

## **AUDIT COMMITTEE**

**MONDAY 22 JULY 2013 AT 10.05 AM**

**PRESENT:** Councillors Mrs Atkinson, Bowditch, Bowman S (as substitute for Councillor Mrs Mallinson), Earp, Nedved and Ms Patrick

**OFFICERS:** Director of Governance  
Financial Services Manager  
Chief Accountant  
Audit Manager  
Principal Auditor

**ALSO**

**PRESENT:** Mr Richard McGahon (Manager, Grant Thornton) – until 10.55 am

### **AUC.26/13 APPOINTMENT OF CHAIRMAN**

The Director of Governance welcomed all those present to the first meeting of the Audit Committee in the current municipal year. He indicated that the first item of business was to appoint a Chairman for the Committee for the 2013/14 Municipal Year and sought nominations in respect thereof.

Councillor Earp moved and Councillor Bowditch seconded that Councillor Ms Patrick be appointed Chairman of the Audit Committee for the Municipal Year 2013/14.

**RESOLVED** – That Councillor Ms Patrick be appointed Chairman of the Audit Committee for the Municipal Year 2013/14.

Councillor Ms Patrick thereupon took the Chair.

### **AUC.27/13 APPOINTMENT OF VICE-CHAIRMAN**

The Chairman sought nominations with regard to the appointment of a Vice-Chairman for the Committee.

The Chairman moved and Councillor Nedved seconded that Councillor Bowditch be appointed Vice-Chairman of the Audit Committee for the Municipal Year 2013/14.

**RESOLVED** – That Councillor Bowditch be appointed Vice-Chairman of the Audit Committee for the Municipal Year 2013/14.

### **AUC.28/13 APOLOGIES FOR ABSENCE**

Apologies for absence were submitted on behalf of Councillors P Atkinson and Mrs Mallinson; and Ms Jackie Bellard (Director, Grant Thornton).

## **AUC.29/13      DECLARATIONS OF INTEREST**

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

## **AUC.30/13      PUBLIC AND PRESS**

RESOLVED – That the Agenda be agreed as circulated.

## **AUC.31/13      MINUTES**

The Minutes of the meeting of the Audit Committee held on 15 April 2013 were submitted.

Referring to Minute AUC.21/13, the Chairman noted that the Manager (Grant Thornton) had undertaken to extract reports on emerging issues for circulation to Members of the Committee.

In response, the Manager (Grant Thornton) said that he would address the matter.

RESOLVED – That the Minutes of the meeting of the Audit Committee held on 15 April 2013 be agreed as a correct record and signed by the Chairman.

## **AUC.32/13      MINUTES OF RESOURCES OVERVIEW AND SCRUTINY PANEL**

The Minutes of the meetings of the Resources Overview and Scrutiny Panel held on 5 March, 4 April and 6 June 2013 were submitted for information.

RESOLVED – That the Minutes of the meetings of the Resources Overview and Scrutiny Panel held on 5 March, 4 April and 6 June 2013 be noted and received.

## **AUC.33/13      AUDIT PLAN 2012/13**

The Manager (Grant Thornton) presented the Audit Plan for Carlisle City Council for the year ended 31 March 2013. The contents of the report related only to the matters which had come to Grant Thornton's attention, which they believed needed to be reported to the Committee as part of the audit process. It was not a comprehensive record of all the relevant matters, which may be subject to change, and in particular they could not be held responsible for reporting all of the risks which may affect the Council or any weaknesses in its internal controls.

By way of assistance for new Members of the Committee, the Manager (Grant Thornton) began by summarising the differences in terms of the approach adopted by Grant Thornton as opposed to that of the Audit Practice. In previous years the Audit Committee had received the Audit Plan, followed by the results of interim audit work at a later meeting, whereas Grant Thornton produced one plan encompassing both elements.

A key element of the audit was gaining an understanding of the challenges and opportunities faced by the client (i.e. the Council), a summary of which was provided. In addition, Grant Thornton also considered the impact of key developments in the sector and took account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

The Manager (Grant Thornton) informed Members that the Plan was based on a risk-based approach to audit planning. He explained in some detail the definitions of the level of risk (significant; other; none) together with the associated work as set out within the report.

The Manager also set out Grant Thornton's approach to identifying audit risks and had considered the additional risks relevant to the current audit of the accounting statements, details of which were provided.

There were two presumed significant risks applicable to all audits under Grant Thornton's audit approach, namely: the revenue cycle included fraudulent transactions; and management over-ride of controls. Details of the other reasonably possible risks were also provided.

Turning to the interim audit work undertaken the Manager summarised the overall conclusion that:

- Internal Audit - the Internal Audit Service continued to provide an independent and satisfactory service to the Council and that Grant Thornton could take assurance from their work in contributing to an effective internal control environment at the Council;
- Walkthrough testing - no significant issues were noted and in-year internal controls were observed to have been implemented in accordance with their documented understanding; and
- Journal entry controls - Grant Thornton would complete their journals testing at the final accounts visit. They had no issues to report at this time;
- Review of information technology (IT) controls - no significant issues were noted. IT controls were observed to have been implemented in accordance with their documented understanding. Areas for improvement had been separately communicated to the Digital Information Service (DIS).

The Manager added that Grant Thornton was required to give a statutory value for money conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. Members would notice a change this year with a separate report on financial resilience. The conclusion this year would be based on two criteria, specified by the Audit Commission.

In conclusion, the Manager (Grant Thornton) drew attention to details of Grant Thornton's team; their fee; independence and ethics.

In response to Members' questions, the Manager (Grant Thornton) said that

- Whole of Government Accounts (WGA) were effectively the accounts for the public sector as a whole and were audited by the National Audit Office (NAO). The Council was required to submit a WGA pack on which Grant Thornton would provide an opinion. The type of audit being determined by the size and scale of the body in question. Problems had arisen this year around the Council obtaining the return document for completion.

- Investment income was not material to the Accounts and would not be looked at unless a major problem arose.
- Significant risks (page 11) were standard risks which Grant Thornton included in every Audit Plan.
- Unusual significant transactions (page 11) related to instances where a transaction did not appear as expected. Work was done to identify a valid reason / evidence to demonstrate that the transaction was correct, an example being a legitimate non-cash exchange recorded in the Council's assets. There was no strict definition of "unusual".
- The Committee could gain assurance from the fact that the audit standards had not changed and therefore future audits should be undertaken in similar depth to previous years.
- Grant Thornton adopted a standard approach in terms of presentation of their reports (power point presentations). Comments had been raised in terms of the font size, which he had already fed back.

A Member expressed concern that the Council had funded roofing works to a Hotel within the City and would not get that money back.

In response, the Manager (Grant Thornton) explained that the Council would, on an annual basis, assess the likelihood of recouping debts. A judgement would then be made as to whether or not the debt in question should be written off.

The Financial Services Manager added that a global calculation on the level of debt was undertaken at the year end with assumptions made regarding the level of bad debt provision based upon the age of the debt.

RESOLVED – (1) That the Audit Plan for 2012/13 be noted and received.

(2) That the Audit Committee acknowledged the slight change in emphasis in terms of substantial testing and Value for Money as outlined by the Manager (Grant Thornton).

#### **AUC.34/13      FEE LETTER 2013/14**

The Manager (Grant Thornton) presented the Audit fee letter for 2013/14.

The Manager outlined details of the audit fee for the Council, pointing out that:

- the scale fee for 2013/14 had been set by the Audit Commission at £70,153 i.e. the same as the audit fee for 2012/13; and
- the grant certification fee had been set at £17,200.

Details of the scope and timing of the work, Value for Money conclusion and details of the Team were also provided.

RESOLVED – That the Audit Committee noted and received the Audit fee letter for 2013/14.

**AUC.35/13      GRANT THORNTON – GRANT CERTIFICATION WORK PLAN FOR 2012/13**

The Manager (Grant Thornton) presented their Grant Certification Work Plan for 2012/13.

The Manager outlined the approach adopted in terms of grant certification work, commenting that the certification arrangements were designed to be proportionate to the claim or return. He also gave an explanation of the arrangements for 2012/13 as detailed at page 3 of the report. It should be noted that every third year a full detailed review was required of claims such as National Non Domestic Rates (NNDR).

Referring to the claims history, the Manager (Grant Thornton) added that the most significant claims and returns in 2011-12 were the Housing and Council Tax Benefit claim; and National Non-Domestic Rates return. He assured the Committee that those had been provided on time this year.

A certificate was issued following Grant Thornton's work on each claim or return, the wording of which was dependent on the level of work performed. The certificate also stated that the claim had been certified:

- without qualification;
- without qualification but with agreed amendments incorporated by the Council; or
- with a qualification letter (with or without agreed amendments incorporated by the Council)

The Manager (Grant Thornton) added that virtually all authorities would receive a qualification on their housing and council tax benefit claim; and he anticipated that the City Council's national non-domestic rates return would be relatively smooth.

The Chairman thanked the Manager (Grant Thornton) for his very helpful input.

RESOLVED – That the Grant Certification Work Plan for the year ended 31 March 2013 be noted.

The Manager (Grant Thornton) then left the meeting.

**AUC.36/13      ANNUAL GOVERNANCE STATEMENT 2012/13**

The Financial Services Manager submitted report RD.22/13 providing the City Council's Annual Governance Statement for 2012/13. She informed Members that the draft Annual Governance Statement had been certified by the Council's S151 Officer, Chief Executive and Leader, in accordance with statutory requirements, by 30 June 2013 and would be formally approved following completion of the audit process at the end of September.

There was only one area of significant weakness in the Council's Governance arrangements which needed to be brought to the attention of Members, details of which were included within the Statement.

There were no other areas of weakness which needed to be brought to Members' attention at this time.

The Council's Code of Corporate Governance had been reviewed by Officers and there were no changes required to the Code previously approved in 2008.

The Financial Services Manager advised that, in accordance with established practice, an Action Plan would be prepared and monitored with an updated status report provided to Members of the Committee on a quarterly basis. The specific issue would also be subject to a formal follow up audit by the Internal Audit Team which again would be reported through the Audit Committee.

There were no new areas of risk arising from the Audit Reviews or from the Risk Registers which required to be drawn to Members' attention.

In response to Members' questions, the Financial Services Manager advised that:

- the target date for resolution of the significant governance issue (regarding the internal monitoring of Council key contracts) identified was January 2014. Completion of the Action Plans to address the weaknesses would be subject to a formal audit follow up during 2013/14; and would be reported to and closely monitored by the Audit Committee
- the Committee would receive a Corporate Governance Action Plan at its September 2013 meeting

RESOLVED – (1) That the Audit Committee noted the content of the 2012/13 Annual Governance Statement, noting that the Statement would accompany the Annual Statement of Accounts.

(2) That the Committee looked forward to receiving the Corporate Governance Action Plan at its September 2013 meeting.

### **AUC.37/13      STATEMENT OF ACCOUNTS 2012/13**

The Chief Accountant presented in some detail report RD.23/13 enclosing the Council's Statement of Accounts 2012/13 which had been certified by the S.151 Officer in accordance with statutory requirements by 30 June 2013. They would now be subject to audit, which must be concluded by the statutory deadline of 30 September 2013. He added that the Accounts reflected the summarised financial outturn information recently considered by the Executive and Resources Overview and Scrutiny Panel.

However, because of the different way in which the Accounts must be produced, it was very difficult to see outturn figures within the Income and Expenditure Account. A reconciliation between the outturn figures and the net operating expenditure on the Income and Expenditure Account had therefore been prepared and was attached for information at Appendix 1.

At the meetings of the Audit Committee on 14 January and 15 April 2013, the Director of Resources had reported that no significant changes would be required to the Accounts for 2012/13.

As part of the Council's training programme, a training session had taken place on 15 July 2013 for Members (and substitutes) of the Audit Committee on the role of the Audit Committee and scrutiny of the Statement of Accounts process. Key issues and the practical implications for scrutinising the Statement of Accounts were provided.

The Annual Governance Statement which formed part of the Annual Statement of Accounts was presented at Appendix 2. It was a requirement of the 2012 Code that the Annual Governance Statement be considered and approved separately.

The Chief Accountant then drew Members' attention to the key issues within the Statement of Accounts, details of which were provided at Section 4 of the report. He explained in some detail the main items of note:

- Comprehensive Income and Expenditure Statement (CIES) (as detailed on page 109 of the Agenda Document Pack) – an increase of £6.236 million over the previous year, the majority of which could be explained as a result of downward revaluations being charged to the CIES services;
- The Balance Sheet (as detailed on pages 110 / 111) – overall, the Council's net worth on its Balance Sheet had decreased from £129 million in 2011/12 to £108.5 million in 2012/13. That could, however, be explained by the movement (£8.8 million) on the Pension Fund valuation which was a notional entry and was held both as a liability and a reserve.
- Movement in the level of provisions held by the Council during 2012/13 (as detailed on page 169), one significant item being an initial provision of £175,000 to cover Municipal Mutual Insurance (MMI) liabilities.

In considering the report Members raised the following issues:

A Member sought clarification as to why other heritage assets, some of which were significant, were not included in the balance sheet (page 157 of 420 referred).

In response, the Chief Accountant advised that the Council owned other items which were classified as heritage assets, but which did not hold a valuation and for which it would not be cost effective to obtain a valuation. Those included the Mayoral picture gallery, together with various pictures, sculptures and paintings located on the first floor of the Civic Centre.

He added that consideration was being given to a full valuation being undertaken on all assets during 2013/14; and that a Fine Arts Insurance Policy was now in place for the collections kept at Tullie House.

A Member sought clarification of the background to the Rickergate Properties Ringfenced Account (page 170 of 420 referred).

The Chief Accountant explained that the provision had previously been held as a credit and represented the net income from properties purchased in Rickergate with funds from the North West Development Agency, which had disbanded.

The Homes and Communities Agency had now taken over control of the scheme and had informed the Council that the income did not need to be repaid to it as was previously the case; and, subject to their approval, could be used to fund any future costs on the scheme.

Referring to income relating to the administration and payments of benefits (page 127 of 420 referred), the Chairman noted a £½m fluctuation in the figures and questioned where that money went.

In response, the Chief Accountant outlined the process followed i.e. the Council received grant payments from central Government based upon estimates submitted; a mid-year re-estimate was undertaken to identify what had changed; followed by a final claim at the end of the year. An adjustment to the figures was always required.

Turning to the Accumulated Absences Account (page 173 of 420 referred), the Chairman queried whether that had increased substantially since the previous year.

The Chief Accountant replied that annual leave entitlement in excess of five days / flexi time balances could only be carried forward with the permission of senior management. It was a notional entry in the Accounts.

**RESOLVED – That the Audit Committee:**

- (1) Noted the 2012/13 Statement of Accounts, which had been certified as giving a true and fair view by the Director of Resources, and would now be subject to audit.
- (2) Noted that the Annual Governance Statement would be considered and approved separately from the Statement of Accounts as specified in the Accounts and Audit Regulations 2011.

The Chief Accountant submitted the following reports for information:

**(a) Provisional General Fund Revenue Outturn 2012/13**

Report RD.12/13 summarising the provisional outturn for the General Fund Revenue Budget and providing reasons for variances. The outturn showed that the net underspend for Council services as at 31 March 2013 once committed expenditure totalling £696,400 and £312,697 transfers were taken into account, was £75,247. A request had been made to transfer £250,000 to the Transformation Reserve which, if approved, would result in a final underspend to the Council in 2011/12 of £11,459.

The Executive and the Resources Overview and Scrutiny Panel had considered the matter on 31 May and 6 June respectively and the decisions were set out in Minutes EX.48/13 and ROSP.39/13.

**(b) Provisional Capital Outturn 2012/13 and Revised Capital Programme 2013/14**

Report RD.11/13 summarising the 2012/13 provisional outturn for the capital budget and providing details of the revised capital programme for 2013/14. The outturn showed that the net underspend for Council services as at 31 March 2013 once committed expenditure totalling £1,822,500 was taken into account was £1,596,953.



He added that requests for carry forwards for new items of expenditure totalling £6,200 had been made, and also the removal of the Asset Management Plan expenditure budgets of £1,546,800 from the capital programme, which would change the underspend to £43,953.

The Executive and the Resources Overview and Scrutiny Panel had considered the matter on 31 May and 6 June respectively and the decisions were set out in Minutes EX.49/13 and ROSP.40/13.

The Chief Accountant and the Director of Governance responded to Members' questions in relation to underspends and the Sheepmount Reserve.

RESOLVED – That Reports RD.12/13 and RD.11/13, together with the references from the Executive and Resources Overview and Scrutiny Panel, be noted.

### **AUC.38/13      TREASURY MANAGEMENT OUTTURN 2012/13**

The Chief Accountant submitted the Annual Report on Treasury Management (RD.13/13). He informed Members that the report was required under both the Financial Procedure Rules and CIFPA Code of Practice on Treasury Management. The regular report on Treasury Transactions for the period 1 January 2013 - 31 March 2013 was also submitted.

The Chief Accountant outlined developments in the Money Markets over the previous 12 months and their effect on the Council's investments, together with the various performance statistics included within the report.

Members' attention was then drawn to the outstanding investments as at 31 March 2013, as detailed on pages 19 and 20 of the report.

The Executive and the Resources Overview and Scrutiny Panel had considered the matter on 31 May and 6 June 2013 respectively and the decisions were set out in Minutes EX.50/13 and ROSP.41/13.

A Member reiterated concerns previously raised at Council with regard to the Asset Review Disposal Programme and whether assets would achieve best value for the Council.

In response, the Chief Accountant stated that the issue would be addressed under monitoring of the capital programme. Prior to disposal / purchase of new assets the Director of Resources required to report through the Committee system. Receipts could also be used to minimise the impact on Council Tax payers.

The Financial Services Manager added that Members could gain a level of assurance from Treasury Management Reports submitted to the Committee on a regular basis. Reports submitted to the Executive / Overview and Scrutiny as part of the budget process were the other mechanism.

The Chairman recognised that the Minimum Revenue Provision (MRP) was complex and difficult to understand, and asked whether the Committee could receive a briefing note on the matter.

The Director of Governance felt that it would be beneficial for Members to receive training related Briefing Notes as matters progressed.

The Chief Accountant undertook to provide a Briefing Note as requested.

In response to a request for clarification, the Chief Accountant drew attention to the Investments Summary Sheet, explaining the criteria as suggested by Sector (the Council's treasury advisors).

Turning to the list of outstanding investments as at 31 March 2013, a Member noted the significant sum attributed to HSBC Bank was £1,740,000, the rate of return being very low.

In response, the Chief Accountant explained that in addition to long-term investments the Council also had money on deposit over night in order that it was readily available if needed.

RESOLVED – (1) That the Committee had considered Report RD.13/13 and noted the good performance, in terms of investments, in light of the current economic context as detailed therein.

(2) That the Committee wished to place on record their thanks to the Chief Accountant and members of staff involved.

#### **AUC.39/13      TREASURY MANAGEMENT COUNTERPARTIES**

The Chief Accountant submitted report RD.08/13 concerning Treasury Management Counterparties.

The Chief Accountant reminded Members that the Treasury Management Strategy for 2013/14 had been approved by Council on 5 February 2013. However, since that date average investment balances had increased as a result of asset sales, in addition to which there had been significant changes to investment return interest rates.

As a result of the above the City Council had, on 16 July 2013, approved amended investment counterparty limits, as outlined at Appendix A and set out in paragraph 2.7 of the report.

RESOLVED – That the Audit Committee noted the content of Report RD.08/13.

The meeting adjourned at 11.40 am and reconvened at 11.47 am

#### **AUC.40/13      INTERNAL AUDIT PROGRESS REPORT 2013-14 (NO. 1)**

The Audit Manager (Carlisle City) submitted report RD.26/13 summarising the work carried out by Internal Audit since the previous report to Committee on 15 April 2013 and detailing progress made on delivery of the approved Audit Plan during the first quarter of 2013/14.

The Audit Manager reminded Members that the 2013/14 Strategic and Annual Risk Based Audit Plans were presented to the Audit Committee on 15 April 2013 (Report RD.06/13

referred). The current position of the Plan up to the end of June 2013 was illustrated at Appendix A for Members' assistance.

The Plan called for 540 direct audit days to be delivered in 2013/14. 114 days (21%) had been delivered in the first quarter period. Details of the areas upon which time had been spent were provided.

Members were asked to note the progress made against the agreed 2013/14 Audit Plan in quarter 1.

Referring to the Audit of Customer Services, the Audit Manager (Carlisle City) reported that it had been anticipated that the review would be completed in the first quarter of 2013/14 and ready for report to the Committee. That had not, however, been possible due to delays in agreeing a start date in Customer Services as a result of other work pressures in that service area. That review was now in progress and it was expected to be completed and ready for report in September 2013.

The Chairman noted the delay in submission of the report and sought an assurance that would not happen again.

The Audit Manager (Carlisle City) replied that it was her recollection that it had taken some time to finalise the initial review, which work had just missed the reporting deadline of a previous meeting. The intention of this current review was to review previous findings to provide an up to date assurance evaluation. She took on board the Chairman's point regarding the delay.

A Member noted that 70 days had been devoted to high risk reviews during Quarter 1 and questioned whether sufficient days remained going forward.

In response, the Audit Manager (Carlisle City) emphasised that the Audit Plan was risk based. She referred Members to Appendix A which detailed the list of high risk reviews, commenting that the focus was on high risk reviews at this time of the year.

Turning to the matter of previous Audit Recommendations, the Audit Manager (Carlisle City) reported that a revised follow up system was now in operation utilising Covalent, the corporate performance management system. That revised system placed the onus upon Managers to feedback on the action which they had taken to effectively address each audit recommendation for which they were assigned responsibility to implement, within the timescales defined in the action plan.

A report on the position of all follow ups of previous audit recommendations monitored via Covalent would be prepared for the September meeting of this Committee.

Audit reviews which resulted in partial or limited assurance evaluations were followed up in detail by Internal Audit. There were 5 'partial' audit reviews from 2012/13 which had been incorporated into the 2013/14 Plan for formal follow up audits to be undertaken; 3 of which were currently being progressed and the outcome of each would be reported to a future meeting of the Committee.

The Audit Manager (Carlisle City) further indicated that there were 8 audit reports for consideration by Members at this time. Guidance on the grading of audit

recommendations, the audit follow up procedure and audit assurance ratings was attached at Appendix C.

In particular, she drew Members' attention to the following key points:

- Audit of IT Service Desk, Incident and Problem Management – Recommendations R1 (there is currently a lack of documented procedures); R3 (the level of information recorded for calls is inconsistent); and R5 (there is currently no formal Change Management process in place).
- Audit of Debtors - Recommendations R1 (no specific monitoring existed corporately to ensure that persistent bad debtors are prevented from obtaining further credit from the Council); and R5 (invoices are not being raised within 14 days of supply and on occasion there is insufficient detail contained within the invoice description)
- Audit of Payroll – Recommendation R6 (leavers forms were not complete)

Members raised the following issues during their consideration of the Audit Reviews:

#### Audit of IT Service Desk, Incident and Problem Management

The Chairman noted that certain of the recommendations required to be actioned by 31 March 2014 and questioned why it should take such a long time.

In response, the Audit Manager (Carlisle City) advised that the action date was determined by the responsible Officer who would require to put arrangements in place to address the recommendations and formalise the same.

The Director of Governance added that the Audit of IT had been undertaken during the Shared Service with Allerdale Borough Council which had effectively now come to an end. City Council Officers may have more direct management control going forward.

A Member expressed concern regarding problems with IT security and asked whether those issues had now been addressed.

The Audit Manager (Carlisle City) replied that training on IT security had recently been undertaken, in addition to which work had been done to ensure that people have the correct access controls. No concern had been raised in terms of security arrangements and she was not aware of any recent breaches in IT security.

#### Audit of Income Management

The Chairman noted that many of the recommendations required to be actioned by the end of the month (July 2013) and questioned whether that was reasonably achievable.

The Audit Manager (Carlisle City) advised that she had been in discussions with the Customer Services Manager who was in the process of implementing the recommendations attributable to her. Progress would be followed up in the next Internal Audit Progress Report of that service area.

## Audit of Debtors

The Financial Services Manager pointed out that the first part of Recommendation R1 (not to allow those with invoice arrears to continue to receive Council services) required to be looked at on a case by case basis upon request.

In response to a question, the Financial Services Manager advised that training would be provided on the areas of budgetary control; debtors; creditors, and supplemented by e-learning packages.

In conclusion, the Audit Manager requested that Members receive the report and note progress against the agreed 2013/14 Audit Plan.

RESOLVED – (1) That report RD.26/13 be received and progress made against the agreed 2013/14 Audit Plan referred to in Section 2 be noted.

(2) That the position of the Customer Services Review, as detailed in Section 3, be noted; and Internal Audit should give consideration to providing an interim report to the Audit Committee where such significant delay as attributable to the Customer Services Audit may occur.

(3) That the position on the follow up of previous audit recommendations, as outlined in Section 4, be noted.

(4) That the Audit Committee received the 8 completed audit reports referred to in Section 5 and attached as Appendices C – J to the report, subject to:

- Audit of IT Service Desk, Incident and Problem Management - the change management procedures being implemented in a timely manner.

## **AUC.41/13      INTERNAL AUDIT OUTTURN REPORT 2012/13 AND REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT SERVICES**

The Audit Manager (Carlisle City) submitted report RD.25/13 summarising the work carried out by the Internal Audit Shared Service for the year 2012/13, together with the annual audit opinion on the adequacy of the control environment for that period. Also provided was information on the effectiveness of Internal Audit in the format agreed by the Audit Committee on 23 January 2007.

She explained that the report should be considered in three parts – 2012/13 Outturn; adequacy of Internal Control 2012/13; and Review of Effectiveness of Internal Audit.

The Audit Manager summarised the 2012/13 outturn, informing Members that the Audit Plan called for 540 direct audit days and a further 19 days were purchased to support unplanned work. A total of 559 audit days had been delivered in year by the Shared Internal Audit Service.

Details of changes to planned work, completed audits and material audit reviews were also provided.

The Audit Manager drew Members' attention to Section 3 of the report which summarised details in relation to the adequacy of internal control during 2012/13. Based on the

breadth and depth of the work undertaken by Internal Audit during 2012/13 and the additional supporting information provided, Internal Audit was of the opinion that the Authority's system of internal control was operating satisfactorily, and that opinion should be reflected in the Annual Governance Statement.

The Audit Manager then outlined details of completed audit reviews and key areas of significance for 2012/13. Referring to section 3.7.1, she also highlighted to Members the current position concerning the Audit of Creditor Payments and the Audit of ICT Service Continuity, neither of which affected the overall opinion referred to in Section 3.5 of the report.

Members noted that training on Counter Fraud awareness and reporting arrangements had not taken place in year, and that fraud awareness training had been raised as a matter for report in last year's annual report. They sought an assurance that the matter would not be an issue next year.

The Director of Governance advised that training had been made available but the problem had been around uptake. Officers were working to specifically target key officers via e-learning.

Discussion arose as to whether the matter could be addressed as part of the Appraisal process; whether appraisals were audited and the mechanisms in place to ensure confidentiality.

The Director of Governance advised that currently Team appraisals were undertaken but the process was moving towards individual appraisals.

The Audit Manager (Carlisle City) added that the appraisal system had not been audited.

Turning to the review of the effectiveness of Audit Services 2012/13, the Audit Manager (Carlisle City) stated that the Internal Audit Shared Service complied with the CIPFA Code of Practice for Internal Audit in Local Government and assessed its arrangements on an annual basis. It was therefore appropriate for the Committee to receive the 2012/13 assessment, noting the local arrangements in place for Carlisle City (Appendix C).

It should be noted that the Public Sector Internal Audit Standards became mandatory for all internal audit service providers within the public sector from 1 April 2013. The Standards replaced the CIPFA Code of Practice for Internal Audit in Local Government (2006) as 'proper audit practices' as required by the Accounts and Audit Regulations 2011. Future reviews of Internal Audit would be undertaken to ensure conformance to the Public Sector Internal Standards.

A key in year improvement to the Internal Audit Service provided at Carlisle City was the introduction of Client Evaluation forms. The draft evaluation form was considered by the Audit Committee on 26 September 2012 (RD.37/12 referred) and it was agreed that a summary of completed client feedback would be considered alongside the effectiveness of internal audit CIPFA Checklist referred to. The Shared Internal Audit Service would consider the findings within the planned work streams for improvement to be undertaken in 2013/14 as part of its own evaluation of service delivery against the next Public Sector Internal Audit Standards.

In conclusion, the Audit Manager reported that overall it was considered that the Internal Audit Shared Service had delivered an effective service in 2012/13. Delivery of Internal Audit through the Shared Service arrangement continued to directly benefit the Authority and its position and role had been greatly strengthened, allowing the service to be more resilient as a result.

Referring to section 3.8.5, a Member noted that the National Fraud Initiative was a data matching exercise led by the Audit Commission, the last completed exercise being 2010/11. He questioned whether that was undertaken each year.

In response, the Audit Manager (Carlisle City) advised that the current data returned related to 2012/13 and there were approximately 700 matches to work through.

On the issue of client evaluation forms the Member noted that only 7 forms had been returned which was a small response rate.

The Audit Manager (Carlisle City) explained the analysis undertaken, commenting upon the need to encourage people to response.

RESOLVED – (1) That Report RD.25/13 be received, and the outturn position for 2012/13 and progress made against the Strategic Audit Plan be noted.

(2) That the opinion provided on the adequacy of the control environment be noted, subject to:

- the concerns raised by Members (detailed above) regarding the need for training on counter fraud / fraud awareness; and
- the assurance provided that key staff would be specifically targeted, including via e-learning packages

(3) That the Committee noted and agreed the information relating to the effectiveness of Audit Services.

## **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 item of business on the grounds that it involved the likely disclosure of exempt information as defined in the paragraph numbers (as indicated in brackets against the minute) of Part 1 of Schedule 12A of the 1972 Local Government Act.

## **AUC.42/13 OUTCOME OF INTERNAL INVESTIGATION**

(Public and Press excluded by virtue of Paragraphs 1 and 3)

The Audit Manager (Carlisle City) submitted report RD.27/13 concerning the outcome of an internal investigation undertaken in 2012/13.

She outlined, in some detail, the key matters / concerns arising in relation to what had been a complex investigation, details of which were set out within the report.

The Director of Governance, the Financial Services Manager, and the Audit Manager (Carlisle City) then responded to Members' questions and concerns, including the need to ensure that lessons were learnt going forward; all of the improvements suggested (including enhancement of existing control mechanisms) and any gaps in line management procedures were addressed; and adherence to the Officer Code of Conduct.

RESOLVED – That the Audit Committee noted the content of private Report RD.27/13 and was reassured that the matters concerning internal control and management of funding would be addressed through the Audit Reports scheduled for submission to the Committee at their September 2013 meeting.

#### **AUC.43/13 CHAIRMAN'S COMMENTS**

The Chairman thanked Members, and particularly new Members of the Committee, for their attendance at the meeting today.

[The meeting ended at 12.50 pm]