

MINUTES (Draft)

Meeting: Audit Panel

Date: Tuesday 10 July 2012

Time: 3.30 pm

Place: Committee Room 5, City Hall, The Queen's Walk, London, SE1 2AA

Copies of the minutes may be found at: <http://www.london.gov.uk/who-runs-london/the-london-assembly/committees/audit-panel>

Present:

John Biggs (Chairman)
Roger Evans (Deputy Chair)
Gareth Bacon
Navin Shah

1. Apologies for Absence and Chairman's Announcements (Item 1)

1.1 An apology for absence was received from Murad Qureshi AM for whom Navin Shah AM substituted.

1.2 The Chairman welcomed Members and officers to the first meeting of the Panel during this Assembly year.

2. Declarations of Interests (Item 2)

2.1 Resolved:

(a) That the list of memberships of functional bodies and London Borough Councils, as set out in the table at Item 2 on the agenda, be noted as disclosable pecuniary interests;

(b) That Navin Shah's AM membership of the London Borough of Harrow and the London Fire and Emergency Planning Authority (LFEPA) be noted as

disclosable pecuniary interests; and

- (c) That Roger Evans' AM (Deputy Chair) membership of the Thames Gateway Corporation Development Board be noted as a disclosable pecuniary interest.**

3. Membership of the Panel (Item 3)

3.1 Resolved:

That the membership and chairing arrangements for the Panel, as agreed by the Annual Meeting of the Assembly on 11 May 2012, be noted, as follows:

**John Biggs AM (Chairman)
Roger Evans AM (Deputy Chairman)
Gareth Bacon AM
Murad Qureshi AM**

4. Terms of Reference (Item 4)

4.1 Resolved:

That the terms of reference for the Panel, as agreed by the Annual Meeting of the Assembly on 11 May 2012, be noted, as follows:

- 1. The Audit Panel will be concerned with ensuring the security of and monitoring of financial systems, ensuring that there is an anti-fraud culture, and promoting probity and good practice within the core GLA.**
- 2. To liaise with the external auditors over their annual programme and, with the Mayor as appropriate, to approve the annual internal audit programme.**
- 3. To deal as appropriate with matters raised by the external auditors' management letters and reports and, where a report is made in respect of the GLA, to make recommendations to the Assembly at the meeting at which the report is to be formally considered in the presence of the Mayor in accordance with Schedule 8 in the 1999 Act.**
- 4. To deal as appropriate with matters arising from the internal auditors' reports and to comment to the Mayor on matters relevant to his/her responsibilities.**

5. **To review the GLA's Risk Management Policy and comment to the Mayor as appropriate.**

5. Minutes (Item 5)

5.1 **Resolved:**

That the minutes of the meeting of the Audit Panel held on 13 March 2012, which were formally agreed by the Assembly's Annual meeting on 11 May 2012, be noted.

6. Summary List of Actions (Item 6)

6.1 The Audit Panel received the report of the Executive Director of Secretariat.

6.2 **Resolved:**

That the completed and outstanding actions arising from the previous meetings of the Audit Panel be noted.

7. Draft Annual Governance Statement (Item 7)

7.1 The Audit Panel considered the report of the Head of Paid Service, to which was appended the Draft GLA Annual Governance Statement for 2011-12.

7.2 The Head of Governance and Resilience stated that the GLA's Oversight Committee had commented on the draft GLA Annual Governance Statement for 2011-12 at its meeting on 19 June 2012. He confirmed that it had also been considered informally by the Mayor and party Group Leaders. The document had been published as a draft with the GLA's Statement of Accounts for 2011-12 and it would be published in final form in September 2012 and would include the Panel's comments.

7.3 Navin Shah AM referred to paragraph 6 (future governance challenges) of the draft Statement and asked whether, given that the Mayor would have a governance role arising from the health reforms, as he would chair the London Health Improvement Board, the draft Statement should include the London Health Improvement Board in the list of future governance challenges. The Head of Governance and Resilience commented that the draft Social Care Bill was due to be laid before Parliament during the week commencing 8 July 2012 and it was likely to include a proposal to create a London Health Improvement Board. Therefore it would be appropriate to include the London Health Improvement Board in the future governance challenges in the draft Annual Governance Statement.

**Greater London Authority
Audit Panel
Tuesday 10 July 2012**

7.4 Roger Evans AM sought clarification that the governance training for Deputy Mayors would include all the Deputy Mayors and the Head of Governance and Resilience confirmed that it would.

7.4 **Resolved:**

That the Draft Annual Governance Statement be noted and that it be updated to include reference to the proposed London Health Improvement Board, noting that legislation to establish the Board had not yet been agreed by Parliament.

8. Position Statement from the District Auditor - June 2012 (Item 8)

8.1 The Audit Panel received the report of the Executive Director of Resources. Appended to the report was the District Auditor's Position Statement of June 2012.

8.2 **Resolved:**

That the District Auditor's Position Statement of June 2012, attached at Appendix 1 to the report, be noted.

9. Internal Audit Reports (Item 9)

9.1 The Audit Panel received the report of the Executive Director of Resources. Appended to the report were: five recent internal audit reports (three from 2011/12 and two from the 2012/13 internal audit plan). Three follow up review reports; an internal audit progress report; and an internal audit annual assurance report 2011/12 were also appended to the report.

9.2 The Chairman stated that in accordance with Section 100(B)(4) of the Local Government Act 1972, he had agreed that the Panel should consider an internal audit report entitled *Review of Gifts and Hospitality* (Appendix 1d) as an urgent item of business, the special circumstances being that the Panel needed to consider the recommendations contained in the report so that they could be properly taken forward as part of the new Standards regime, which came into effect on 1 July 2012 and as part of the work on the revised Greater London Authority (GLA) Group Corporate Governance Framework Agreement. The Chairman had also agreed that the Committee would receive a revised version of the report on the Review of City Operations Programme Framework, (the original report had been published with the main agenda at Appendix 1e), which incorporated the new audit assurance ratings for 2012/13.

**Greater London Authority
Audit Panel
Tuesday 10 July 2012**

- 9.3 The Mayor's Office of Policing and Crime (MOPAC) Director of Audit, Risk and Assurance explained the revised assurance ratings that would be used for internal audit reviews during 2012/13. She stated that MOPAC had inherited the previous assurance ratings and had used them in 2011/12. However, she did not feel that the ratings accurately reflected the work that Internal Audit undertook, for example, in 2011/12 the top rating had been "full" but it was very difficult for auditors using their professional judgements to ever give an organisation a full assurance; it would be more accurate to state that an organisation had a sound framework of control operating to mitigate risks, which for 2012/13 would be categorised as a substantial assurance. Hence, in the future the highest level of assurance would be "substantial" (previously "full") and the second level would be "adequate" (previously "substantial").

Internal Audit Reports

- 9.4 The Panel considered the following recent internal audit reports (attached at Appendix 1 to the report):
- Review of London Engagement Marketing and Events;
 - Review of Information Management (Accessibility of Public Data);
 - Review of GLA's Business Continuity Control Framework;
 - Review of Gifts and Hospitality; and
 - Review of City Operations Programme Management Framework.

Review of London Engagement Marketing and Events

- 9.5 The Head of Governance and Resilience stated that there had been improvements in shared services regarding payments and a strengthening of the processes. The Assistant Director of Finance added that during 2011/12 Internal Audit had undertaken a review of payments and awarded the audit a substantial assurance under the previous system of ratings.

Review of Gifts and Hospitality

- 9.6 The GLA Monitoring Officer stated that the audit review of Gifts and Hospitality had been undertaken using the new methodology for 2012/13 and it had received an adequate assurance (which was akin to the "substantial" rating under the previous regime). He had wanted the report to be considered by this meeting of the Panel as the GLA's new standards regime had come into being on 1 July 2012 and gifts and hospitality formed part of that new regime. Furthermore, work had started on reviewing the GLA Group's Corporate Framework and he wished to receive the Panel's views on the recommendations contained in the internal audit report in order that they could feed into the review.
- 9.7 The Deputy Chairman commented that some processes in the new gifts and hospitality regime might prove challenging, for example it could often be difficult for an elected

**Greater London Authority
Audit Panel
Tuesday 10 July 2012**

Member to put an accurate value on gifts and hospitality.

- 9.8 In response to a question from the Chairman, the GLA Monitoring Officer stated that guidance about the acceptance of gifts and hospitality during the Games period had been issued in 2011 and had been updated and issued to all within the GLA again recently.
- 9.9 Navin Shah AM referred to the risk and recommendation set out in paragraph 7.5 of the review report and sought clarification as to the purpose of declaring gifts and hospitality that had been declined. The GLA Monitoring Officer responded that the recommendation from the internal auditors reflected the current practice in the Metropolitan Police Service (MPS) and the LFEPA. It had been suggested by them that such a procedure would aid transparency and would show to what pressures the organisation was subjected by recording what gifts and hospitality were offered by organisations to GLA Members and/or officers. The MOPAC Director of Audit, Risk and Assurance stated that it was now recognised best practice to record where gifts and hospitality had been declined both in order to aid transparency and as an aid to analyse trends.
- 9.10 Gareth Bacon AM commented that it seemed as though there was a slight redefining of the purpose of recording gifts and hospitality. He understood that declarations of accepted gifts and hospitality aided transparency in the decision making process but he did not understand why an elected Member would be under an obligation to declare declined offers of gifts and hospitality since by declining the offer an elected Member was not fettered in his/ her decision making. The Deputy Chairman commented on the practicality of requiring the Mayor to declare all the gifts and hospitality which he had declined, given that he received many invitations.
- 9.11 The GLA Monitoring Officer explained that following the publication of the Internal Audit review, he would give positive consideration to the recommendations and would discuss them further with the Mayor and Assembly during the process to update the GLA Group's Corporate Governance Framework. He understood that there would be particular issues that affected elected Members.
- 9.12 The Panel asked about the issue of best practice elsewhere in relation to declaring declined gifts and hospitality and the MOPAC Director of Audit, Risk and Assurance stated that the recommendation was in the context of the Bribery Act, the Nolan Principles of Public Life, the Leveson Inquiry and discussions about best practice with the former Standards for England. She added that the GLA Monitoring Officer wished to achieve synergy and consistency in best practice across the GLA Group during the forthcoming review of the GLA Group Corporate Governance Framework and at the end of that process there would be a defined position on what should be recorded. She noted that the Government position was that local authorities now had the discretion to agree a gifts and hospitality regime that best fitted their local circumstances and that it was for the Mayor and Assembly to decide on the policy for the core GLA. A Member responded that whilst he noted that the recommendation

**Greater London Authority
Audit Panel
Tuesday 10 July 2012**

was put forward as an opinion by Internal Audit (and other public sector auditors), it was not yet recommended best practice. The Chairman noted the Panel's concerns about the recommendation 7.5 and stated that Members were already bound by the GLA's Code of Conduct to declare disclosable pecuniary interests.

- 9.13 The GLA Monitoring Officer stated that he anticipated that in the autumn he would be able to present a draft revised Corporate Governance Framework to the Mayor and Assembly for informal discussion before presenting it to the GLA Oversight Committee and the Audit Panel for comment.

Appendix 1e – Review of City Operations Programme Management Framework

- 9.14 The Panel congratulated the City Operations Programme Director as the review of the City Operations Programme Management Framework had received a substantial assurance in accordance with the 2012/13 methodology and had received no recommendations.
- 9.15 The Panel considered three follow up reviews as follows:
- Follow up Review of Risk Management;
 - Follow up Review of Mayor's Planning Powers; and
 - Follow up Review of Expenses and Benefits Control Framework.
- 9.16 The Panel considered the Internal Auditor's progress report (attached at Appendix 3 to the report) and the Annual Report 2011/12 (attached at Appendix 4 to the report). The MOPAC Director of Audit, Risk and Assurance stated that the GLA had an effective internal control framework. She recognised the improvements that has been made to the GLA's risk management framework, which now needed to be embedded throughout the GLA. During 2012/13 the internal audit reviews would focus on the new functions of the GLA.
- 9.17 In response to a question about the lessons that had been learnt following the Internal Auditor's first year of providing the internal audit service to the GLA, the MOPAC Director of Audit, Risk and Assurance stated that she had been very happy with the way in which the Audit Panel had supported her throughout the year. In the forthcoming year she would be working more closely with senior management at the core GLA to have an early input where systems were being developed.
- 9.18 The Chairman asked how the requirement contained in the recent Mayor's Budget Guidance for 2013/14 for 20% savings over the period until the end of 2014/15 would affect the audit function. The MOPAC Director of Audit, Risk and Assurance responded the Panel that there would be an appropriate emphasis in ensuring that each body within the GLA Group received assurance from the internal audit function. She would look at the proposals in more detail and report to the Panel. The Assistant Director of Finance explained that the Mayor's Budget Guidance had named the MOPAC as the GLA Group which would take the lead role in

**Greater London Authority
Audit Panel
Tuesday 10 July 2012**

ensuring there were safeguards in place across the GLA Group. He added that the audit function comprised internal and external audit and it was anticipated that with the abolition of the Audit Commission and award of the GLA external audit contract to a private sector audit company, there would be a reduction in the external audit fees.

9.19 Resolved:

- (a) That the contents of the recent internal audit reports attached at Appendices 1a to 1e and 2a to 2c of the report, be noted;**
- (b) That the progress report from the internal auditor, attached at Appendix 3 to the report, be noted; and**
- (c) That the Annual Report for 2011/12 from the internal auditor, attached at Appendix 4 to the report, be noted.**

10. Monitoring of Expenses - Mayor, Elected Members and Senior Staff (Item 10)

10.1 The Committee considered the report of the Executive Director of Resources. The report set out the expenses incurred by the Mayor, London Assembly Members and senior staff for the period 1 February 2012 to 31 March 2012 together with comparative information.

10.2 The Chairman requested that the next meeting of the Panel receive a report on the practices of the functional bodies in respect of the monitoring of expenses.

10.3 Resolved:

- (a) That the expenses incurred by the Mayor, London Assembly Members and senior staff in the period 1 February 2012 to 31 March 2012 be noted; and**
- (b) That the Assistant Director of Finance submit a report to the next meeting of the Panel setting out the practices of the functional bodies in respect of the monitoring of expenses.**

11. Audit Arrangements for the GLA Group (Item 11)

- 11.1 The Audit Panel received the report of the Executive Director of Resources.
- 11.2 The Assistant Director of Finance stated that the Audit Commission would take a decision later in July 2012 about to whom to the award the external audit contact for the GLA. There was likely to be three different external auditors for the GLA Group. In response to a question about why there would be three different external auditors, when it was understood that the process would be to let external audit contracts for a whole region, the District Auditor explained that, for the most part, contracts would be let on a regional basis. However, where the proposed auditor for the region had a conflict of interest an alternative auditor had been identified. Hence although it was proposed to award the London South, Kent and Surrey contract to Grant Thornton, as the latter company had a conflict of interest in respect of the core GLA, it was proposed to award the contract for the core GLA to Ernst and Young.
- 11.3 The Executive Director of Secretariat stated that the Draft Local Audit Bill had been published on 6 July 2012 with a consultation period ending on 31 August 2012 (before the next meeting of the Panel on 23 October 2012). The Assistant Director of Finance stated that during the initial consultation on the future of local audit during 2011, the former Chairman of the Audit Panel and Mayor had submitted a joint response to the Department of Communities and Local Government (DCLG). The DCLG had taken account of the Mayor and Assembly's point that the appointment of the GLA's auditors should be a joint function of the Mayor and Assembly. However, the detailed proposals contained with the Bill needed to be analysed and it was proposed that authority be delegated to the Chairman, in consultation with the other Members of the Panel, to agree a joint response with the Mayor.
- 11.4 **Resolved:**
- (a) That the report be noted; and**
 - (b) That authority be delegated to the Chairman, in consultation with the other Members of the Panel, to agree a joint response with the Mayor to the consultation on the draft Local Audit Bill, noting that the consultation would close on 31 August 2012.**

12. Audit Panel Work Programme for 2012/13 (Item 12)

12.1 The Audit Panel received the report of the Executive Director of the Secretariat.

12.2 **Resolved:**

That the Audit Panel's work programme for 2012/13 be noted.

13. Date of Next Meeting (Item 13)

13.1 The next meeting would be held on 23 October 2012 at 3.30pm in Committee Room 5.

14. Any Other Business the Chair Considers Urgent (Item 14)

14. There was no other business.

15. Close of Meeting (Item)

15.1 The meeting ended at 4.53pm.

Chairman

Date

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