

AUDIT COMMITTEE

FRIDAY 25 SEPTEMBER 2009 AT 11.07 AM

PRESENT: Councillor Mrs Mallinson (Chairman), Councillors Cape (as substitute for Councillor Boaden), Layden, Lishman and Ms Patrick

ALSO

PRESENT: Mr Richard McGahon (Senior Audit Manager, Audit Commission)
Ms Angela Stubbs (Principal Auditor, Audit Commission)

AUC.47/09 APOLOGIES FOR ABSENCE

Apologies for absence were submitted on behalf of Councillors Boaden, P Farmer and Hendry; the Director of Corporate Services; Head of Financial Services; and Ms K Murray (District Auditor).

AUC.48/09 DECLARATIONS OF INTEREST

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

AUC49/09 MINUTES

The Minutes of the meeting of the Audit Committee held on 22 June 2009 were submitted.

RESOLVED – That the Minutes of the meetings of the Audit Committee held on 8 April and 22 June 2009 be agreed as a correct record and signed by the Chairman.

AUC.50/09 MINUTES OF THE CORPORATE RESOURCES OVERVIEW AND SCRUTINY COMMITTEE AND RESOURCES OVERVIEW AND SCRUTINY PANEL

The Minutes of the meetings of the Corporate Resources Overview and Scrutiny Committee held on 9 June; and the Resources Overview and Scrutiny Panel held on 6 and 16 July; and 6 and 25 August 2009 were submitted for information.

RESOLVED – That the Minutes of the meetings of the Corporate Resources Overview and Scrutiny Committee held on 9 June; and the Resources Overview and Scrutiny Panel on 6 and 16 July; and 6 and 25 August 2009 be noted and received.

AUC.51/09 ANNUAL GOVERNANCE REPORT 2008/09

(a) The Audit Commission's Annual Governance Report (dated September 2009) summarising the findings from the 2008/09 audit of the City Council was submitted.

The Audit Manager presented the Annual Governance Report, drawing Members' attention to the District Auditor's letter (contained within the report) setting out 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 financial statements were re-authorised for issue;
- take note of the adjustments to the financial statements which were set out in the Annual Governance Report;
- approve the letter of representation on behalf of the Council before the District Auditor issued her opinion and conclusion; and
- agree their response to the proposed action plan.

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

The Audit Manager informed Members that, subject to the satisfactory clearance of outstanding matters, the District Auditor planned to issue an audit report including an unqualified opinion on the financial statements by 30 September 2009.

He emphasised that the Council's Finance Team had worked hard to improve the overall quality of the financial statements for 2008/09, as a result of which the 2008/09 financial statements did not include any material errors and the overall number of errors within the financial statements had reduced. That represented a significant improvement on previous years.

The Audit Manager reported that for 2008/09 all Use of Resources areas had been assessed as meeting level 2, the minimum requirements. It was pleasing to note that on that basis the District Auditor intended to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.

He added the District Auditor was currently considering the need for the audit fee to be increased because of additional work required during 2008/09 to meet their Code of Audit requirements to obtain sufficient assurance to

assess the Council's arrangements for securing value for money. The work had included revisiting work on story boards already provided.

The Audit Manager outlined in detail the errors identified during the course of the audit (other than those of a trivial nature), highlighting in particular the significant errors identified. The errors had been reported to management who had agreed to adjust the financial statements for all the errors identified. By way of clarification he explained the definition of material (i.e. in excess of £1.5m); trivial (i.e. under £16,000) and non-trivial errors (i.e. between £16,000 and £1.5m).

He then responded to a Member's question on the amendments to the financial statements, particularly regarding the overstatement of depreciation charged in the income and expenditure account for the year.

As part of normal audit processes, consideration had been given 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. The Audit Manager reminded Members that Internal Audit's report (CORP.20/09) including the final report on the Audit of ICT Security Policy and Annexes made forty seven recommendations, two of which were regarded as fundamental Grade A weaknesses (users do not have to change their network login password; and the IT Section had no formal change control standards in place) and fourteen regarded as significant system weaknesses. He reminded Members that the issue of IT and security had been raised by the Auditors in previous years, emphasising the role of the Audit Committee in progressing and monitoring the matter.

The Head of Audit Services stated that the Audit of ICT Security Policy was a lengthy report produced in line with normal practice. A number of weaknesses had been identified and agreement had been reached with colleagues in IT Services that the recommendations needed to go forward with an implementation date of November 2009. Internal Audit would assess progress made and report back to the Audit Committee in January 2010. He had received the Action Plan on 24 September 2009 which confirmed that half of the recommendations had been actioned.

The Infrastructure and Network Manager confirmed that half of the recommendations had been completed; and the two Grade A recommendations would be completed on time. He added that he was confident that the majority of the forty seven recommendations would be complete by November 2009, with the exception of one or two where training was required.

The Chairman noted that since May this year the Council's network had been connected to a nationwide government network, Government Connect, which was intended to provide secure communications between public bodies and as a consequence of which the Council had to comply with a multitude of government security standards brought together under the title of the Code of

Compliance. She asked whether a blanket policy was in place or whether differing levels of control would be accepted dependent upon sensitivity.

In response the Audit Manager indicated that the Audit Commission would not be involved in monitoring that aspect. He emphasised that the issue did not just concern general IT controls, but was more specifically about data quality and its impact on use of resources. He further suggested that the Council needed to look at the specific requirements of any Code and how it was driven.

The Head of Audit Services added that controls were already in place in certain areas, for example, exempt and confidential information could only be accessed from the Committee Information Management System by Officers who had been granted specific permission to do so.

It was agreed that the Head of Audit Services should submit a report to the next meeting of the Committee outlining progress made in actioning the recommendations contained within the final report on the Audit of ICT Security Policy.

Returning to the Annual Governance Report, the Audit Manager outlined the key areas of judgement and audit risk considered as part of the audit, particularly highlighting improvements required to accounting practice and financial reporting around the Annual Governance Statement and Accounting Journals.

The Audit Manager then referred Members to the Use of Resources and Value for Money conclusions set out at Appendix 4 to the report. He particularly highlighted workforce planning as one of the weaker areas for the Council, commenting upon the need for further work in that area which would be outlined in more detail in discussions with the Town Clerk and Chief Executive in October 2009. He added that the District Auditor was satisfied that, in all significant respects, the City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009 and therefore proposed to issue an unqualified Value for Money conclusion.

The Chairman referred to the more challenging targets now in place and wished to thank all members of staff for work undertaken and their contribution to achieving the targets.

In response to a question, the Audit Manager outlined in broad terms where the City Council's achievement of a Level 2 sat in comparison to other local authorities. He advised that consideration would be given to natural resources in the coming year.

(b) The Chief Accountant presented report CORP.39/09 providing the Council's response to the main issues raised in the Audit Commission's Annual Governance Report. Details of the background to the matter, together with the key messages contained within the Annual Governance Report were provided.

The Chief Accountant outlined the two items that required amendments to be made to the accounting entries in the accounts which must be adjusted before the audit opinion could be provided. A further amendment was also required to two disclosure notes to enhance readership of the accounts. The amendments had now been made and the final set of accounts would be produced following agreement by the Audit Committee of the Audit Commission's report. He added that the amendments had been identified as non-trivial in nature, and did not affect the overall financial position of the Council.

The authority had agreed with the Audit Commission that the Statement of Accounts would be adjusted for all misstatements identified during the course of the audit which was consistent with the treatment approved by Members in previous years.

Details of the non-trivial errors identified during the course of the audit, together with Officers' comments in respect thereof were provided.

The Chief Accountant informed Members of the actions proposed to address the three action points that had arisen following the audit (as set out in Appendix 5 to the Annual Governance Report) and which would be adopted and monitored by the responsible Officer.

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; and recommended the financial statements as amended for approval.

(2) That the recommendations, as detailed within the Action Plan appended to the Annual Governance Report (September 2009), be forwarded to the Executive with the request that they take action to address the issues raised. The Audit Committee would monitor progress made in that regard.

(3) That the Committee wished to record its thanks and appreciation for work undertaken by Officers of Financial Services particularly in light of the more challenging targets now in place; and also to the Auditors for guidance given.

(4) That the Head of Audit Services be requested to submit a report outlining progress in addressing the issues identified in the Audit of IT Security Policy to the next meeting of the Committee. It was further agreed that a special meeting of the Committee would be convened to deal with the matter should that be deemed necessary.

AUC.52/09 LETTER OF REPRESENTATION 2008/09

The Chief Accountant presented report CORP.40/09 attaching a Letter of Representation for approval by the Committee.

The Audit Manager 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 - That the Letter of Representation be approved and the Director of Corporate Services authorised to sign the same on behalf of the Council.

AUC.53/09 AUDIT SERVICES PROGRESS REPORT

The Head of Audit Services submitted report CORP.33/09 summarising the work carried out by Audit Services since the previous report to Committee on 22 June 2009.

The final reports on the Audits of Bereavement Services; Car Park Services; Cash Collection; Talkin Tarn; National Fraud Initiative; NI 187 Tackling Fuel Poverty; NI 195 Litter etc; and Payroll were appended to the report.

Work had also commenced on a number of other reviews and the final reports would be presented to Members in due course.

Follow-up reviews had been undertaken where appropriate during the period covered by the report and there were no new issues which needed to be drawn to Members' attention.

The Head of Audit Services reminded Members that, as reported at the previous meeting, requirements for the full property database would be progressed as part of the Chief Executive's Transformational Review in due course. In the meantime, the Council had purchased the Real Asset Management system which would enable it to record fixed asset information for capital accounting purposes, thus satisfying the immediate accounting requirements. That was currently being implemented.

Following an earlier Audit Review, the need to enhance the role of the External Funding Officer, in order to provide a central co-ordinating role to manage the external funding function both strategically and to provide operational support was agreed. That would be progressed as part of the Transformation Programme in due course.

The Head of Audit Services further reported that a shared services initiative for Audit Services was currently being pursued by Allerdale Borough Council, Copeland Borough Council, Cumbria County Council and the City Council. A Business case was being prepared in order to determine the overall costs of the shared service and the requirements, in terms of audit work, that would be made of such a service by each of the participating authorities.

An initial issue was the impact of the deletion of the Head of Audit Services' post at Carlisle under the Transformation Programme and the effect that would have on the provision of the statutory service and on available resources to deliver the Audit Plan. That issue would need to be resolved regardless of the eventual outcome of the shared service initiative, and further work was being undertaken by the Working Group to clarify the position.

He highlighted to Members that a special meeting of the Committee may be required to approve the Business Case when that was finalised,

Following discussion, it was agreed that the Audit Shared Services be provisionally included on the Agenda for the next meeting of the Committee on 30 October 2009.

Referring to the Audit of NI 195(a) Litter; (b) Detritus; (c) Graffiti and (d) Fly Posting, a Member expressed concern at the type of work being undertaken by senior officers which, in her view, could be undertaken by officers of a lower grade. She was also concerned that recommendations were made without stated timescales.

In response, the Head of Audit Services advised that an Action Plan was not included because the matter would roll forward to next year. It was agreed that the issue should be referred to the Town Clerk and Chief Executive for consideration in conjunction with the Transformation Programme.

RESOLVED – (1) That report CORP.33/09 be received.

(2) That the Shared Service Initiative for Audit Services be provisionally included on the Agenda for the meeting of the Audit Committee on 30 October 2009.

(3) That the Town Clerk and Chief Executive be requested to give consideration to the recommendations set out at Appendix G to Report CORP.33/09 particularly in light of the fact that the authority was currently undergoing a transformation.

AUC.54/09 ANNUAL GOVERNANCE STATEMENT ACTION PLAN

The Head of Audit Services submitted report CORP.34/09 appraising Members of progress made on the Annual Governance Statement Action Plan.

An updated Action Plan was attached which, in accordance with established practice, would be monitored and the updated status reported to Members at each meeting of the Committee. Members' attention was drawn to items 2 (ensure that the National Officer Code of Conduct was adopted in due course) and 3 (significant weaknesses in areas of implementing the IT Security Policy) which had been identified in the Annual Governance Statement as significant.

The Head of Audit Services added that one new area of risk, arising from the Audit Review of IT Security Policy, had been added to the Action Plan.

RESOLVED – That, subject to the issues raised above, the Annual Governance Statement Action Plan and current position relating to each of the areas identified be agreed.

AUC.55/09 TREASURY TRANSACTIONS

The Treasury and Insurance Manager submitted report CORP.29/09 providing the regular quarterly report on Treasury Transactions including the requirements of the Prudential Code, as required under the Financial Procedure Rules.

He reminded Members that, amongst the conclusions of the various reports produced in the aftermath of the Icelandic Banking crisis, was a recommendation that local authorities should designate one Committee as the specialist committee dealing with Treasury Management. The Audit Committee had been so designated and Members had received some training on Treasury Management in June 2009.

The Treasury and Insurance Manager outlined the treasury transactions which had taken place in the period April to June 2009, together with the reporting process. That process also afforded the opportunity to refer to any other issues that had arisen since the end of the last quarter. Investments and other transactions had continued to be made in line with Council policy, with the exception of one such investment which was placed with a UK building society whose short term credit ratings (F2 and P2) were both below the currently approved minimum.

He outlined the procedure adopted by the Council in making its investment decisions, commenting that unfortunately the credit rating information upon which the Council relied and which was received from the Council's treasury advisers was incorrect with respect to one of the ratings.

The Treasury and Insurance Manager stressed that there was, in his view, no reasons at all to doubt the security of the investment referred to. The Council had dealt with the society in question for many years and already had other monies placed with it when its rating was one notch higher (F1). It remained one of the strongest institutions in a sector (UK building societies) that had long been a by word for security.

The advisers had been made aware of their mistake and would no doubt revise their own internal procedures. They were also reviewing their investment creditworthiness criteria and those would shortly be made available to clients. By the same token, the Council's own internal procedures, which were monitored on a weekly basis were being reviewed and the issue would be considered more fully in the half yearly report on Treasury Transactions to be presented in the autumn to both this Committee and the Executive.

The Chairman sought and received an assurance that the information provided by the advisers was acted upon in accordance with the City Council's Treasury Policy. Any further information provided by the advisers on revisions to their internal procedures should be submitted to the Committee.

In response to a Member's comment, the Treasury and Insurance Manager confirmed that he was always very happy to meet with Members on an individual or group basis to discuss treasury management issues.

RESOLVED – (1) That Report CORP.29/09 be received and the Prudential Indicators noted as at 30 June 2009.

(2) That the situation regarding a recent investment (detailed at section 2.3 of the report) be noted, and the Committee would welcome sight of any further information received from the treasury advisers concerning revisions to their internal procedures to ensure that robust practices were in place.

(3) That the Executive be informed that the Audit Committee had considered the quarterly report on Treasury Transactions and was satisfied that the Council had acted in good faith and decisions had been made fully in accordance with Council policy.

[The meeting ended at 12.24 pm]