

## **AUDIT COMMITTEE**

**TUESDAY 15 APRIL 2008 AT 10.15 AM**

**PRESENT:** Councillor Mrs Geddes (Chairman), Councillors Allison (from 10.37 am), Harid (as substitute for Councillor Hendry), and Stothard

**ALSO**

**PRESENT:** Mr Richard McGahon (Audit Manager)

Mr Mike Thompson (Auditor) and Mr Steven Tickner (Technical Accountant) attended as observers

### **AUC.14/08 APOLOGIES FOR ABSENCE**

Apologies for absence were submitted on behalf of Councillors Lishman, Hendry and Stevenson; and Mr Mark Heap (Relationship Manager and District Auditor).

A Member raised a query regarding membership of the Committee.

### **AUC.15/08 DECLARATIONS OF INTEREST**

There were no declarations of interest affecting the business to be transacted.

### **AUC.16/08 MINUTES**

**RESOLVED** - That the Minutes of the meeting of the Audit Committee held on 16 January 2008 be agreed as a true record of the meeting and signed by the Chairman.

### **AUC.17/08 MINUTES OF CORPORATE RESOURCES OVERVIEW AND SCRUTINY COMMITTEE**

The Minutes of the meetings of the Corporate Resources Overview and Scrutiny Committee held on 10 January and 21 February 2008 were submitted for information.

Members sought clarification / reassurance on the following issues:

- (a) CROS.18/08 – Use of Resources 2007/08 – the Committee had expressed disappointment regarding the Audit Commission's assessment of the financial reporting KLOE's, particularly given their positive comments at the last meeting of the Audit Committee.

The Director of Corporate Services explained that the reference related to Members' disappointment that the Council's performance had been assessed as inadequate in respect of financial reporting, despite the improvements made and effort and additional resources that had gone into the process, and the positive feedback from the Audit Commission on the 2006/07 accounts to the Audit Committee. Further improvement would be dependant upon the 2007/08 accounts process, the outcome of which would not be known until September 2008.

- (b) In response to questions, the Audit Manager explained the definition of the term "embedded", which had been around for the last two years and which sought to ensure that practices, policies and procedures set out in the KLOEs were in place for a period of time (i.e. not just produced near the deadline) and evidence provided to support that.

The Director said that she was reassured by the fact that if procedures were in place those would be taken into account.

RESOLVED – That, subject to the issues raised above, the Minutes of the meetings of the Corporate Resources Overview and Scrutiny Committee held on 10 January and 21 February 2008 be noted and received.

#### **AUC.18/08      ANNUAL AUDIT AND ASSESSMENT LETTER 2007/08**

The Director of Corporate Services submitted Report CORP.11/08 attaching for Members' consideration the final Annual Audit and Inspection Letter for 2007/08 received on 18 March 2008.

The Audit Manager thanked the Committee for the opportunity to present the final Audit and Inspection Letter. He reported that the Audit Commission was undergoing a restructure and that Mrs Karen Murray had now replaced Mr Mark Heap as District Auditor and would attend the June 2008 meeting of the Committee.

The Audit Manager then outlined the content of the Annual Audit and Inspection Letter providing an overall summary of the Audit Commission's Assessment and highlighting key messages and action required by the Council. A programme of meetings with finance staff had been scheduled to work through issues in relation to the final accounts process.

In conclusion he said that progress was being made but, as always, some improvements were still required.

During their consideration of the Annual Audit and Inspection Letter Members raised the following issues and observations:

- (a) The positive progress achieved was welcomed by the Committee.

- (b) In response to a question, the Head of Audit Services advised that the Partnership Policy had been considered by the Executive on 18 March and would be submitted to Council for approval on 29 April 2008.
- (c) In response to a question, the Director outlined progress on the Shared Services agenda, which included the development of a Cumbria-wide Shared Services Strategy (including a Business Architecture Project); the Carlisle / Copeland Revenues and Benefits Shared Management Arrangement, and the Carlisle / Allerdale ICT Shared Service which was currently being investigated.

ACE and the Connected Cumbria Partnership Board would be merged into a new more strategic and focussed Board designed to drive forward efficiency.

She added that progress was ongoing on the issue of the Cumbria Wide Property Review.

- (d) The Audit Manager explained the difference between trivial, non-trivial and material errors and their respective implications for the Council's accounts.
- (e) The Deputy Chief Executive provided an update on the job evaluation and appeal process, commenting that work was underway to complete the appeals process by 31 July 2008. Progress could then be made on the delivery of a new fair and equitable pay structure. Subject to satisfactory progress being made on the consultation process with the Trade Unions and relevant parties affected, the aim was to have the new pay structure implemented by 31 December 2008.

The Chairman sought an assurance that the necessary resources were in place to meet the 31 July 2008 deadline. The Deputy Chief Executive acknowledged that the deadline was ambitious, but that Officers were doing all that they could, in the context of the current constraints which included vacancy management.

- (f) In response to a question, the Audit Manager explained that the City Council was assessed as Good in the Comprehensive Performance Assessment (CPA) carried out in 2003. The Council had not asked for a re-assessment. Figure 1 showed the overall performance of District Councils in CPA. It was important to recognise that the UOR thresholds increased year on year in facilitating continuous improvement and the Council would have to work hard to maintain or improve upon its score.
- (g) The Chairman highlighted areas of good performance, which included community leadership and achievement of the 'Go Award North West'. The Housing Benefits Service also remained high performing over all.

She noted that the Council had committed itself to tackling environmental improvement and responding to climate change through the 'Nottingham Declaration', but the development of a full range of clear objectives, baseline information on CO<sup>2</sup> emissions and improvement targets in support of the environmental policy were not yet in place. She queried whether it was appropriate to ask the Director of Community Services to provide a written update to Members in that regard.

The Audit Manager replied that the latter issue would be picked up next year in terms of progress made by the Council, but it was a matter for Members as to whether they wished to receive an update thereon.

The Director of Corporate Services added that the Corporate Resources Overview and Scrutiny Committee would consider the Council's direction of travel, but a response could be provided if Members so wished.

RESOLVED – (1) That the Annual Audit and Inspection Letter and the actions being taken to address the improvements required be noted.

(2) That the Committee acknowledged and welcomed the positive progress achieved across a range of Council services.

(3) That the Director of Community Services be requested to provide a written update on progress with the development of a full range of clear objectives, baseline information on CO<sup>2</sup> emissions and improvement targets in support of the environmental policy.

## **AUC.19/08      AUDIT SERVICES PROGRESS REPORT**

The Head of Audit Services submitted report CORP.1/08 summarising the work carried out by Audit Services since the previous report to Committee on 16 January 2008.

The final reports on the Audits of Bereavement Services, Cash Collection, Council Tax, Creditors, Customer Contact Centre, Improvement Grants, Main Accounting System and Planning Fees were appended to the report.

Audit reviews had also been completed for Payroll, Treasury Management, Debtors, NNDR, Fixed Assets, Car Parking Income and Housing Benefits. Draft reports had been issued and the final reports would be presented to Members in due course.

A number of follow-up reviews had been undertaken during that period, but there were no outstanding issues arising from those reviews or the Statement on Internal Control which required to be drawn to Members' attention. Work on a number of other reviews commenced during the year would be presented in due course.

In addition, the definition and collation of evidence required to support the new “Annual Governance Statement” was progressing well and would be presented to Members in due course.

RESOLVED – That report CORP.01/08 be received.

#### **AUC.20/08      ACTION PLANS – STATEMENT ON INTERNAL CONTROL AND CODE OF CORPORATE GOVERNANCE**

The Head of Audit Services submitted report CORP.2/08 appraising Members of the requirement for the authority to produce Action Plans relating to the Statement on Internal Control and Code of Corporate Governance.

Action Plans covering those areas were attached at Appendices A and B to the report, with changes highlighted for ease of reference.

For 2007/08 the SIC and COCG would be replaced by / combined into a single ‘Annual Governance Statement’ which would be presented to Members at their June 2008 meeting.

The Head of Audit Services requested that Members note the Action Plans and the current position relating to each of the areas identified. Issues arising from the Action Plans would be fed into the Council’s overall Improvement Plan.

RESOLVED – That the Statement on Internal Control and Code of Corporate Governance Action Plans be noted, together with the current position relative to each of the areas identified.

#### **AUC.21/08      AUDIT COMMITTEE SELF ASSESSMENT - ACTION PLAN**

The Head of Audit Services submitted report CORP.3/08 presenting an Action Plan arising from the results of the Audit Committee’s self assessment exercise.

In all, 12 questionnaires were completed and returned, and a summary of the responses given was appended to the report. The overall score for the questionnaire was 60% which indicated that there was a significant effort required to bring the effectiveness of the Audit Committee up to the standard implied by the questionnaire.

Members had requested the production of an Action Plan to identify those areas where improvement was deemed to be necessary, the action required and the responsible person/s for ensuring that the appropriate remedial action was taken.

The Director of Corporate Services added that the many of the issues considered by the Committee were complex and ongoing training would be required to ensure that its effectiveness remained at a high level.

The Audit Manager shared the views expressed by the Director. He believed that the introduction of briefing sessions immediately prior to meetings of the Committee would be beneficial in terms of Members' understanding of the terminology and key issues involved.

Training was important if the Committee was to maximise its effectiveness and it may be possible to arrange training on the broader issues on a Cumbria-wide basis which would share the costs. That would, however, prove difficult for issues specific to the Council's own accounts.

RESOLVED – (1) That the actions outlined in the Action Plan appended to report CORP.3/08 be adopted.

(2) That briefing sessions for Members continue to be held immediately prior to meetings of the Committee.

### **AUC.22/08      STRATEGIC AUDIT PLAN AND AUDIT PLAN FOR 2008/09**

The Head of Audit Services submitted report CORP.4/08 providing details of the updated Strategic Audit Plan and the proposed Audit Plan for 2008/09.

He referred Members to the Risk Assessment Model (entitled 'Audit Risk Assessment – Strategic Risk Based Plan') which had been updated based on known changes to procedures, findings arising from Audit Reviews, etc.

The Risk Assessment Model was also attached for Members' information. Whilst still in effect an Audit Plan, that approach did not envisage coverage of all audit areas over any pre-determined period. Instead, the model was dynamic by identifying the risk areas which could be addressed on any given time-scale, depending on the number of Audit staff available, ad-hoc demands, etc. Where possible, Audit Reviews had been grouped together to develop a 'theme-based' approach.

A revised approach to the material and low-risk reviews was outlined in the report and the Head of Audit Services sought Members' approval in respect thereof.

RESOLVED – (1) That the revised Audit Risk Assessment (Strategic Risk Based Plan) attached at Appendix A to report CORP.4/08 be endorsed and submitted to the City Council for approval.

(2) That the Internal Audit Plan for 2008/09 attached at Appendix B to the report be approved.

(3) That the revised Risk-Assessment Model attached at Appendix C to the report be noted.

(4) That the revised approach to the material and low-risk reviews as outlined in the report be approved.

## **AUC.23/08      AUDIT COMMITTEE – DRAFT PROGRAMME OF WORK 2008/09**

The Director of Corporate Services submitted report CORP.14/08 providing Members of the Audit Committee with a proposed timetable of meetings and issues to be considered at each meeting.

During 2007/08 the Audit Committee had received training/presentations relating to the role of the Audit Committee and the Final Accounts scrutiny process.

The training requirements for 2008/09 were referred to the Member Learning and Development Working Group on 12 February 2008. A Financial Management Training Programme had been drafted, which included proposed training for Members of the Committee. It was proposed that a training session setting out the role of the Committee and the final accounts scrutiny process be carried out again at the June 2008 meeting.

Members were asked to consider any other training they believed would be worthwhile in the light of the draft Programme of Work.

A Member pointed out that the programme of work should include reference to the briefing sessions for Members.

In response to a question, the Audit Manager advised that the Audit Commission had consulted on its fees for 2008/09, 2009/10 and 2010/11. The proposed increase in fees had been significantly reduced to around 1.5% in the light of consultation and the Audit Commission's Annual Plan should be submitted to the June 2008 meeting of the Committee.

The Director of Corporate Services sought clarification of the impact that the reduction in fees would have on the Council's self assessment work.

The Audit Manager replied that Use of Resources was a large element, but full guidance on how that would change was awaited from the Audit Commission.

RESOLVED – That, subject to the issues raised above, the content of report CORP.14/08 be noted and the programme of work for 2008/09 be approved.

## **AUC.24/08      ICT SECURITY POLICY**

Pursuant to Minute AUC.7/08, the Head of IT Services submitted report CORP.15/08 attaching the first draft of the ICT Security Policy documents.

He outlined progress with the new ICT Policy which had been delayed by staff illness, commenting that that had now been addressed and the work was back on track. Although the existing policy was out-of-date, it was important to note that the Council had not been working in a risky manner and procedures were already in place.

The draft Policy had been considered by the Senior Management Team who had provided useful comment thereon. They had, in particular, recognised the need for clear guidelines as to usage and suggested that a 'dos and don'ts' list be produced, perhaps in the form of mouse mats to promote awareness by Members and staff. The provisional timetable for adoption of the Policy was to see it presented to full Council on 17 July 2008.

On the issue of contracts for Carlisle Leisure Limited (CLL) and Cumbria Voluntary Services (CVS), CLL had always had a signed contract in place albeit without Legal Services being involved in drawing it up. A formal contract for CVS was in the final stages of being approved by Legal Services. That contract template would be used to replace the CLL contract when it was due for its annual renewal, and for any further support arrangements ICT may agree with external organisations.

The Head of IT Services sought Members' comments on the format, layout and detail of the draft Policy and Annexes. On the issue of password protection he reported that desktops would be updated to Windows Vista, commencing in May 2008, which would provide greater control and require passwords to be changed on a more frequent basis.

The Audit Manager said that an area of great concern had been clarity of what was in place in terms of an IT Security Policy and the timescale for submission of that to Members. He had no problem with the broad principle of the Policy and Annexes. The next issue would be ensuring that people were aware of their responsibilities in terms of passwords, usage and access.

In response to a question, the Head of IT Services advised that the majority of the Appendices would be in place by 17 July 2008, however, technology continually moved on and so those would never be complete and would need continual updating. On the issue of passwords, it was suggested that changes be enforced on a six monthly basis.

The Audit Manager said that his preference was that should be undertaken more frequently, thus reducing the likelihood of access to information being compromised.

Following discussion it was agreed by Members that, as a starting point, passwords should be changed on a six monthly basis with a view to reducing that period in future.

The Chairman thanked the Head of IT for the prompt submission of his report.

RESOLVED – (1) That the first draft of the ICT Security Policy documents, as appended to report CORP.15/08, be welcomed.

(2) That it be recommended that changes to passwords be enforced initially on a six monthly basis.



**AUC.25/08      STATEMENT OF ACCOUNTS 2007/08 – 2008 SORP AND  
ACCOUNTING POLICIES**

The Chief Accountant presented report CORP.5/08 informing Members of revisions to the format of the 2007/08 Statement of Accounts due to the implementation of the 2007 Statement of Recommended Practice (SORP).

Also provided for Members' consideration were the draft Accounting Policies for inclusion within the 2007/08 Statement of Accounts.

RESOLVED – (1) That the changes to the Statement of Accounts required by the 2007 Statement of Recommended Practice be noted.

(2) That the draft Accounting Policies outlined in Appendix 1 to report CORP.5/08 be approved for inclusion within the 2007/08 Statement of Accounts.

[The meeting ended at 12.53 pm]

At the conclusion of the formal meeting, the Committee undertook a training session on the Final Accounts 2007/08 facilitated by the Chief Accountant.