any Other Business

No further business was discussed.

8. Date of next meeting

10.00 am on Tuesday 15 July 2008.