

CARLISLE CITY COUNCIL

Report to:- Carlisle City Council

Date of Meeting:- 28 April 2009

Agenda Item No:-

Public

Title:- **AUDIT COMMITTEE'S ANNUAL REPORT**

Report of:- **The Chairman of the Audit Committee**

Report reference:- **CORP. 5/09**

Summary:-

The attached report summarises the work undertaken by the Audit Committee during the period from 15th April 2008 to 14th January 2009.

Recommendation:-

The Council is requested to note and accept this report.

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Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers: None

CARLISLE CITY COUNCIL

To: Carlisle City Council
28th April 2009

CORP.5/09

AUDIT COMMITTEE'S ANNUAL REPORT

1 Background Information

- 1.1 In accordance with paragraph 3.3 of the Audit Committee's Rules of Governance - attached to this report for Members' information as **Appendix A** - the Chairman of the Audit Committee is required to present an Annual Report on the work of the Audit Committee to the full Council.
- 1.2 The Members of the Audit Committee for this municipal year are -

Conservative

Layden
Lishman
Mallinson E. (Chairman)

Bainbridge (Substitute)
Clarke M. (Substitute)
Parsons (Substitute)

Labour

Hendry
Stothard
Styth

Boaden (Substitute)
Bradley (Substitute)
Glendinning (Substitute)

Lib Dem and independent

Allison

Tootle (Substitute)

1.3 This Report covers the meetings of the Audit Committee held on.

15th April 2008

23rd June 2008

21st August 2008 (additional meeting - see further details below)

26th September 2008

14th January 2009.

2 **Audit Committee's Programme of Work**

2.1 At the commencement of the year, the Committee agreed a Programme of work for the forthcoming year that outlined the areas to be considered at each meeting. Report CORP 4/08 refers.

2.2 The Programme for the above period included the following topics that were considered at each of the meetings with the exception of the additional meeting held, at the Chairman's request, on 21st August 2008 -

Minutes of the Corporate Resources Overview and Scrutiny Committee – these were submitted to each meeting of the Audit Committee for information and any officers' comments.

Audit Services Progress Reports – these provided summaries of the work carried out by Audit Services since the previous meeting of the Committee. A copy of each Final Audit Report were appended to these Progress Reports, together with information relating to any follow-up reviews that had been undertaken. Members' attention was drawn to any outstanding recommendations and the reasons for these.

Annual Governance Statement Action Plan – this has now been incorporated to replace the two previous Action Plans, which were related to:-

- The Code of Corporate Governance
- The Statement on Internal Control

Both of these reports were previously presented to the Committee on a regular basis. This Action Plan is updated prior to each meeting, in order to assure Members that remedial action is being taken as appropriate and within the agreed deadlines.

Risk Management Policy and progress – officers have provided Members of the Committee with information relating to the work of the Corporate Risk Management Group and the updated Corporate Risk Register on a regular basis, for noting and action if necessary.

The programme also included a number of topics that are considered on an annual or an ad-hoc basis -

2.2.1 Meeting on 15th April 2008. At this meeting, the Committee considered: -

- The Audit Commission's Annual Audit and Inspection Letter and noted the action being taken to address the improvements required;
- The Committee's Self-Assessment Action Plan to address areas of weakness identified in the self-assessment exercise;
- The Strategic and Annual Audit Plans for 2008/09;
- The first draft of the ICT Security Policy;
- A report from the Director of Corporate Services summarising the changes to the 2007/08 Accounts in accordance with the 2007 Statement of Recommended Practice.

2.2.2 Meeting on 23rd June 2008. At this meeting, the Committee were provided with an overview of the role and duties of External Audit, which includes work relating to the Council's accounts, value for Money conclusions, Use of Resources Assessment and Direction of Travel, Legal issues and the National Fraud Initiative. The Audit manager also reported verbally on progress against the External Audit Plan for 2007/08.

Other topics considered at this meeting were: -

- The protocol for liaison between Carlisle City Council and External Audit - Audit Commission;
- Reports from the Director of Corporate Services relating to the provisional out-turn for the General Fund Revenue Services and the Council's Capital Programme;
- The 2007/08 Statement of Accounts;

- The Head of Audit Services' Out-turn Report for 2007/08 and the Interim Review of the Effectiveness of Audit Services.

2.2.3 Meeting on 21st August 2008. This was an additional meeting that was held at the request of the Chairman of the Audit Committee. Prior to the meeting, the Committee received a presentation from the External Audit Manager on the key judgements that the Audit Commission will make around Use of Resources and Direction of Travel. An invitation was extended to all Members of the City Council to attend the presentation.

Members also considered a report dealing with the Committee's Terms of reference and Timetable for meetings, and a report from the Director of Corporate Services relating to the self-assessment of the Use of Resources Key Lines of Enquiry for internal control.

2.2.4 Meeting on 26th September 2008. At this meeting,

- the District Auditor presented the Audit Commission's Annual Governance Report, summarising the findings from the 2007/08 audit of the City Council. The Committee also considered the Director of Corporate Services' response to the issues raised in the above report.
- Members also received the Director of Corporate Services' report relating to the 2007/08 Letter of Representation, which in accordance with Auditing Standards is required to be considered and approved by the Audit Committee before the External Auditor's opinion on the Statement of Accounts is provided.
- The Deputy Chief Executive also presented a report appraising Members on the Council's risk-management arrangements, including the updated Corporate Risk Register.

2.2.5 Meeting on 14th January 2009. At this meeting, the Committee considered –

- Arrangements in respect of the approval of the City Council's Accounts – the Committee considered that at the current, time, responsibility for formal approval of the City Council's Statement of Accounts should remain with the full Council.
- The 2008/09 Final Accounts process – Members were concerned at the introduction of the International Financial Reporting Standards and the potential impact upon Carlisle City Council. Members also noted that CIPFA had yet to issue guidance that impacted

on the Authority's ability to finalise working practices. The Executive's attention was to be drawn to the significant changes in the way in which the Council would have to account for its fixed assets and the treatment of leases.

- Use of Resources 2007/08 – Members brought to the Executive's attention the main areas of risk in this report, which was considered in Part B of the meeting, of not maintaining the current overall level of performance.

3 **Training Workshop**

- 3.1 A training workshop relating to the Audit Committee's scrutiny of the Annual statement of Accounts was held for Members on 16th June 2008.
- 3.2 A further session will be organised after the Council's Annual General Meeting relating to the Statement of Accounts, which will also include a Value for Money element.

4 **Recommendation**

- 4.1 The Council is requested to note and accept this report.

Cllr. E. Mallinson
Chairman
April 2009

AUDIT COMMITTEE

RULES OF GOVERNANCE

1. STATEMENT OF PURPOSE

- 1.1 The purpose of an Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

2. TERMS OF REFERENCE

2.1 Audit Activity

To consider the Head of Audit Services' annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements.

To consider summaries of specific internal audit reports as requested.

To consider reports dealing with the management and performance of the providers of internal audit services.

To consider a report from internal audit on agreed recommendations not implemented within a reasonable time-scale.

To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.

To consider specific reports as agreed with the external auditor.

To comment on the scope and depth of external audit work and to ensure it gives value for money.

To liaise with the Audit Commission over the appointment of the Council's external auditor.

To commission work from internal and external audit.

2.2 Regulatory Framework

To maintain an overview of the Council's Constitution in respect of Contract Procedure Rules, Financial Procedure Rules and financial Codes of Conduct and Behaviour.

To review any issue referred to it by the Town Clerk and Chief Executive or a Director, or any Council body.

To monitor the effective development and operation of risk management and corporate governance in the Council.

To monitor the Council's policies relating to "Confidential Reporting", "Counter Fraud and Corruption" and "Complaints".

To oversee the production of the Council's Annual Governance Statement and to recommend its adoption.

To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

To consider the Council's compliance with its own and other published standards and controls.

2.3 Accounts

To review the Annual Statement of Accounts and to make recommendations to Council in respect of the approval of the Statement of Accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

3. ACCOUNTABILITY

- 3.1 The Audit Committee will be a stand alone Committee of the Council. All Audit Committee members will act in the interests of the Council and not on behalf of any political party, constituency, ward, or interest group.
- 3.2 The Chairman of the Audit Committee will be appointed by the Committee. The Chairman and the Committee will ensure that relevant issues are promptly brought to the attention of the Executive, Overview and Scrutiny and Regulatory Committees or the full Council.
- 3.3 The Chairman of the Audit Committee will present an Annual Report on the work of the Audit Committee to the full Council.

4. AUTHORITY AND ACCESS

- 4.1 The Audit Committee has a right to request relevant information from appropriate Members and Officers of the Council.
- 4.2 The Audit Committee will not be able to transact the powers, functions and duties reserved to the full Council, the Executive, Overview and Scrutiny and other Regulatory Committees.
- 4.3 The Audit Committee will have access to in-house financial, legal and any other professional advice necessary to carry out its functions.
- 4.4 The Chairman of the Audit Committee and the external and internal auditor will meet as necessary and the Council's Head of Audit Services will provide necessary services and support and assistance to the Audit Committee.
- 4.5 Any Member, Officer or member of the public who has any concern covered by the Rules of Governance of the Audit Committee may raise the matter with the Chairman of the Committee who will obtain, if necessary, relevant advice from the Council's Monitoring Officer or the Section 151 Finance Officer before taking any action with regard to the same.

5. MEMBERSHIP

- 5.1 Audit Committee members will be appointed by the Council and consist of 7 members in accordance with the rules governing political balance. No member of the Executive and no chair of the Overview and Scrutiny Committees will be eligible to be a member of the Audit Committee.
- 5.2 The Audit Committee will be provided with administrative support by the Legal and Democratic Services Directorate and reports/decisions of the Audit Committee will be recorded and published on CMIS in the usual way. The People, Policy and Performance Directorate will provide technical support to the Committee when required. As the decisions of the Audit Committee will not be of an executive nature, the decisions will not be the subject of a request for call-in. If any Member is concerned about any decision of the Audit Committee, s/he should raise the matter with the Chairman of the Audit Committee, the Monitoring Officer, the Section 151 Finance Officer and/or ask an oral question of the Chairman of the Audit Committee at the Council meeting in accordance with the relevant Council Procedure Rules.

6. ATTENDANCE

6.1 The Audit Committee shall meet on a regular basis as provided for in paragraph 7 below. Officers and others may attend all or part of the meeting at the invitation of the Committee. Attendees will usually include:

- The Leader or Deputy Leader
- The Portfolio Holder for Finance
- Town Clerk and Chief Executive
- Director of Corporate Services (Section 151 Finance Officer)
- Director of Legal and Democratic Services (Monitoring Officer)
- Head of Audit Services
- Other Directors and Managers, as required

6.2 Subject to the relevant meeting complying with the Access to Information paragraphs for the exclusion of members of the public, the Audit Committee will at least annually meet :

- (i) in private, with the external and internal auditors together; and/or
- (ii) in private, with the external auditor.

7. MEETINGS

7.1 The Audit Committee will meet at least four times a year in accordance with the schedule of meetings agreed by the Council. The External Auditor or the Head of Audit Services may request a meeting if they consider it necessary and other special meetings may be called in accordance with the Council's Procedure Rules. Appendix A contains an outline Audit Committee timetable.

7.2 The members of the Audit Committee will commit to receiving appropriate training and development necessary to fulfil their roles.

8. QUORUM

8.1 The quorum for any meeting will be one quarter of the elected members of the Committee, subject to there being not less than two elected members present at any time.

9. WORK PROFILE OF THE AUDIT COMMITTEE

9.1 In furtherance of the Terms of Reference and not otherwise, the Audit Committee is likely to receive and advise upon the following areas of work :

- Whether there is an appropriate culture of risk management and related control throughout the Council;
- the annual Governance Statement;
- the annual Statement of Accounts, including changes in and compliance with accounting policies and practices, major judgemental areas and significant adjustments resulting from the audit;
- significant changes required to Financial Procedure Rules and the Contracts Procedure Rules.
- the framework and processes for risk assessment, analysis and management within the Council;
- the effective co-ordination between internal and external audit;
- the budget needed to resource effective internal and external audit and other responsibilities of the Audit Committee; and
- generally, on how the Audit Committee could add value to the work and operation of the Council.

9.2 External Audit and Inspection Agencies

- To note the fees and terms of engagement of the external auditor.
- To review the planned programme of work with the external auditor.
- To consider the annual statutory audit and to advise the Executive on any response to any audit management letters, reports and investigations, including Value for Money studies and other inspection reports.
- To review whether agreed external or internal audit or inspection recommendations have been implemented by the Executive as timetabled.
- To discuss with the external auditor any problems, reservations or issues arising from the interim or final audit or other investigations.
- To review the external auditor's independence and objectivity and annually appraise the Executive on the effectiveness and value for money of the external audit service.

9.3 Corporate Governance Framework

- To review and advise the Executive on the embedding and maintenance of an effective system of corporate governance including internal control and risk management.
- To give an assurance to the Council that there is a sufficient and systematic review of the corporate governance, internal control and risk management arrangements within the Council.

- To review the annual Governance Statement on Internal Control and make appropriate recommendations to the Council, the Executive, the Overview and Scrutiny and Regulatory Committees.
- To ensure that any significant weaknesses identified are remedied.
- To commission, if necessary, any relevant investigations into matters of particular concern relating to internal control.
- To ensure that the impact of any alleged or fraudulent activity on the Council's framework of internal control is reviewed and, where necessary, to recommend changes to strengthen the control framework.
- To receive reports relating to those aspects of whistle blowing or alleged or actual fraudulent activity which relate to the Terms of Reference of the Audit Committee.

9.4 Internal Audit

To review and make recommendations to the Executive regarding :

- The effectiveness of internal audit;
- the internal audit function to ensure it is adequately resourced;
- the internal audit strategy, annual plan and to monitor delivery of the plan;
- any internal audit protocols and policies;
- significant audit findings, together with the response from managers to these reports;
- any difficulties encountered by internal audit including any restrictions on the scope of activities or access to required information;
- agreed internal audit recommendations to ensure they are implemented by management as timetabled; and
- the annual report from the Head of Audit Services.

9.5 Other

To consider and make recommendations to the Executive on :

- the selection and terms of appointment of other appropriate advisors and consultants;
- governance issues relating to the operation of the Audit Committee, and
- the proportionality, independence, and appropriateness of any of the Council's policies relating to any audit or governance matters;
- such other matters of an audit, financial or governance nature as fall within the terms of reference of the Committee or as may be referred by the Council.