

AUDIT COMMITTEE

WEDNESDAY 16 JANUARY 2008 AT 10.00 AM

PRESENT: Councillor Mrs Geddes (Chairman), Councillors Allison, Hendry (until 11.40 am), Lishman, Mrs Parsons (as substitute for Councillor Stevenson) and Stothard

ALSO

PRESENT: Mr Mark Heap (Relationship Manager and District Auditor) and Mr Richard McGahon (Audit Manager)

Councillor J Mallinson – Finance and Performance Management Portfolio Holder attended part of the meeting

AUC.1/08 WELCOME

The Chairman welcomed all those present to the first meeting of the Audit Committee in the New Year.

AUC.2/08 APOLOGY FOR ABSENCE

An apology for absence was submitted on behalf of Councillor Stevenson.

AUC.3/08 DECLARATIONS OF INTEREST

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

AUC.4/08 MINUTES

RESOLVED - That the Minutes of the meeting of the Audit Committee held on 27 September 2007 be agreed as a true record of the meeting and signed by the Chairman.

AUC.5/08 MINUTES OF CORPORATE RESOURCES OVERVIEW AND SCRUTINY COMMITTEE

RESOLVED – That the Minutes of the meetings of the Corporate Resources Overview and Scrutiny Committee held on 18 October and 6 December 2007 be noted and received.

AUC.6/08 AUDIT COMMITTEE SELF ASSESSMENT

The Chairman introduced this item of business and thanked Members for completing the self-assessment questionnaire which was very useful.

The Head of Audit Services presented report CORP.46/07 summarising the result of the Audit Committee's self-assessment exercise.

In all, twelve questionnaires had been completed and returned, and details of the responses were provided. The overall average 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. The result partly reflected the change of membership of the Committee since its inception.

An Action Plan was required to identify those areas where improvement was deemed to be necessary, the actions required and the responsible person/s for ensuring that the appropriate remedial action was taken. Members themselves would need to decide on the actions to be taken and appropriate timescales.

The Head of Audit Services asked that Members receive the report and consider those areas where action was required to improve the Committee's effectiveness in order that an appropriate Action Plan could be drawn up.

Discussion arose, during which Members raised a number of issues and concerns:

- (a) In response to a question, the Head of Audit Services confirmed that there was no standard format for self-assessment questionnaires. After seeking advice from the Institute of Public Finance, a questionnaire was obtained from another authority and amended with the agreement of the Chairman before circulation to Officers and Members. The City Council was not benchmarking against other local authorities.
- (b) The self-assessment exercise had been beneficial and had flagged up areas that needed to be addressed. Problems had arisen because new Members of the Committee had not yet received training. Continuity of membership was important and a Member asked whether substitute Members could become full Members of the Committee in future.

In response another Member clarified that the Labour Group adopted a process of self-nomination with all Members nominated to the Audit Committee being volunteers and therefore continuity of Membership was not possible.

- (c) The Committee performed an important role on behalf of the authority and Members could only undertake that role with the benefit of training. The training provided by CIPFA last year had been very good and Members were concerned to ensure that adequate resources were in place to fund such training in future.

In response the Head of Audit Services said that he would check the position regarding the training budget with the Head of Personnel and Development.

- (d) Referring to question 23 – open channels of communication, the Chairman said that private briefing meetings for Members were held immediately prior to Overview and Scrutiny Committee meetings. She asked whether such an arrangement would be appropriate for the Audit Committee.

The Audit Manager advised that in some other authorities an Officer would meet with Members prior to the Committee to go through technical aspects as an aid to understanding.

The Director of Legal and Democratic Services could see no problem with such an arrangement.

The Relationship Manager and District Auditor added that there was also a facility for Members to meet with the Auditors other than in formal Committee.

- (e) Consideration could be given to the Committee meeting on a cyclical basis, similar to that of Overview and Scrutiny.
- (f) The Audit Manager expressed disappointment at the low score in relation to question 12 (role in relation to confidential reporting) which was not merely an issue for the Audit Committee, but a broader issue for Members and staff across the authority.

He further expressed surprise at the response rate of 31% in relation to question 24 (perceived to have a positive impact) and suggested that the Action Plan could include e.g. five key issues to be delivered this year and how effective the Committee had been in achieving those. That would assist the Committee in understanding the impact it had in adding value to the corporate governance of the authority.

- (g) In response to a question, the Head of Audit Services explained that Officers had felt that certain questions (e.g. 10 – sufficient time and commitment to undertake responsibilities) could only be answered by Members.

The Audit Manager suggested that in such cases the question should be marked out of the number of Members so that the percentage response was out of one hundred. He felt that the self-assessment was a good starting point and could be repeated in six months time.

RESOLVED – (1) That report CORP.46/07 be received.

- (2) That the Head of Audit Services be requested to submit a report to the next meeting of the Committee with a suggested Action Plan to address the areas of weakness identified in the self-assessment exercise.

(3) That private briefing meetings for Members (of 30 minutes duration), facilitated by the Head of Audit Services (or his representative), be held immediately prior to future meetings of the Committee.

AUC.7/08 AUDIT SERVICES PROGRESS REPORT

The Head of Audit Services submitted report CORP.73/07 summarising the work carried out by Audit Services since the previous report to Committee on 27 September 2007.

The final reports on the 2007/08 Audits of Property Services, ICT Management and Financial Controls, Improvement Grants and VAT were appended to the report.

Following Audit staff's attendance at a report writing course run jointly by the Institute of Internal Auditors and the Chartered Institute of Public Finance and Accountancy, the style of audit reports had been amended and improved to reflect their recommended 'good practice' style. Members accepted that the amended style of reporting was an improvement and requested that it should be adopted for future use.

Members were also asked to consider whether the enhanced Management Summary for each report was sufficient for their purposes or whether they preferred to still receive the summary of recommendations in each case as well.

There were no issues relevant to the Statement on Internal Control nor other emerging issues which required to be drawn to Members' attention.

The Head of Audit Services advised that no follow-up reviews had been required during the period covered by the report and outlined ongoing work, the results of which would be presented to Members in due course.

In considering the report Members made the following observations:

- (a) Members welcomed the enhanced Management Summary and introduction of a section for "Level of Assurance" in each report.

The Audit Manager felt that the level of assurance was valuable and provided the Committee with a starting point by which to monitor progress. The Relationship Manager and District Auditor added that it would assist Members in focussing their efforts and provide a robust challenge to Managers.

- (b) The Audit Manager referred to the lack of an ICT Security Policy which was a significant weakness and, despite recommendations from both the Audit Commission and Audit Services over several years, little progress had been made in that area. Password control was of particular importance since the Council stored personal data relating to its employees and customers. The Committee should insist that the matter

was addressed and, if not, the appropriate Officer should attend the Committee to explain. Such an arrangement would raise the profile of the Committee across the authority.

The Relationship Manager and District Auditor felt that the lack of a clear ICT Security Policy affected the Council's ability to police the matter and required it to be addressed as a matter of urgency.

Members were concerned at the lack of progress, bearing in mind the Shared Services Agenda and potential recruitment freeze, and said that a deadline for action should now be set.

They were further concerned to note that, in the past, work had been completed by ICT Services on service level agreements prior to Legal Services being informed of the need of a contract; and that no formal contracts were in place between the Authority and Cumbria CVS and Carlisle Leisure Ltd.

The Director of Corporate Services explained that difficulties had arisen as a result of the responsible Officer being on long-term sick leave. That person was now on a staged return to work and the matter was being progressed. She would report further to the next meeting of the Committee and, in the interim, provide a written response to Members which would also cover the contract issues raised.

- (c) Referring to the Audit of Property Services, Members were concerned to note that several actions had been agreed, but that implementation would depend on the availability of staff.

In response the Director advised that all audit recommendations were considered by the responsible Corporate Director and, if they were not actioned, the Head of Audit Services would report back.

RESOLVED – (1) That report CORP.73/07 be received.

(2) That the amended style of report be agreed and that Appendix A continue to be submitted.

(3) That the Committee was concerned that, despite recommendations from both the Audit Commission and Audit Services, the authority did not have an ICT Security Policy and requested a progress report to the next meeting of the Committee.

(4) That, in the interim, the Director of Corporate Services provide a written response to Members.

**AUC.8/08 ACTION PLANS – STATEMENT ON INTERNAL CONTROL
AND CODE OF CORPORATE GOVERNANCE**

The Head of Audit Services submitted report CORP.74/07 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. The wording at reference 7 of the Code of Corporate Governance Action Plan should be amended to read “Progress on Improvement Reviews is dependent on the outcome of the “Shared Services debate” in Cumbria.

For 2007/08 the SIC and the COCG would be replaced by / combined into a single “Annual Governance Statement”. A working group, comprising the Deputy Directors and co-ordinated by the Head of Audit Services, would undertake the production of the required Statement which would be presented to the Committee 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.

The following issues and observations were raised in discussion, to which the Director of Corporate Services responded:

- (a) The issue of the ICT Security Policy could be addressed in the next version.
- (b) It was envisaged that an annual training programme would be provided for Members of the Committee and the Director would raise the matter with the Head of Personnel and Development.
- (c) The Corporate Resources Overview and Scrutiny Committee received regular updates on the Corporate Procurement Policy which was also monitored through the budget process.
- (d) Any issues of particular concern could be drawn to Members’ attention at the briefing sessions prior to future meetings of the Committee.

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.9/08 USE OF RESOURCES 2007/08

The Efficiency Manager presented report CORP.76/07 concerning the Council's Use of Resources (UOR) assessment 2007/08. The final Use of Resources Auditor Judgements 2007 had been circulated to Members prior to the meeting.

The Efficiency Manager outlined the results of Carlisle's UOR assessment. The Audit Commission's 2007/08 feedback recognised the improvements made in the last year and, in particular, noted improvement in respect of the Council's internal control arrangements. The Council had been assessed at Level 2 (adequate performance) overall and had also maintained its Level 3 in meeting the financial standing KLOE's.

The Audit Commission had made a series of recommendations to be implemented to improve the Council's overall assessment, the main concern being in respect of the financial reporting KLOE which had been assessed as inadequate. That was extremely disappointing given the effort and additional resources that had gone into the process and the previous feedback on the 2006/07 Accounts to the Audit Committee.

Also, the thresholds and deadlines for achieving Level 3 had been raised significantly from 2008/09 in facilitating continuous improvements.

A revised draft Action Plan detailing areas where further improvement was required to move to a Level 3 'performing well' UOR assessment was attached to the report. For the 2008/09 UOR assessment, practices, policies and procedures set out in the KLOEs had to be in place and embedded by 1 April 2008.

The 2007/08 Final Accounts process was the biggest area of risk and the final accounts closedown remained an increasingly challenging one for the Council, particularly with the scale of changes to the accounts and other initiatives being progressed. The UOR Project Team would closely monitor the areas of risk identified, and a report on progress in delivering the action plan would be submitted to the Committee in April 2008.

Providing current progress was maintained and Managers could better evidence embeddedness of UOR 'good practice' in respect of service provision, the Council would continue to improve in all areas. However, whether the timescale and the new harder tests would allow the Council to achieve an overall Level 3 in respect of Financial Reporting, Financial Management and Internal Control KLOEs by 31 March 2008 would not be known until the results of the 2008/09 UOR assessment.

The Relationship Manager and District Auditor said that although problems remained, in particular around financial reporting, there had been real improvements e.g. the accounts were signed on 28 September 2007 which was within the statutory deadline for the first time in five years.

The KLOE's were well publicised and clear, a non-negotiable theme being that if the accounts included material errors that would result in a score of 1 (inadequate performance). There was no reason why the Council could not achieve a better score next time.

He emphasised that new harder tests had to be met each year. Auditors would continue to work closely with Officers as part of the process.

The Audit Manager reiterated those sentiments commenting that some of the work done consolidated the levels achieved but missed the 31 March deadline and would impact on the next judgement. He outlined in more detail the improvements made, which included improvements to the standard of working papers; team meetings; work around internal systems and financial training; the development of local performance measures to evaluate asset use in relation to corporate objectives; risk management training.

The three areas of greatest improvement were:

- Arrangements were in place for the annual review of the effectiveness of the systems of internal control with greater involvement of Members
- Updating of procedure notes
- Monthly bank reconciliation.

The issue for the Council in achieving an overall level 3 (performing well) was around its ability to evidence embeddedness of UOR good practice. A meeting was scheduled for that afternoon to discuss the Action Plan at which any concerns would be raised. That would allow the Council two months in which to address the same.

In response to questions, the Audit Manager explained the terminology around material, trivial and non-trivial errors.

The Relationship Manager and District Auditor commented that, having read the accounts, it was his opinion that they would not have given a fair reflection of the Council's spending on specific areas and that resulted in a score of 1.

In response to comments, the Director of Corporate Services advised that all errors within the accounts were adjusted, partly due to the definition of what constituted a material error. That did, however, result in a great deal of work for Officers.

RESOLVED – (1) That the Level 2 2007/08 Use of Resources feedback be noted.

(2) That the Audit Committee would continue to scrutinise the financial reporting process and corresponding Financial Reporting KLOEs.

(3) That it be noted that a progress report would be submitted for scrutiny in April 2008.

AUC.10/08 2007/08 FINAL ACCOUNTS PROCESS

The Chief Accountant presented report CORP.80/07 providing information regarding the 2007/08 final accounts process, together with a summary of the key issues arising from the previous year's process and now those had been addressed.

The 2006 Statement of Recommended Practice (SORP) introduced significant changes to the way authorities prepared their accounts and further changes were also required as a result of the 2007 SORP, details of which were provided within the report.

The Relationship Manager and District Auditor wished to reassure Members that the Audit Commission recognised the new requirements in respect of the accounts and was holding a series of workshop sessions. The Chief Accountant would attend the workshop in Lancashire on 4 February 2008.

The Director of Corporate Services said that the accounts were becoming ever more complicated. Pressure had been brought to bear on CIPFA who had agreed to undertake a review with a view to simplifying the process.

RESOLVED – That report CORP.80/07 be noted.

AUC.11/08 AMENDMENT TO FINANCIAL PROCEDURE RULES

The Head of Audit Services submitted report CORP.78/07 appraising Members of a proposed change to the Authority's Financial Procedure Rules.

It had been noted that on occasions payments for goods and services were made in advance, although the Financial Procedure Rules, Appendix D paragraph D55, stated that

“payments are not made unless goods have been received by the Council to the correct price, quantity and quality standards.”

Examples of such advance payments were licence/maintenance fees, payments to secure supplies, take advantage of advantageous rates, etc.

It was therefore proposed that the wording of that paragraph be changed as follows:

“Payments will not normally be made unless goods or services have been received by the Council to the correct price, quantity and quality standards. Circumstances may arise, however, where payment is required in advance - for example in order to secure the supply or to take advantage of discounted prices. The risk of making an advance payment must always be considered and where necessary the financial standing of the organisation concerned should be assessed. In every such case, an appropriate note, with signature, must be written on to the invoice.”

In discussion the above change was agreed, subject to the words “at service head level” being inserted between the words “signature” and “must” in the last sentence.

RESOLVED – That the change to the Financial Procedure Rules, as amended, be agreed and recommended to the City Council for formal approval of the amendment of the Financial Procedure Rules.

AUC.12/08 CORPORATE RISK MANAGEMENT

The Director of Corporate Services presented report CE.03/08 the purpose of which was to update Members on the Council’s Risk Management arrangements.

Any change in the scored status of the risk was shown by a symbol in the movement column. During the last quarter the current action status/control strategy sections had been addressed and the scoring of certain risks amended accordingly.

Members’ attention was drawn to minor changes to the wording of risk no. 7 – Potential loss of VAT reclaimed. The Director further reported that HM Revenues and Customs would be announcing that the 5% limit would be scrapped.

RESOLVED – That the updated Corporate Risk Register and the delivery of Risk Management training to Managers as demonstrations of the continuing commitment to sound governance arrangements for corporate risk management be noted.

AUC.13/08 CHAIRMAN’S COMMENTS

The Chairman thanked the Relationship Manager and District Auditor, and the Audit Manager for their input and assistance which was much appreciated. She further extended thanks to members of staff within Corporate Services for work undertaken.

[The meeting ended at 11.45 am]