

AUDIT COMMITTEE

FRIDAY 24 SEPTEMBER 2010 AT 10.00 AM

PRESENT: Councillor Mrs Mallinson (Chairman), Councillors Bowditch, Layden, Ms Patrick, Mrs Riddle (as substitute for Councillor Hendry), Tootle (as substitute for Councillor Mrs Farmer)

ALSO

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

AUC.50/10 APOLOGIES FOR ABSENCE

Apologies for absence were submitted on behalf of Councillors Mrs Farmer, Hendry and Lishman.

AUC.51/10 DECLARATION OF INTEREST

Councillor Mrs Mallinson (Chairman) declared a personal interest in accordance with the Council's Code of Conduct in respect of Agenda item A.10 – Corporate Risk Management because she is Chairman of the County-wide Equality and Diversity Board.

AUC.52/10 MINUTES

The Minutes of the meeting of the Audit Committee held on 22 June 2010 were submitted.

RESOLVED – That the Minutes of the meeting of the Audit Committee held on 22 June 2010 be agreed as a correct record and signed by the Chairman.

AUC.53/10 MINUTES OF RESOURCES OVERVIEW AND SCRUTINY PANEL

The Minutes of the meetings of the Resources Overview and Scrutiny Panel held on 17 June, 29 July and 2 September 2010 were submitted for information.

RESOLVED – That the Minutes of the meetings of the Resources Overview and Scrutiny Panel held on 17 June, 29 July and 2 September 2010 be noted and received.

AUC.54/10 RESPONSE FROM THE EXECUTIVE

There was submitted Minute Excerpt EX.126/10 setting out the decision of the Executive on 26 July 2010 in response to comments raised by this Committee on the Provisional Capital Outturn 2009/10 and Revised Capital Programme 2010/11, namely:

“That the reference and comments from the Audit Committee be received; and the Committee advised that a review of the Capital Programme was being undertaken, the outcome of which would be reported back in due course.”

RESOLVED – That the position be noted.

AUC.55/10 ANNUAL GOVERNANCE REPORT 2009/10

There was submitted letter dated 15 September 2010 received from the District Auditor presenting the Annual Governance Report (dated September 2010) setting out the results of her work on the 2009/10 audit of the City Council. In addition, papers detailing amended wording to the explanatory forward and Appendix 2 – Amendments to the Draft Accounts (by the addition of Note 5.20) of the Annual Governance Report were tabled and explained to the Committee.

The District Auditor presented the Annual Governance Report which was somewhat different this year, drawing Members’ attention to the key issues that the Committee should consider prior to completion of the audit, namely to:

- consider the matters raised in the report before the Assistant Director (Resources) re-authorized the financial statements for issue;
- take note of the adjustments to the financial statements set out at Appendix 2 (as amended) to the report;
- approve the letter of representation on behalf of the Council before the District Auditor issued her opinion and conclusion;
- agree their response to the proposed Action Plan; and
- note that the District Auditor could not issue an audit closure certificate because she was still considering a formal objection to the Council’s Accounts.

She highlighted the key messages, commenting that the report included only matters of governance interest that had come to her attention in performing the audit. The audit was not designed to identify all matters that may be of relevance to the Council.

The District Auditor informed Members that the audit was substantially complete and, subject to the satisfactory clearance of outstanding matters, she planned to issue an audit report including an unqualified opinion on the financial statements by 30 September 2010. It was further her intention to issue an unqualified Value for Money conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources, which was a positive statement. The District Auditor pointed out, however, that the audit could not be formally concluded and an Audit Certificate issued until she had completed her consideration of matters brought to her attention by local authority electors.

The District Auditor informed Members that once again the financial statements approved by the Council in June 2010 had been produced to a good standard and supported by good working papers; and did not include any material errors, which was very positive. A number of other errors identified during the course of the audit (Appendix 2) had been reported to management who had agreed to adjust the financial statements for all the errors identified. She expressed her thanks to the Assistant Director (Resources), Head of Financial Services, Chief Accountant and their staff for work undertaken. Members' attention was also drawn to specific risks identified and areas of judgement which had been considered as part of her audit.

As part of normal audit processes, the District Auditor had given consideration to the key internal controls operating within the Council's financial systems and any significant issues identified by Internal Audit. That work included a review of Information Technology controls in operation within the Council. There were two issues that she wanted to bring to Members' attention, namely IT Security and Internal Audit, details of which were provided. She further highlighted her findings on accounting practice and financial reporting, and associated recommendations, details of which were set out in Table 2 on page 10 of the report.

The District Auditor had nothing further to report on her Value for Money Conclusion. The City Council had made good progress and, in particular, had a good understanding of its use of natural resources which was pleasing.

Referring back to the issue of the Audit Closure Certificate, the District Auditor explained that a complaint had been received in relation to Carlisle Airport and accepted as a formal objection. She was satisfied that the sum of money involved was not material to the Accounts, but now needed to consider the substance of the objection and ultimately come to a decision. The Assistant Director (Governance) had co-operated fully in providing all necessary evidence and she would report back to the Committee on the matter in due course.

In response to questions, the District Auditor gave an assurance that, although it would take some months for the issue to be resolved due to consultation and response periods, the City Council would meet the statutory deadline for signing off the Accounts of 30 September 2010.

Since the audit fee was set for 2009/10, the District Auditor had had to undertake additional work on the Council's new Asset Register; consider the impact of weakness in IT controls on the financial statements and the accounting for the senior management restructure. She was still finalising work on the audit and would discuss with the Assistant Director (Resources) the need for an additional fee. Her work in determining the objection would also lead to an increase in the audit fee.

RESOLVED – (1) That the Audit Committee had given consideration to and agreed the matters raised by the Audit Commission as detailed within the Annual Governance Report prior to the Assistant Director (Resources) re-authorising the Financial Statements for issue.

(2) That the Committee was pleased to note the intention of the District Auditor to issue an unqualified opinion on the financial statements and unqualified conclusion with regard to Value for Money. It was further particularly pleasing to note the good understanding shown by the City Council in terms of its use of natural resources.

(3) That the Committee noted that, although the District Auditor could not issue an Audit Closure Certificate because she was still considering a formal objection to the Council's Accounts, that would not prevent the Council meeting the statutory deadline for signing off the Accounts.

(4) That the Committee wished to record its thanks and appreciation for work undertaken by Officers of Financial Services and also to the Auditors for their continuing work and guidance.

AUC.56/10 LETTER OF REPRESENTATION 2009/10

There was submitted report RD.42/10 attaching a Letter of Representation for approval by the Committee.

The District Auditor explained that, in accordance with Auditing Standards, a Letter of Representation must be considered and approved by the Audit Committee prior to the Audit Opinion being provided.

RESOLVED – (1) That the Letter of Representation be approved and the Assistant Director (Resources) authorised to sign the same on behalf of the Council.

(2) That the Committee's best wishes be conveyed to the Chief Accountant for a speedy recovery following his recent accident.

AUC.57/10 FUTURE OF THE AUDIT COMMISSION

There were submitted details of an announcement made by the Secretary of State for Communities and Local Government (CLG) on 13 August 2010 about the proposed abolition of the Audit Commission.

The District Auditor provided a verbal update, informing Members that the proposed abolition would affect the 2012/13 Audit and the Government had announced its intention to bring forward new legislation. The City Council would receive guidance on how to obtain a new Auditor thus negating the possibility that the authority would be left without an Auditor. She added that the CLG was very keen for the Audit Manager, colleagues and herself to move their work to the private sector. That concept had been embraced and a lead appointed to oversee that work.

In the meantime some difficult issues required to be addressed e.g. liabilities created around abolition of the Commission. In future the scale fee regime would be set by CLG and the District Auditor would have no discretion or control in that regard.

Cumbria faced the added complication that the Audit Commission was still undertaking a competition exercise and the impact of that change on the market was not clear. It may well be that the Council would face a change of Auditor 12 months earlier than other authorities in the country.

RESOLVED – (1) That the Audit Committee welcomed the verbal report provided by the District Auditor.

(2) That a standing item be included on the Agenda for future meetings providing the Committee with an update on progress.

AUC.58/10 REVIEW OF THE CONTRACT PROCEDURE RULES

The Assistant Director (Governance) submitted joint report with the Assistant Director (Resources) (RD.39/10) concerning the Council's Contract Procedure Rules which were reviewed on an annual basis in order to reflect changes in legislation, Government and Council Policy, changes in the Council's financial practices, structural organisation, etc.

The Assistant Director (Governance) outlined the changes made to the Contract Procedure Rules, drawing attention to the full revision attached at Appendix A to the report.

In conclusion he commented that the proposed revisions to the Contract Procedure Rules took advantage of the different tendering methodologies now available to the Council through changes in technology and new legislation. The changes would make procurement more efficient and cost effective, and also lead to best competition between providers of services.

The Assistant Director (Governance) and Development and Support Manager then responded to Members' questions.

RESOLVED – (1) That the proposed changes to the Contract Procedure Rules, as set out in Report RD.39/10, be noted and approved.

(2) That it be noted that the document would also be reported to the Executive.

(3) That the Report be forwarded to the City Council for consideration and approval.

AUC.59/10 AUDIT SERVICES PROGRESS REPORT

The Audit Manager submitted report RD.40/10 summarising the work carried out by Audit Services since the previous report to Committee on 22 June 2010.

He outlined in some detail the content of and ratings attached to the final reports on the Audits of Procurement and 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. Work was also in progress on a number of other reviews, for which the final reports would be presented to Members in due course.

The Audit Manager reminded Members that they had, at their last meeting, noted that five recommendations from the 2008/09 Payroll had not been implemented, and had requested that further follow up be performed with regard to those recommendations, the results to be reported to the next meeting. He added that follow up had demonstrated that actions had been taken to address the recommendations, details of which were provided.

The 2010/11 Audit Plan was presented to the Committee meeting on 9 April 2010 (RD.4/10), at which time the District Auditor observed that Members would have difficulty in monitoring days not assigned to planned audits in the Plan as presented. To assist Members progress had been recorded for the period 1 April to 30 June 2010 (Appendix C) from which it could be noted that 60% of days represented productive audit, rather than the target of 66.4% due to more than anticipated annual leave being taken in the first quarter.

In response to the request made by Members at their last meeting on the issue of production of summary reports for future meetings, the Audit Manager drew attention to the summary of the Main Accounting and Budgetary Control Systems report attached at Appendix D for comparison against the original report at Appendix E.

In considering the report Members raised a number of questions to which the Audit Manager and Assistant Director (Governance) responded. It was agreed that:

- Performance information (Appendix C) be submitted to the Committee on a quarterly basis;
- The Committee was content to receive Summary Reports (Appendix D) in respect of Audits with a rating of substantial, subject to expansion of the Executive Summary. Full reports should, however, be submitted for Audits with ratings of reasonable, restricted or none and the Committee would review the practice at future meetings.

The District Auditor commented that the decision to receive Summary Reports may assist the Committee in focussing on governance arrangements.

A Member referred to the Final Report on the Main Accounting Accounting and Budgetary Control Systems and, particularly, the protection of IT E-records and data and hard copy information. She noted that work was ongoing as part of the Shared Service with Allerdale and questioned when that would be implemented since any loss of data would be a serious matter for the City Council.

In response, the Audit Manager advised that an update report could be provided to the next meeting. He would be meeting with colleagues from Allerdale and Copeland next week to discuss how the audit of IT would be undertaken for the City Council.

RESOLVED – (1) That report RD.40/10 be received.

(2) That the Audit Committee had considered the alternative reporting arrangements outlined at Section 5 of the report, and agreed that:

- Performance information (Appendix C) be submitted to the Committee on a quarterly basis;
- The Committee was content to receive Summary Reports (Appendix D) in respect of Audits with a rating of substantial, subject to expansion of the Executive Summary. Full reports should, however, be submitted for Audits with ratings of reasonable, restricted or none and the Committee would review the practice at future meetings.

(3) That the Audit Manager be requested to submit a report to the next meeting updating Members on the position as regards the protection of IT E-records and data, and hard copy information in conjunction with the Council's Risk Management Policy.

(4) That the Committee's concerns on the issue at (3) above be conveyed to the Resources Overview and Scrutiny Panel.

AUC.60/10 ANNUAL GOVERNANCE STATEMENT ACTION PLAN

The Head of Financial Services submitted report RD.41/10 updating the Committee on progress made to the Annual Governance Statement Action Plan. She informed Members that in accordance with established practice the Action Plan was monitored and the updated status reported to Members at each meeting of the Committee. She added that there were no new areas of risk arising from the Audit Reviews or the Risk Register which needed to be drawn to Members' attention at the current meeting.

The Head of Financial Services reported that the Officer Code of Conduct (Risk 2) had been formally approved by the City Council on 14 September 2010; and training for Officers would be provided by the Assistant Director (Governance) and the Personnel Manger. In those circumstances she suggested that the risk be removed from the Action Plan for the next meeting.

The Chairman congratulated Officers for production of the Officer Code of Conduct and the provision of training for staff, and requested that an update on the position regarding the National Officer Code of Conduct be provided periodically.

RESOLVED – (1) That the Annual Governance Statement Action Plan and the current position relating each of the areas identified be noted.

(2) That the Committee would welcome an update on the position regarding a National Statutory Code of Conduct of Government Employees periodically.

AUC.61/10 TREASURY TRANSACTIONS 2010/11 – QUARTER 1

The Head of Financial Services submitted report RD.34/10 providing the regular quarterly report on Treasury Transactions including the requirements of the Prudential Code, as required under the Financial Procedure Rules. She added that the Transactions continued to be closely monitored in the light of current economic conditions.

The Executive had on 2 September 2010 considered and received report RD.34/10 (Minute EX.148/10 refers).

RESOLVED – That the Committee welcomed the submission of the Treasury Management Outturn 2009/10.

AUC.62/10 CORPORATE RISK MANAGEMENT

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

A copy of the Deputy Chief Executive's report CE.28/10 which provided an update on the Council's Corporate Risk Register was submitted.

The Assistant Director (Governance) presented the report informing Members that, following the restructure of the Senior Management Team (SMT) and introduction of new corporate priorities, a workshop was held to renew the Corporate Risk Register to reflect the new priorities and Corporate Plan. SMT and the Corporate Risk Management Group had considered the issues and risks in delivering the Corporate Plan; in addition to which a risk management advisor from Marsh Ltd was present to provide expert advice.

The corporate risks associated with delivering the Corporate Plan had been identified and assessed; and the current impact and likelihood of the risks had been scored according to criteria within the Council's Risk Management Policy. Explanations of the ratings were as detailed at Appendix 2.

The Assistant Director (Governance) reported that the Action Status / Control Strategies shown were the risk management strategies being adopted to reduce the impact and likelihood of the risks. Future reports would show the changes in the score ratings resulting from the mitigating actions being taken, comparing the current with the previous risk score matrix, as requested by the Resources Overview and Scrutiny Panel. He added that initiatives to reduce risk were incremental and thus changes to the risk scores over the short term were unlikely. Target risk scores would also be identified; a certain level of risk would need to be tolerated in order to deliver the Council's key objectives and promote change.

The Resources Overview and Scrutiny Panel had on 29 July 2010 considered the matter and resolved (ROSP.76/10) :

"1) Members welcomed the way the report was presented.

2) Members also welcomed that the Corporate Risk Register was supported by a strategic approach and action plan."

The Assistant Director (Governance) then responded to a number of questions from Members.

RESOLVED – That the report be received.

AUC.63/10 INFORMATION STRATEGY

There was submitted report of the Policy and Performance Manager (PP.39/10) updating Members on progress made on the actions identified as the responsibility of Policy and Performance in the 2008/09 ICT Audit report.

RESOLVED – (1) That report PP.39/10 be received.

(2) That the current position relating to each of the actions identified in the report, together with the increasing volume of requests for information and the Council's response rates be noted.

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.64/10 FRAUD INVESTIGATION REPORT

(Public and Press excluded by virtue of paragraph 7)

The Audit Manager submitted Report RD.38/10 appraising Members of the results of an audit investigation relating to irregularities over the employment of a member of staff in 2007.

The Audit Manager outlined the background to the matter and updated the Committee on the current position.

Members then raised a number of issues to which the Audit Manager and Assistant Director (Governance) responded.

RESOLVED – (1) That Report RD.3810 be noted and the actions of Officers to date be endorsed.

(2) That the Assistant Director (Resources) be requested to submit a further report upon closure of the issue.

[The meeting ended at 11.25 am]