

AUDIT COMMITTEE
MONDAY 11 APRIL 2011 AT 10.00 AM

PRESENT: Councillors Bowman (S) (as substitute for Councillor Mrs Mallinson – Chairman), Mrs Farmer, Lishman, Ms Patrick and Mrs Parsons (as substitute for Councillor Layden – Vice-Chairman)

ALSO

PRESENT: Mrs Karen Murray (District Auditor, Audit Commission)

AUC.14/11 APPOINTMENT OF CHAIRMAN

The Assistant Director (Governance) welcomed all those present to the meeting. He indicated that, in the absence of the Chairman and Vice-Chairman of the Committee, it was necessary to appoint a Chairman for this meeting. He then sought nominations in respect thereof.

It was moved, seconded and

RESOLVED – That Councillor Lishman be appointed Chairman for this meeting only.

Councillor Lishman thereupon took the Chair.

AUC.15/11 APOLOGIES FOR ABSENCE

Apologies for absence were submitted on behalf of Councillors Bowditch, Hendry, Layden and Mrs Mallinson; and Mr McGahon (Audit Manager).

AUC.16/11 DECLARATION OF INTEREST

The Interim Audit Services Manager declared a personal interest in relation to Agenda Item A.10 – Audit Services Progress Report and specifically Appendix F thereof (Final Report on the Audit of Partnerships). She informed the meeting that the interest related to that fact that she had been involved in the preparation of that final report in her previous role as Efficiency Manager.

AUC.17/11 MINUTES

The Minutes of the meeting of the Audit Committee held on 14 January 2011 were submitted.

RESOLVED – That the Minutes of the meeting of the Audit Committee held on 14 January 2011 be agreed as a correct record and signed by the Chairman.

AUC.18/11 MINUTES OF RESOURCES OVERVIEW AND SCRUTINY PANEL

The Minutes of the meetings of the Resources Overview and Scrutiny Panel held on 6 January and 17 February 2011 were submitted for information.

RESOLVED – That the Minutes of the meetings of the Resources Overview and Scrutiny Panel held on 6 January and 17 February 2011 be noted and received.

AUC.19/11 RESPONSES FROM THE EXECUTIVE

The following Minute Excerpts, which set out the decisions taken by the Executive on 14 February 2011 in response to references from this Committee, were submitted:

(a) EX.021/11 - Audit Opinion Plan 2010/11

The Executive had resolved:

“That the reference from the Audit Committee concerning the Audit Opinion Plan 2010/11 be received; and the Audit Committee advised that the Executive noted the additional risks detailed on page 6 of the plan which would be monitored by the Committee at their April 2011 meeting.”

(b) EX.022/11 – Audit Services Progress Report

The Executive had resolved:

“1. That the reference from the Audit Committee (AUC.11/11) concerning the Audit Report on the Use of Consultants be received.

2. That the Audit Committee be advised that, further to the final report of the Use of Consultants Task and Finish Group and the recommendations contained within the Audit Report on the matter, the Assistant Director (Resources) had prepared guidance for staff which would be made available following consideration by the Senior Management Team.”

RESOLVED – That the responses from the Executive be noted.

AUC.20/11 FUTURE OF THE AUDIT COMMISSION

The District Auditor provided a verbal update on the future of the Audit Commission.

The District Auditor reiterated, for the benefit of those Members not in attendance at the last meeting, the background to the Government’s intention to disband the Audit

Commission. She informed Members that the Secretary of State had now published a consultation document which provided greater detail on the proposals. That consultation period would run until the end of June 2011. It was envisaged therefore that the timetable for the introduction of any new arrangements and the transition to them may slip since it was unlikely that sufficient Parliamentary time would be available this year to process the necessary legislation.

In conclusion, the District Auditor stated that there was nothing currently which the Council could or should do in terms of appointing a new Auditor at the moment. The Council may, however, wish to respond to the consultation.

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

AUC.21/11 CERTIFICATION OF CLAIMS AND RETURNS – ANNUAL REPORT 2009/10

The District Auditor presented the Annual Report on Claims and Returns for 2009/10.

The report summarised the findings from the certification of 2009/10 claims. It included the messages arising from the Audit Commission's assessment of the City Council's arrangements for preparing claims and returns and information on claims that the Audit Commission had amended or qualified.

The District Auditor explained that Carlisle City Council received more than £35 million funding from various grant paying departments. Those grants had conditions attached which the Council had to show had been met. In 2009/10 the Audit Commission certified five claims and returns with a total value of over £69.1 million, of which two were limited reviews and three full reviews. Two claims were amended and the Audit Commission was unable to fully certify two claims and for each a qualification letter was issued to the grant-paying body.

The District Auditor reported that the Council's arrangements for managing claims and returns had improved in 2009/10, as a result of which the number of claims amended or reported upon had reduced. There was, however, scope to improve further by:

- strengthening the management of single programme claims to ensure compliance with grant conditions and to minimise errors; and
- ensuring all benefits assessors were clear about which dates to use for change of circumstances in order to minimise the payment of incorrect benefits.

The following recommendations, that had been agreed by the relevant officers of the Council, were made:

- The Council should ensure that benefits assessors were clear about which dates to use for change of circumstance

- Ensure only payments made in the year were included in the relevant single programme claim
- Ensure that all single programme claims are arithmetically correct before submission for audit

The District Auditor and Financial Services Manager then responded to Members' questions.

RESOLVED – That the Annual Report on Claims and Returns for 2009/10 be received.

AUC.22/11 REVIEW OF FINANCIAL SYSTEMS

The District Auditor submitted her Review of Financial Systems for the 2010/11 Audit, apologising for the late submission of the final version of the report.

The District Auditor reminded Members that, as part of her work each year, she must understand the systems that record the transactions leading to material figures in the Council's annual accounts. A summary of those systems was provided at Table 1 to the report. She then outlined the findings from her review of the Council's financial systems and IT control environment, together with the following main conclusions:

- The Council needed to improve the controls operating within some of its systems to safeguard its assets and ensure that transactions were correctly recorded within the statement of accounts.
- She had identified some control weaknesses in the Council's systems and made recommendations to improve arrangements. A full summary of the issues identified and the Action Plan agreed with Officers were attached at Appendices 2 and 3 to the report.
- She had made recommendations to improve and formalise arrangements for authorisation of orders; reconciliations for housing benefits and improvement grants; checking of housing benefit payments above £1,000; IT control environment; and Internal Audit's work on IT.

In summary, the District Auditor stated that, for her, the main IT issue related to the fact that although an IT Security Policy was in place new users were not required to formally acknowledge and accept the Policy prior to using the Council's IT systems. She suggested that the Council needed to take action on that point.

In response to a Member's question with regard to the reconciliations, the District Auditor said that she had been told the controls were in place and operating, but the Audit Commission could not see evidence to that effect.

The Financial Services Manager added that a control spreadsheet was in place and the issue was around ensuring that staff signed the same.

In response to a further question, the District Auditor clarified that the Council's Concessionary Fares system was operated by Lancashire County Council.

RESOLVED – (1) That the Audit Committee welcomed the submission of the Review of Financial Systems 2010/11 and the recommendations set out at Appendix 2 thereof.

(2) That the Assistant Director (Resources) be requested to progress the tightening up of IT procedures (as recommended by the Audit Commission) to require all new users to read and formally acknowledge acceptance of the IT Security Policy before using the Council's IT systems.

AUC.23/11 AUDIT COMMITTEE'S ANNUAL REPORT 2010/11

The Interim Audit Services Manager presented report RD.4/11 summarising the work undertaken by the Audit Committee during the period from 9 April 2010 to 14 January 2011.

The Interim Audit Services Manager stated that the existence of the Audit Committee and its work programme enabled the Council to demonstrate that it was following the recommended best practice of the CIPFA Practical Guidance for Audit Committees in Local Authorities. The Committee had strengthened the Council's internal control process through its ability to ensure that systems and controls were robust; that challenges were raised as appropriate; and that adequate follow-up procedures were in operation in relation to audit recommendations. That issue had been noted and commented on by the Audit Commission's Audit Manager.

RESOLVED – That Report RD.4/11 be noted and accepted.

AUC.24/11 2010/11 FINAL ACCOUNTS PROCESS

The Chief Accountant submitted report RD.9/11 providing information on the approval process for the City Council's Statement of Accounts 2010/11 which had been significantly amended by the Accounts and Audit Regulations 2011.

The Chief Accountant outlined the final accounts process as set out in his report, commenting that the 2010/11 accounts would be the first full set prepared under the International Financial Reporting Standards (IFRS). The Committee had been kept informed of the transition to IFRS through previous reports.

The Accounting Policies brought to the Committee in January 2011 were based on the draft Code of Practice. The final version of the Code had subsequently been received and the Accounting Policies reviewed and revised in accordance therewith.

Members were asked to consider the Accounting Policies as outlined at Appendix A to provide the basis for the preparation of the 2010/11 Accounts.

The Chief Accountant reminded Members that the 2009/10 Annual Governance Report, considered by the Committee on 24 September 2010, acknowledged continuing significant improvements in the final accounts process compared to previous years. It did, however, set out four recommendations and progress against those was set out at Appendix B, together with the main risks identified in the Audit Opinion Plan considered by the Committee in January 2011. He added that work had already commenced to ensure that those issues were addressed prior to production of the 2010/11 Accounts.

Referring to progress on the 2010/11 closedown, the Chief Accountant reported that training sessions for staff had taken place on 15 March 2011 at which time 14 staff attended. Financial Services progress meetings had also been arranged internally to monitor the closedown progress and the detailed timetable of tasks to be completed. Any slippage in that process would be reported regularly to the Senior Management Team. Member training would be arranged for June 2011 to provide information on the major changes to the Accounts and what to look for when scrutinising the Statements.

RESOLVED – That Report RD.9/11 be noted.

AUC.25/11 THE ACCOUNTS AND AUDIT (ENGLAND) REGULATIONS 2011 (SI2011/817)

The Financial Services Manager submitted report RD.7/11 detailing the implications of the recent changes to the Accounts and Audit Regulations which governed the way in which government produced, approved and audited their statutory accounts. For many years that had been in accordance with the 2003 Regulations and four amendments to Statutory Instruments.

The DCLG had in January 2011 commenced a consultation process to revise and consolidate the Regulations and the four amendments. Following feedback from 150 authorities and other interested parties, Statutory Instrument (SI 817) The Accounts and Audit (England) Regulations 2011, was laid before Parliament, came into effect from 31 March 2011 and would apply to the accounts for the year ending 31 March 2011 and later years.

The Financial Services Manager indicated that many of the revisions to the Regulations did not impact upon the Council; however the main changes and their respective impacts on the Council were as detailed in Section 2 of her report.

The Financial Services Manager informed Members that, in order to accommodate the new Regulations, changes would be required to the Civic Calendar i.e. the special Council meeting scheduled for the end of June would no longer be needed, but a special Council may be required at the end of September instead. Discussions were underway with the Leader and Portfolio Holder (Governance and Resources), in addition to which liaison would take place with other interested parties.

Although not a requirement of the new Regulations, early consideration of the accounts by Members was still viewed as good practice and it was therefore proposed that the accounts continue to be scrutinised by the Audit Committee at their meeting in June once they had been certified by the Assistant Director (Resources).

The Financial Services Manager reported that, in accordance with the Council's Constitution, approval of the accounts was a responsibility of full Council and, in order to comply with the new Regulations, a special Council meeting would be required for the end of September. However, at previous meetings of the Audit Committee it had been recognised that many other authorities delegated that responsibility to either an Accounts or Audit Committee, or other politically balanced and properly constituted Committees of the authority. Given the regulation changes it may be an opportune time to revisit responsibilities with regard to the approval process and delegate responsibility to the Audit Committee. That would create a small group of appropriately trained Members with the relevant expertise to approve the accounts.

In conclusion, the Financial Services Manager invited Members to consider that issue again and make recommendations to Council as appropriate.

The Committee then gave consideration to the issue of approval of the Council's Accounts, with Members expressing differing views in respect thereof.

Councillor Lishman moved and Councillor Bowman (S) seconded that the Audit Committee recommend to the City Council that responsibility for approval of the Accounts be delegated to the Committee.

Following voting, it was

RESOLVED – That the Audit Committee recommended to the City Council that responsibility for approval of the City Council's Accounts should be delegated to the Audit Committee.

AUC.26/11 STRATEGIC AUDIT PLAN AND AUDIT PLAN FOR 2011/12

The Interim Audit Services Manager submitted report RD.5/11 providing details of the updated Strategic Audit Plan and the proposed Audit Plan for 2011/12.

She referred Members of the Risk Assessment Model which had been prepared in line with a version endorsed by CIPFA and by the Institute of Internal Auditors.

The Interim Audit Services Manager then outlined for Members the revised Audit Risk Assessment (Strategic Risk Based Plan) which had been prepared in line with best audit practice. Assistant Directors had reviewed and commented on the Strategic Audit Plan for their respective directorates, in addition to which transformational changes were reflected.

She emphasised that the strategic risk based approach to audit planning did not provide coverage of all audit areas within a given period, and was dynamic and to some extent subjective in areas. It identified the “risk areas” which could be addressed over any given timescale depending on the number of audit staff available. The Audit Risk Assessment was presented in two parts – Part A (General /Corporate Audits) and Part B (ICT Audits).

The Interim Audit Services Manager then referred Members to Appendix C which provided for an Annual Audit Plan of 535 direct audit days.

RESOLVED – (1) That the Strategic Audit Plan and Audit Plan for 2011/12 be referred to the Executive for consideration prior to the Revised Audit Risk Assessment, attached to Report RD.5/11, being submitted to Council for approval.

(2) That the Internal Audit Plan for 2011/12, attached as Appendix C to the above report, be approved.

(3) That the Risk Assessment Model, attached as Appendix A, be noted.

AUC.27/11 AUDIT SERVICES PROGRESS REPORT

The Interim Audit Services Manager, having declared a personal interest, presented this item of business and responded to Members’ questions.

The Interim Audit Services Manager submitted report RD.6/11 summarising the work carried out by Audit Services since the previous report to Committee on 14 January 2011.

She outlined in some detail the content of and ratings attached to the final reports on the Audits of Car Parking; Food Safety; Council Tax and Housing Benefits; Creditors; Treasury Management and Partnerships, copies of which were appended to her 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.

Referring to the ongoing 2010/11 Audit work programme, the Interim Audit Services Manager reminded Members that the Audit Shared Service had gone live on 1 December 2010, with auditors having transferred to the County Council under TUPE arrangements from that date. The Audit Team continued to concentrate on completing the Audit Plan, the main area of focus being the completion of the material system reviews which, historically, dominated much of the available audit time in the latter half of the financial year. She added that all material systems audits had been completed (five at final report stage and the remaining seven issued at draft stage) the outcome of which would be presented to the Committee in June 2011.

The Interim Audit Services Manager then commented upon the 2010/11 Audit Plan, progress against which had been recorded for the period 13 December 2010 to 18 March 2011 in order to assist Members in monitoring thereof. She drew attention to the report at Appendix G which illustrated work undertaken to date, pointing out that some audits had taken longer than anticipated for the reasons outlined.

Referring to the final report on the Audit of Partnerships (Ref A.4), Members noted the recommendation that all staff that were responsible for initiating and managing partnerships should undertake mandatory partnership training. They asked whether such training was available for Members, indicating that they would welcome the opportunity to attend.

The Financial Services Manager replied that training was available as part of Ethical Governance training and that could be extended to include Members.

In response to a question, the Interim Audit Services Manager confirmed that the Shared Audit Service had proved beneficial in terms of audit performance against the 2010/11 Audit Plan.

RESOLVED – (1) That report RD.6/11 be received.

(2) That the Audit Committee wished to promote the availability of partnership training and requested that the Assistant Director (Resources) arrange for details to be provided to all Members of the City Council.

AUC.28/11 ANNUAL GOVERNANCE STATEMENT ACTION PLAN

The Financial Services Manager submitted report RD.8/11 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 other issues identified as significant, or new areas of risk arising from the Audit Reviews or from the Risk Register which needed to be drawn to Members' attention at the current meeting.

RESOLVED – That the Annual Governance Statement Action Plan and the current position relating to the area identified be noted.

AUC.29/11 TREASURY TRANSACTIONS 2010/11

The Chief Accountant submitted report RD.77/10 providing the regular quarterly summary on Treasury Management Transactions including the requirements of the Prudential Code, as required under the Financial Procedure Rules. The report had been received by the Executive on 14 February 2011.

The Chief Accountant outlined the treasury transactions which had taken place in the period 1 October 2010 to 31 December 2010, together with the reporting process. He informed Members that, although current money rates were now below the level anticipated at the time of the budget, that factor had been somewhat mitigated through cash balances being generally higher than forecast. Overall, final investment interest for the year was likely to fall short of the original budget (£513,000) due to investment rates not increasing as expected when the budget was set. The position continued to be closely monitored.

He added that most other budget heads were performing very much in line with the original estimate. There would, however, be an overspend on the principal repaid figure (the Minimum Revenue Provision) due to the Capital Programme in 2009/10 utilising more capital receipts than expected. That meant that the Capital Financing Requirement had increased by more than expected and therefore the MRP required has increased.

In conclusion, the Chief Accountant invited the Committee to make any observations on treasury matters during the quarter in question, noting that it had been a relatively quiet period in treasury terms.

RESOLVED – That Report RD.77/10 be received and the Prudential Indicators noted as at 31 December 2010.

AUC.30/11 CORPORATE RISK MANAGEMENT

The Deputy Chief Executive submitted report CE.10/11 providing an update on the Council's Corporate Risk Management arrangements.

The current risks associated with delivering the Corporate Plan had recently been reviewed by the Senior Management Team and the Corporate Risk Management Group. Members' attention was drawn to the risks detailed in the Appendix to the report showing updated mitigation controls and risk scores.

As requested by the Resources Overview and Scrutiny Panel in January 2011, the Corporate Risk Register now identified the risk rating score for the target risk. In addition, the new front cover of the register reflected the corporate style and showed the corporate priorities, objectives and outcomes supported by the Register.

The Deputy Chief Executive further reported that a recent health check of the Council's risk management arrangements had been carried out assessing the level of maturity of risk management principles at a strategic level. That highlighted the Council's strengths and weaknesses in those areas and an Action Plan for further development had been drafted.

The Committee was asked to note and comment on that and, in particular, the aspired levels for future risk management development. Travelers, the Council's Insurance Company, would be carrying out a risk management health check at an

operational level in April 2011, the outcome of which would be added to the Action Plan.

Having considered the report a Member expressed the belief that it was important that the Audit Committee continued to receive the Risk Register and also the Risk Management Action Plan at future meetings of the Committee.

In response the Deputy Chief Executive agreed that it was useful for Members to see how the authority managed risk and have the opportunity to hold Officers to account. He added that a more detailed Action Plan could be submitted to the Committee at its June 2011 meeting,

RESOLVED – That the Audit Committee welcomed the submission of Report CE.10/11 and looked forward to receiving a further report, including a more detailed Action Plan, at the June 2011 meeting.

[The meeting ended at 10.55 am]