

AUDIT COMMITTEE

FRIDAY 4 DECEMBER 2009 AT 10.00 AM

PRESENT: Councillor Mrs Mallinson (Chairman), Councillors Boaden, P Farmer, Hendry, Layden and Lishman

ALSO

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

AUC.56/09 WELCOME

The Chairman welcomed all those present to the meeting and, in particular, Mrs Karen Murray, District Auditor.

AUC.57/09 APOLOGIES FOR ABSENCE

Apologies for absence were submitted on behalf of Councillor Ms Patrick and Ms Angela Stubbs (Principal Auditor, Audit Commission)

AUC.58/09 DECLARATION OF INTEREST

Councillor Mrs Mallinson declared a personal interest in accordance with the Council's Code of Conduct in respect of any reference to Cumbria County Council because she is a Member of the County Council

AUC.59/09 MINUTES

The Minutes of the meeting of the Audit Committee held on 25 September 2009 were submitted.

RESOLVED – That the Minutes of the meeting of the Audit Committee held on 25 September 2009 be agreed as a correct record and signed by the Chairman.

AUC.60/09 MINUTES OF RESOURCES OVERVIEW AND SCRUTINY PANEL

The Minutes of the meeting of the Resources Overview and Scrutiny Panel held on 15 October 2009 were submitted for information.

RESOLVED – That the Minutes of the meeting of the Resources Overview and Scrutiny Panel on 15 October 2009 be noted and received.

AUC.61/09 RESPONSES FROM THE EXECUTIVE

The following Minute Excerpts were submitted setting out the decisions of the Executive on 26 October 2009 in response to concerns / comments raised by this Committee:

(a) Minute EX.224/09 – Annual Governance Report

The Executive had decided –

“That the reference from the Audit Committee be received; and the Committee be advised that the Portfolio Holder would work with relevant Officers to address the issues raised within the Action Plan appended to the Annual Governance Report.”

RESOLVED – That the decision of the Executive be received.

(b) Minute EX.225/09 – Treasury Transactions

The Executive had decided –

“That the Executive noted with pleasure 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.”

RESOLVED – That the Audit Committee welcomed the decision taken by the Executive.

AUC.62/09 ICT SECURITY POLICY AND ANNEXES

Pursuant to Minute AUC.51/09, the Head of Audit Services submitted report CORP.53/09 apprising Members of progress to date on the recommendations contained in the Audit Report relating to the Council’s ICT Security Policy and Annexes.

The Head of Audit Services reminded Members of the background to the matter whereby the Audit Committee had on 25 September 2009 requested a report outlining progress in addressing the issues identified in the Review of the Council’s ICT Security Policy.

He reported the receipt of a schedule from the Infrastructure and Network Manager setting out the position in relation to each of the recommendations, a copy of which was appended to the report for Members’ information.

Referring to recommendations B1 and B2 (responsible Officer – Head of Personnel), the Head of Audit Services informed Members that he had received an assurance from the Training Co-ordinator that details of the Policies would be incorporated within the new Induction Book, and the

Committee could monitor progress in that regard at their next meeting in January 2010.

The Head of Audit Services added that recommendations B3 – B7 could not be implemented until the IT work was undertaken. He had been in contact with the Policy and Performance Team Manager who, along with the Efficiency Manager, was taking action on those matters. Again progress could be monitored by the Committee in January 2010.

In conclusion, the Head of Audit Services was satisfied that all that could be done was being done.

A Member noted that the report reflected status as at 15 September 2009, and was somewhat confused as to why a more up-to-date status report had not been provided.

Referring to Shared Services, he questioned whether the rigorous approach adopted by the City Council was being reflected in its Shared Service partners. He was concerned to ensure that the Council's position was not compromised.

In response, the Infrastructure and Network Manager advised that the status date was an error and should have been amended. With regard to the issue of Shared Services, he advised that all authorities had their own Security Policies. One of the first tasks would be to compare the Councils' policies and bring them in line with each other. Copeland Borough Council would also be included within that review. He added that all three Councils needed to achieve the Government's CoCo compliance for security standard.

The Member considered that it would be useful if the Committee received an indication of how those policies linked together at a future meeting. He further queried whether the standards reflected upon Shared Services arrangements.

The Infrastructure and Network Manager replied that work would initially focus on high level policies. The agreement of the three Councils would be required on specifics such as ensuring that the Data Network reflected the City Council's security. He reassured Members that the issues referred to would be addressed.

The Chairman requested the submission of a report outlining the current position regarding recommendations B3 – B7 for consideration at the next meeting on 15 January 2010. Thereafter the position would be monitored on an annual basis.

She further requested a more specific update on the Audit Shared Service, together with a guarantee regarding the integration of the various policies.

The Assistant Director (Resources) explained that it would not be possible to give such guarantees by that date, only an update on work being undertaken.

He added that issues around IT Security would be set out in the governance arrangements for the Shared Service.

The Chairman then thanked the Head of Audit Services for all his hard work and for picking up on the issues which required to be addressed.

RESOLVED – (1) That report CORP.53/09 be received.

(2) That the Assistant Director (Resources) be requested to report to the Audit Committee at their meeting on 15 January 2010 on the following:

- (a) the current position regarding recommendations B3 – B7 from the Audit of ICT Security Policy and Annexes, following which the Committee would monitor progress on an annual basis.
- (b) an update on the Audit Shared Service and integration of ICT Security Policies.

AUC.63/09 TREASURY MANAGEMENT 2009/10 AND 2010/11

The Chief Accountant submitted report CORP.47/09 providing the regular quarterly report on Treasury Transactions, together with an interim report on Treasury Management as required under the Financial Procedure Rules. The report also discussed the City Council's Treasury Management forecasts for 2010/11 with projections 2014/15, and information regarding the requirements of the Prudential Code on local authority capital finance.

The Chief Accountant informed Members that the main feature of treasury management this year had been the low level of official interest rates which had necessarily impacted upon authorities' investment returns. Whilst those and other steps had been taken to revive the economy, not just in the UK but throughout the globe, the economic recovery remained fragile. The recession was, of course, affecting the authority in a variety of ways, the effect on short term interest rates being just one aspect. He added that the current outlook was for a modest upturn to begin in 2010, although there were as yet few signs of the famed 'green shoots of recovery'. There were likely to be substantial cuts in local authority funding next year, regardless of who won the forthcoming general election and until short term interest rates began to rise. Accordingly the capacity for the treasury function to improve the Council's financial position was likely to be limited.

The Chairman requested that a covering page be attached to future reports outlining exactly what the Audit Committee was being asked to do.

She also formally extended thanks on behalf of the Committee to the Treasury and Insurance Manager and staff for all their work in what were very difficult fiscal times.

RESOLVED – That report CORP.47/09 be received.

AUC.64/09 INTERIM ARRANGEMENTS / OPTIONS FOR INTERNAL AUDIT

The Assistant Director (Resources) gave a verbal report advising Members on the interim arrangements put in place for the period 17 December 2010 (when the current Head of Audit left the authority) and 31 March 2010. Copies of a briefing note for Members were tabled at the meeting.

The Assistant Director outlined the background to the matter, commenting that Officers were currently investigating a Shared Services initiative for Audit Services. He outlined for Members the current status in respect of each of the three potential partner authorities (Allerdale Borough Council; Copeland Borough Council and Cumbria County Council) with regard to the Shared Service. Work was ongoing on Version 6 and the Assistant Director anticipated that greater clarification of the position could be provided to the Committee at their January 2010 meeting.

He reported on the proposal that, under the Shared Service arrangement, the number of audit days would reduce from 699 to 580 which would result in less, but more focussed, audits.

The Assistant Director also reported on the need to put in place a 'Plan B' in the event that the Shared Service initiative failed to materialise. He had been in discussion with the County Council with a view to putting in place possible future arrangements and would provide a full report to Members at their next meeting.

The Assistant Director then outlined the role of the internal audit function and key controls. He reported that a Principal Auditor with a wide experience of internal audit and management (Code of Practice requirement) would manage Internal Audit on a part-time basis. However, as the post holder was a full-time member of staff they would be available to provide management support to Audit as required on a daily basis.

The current Head of Audit also monitored the authority's governance arrangements and reported to this Committee in that regards. Those duties and responsibilities, including drafting status reports to Members, were being transferred to the finance function on a permanent basis. Responding the Freedom of Information requests on Directorate issues (which was becoming resource intensive) was also being transferred to the finance function.

Internal Audit had also, on occasion, undertaken Value for Money Reviews, responsibility for which had been transferred to the Efficiencies Team and would be incorporated into the Use of Resources / Efficiency Reviews Action Plan, again on a permanent basis.

A report on how the finance function would resource the duties identified above would be submitted to the Executive for consideration on 17 December 2009.

The Assistant Director had sought the views of District Audit on whether the arrangements being considered maintained the independence of the Internal Audit function in the short term.

In conclusion the Assistant Director stated that he was completely satisfied that the proposals outlined would retain the independence of the Internal Audit function for the period to 31 March 2010.

Whilst accepting that a more detailed report would be submitted to the next meeting of the Committee, a Member was concerned to ensure that the level of resource available to Audit Services in future was sufficient to meet the Council's requirements, and that potential partners to the Shared Service may not be on board.

He sought a reassurance on future arrangements, including the views of external partners. The Member commented upon the very sound nature of the Audit function within the City Council, emphasising the need to ensure that was replicated in the future. He did not feel reassured by what he had heard today.

The District Auditor informed Members that, in terms of the Audit Shared Service going forward, the proposed model was a very common model, utilised by other organisations such as the NHS. There were only three NHS internal audit providers for the whole of the North West. She acted as District Auditor for all of the potential Shared Service partner authorities except Allerdale and the proposed merger did not give her cause for concern.

She also pointed out that the County Council already offered Audit Services to bodies, including Cumbria Constabulary, the National Park Authority, Probation Service, Schools and Colleges. They were therefore very experienced in that area.

Referring to the planned reduction in audit days, the District Auditor was not in a position to assess whether that would be detrimental to the service. Members would require to take a view on that issue.

In response, the Assistant Director indicated that his intention was to bring options forward to the Committee, including benchmarking information if possible.

A Member said that he fully accepted that the County Council contracted with many other organisations. However, the matter under discussion was a Shared Service initiative, which could potentially take much longer to complete than anticipated. He wished to see robustness for the Council in terms of how work would be done and carried forward.

By way of clarification, the Assistant Director (Governance) explained that a shared service was generally a contractual arrangement between one party and another. It would be possible to specify that an audit presence remained within the Civic Centre.

The District Auditor asked Members to consider whether they were absolutely satisfied that the proposed arrangements would enable the Manager of Audit Services to be truly independent. Quoting a simple example, she highlighted the potential risk that the other roles undertaken by the proposed postholder may impact upon their ability to act independently.

A Member referred to the sound advice provided by the District Auditor, commenting that he was not reassured. The Committee required rigorous assurance that no conflict or appearance of conflict would occur as a result of the proposed interim arrangements.

The Assistant Director (Governance) suggested that the County Council could be engaged on a case by case basis to provide independent advice. It was important that an assessment of potential conflicts was carried out and, if identified, steps put in place to engage an independent Auditor to manage the process.

RESOLVED – (1) That the concerns expressed by the Audit Committee regarding the proposed arrangements to resource and maintain the independence of Internal Audit to 31 March 2010 be conveyed to the Executive, and in particular :

- (a) the need to ensure that the level of resource available to Internal Audit in future was sufficient to meet the City Council's requirements; and
- (b) concern at the potential for risk should the future Manager of Internal Audit's capacity to act independently be compromised by the other roles they were required to undertake.

(2) That it be noted that the options for the longer term administration of Internal Audit would be presented on 15 January 2010.

AUC.65/09 CHAIRMAN'S COMMENTS

The Chairman wished to place on record her formal and personal thanks to the Director of Corporate Services and Head of Audit Services for all their hard work and support, which had been vital to the successful working of the Committee over the years.

She further extended her best wishes to all those present for a happy Christmas and prosperous New Year.

[The meeting ended at 10.55 am]