

AUDIT COMMITTEE

TUESDAY 30 NOVEMBER 2010 AT 10.00 AM

PRESENT: Councillor Mrs Mallinson (Chairman), Councillors Bowditch, Mrs Farmer, Layden, Lishman and Riddle

ALSO

PRESENT: Mrs Karen Murray (District Auditor, Audit Commission)
Mr Richard McGahon (Audit Manager, Audit Commission)

AUC.65/10 APOLOGIES FOR ABSENCE

Apologies for absence were submitted on behalf of Councillors Hendry and Mrs Patrick

AUC.66/10 DECLARATIONS OF INTEREST

Councillor Mrs Mallinson (Chairman) declared a personal interest in accordance with the Council's Code of Conduct in respect Agenda item A.6 – Corporate Risk Management because she is a Council representative on the Board of Riverside Housing; and she served on the County Council's CIEP programme.

Councillor Layden declared a personal interest in accordance with the Council's Code of Conduct in respect of Agenda item A.6 – Corporate Risk Management because he is a Council representative on the Board of Riverside Housing.

AUC.67/10 CHAIRMAN'S ANNOUNCEMENT

The Chairman welcomed Paula Norris, Auditor, to the meeting.
The Chairman advised that Nick Pearson was leaving the authority and that Gill Martin would be taking over his role from the next meeting.

AUC.68/10 MINUTES

The Minutes of the meeting of the Audit Committee held on 24 September 2010 were submitted.

RESOLVED – That the Minutes of the meeting of the Audit Committee held on 24 September 2010 be agreed as a correct record and signed by the Chairman.

AUC.69/10 MINUTES OF RESOURCES OVERVIEW AND SCRUTINY PANEL

The Minutes of the meeting of the Resources Overview and Scrutiny Panel held on 3 November 2010 were submitted for information.

RESOLVED – That the Minutes of the meeting of the Resources Overview and Scrutiny Panel held on 3 November 2010 be noted and received.

AUC.70/10 REFERENCE FROM THE EXECUTIVE

There was submitted Minute Excerpt EX.162/10 setting out the decision of the Executive on 11 October 2010 following their consideration of a reference from the Resources Overview and Scrutiny Panel on the final report of the Use of Consultants Task and Finish Group.

The Executive had resolved that the Task Group's concerns on the following issue be referred to the Audit Committee:

“The Task Group had serious concerns that valid recommendations from Internal Audit Reports were not being implemented due to certain reports not being presented to any body of the Council. Therefore the Task Group recommended that on a twelve month basis, the Audit Committee assess the Audit Plan to ensure that all Internal Audit exercises were completed as appropriate and all resulting reports formally presented to the appropriate body. The Task Group also welcomed the establishment of the Project Assurance Group which was to be chaired by the Deputy Chief Executive.”

A Member was unhappy that the Executive felt that “It was extraordinary that the Task and Finish Group felt that those decisions should not be made by a Chief Officer” (in relation to authorisation of expenditure). The Member, along with Members of the Committee, believed that the word extraordinary was too strong, as the points had been made with a lot of thought and in good faith. The Group had made a constructive suggestion and felt it was being rejected out of hand by the wording used.

The Chairman advised that the work was ongoing and that there would be a further update from Overview and Scrutiny if required.

RESOLVED – That the Minutes Excerpt be referred to Resources Overview and Scrutiny Panel as the Task and Finish Group fell within their remit.

AUC.71/10 AUDIT SERVICES PROGRESS REPORT

The Interim Audit Manager submitted report RD.58/10 summarising the work carried out by Audit Services since the previous report to Committee on 24 September 2010.

He outlined in some detail the content of and ratings attached to the final reports on the Audits of Area Maintenance, Building Control, Green Spaces and Improvement Grants, copies of which were appended to his report.

Follow-up reviews had been undertaken where appropriate during the period covered by the report, and there were no new issues arising to which Members' attention needed to be drawn, with the exception of the IT Security Report which would be considered elsewhere on the agenda. Work on a number of other reviews commenced/progressed during the period would be presented to Members in due course.

The Interim Audit Manager reminded Members that the 2010/11 Audit Plan had been presented to the Committee meeting on 9 April 2010 (RD.4/10) referred. To assist Members in monitoring progress against the Plan, progress had been recorded for the period 1 July to 30 September 2010, attached at Appendix E. Members would note that 62% of days represented productive audit and, whilst that had fallen short of the target of 66.4%, it represented an improvement over the 60% productive audit days achieved in the previous quarter. As was the case previously, the difference was accounted for by staff annual leave.

He advised that the report at Appendix E demonstrated that some audits had taken longer than anticipated for the reasons stated. He added that resources were available in the current financial year to complete all of the material systems, which were agreed in advance with the Audit Commission and represented the highest risks to the Council. There would, however, be a shortfall of around 53 days regarding the completion of non material systems audits. That represented around three audits and it was recommended that the audits of the Customer Contact Centre, Geographical Information System and Pest Control were not completed in 2010/11, but deferred to 2011/12. The Interim Audit Manager advised that it was common practice to defer audits as it was not always possible to know how long an audit would take and inevitably some would overrun.

In considering the report Members raised a number of questions to which the Audit Manager and Assistant Director (Governance) responded. The Audit Manager advised that it was appropriate that the gradings for Area Maintenance and Green Spaces as an 'A' would only be given if the strategy went against the Constitution of the Council or against legislation. In response to the concern of a Member that the report should specify that a strategy 'will' be developed rather than 'should' the Assistant Director (Governance) advised that once the Audit Committee had looked at a report and made recommendations the audit team can then speak to the relevant

manager or Director and the issue brought back either to the Audit Committee or Executive if an action was not carried out.

The Audit Manager (Audit Commission) commented that the Audit Committee could ask to speak with a Director if a recommendation was not being followed. The Audit Manager (Audit Commission) referred to the Area Maintenance report that performance management and good quality information were key to the Council assessing whether it was getting good value for money. There was a question over whether the inspection evaluation had been independent and to a good enough standard. Performance management had to prove that the Council were getting value for money and that services were improving.

A Member was concerned about the Action Plans but believed that the 2 reports – Area Maintenance and Green Spaces – were both strong reports that would assist in the amalgamation of the two services. There was a concern that the City Council were using a recruitment agency – Link Recruitment – and that some of the agency staff had not been CRB checked. The Assistant Director (Governance) believed that it was not clear what work the agency staff were doing. It was agreed that in light of the seriousness of the information the Committee should receive an assurance by the next meeting that agency staff who were working with children and vulnerable people should be CRB checked.

In response to a Member's question the Auditor advised that allotments were not included in the Green Spaces report as they would be audited separately and at another time.

The Interim Audit Manager advised that work had also been done on Building Control and Improvement Grants and they had been graded as substantial. It had been agreed at the last meeting that where areas were graded as substantial the reports would be summaries only.

The Interim Audit Manager explained the new format of the performance information. Members were satisfied with the format.

RESOLVED – (1) That the Committee were concerned about the Action Plans and the actions outstanding and requested a follow up report on Green Spaces and Area Maintenance in 6 month's time.

(2) That the Committee were concerned that CRB checks had not been carried out on all agency staff.

(3) That there was a lack of timesheets

(4) That a strategy, updated job descriptions (following Job Evaluation) and demarcation were required.

(5) That the recommendations be brought to the attention of the Assistant Director (Local Environment) and the Local Environment Portfolio Holder.

AUC.72/10 ICT SECURITY POLICY AUDIT PROGRESS REPORT

The Interim Audit Manager submitted report RD.59/10 summarising actions taken to address recommendations previously reported as outstanding to the Audit Committee in respect of the ICT Security Policy.

He outlined the background to the matter, the status of the outstanding recommendations, and future actions as set out in the report. Members were asked to note progress to date in addressing the recommendations and to support the inclusion of further IT work in Carlisle City Council's 2011/12 internal Audit Plan.

The Interim Audit Manager advised that following the audit in 2009 there were 11 recommendations outstanding. After discussions with the Shared ICT Services Manager 4 had been actioned and resolved through work with Allerdale, 2 had been satisfied by policies and 5 were covered by performance management.

Another issue was around the flat IT network structure. Since the Audit letter passwords had been implemented and the matter would be resolved by the end of the year.

With regard to the Risk Register, the Interim Audit Manager had discussed the matter with the Shared ICT Services Manager and agreed that the matter was covered by the shared services policies with Allerdale.

With regard to audit coverage, the Interim Audit Manager advised that the City council would not audit IT services but officers would be working closely with colleagues in Allerdale to ensure nothing was missed or duplicated. The Assistant Director (Governance) advised that the City Council had the right to audit the IT service to ensure officers were satisfied. The Shared ICT Services Manager advised that he would be meeting with the Interim Audit Manager (Allerdale Borough Council) and Gill Martin (who would be taking over from the Interim Audit Manager) to discuss the requirements of Carlisle regarding auditing the IT services. Information from that audit would be presented to the Audit Committee.

The Interim Audit Manager, in response to a Member's query, advised that the Government Connect health check was not included in the appendix to the report as that was a piece of work organised by the Audit Commission and therefore included in the main body of the report.

The Shared ICT Services Manager confirmed that minimum IT access was given to staff and if they required any further access they would have to apply for it. Access was audited as part of the IT Action Plan. It was believed that the matter should be addressed as part of the IT strategy and protocol. The Chairman requested confirmation that it had been included prior to the next meeting.

The Shared ICT Services Manager stated that clarification was needed in the Risk Register regarding the risks for Carlisle. Members asked for confirmation of the risks that had been raised, and the outcomes and an assurance that when Carlisle and Allerdale audit the IT teams nothing would be missed and a demonstration of how that would take place.

RESOLVED – (1) That confirmation that IT access was included in the IT Strategy and protocol

(2) That an indication of the risks and outcomes be reported to the Committee at the next meeting.

The meeting adjourned at 11.00 am and reconvened at 11.04 am

AUC.73/10 TREASURY MANAGEMENT JULY – SEPTEMBER 2010 AND FORECASTS FOR 2011/12 TO 2015/16

The Financial Services Manager submitted report RD.55/10 providing the regular quarterly report on Treasury Transactions, together with an interim report on Treasury Management as required under the Financial Procedure Rules. The report also discussed the City Council's Treasury Management estimates for 2011/12 with projections to 2015/16, and information regarding the requirements of the Prudential Code on local authority capital finance.

The Financial Services Manager informed Members that the main feature of treasury management this year had been the low level of official interest rates which had necessarily impacted upon authorities' investment returns. Whilst those and other steps had been taken to revive the economy, not just in the UK but throughout the globe, the economic recovery remained fragile. The recession was, of course, affecting the authority in a variety of ways of which the effect on the short term interest rates was just one aspect. There were likely to be substantial cuts in local authority funding next year and, until short term interest rates began to rise, the capacity for the treasury function to improve the Council's financial position was likely to be limited.

In response to questions, the Financial Services Manager confirmed that details of all interest repaid could be included within the next quarterly report (Appendix B2 refers).

RESOLVED – (1) That report RD.55/10 be received and the Prudential Indicators as at 30 September 2010 be noted.

(2) That the Assistant Director (Resources) be requested to include details of interest repaid within the next quarterly report to the Committee.

AUC.74/10 CORPORATE RISK MANAGEMENT

Councillor Mrs Mallinson, having declared a personal interest, remained within the meeting room and took part in discussion on this item.

Councillor Layden, having declared a personal interest, remained within the meeting room but made no comment on the matter.

The Deputy Chief Executive submitted report CE.35/10 providing an update on the Council's Corporate Risk Register, the principal intention being to reassure Members that adequate arrangements were in place to manage risk within the authority.

He informed Members that the corporate risks associated with delivering the Corporate Plan had recently been reviewed and updated by the Senior Management Team and the Corporate Risk Management Group. The Risk Register showed both the current and previous risk matrices, and Members were asked to note that initiatives to reduce risk were incremental and thus changes to the risk scores over the short term were unlikely. He added that the Corporate Risk Register now identified a target risk; a certain level of risk would need to be tolerated in order to deliver the Council's key objectives and promote change.

'Delivering key objectives' risk had been deleted from the Register since it was considered to be a summary risk, and the risks associated with delivering the key objectives were already covered in the Corporate Risk Register.

The Deputy Chief Executive further commented that the Resources Overview and Scrutiny Panel received reports on Risk Management, in addition to which the Community Overview and Scrutiny Panel had asked that information on risks within their remit be brought before them.

A Member noted that there was a risk that the Council would fail to deliver on its role as strategic housing authority in achieving a balanced housing market and questioned whether the target date of March 2012 was likely to be met.

In response the Deputy Chief Executive explained that the five year Housing Strategy would come to an end, in addition to which the Government's Comprehensive Spending Review would impact upon available resources. The Council therefore needed to fundamentally review its role to reflect the Government's approach to housing and current/anticipated local circumstances. To that end the Assistant Directors (Economic Development) and (Community Engagement) were working together on a new Housing Action Plan, which would come before Members in due course.

The Chairman requested that an update on work around Shared Services and the implications of the Comprehensive Spending Review be submitted to the Committee at its April 2011 meeting in order that Members may monitor outcomes.

The Chairman further highlighted the risk should the Council fail to meet Equality framework targets, particularly around its budget process.

The Deputy Chief Executive gave an assurance that the responsible Executive Members were fully aware and understood the importance of impact assessing decisions to be taken in that regard.

RESOLVED – That the Committee noted the content of Report CE.35/10 as an indication of the continuing commitment to sound governance arrangements for corporate risk management.

AUC.75/10 FUTURE OF THE AUDIT COMMISSION

The District Auditor tabled copies of a letter dated 8 November 2010 addressed to the Town Clerk and Chief Executive concerning the appointment of an external auditor for the City Council.

The District Auditor outlined the content thereof for Members, commenting that the Audit Commission's intention had been to run a competitive tender process for the procurement of audit services in Cumbria. Following that process it was expected that the Council's appointed auditor would change to a firm from the audit of the 2011/12 accounts.

The Commission had now completed the tender process and at a meeting on 4 November 2010 the Board had decided not to proceed with the awarding of contracts. In light of that decision, she would continue as the Council's appointed auditor for the audit of the 2011/12 accounts.

The District Auditor added that, as Members were probably aware, the Secretary of State had announced the Government's intention to disband the Audit Commission. It was possible, therefore, that the last set of accounts to be audited by her would be those for 2011/12. However, the timetable for the introduction of any new arrangements, and the transition to them had yet to be finalised. That was an issue for the Audit Commission and, as far as the City Council was concerned, the process would be seamless and would not affect how she worked with the Council for the 2011/12 audit.

The Chairman indicated that the Committee would consider the matter again in the New Year.

RESOLVED – That the Audit Committee welcomed the verbal report provided by the District Auditor, and would consider the matter again in the New Year.

AUC.76/10 ANNUAL AUDIT LETTER 2009/10

The District Auditor presented the Annual Audit Letter for the City Council, the purpose of which was to summarise the findings from the 2009/10 audit. The report included messages arising from the audit of the Council's financial statements; and the results of the work she had undertaken in assessing arrangements to achieve value for money in the Council's use of resources.

She informed Members that this was a positive letter and represented a good year for the City Council.

The District Auditor drew Members' attention to paragraphs 7 – 15 of her report, adding that an unqualified opinion on the Council's Accounts had been issued on 30 September 2010. No material errors were found in the financial statements which had been prepared to a good standard. She had identified a number of presentational errors and omissions from disclosure notes, but those did not impact on the overall financial position of the Council. The financial statements had been amended for all identified errors and omissions.

She highlighted the fact that the Council had a temporary loan for £2 m at 31 March 2010, repaid on 1 April 2010, which was needed to cover temporary shortfalls in cashflow management to meet month end commitments. Short term and temporary borrowing was still an issue. She added that she had quoted the work undertaken by the Committee on monitoring progress on the areas of significant weakness in ICT internal control to the Chief Executive as a good example of the working of this Committee.

Referring to paragraphs 16 – 24, the District Auditor reported that she had issued an unqualified value for money conclusion by the due date, stating that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources. This was the first year that she had considered the Council's use of natural resources and her work identified that the Council had performed strongly in that regard. It was a pity therefore that a score could not be attached to that performance.

Referring to the approach to local value for money work from 2010/11, the District Auditor said that in future her work would concentrate on ensuring that the Council had proper arrangements in place to secure financial resilience; and challenge how it secured economy, efficiency and effectiveness.

She added that the National Fraud Initiative was a computerised data matching exercise designed to identify overpayments to suppliers and benefit claimants, and to detect fraud perpetrated on public bodies. The referrals from the current exercise were released to participating bodies in February 2009. The Council had made effective use of the NFI reports to identify and appropriately review data matches and, from the current exercise, identified savings in benefits of approximately £52,000 and just over £40,000 from single person Council Tax discounts.

In common with all public sector organisations and particularly local government, the Council faced significant financial challenges in 2010/11 and over the following four years. The economic downturn and the recent Comprehensive Spending Review (CSR) announcement would place the Council under increased financial pressure.

The Council had, however, started to reduce its costs as part of its Transformation Programme. It had been successful in securing efficiency savings and had introduced shared services for ICT and Revenues and Benefits. However, the scale of additional savings now required as a result of the CSR was significant and Members would need to make informed decisions about where revenue and capital savings were to be made. The Council's risk management arrangements provided a useful framework to help assess the impact of those decisions.

The District Auditor further reminded Members that she was required to issue a certificate upon completion of the audit in line with statutory requirements. However, she had been unable to issue a certificate in respect of 2009/10 because she had received an objection to the Council's accounts. The matter had attracted media interest locally. She had received a request for information but had not supplied any information to the Press.

The District Auditor emphasised to Members that she required to follow due process and was not therefore in a position to update them further on the matter at this time.

In conclusion, the District Auditor thanked the Assistant Director (Resources) and his team for the support provided over the year in question.

RESOLVED – (1) That the Committee welcomed submission of the Annual Audit Letter for 2009/10 and were particularly pleased to note that the District Auditor had on 30 September 2010 issued an unqualified opinion on the financial statements and also an unqualified value for money conclusion, stating that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

(2) That the Committee noted the Council's strong performance in its use of natural resources.

(3) That the new approach to local value for money work from 2010/11, which would concentrate on ensuring that the Council had proper arrangements in place to secure financial resilience and challenge how it secured economy, efficiency and effectiveness, be drawn to the attention of the Executive. The Audit Committee would keep a watching brief on the matter.

(4) That the Committee received the update from the District Auditor concerning the objection to the Council's accounts; noting that the matter was progressing.

(5) That the Committee's thanks and appreciation of the considerable amount of hard work undertaken by the Assistant Director (Resources) and his staff, which contributed towards the 2009/10 audit findings be placed on record.

(6) That the Committee wished to congratulate those members of staff who had contributed towards the Council's effective use of National Fraud Initiative reports to identify and appropriately review data matches. As a result of that work the Council had identified savings in benefits of approximately £52,000 and £40,000 from single person Council Tax discounts.

AUC.77/10 PUBLIC AND PRESS

RESOLVED – That in accordance with Section 100A(4) of the Local Government Act 1972 the Public and Press were excluded from the meeting during consideration of the following items of business on the grounds that they involved the likely disclosure of exempt information as defined in the paragraph number (as indicated in brackets against the minute) of Part 1 of Schedule 12A of the 1972 Local Government Act.

AUC.78/10 FRAUD INVESTIGATION REPORT

(Public and Press excluded by virtue of paragraph 7)

The Interim Audit Manager submitted Report RD.62/10 appraising Members of the final outcome of an audit investigation relating to irregularities over the employment of a member of staff in 2007.

RESOLVED – That Report RD.5210 be noted and the actions of Officers to date be endorsed.

[The meeting ended at 11.32 am]