

AUDIT COMMITTEE

FRIDAY 26 SEPTEMBER 2008 AT 10.06 AM

PRESENT: Councillor Mrs Mallinson (Chairman), Councillors Allison, Boaden (as substitute for Councillor Mrs Styth), Hendry, Layden, Lishman and Stothard (from 10.30 am)

ALSO

PRESENT: Mrs Karen Murray (District Auditor, Audit Commission)
Mr Richard McGahon (Audit Manager, Audit Commission)
Ms Angela Stubbs (Principal Auditor, Audit Commission)
attended part of the meeting.

AUC.49/08 APOLOGIES FOR ABSENCE

Apologies for absence were submitted on behalf of Councillors Mrs Styth and Stothard who would arrive late.

AUC.50/08 DECLARATION OF INTEREST

Councillor Mrs Mallinson declared a personal interest in accordance with the Council's Code of Conduct in respect of Agenda item A.2(a) – Auditor's Annual Governance Report 2007/08. The interest related to the fact that Councillor Mrs Mallinson's husband served on the Charity Trust Board of Kingmoor Park Properties Ltd.

AUC.51/08 MINUTES

The Minutes of the meeting of the Audit Committee held on 21 August 2008 were submitted.

Referring to Minute AUC.47/08 – resolution (2), the Chairman reported that additional meetings were being built into the programme in August and October/November and an updated list of meetings would be circulated in due course.

Resolution (4) of that Minute recorded that the Annual Report on the work of the Audit Committee would be considered at the April meeting of the Committee to enable it to be submitted to the last full meeting of the City Council in each municipal year.

The Chairman informed Members that if they wished to add anything to the Annual Report they should notify her or the Director of Corporate Services.

RESOLVED – That, subject to the issues raised as detailed above, the Minutes of the meeting of the Audit Committee held on 21 August 2008 be noted.

AUC.52/08 MINUTES OF CORPORATE RESOURCES OVERVIEW AND SCRUTINY COMMITTEE

The Minutes of the undernoted meetings of the Corporate Resources Overview and Scrutiny Committee were submitted for information:

(i) 12 June 2008

Referring to Minute CROS.76/08(b) – Shared Services Improvement and Efficiency Reviews – Progress Report – the Chairman reported that internal Audit would monitor the position, but that the Committee had ownership of the matter.

Referring to Minute CROS.76/08(c) – Carlisle Renaissance – the Chairman emphasised the need for the Audit Committee to keep a watchful eye on the position in respect of grant funding awarded in respect of Carlisle Renaissance.

(ii) 24 July 2008

Referring to Minute CROS.93/08(b) – EX.164/08 – Shared Services Improvement and Efficiency Reviews – Progress Report – the Chairman commented that it was incumbent on the Audit Committee to ensure that the Council has value for money.

(iii) 7 August 2008

(iv) 4 September 2008

Minute CROS.120/08 – Corporate Performance Monitoring Report, First Quarter, April – June 2008 – Members had expressed disappointment at the position in respect of BV12 'Working Days Lost Due to Sickness Absence'.

The Chairman indicated that the Corporate Resources Overview and Scrutiny Committee would be doing work in respect of that performance indicator, but it was important that the monetary implications for the City Council were recognised. She felt that the Audit Committee needed to revisit the matter once Overview and Scrutiny had concluded their work.

RESOLVED – That, subject to the issues raised as detailed above, the Minutes of the meetings of the Corporate Resources Overview and Scrutiny Committee held on 12 June, 24 July, 7 August and 4 September 2008 be noted and received.

AUC.53/08 ANNUAL GOVERNANCE REPORT 2007/08

(a) The Audit Commission's Annual Governance Report (dated September 2008) summarising the findings from the 2007/08 audit of the City Council was submitted.

The District Auditor presented her report, pointing out that it included only matters of governance interest that had come to her attention in performing the audit. The audit was not designed to identify all matters that may be of relevance to the Council.

The District Auditor thanked the Director of Corporate Services, Head of Financial Services, Chief Accountant and Technical Accountant for their work in assisting with the audit.

A number of errors had been identified in the financial statements, but those had now been corrected. To minimise any future errors Officers would need to review again the Service Expenditure Analysis within the Income and Expenditure Account to ensure full compliance with Best Value Accounting Code of Practice, introduce more detailed consideration of unusual items and ensure that greater consideration was given to complying with technical guidance as part of the preparation process.

The District Auditor had seen evidence of improvement in working papers and would discuss further improvements with Officers for next years accounts. There had also been significant improvements in the response times to audit queries.

The Council's asset register was currently maintained on a spreadsheet. Officers were aware that, given the new accounting requirements, that was not sustainable in the future. The Council would, therefore, need to consider how and when it put in place a new asset register to ensure that the information was collated in an appropriate format to enable future accounting entries to be determined.

In light of the above, the District Auditor anticipated being able to issue an unqualified opinion on the financial statements by the 30 September 2008 deadline.

The Audit Manager then outlined in detail the errors identified during the course of the audit and amendments made to the primary financial statements, together with amendments made to disclosure notes. The authority had performed better this year in terms of disclosure, but Members should be aware that three of the errors identified related to disclosures on financial instruments.

By way of context, the District Auditor added that the issues referred to could be important in terms of enabling people to compare the City Council's finances with those of other local authorities. Non-compliance meant that the Council was not following best practice.

The District Auditor further reported that she 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 2008 and therefore proposed to issue an unqualified Value for Money conclusion.

In conclusion, the District Auditor confirmed that she had not and did not propose to exercise her formal audit powers this year.

(b) Councillor Mrs Mallinson, having declared a personal interest, remained within the meeting room and took part in discussion on this item of business.

The Director of Corporate Services submitted report CORP.52/08 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 Director pointed out that all of the misstatements identified only affected the presentation of the accounts and had no effect on the net 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 material and non-trivial errors identified during the course of the audit, together with Officers' comments in respect thereof were provided.

The Director informed Members of the actions proposed to address the two 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.

The Director wished to place on record her thanks to the Auditors for their assistance in what had been a very good audit.

Referring to future approval of the accounts, the Director reported that it appeared that the majority of Councils delegated responsibility for the approval of the accounts to a small Committee that was politically balanced and properly constituted. That followed best practice as it was felt that the approval of the accounts was best performed by a small group of appropriately trained Members. If that approach was adopted by the City Council, it would negate the need to hold special meetings of full Council for the approval of the accounts and would give Officers a longer period to actually prepare the accounts. Members may wish to consider this further and make recommendations to Council as appropriate.

During their consideration of the Annual Governance Report and Council's Response (CORP.52/08), Members sought clarification on the following issues:

1. The Auditor's view in terms of future approval of the accounts.

The Audit Manager advised that local authorities adopted differing approaches to approval of their accounts. He agreed with the Director's comments in terms of training and timing issues, but it was important to bear in mind that the body with delegated responsibility for approval must be properly constituted and politically balanced. He had no problem with the suggestion proposed by the Director.

A Member expressed concern that the Committee was being asked to consider the issue of future approval of the accounts without the benefit of legal advice. He felt that there was strength in the current arrangement whereby responsibility was with the full Council and had real concerns with any suggestion that moved matters of finance into specialist areas of the Council.

Although the Member recognised the positive nature of this year's audit, problems had arisen in the past and he urged the Committee not to make a recommendation lightly.

Another Member felt that, on balance, the approach outlined by the Director should be adopted.

The Director of Legal and Democratic Services outlined the background to the establishment of the Audit Committee, together with its remit. Legally it should be possible to include approval of the accounts as an additional function of the Audit Committee if that was what Members wanted.

Members also commented upon the need for continual financial training, particularly when membership of the Committee changed at the start of each municipal year.

Following discussion it was agreed that a more detailed report, outlining the pros and cons in relation to the suggestion that future approval of the accounts be delegated to a small Committee as opposed to full Council, be submitted to the next meeting of the Committee.

2. The process in relation to the gain from the sale of Kingmoor Park Properties Ltd; whether external advice had been sought on the categorisation; and the implications of the re-categorisation of that issue.

The Director of Corporate Services explained that Officers did not seek external advice since guidance was set out in the SORP. The gain should have been recorded as investment income within the accounts.

The District Auditor explained that, due to the value of the error compared to the level of materiality, she would have had to consider issuing a qualified opinion if the City Council had not made the necessary amendment.

She pointed out that the materiality level of the Council's partner, a much larger organisation, was greater than that set for the City Council and therefore even though the same error occurred it would not be classified as material.

The Audit Manager added that the amendment to the disclosure note in relation to Kingmoor Park was designed to clarify the position for readers of the accounts.

3. The process regarding the revaluation carried out by the Council's external valuers as part of the annual revaluation programme; whether the error had been picked up internally; should the Council be in a position to make an informed challenge and how would the Council gain the necessary expertise to do so.

The Director of Corporate Services replied that the error was not picked up by the internal control checks, but had come to light during the audit. She had recommended that consideration be given to the mechanism for future approval of the accounts partly because that would streamline the process and afford Officers more time to undertake quality review work prior to audit. Expertise was available within Property Services.

4. 'Goodwill' and its implications in terms of the accounts.

The Director explained that an element of 'goodwill' was included in respect of the purchase of a property for the Carlisle Renaissance scheme. The Auditor's view was that the goodwill should be written off in year one which had now been done.

5. The errors set out at paragraph 18 of the Annual Governance Report.

The District Auditor said that paragraph 18 provided a summary of the issues raised. The amendments had been made to the accounts and she was satisfied that there were no issues of concern.

6. The need to consider how and when the Council puts in place a new Asset Register had been identified as an action point following the audit. What were the resource implications and how would the issue be resolved?

The Chairman felt that the Audit Committee must monitor the matter as part of its work programme and seek the views of Overview and Scrutiny. The Executive should be asked to ensure that resources were included within the Budget for the provision of a new Asset Register.

The Director explained that the Council's asset register was currently maintained on a database, which was not sufficient to enable future accounting entries to be determined. A Fixed Asset Register was required, but delays in development had occurred due to a lack of identified resources to progress the project.

The Audit Manager commented that the Asset Register had been raised in a number of governance reports this year for authorities who similarly used spreadsheets. However, given the new accounting requirements, the current Asset Register was not sustainable and failure to put in place a new Register would impact on the Council's accounts in 2009/10. The Audit Commission had also raised the bar on asset management in terms of use of resources.

The Deputy Chief Executive said that he was leading on the resolution of the issue. A Business Case would be produced for Members' consideration. He believed that the issue was about giving Property Services the necessary tool to do their job, rather than bringing in an additional person to undertake that work.

Members noted the improvements in working papers, response time to audit queries and that the Auditors were to issue unqualified opinions in respect of the Statement of Accounts and VFM conclusion. They wished to place on record their appreciation of the work undertaken by Officers and the Auditors.

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, be addressed and monitored by the Committee.

(3) That the Committee wished to highlight to the Executive the Audit Commission's recommendation that the Council needs to consider how and when it puts in place a new Asset Register to ensure that the information collated was in an appropriate format to enable future accounting entries to be determined. It was important that sufficient resources were included within the Budget to progress the matter.

(4) That the Director of Corporate Services be requested to submit a report, outlining factors for and against the delegation of responsibility for the approval of the accounts to a small politically balanced and properly constituted Committee, to the next meeting of the Audit Committee.

(5) That the Committee wished to record its thanks and appreciation for work undertaken by the Auditors and Officers of Financial Services.

AUC.54/08 LETTER OF REPRESENTATION 2007/08

The Director of Corporate Services submitted report CORP.51/08 attaching a Letter of Representation for approval by the Committee.

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.55/08 AUDIT SERVICES PROGRESS REPORT

The Head of Audit Services submitted report CORP.48/08 summarising the work carried out by Audit Services since the previous report to Committee on 23 June 2008.

The final reports on the Audits of Leisure Grants and Stores were appended to the report.

Work on the following reviews had been completed during the period and the draft reports issued. The final reports would be presented to Members in due course:

- Equality and Diversity
- Members' Allowances
- Tullie House
- Building Maintenance

Other work undertaken included Performance Indicators; preparation for ICT and Revenues and Benefits Shared Services; and Freedom of Information requests.

The Head of Audit Services reported that follow-up reviews had been undertaken where appropriate during the period covered by the report. He emphasised that action on recommendations was not yet complete in the areas of the MASS Database and External Grant Funding, details of which were provided.

Work on a number of other reviews commenced during the period would be presented to Members in due course.

In considering the report Members raised the following concerns and observations:

1. External Grant Funding - concern that some overlap in activity remained between the External Funding Officer (EFO) post and the Principal Programme Officer (acting as grant monitoring officer for Carlisle Renaissance) and that the EFO was not located within Financial Services.

The Director of Corporate Services advised that, following an earlier Audit Review, it was agreed that there was a need to enhance the role of the EFO in order to provide a central co-ordinating role to manage the external funding function both strategically and to provide operational support.

The issue was being discussed with the Director of Development Services and should be resolved within the next few weeks.

It was agreed that once the outcome of those discussions was known the Committee would make its views known to the Executive.

2. MASS Database – clarification was sought as to the position in respect of the proposal to provide a one-off payment as a ‘golden hello’ to recruit Property staff.

The Deputy Chief Executive explained that, based upon experience of not being able to recruit qualified and experienced personnel to Property Services, the options open to the Council included enhancing Market Factor Supplements to bring relevant posts in line with market conditions, or a single one-off payment.

The possibility of a one-off payment as a ‘golden hello’ had been the subject of a report to Senior Management Team who had agreed to the principle, the sum to be determined by the Director. The posts referred to had been considered under the vacancy management criteria.

RESOLVED – That, subject to the issues raised by Members as detailed above, report CORP.48/08 be received.

AUC.56/08 ANNUAL GOVERNANCE STATEMENT ACTION PLAN

The Head of Audit Services submitted report CORP.49/08 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.

The Head of Audit Services added that there were no new areas of risk arising from the Audit reviews or the Risk Registers which needed to be drawn to Members’ attention.

In response to a request, the Head of Audit Services outlined in detail those actions identified in the Annual Governance Statement as significant.

Members then raised the following issues and observations:

1. A Member questioned the rationale around the selection of items for inclusion in the Action Plan, since if the process was driven by the Council's corporate priorities there were some omissions.

The Head of Audit Services reminded Members that the new Code of Corporate Governance outlined a total of 57 'requirements' which needed to be met. The significant governance issues were detailed within the Annual Governance Statement signed by the Leader and Chief Executive. The Action Plan included those areas where Officers felt that further action was required.

The Action Plan was a live document as so issues would be picked up and included on a rolling programme as required.

He added that the documentation in its entirety had been placed in the Members' Room at an early stage so that every Member had the opportunity to view it and comment.

The Member further questioned how a Member would raise an issue, who made judgements on inclusion of items and the value that could be attributed to the Action Plan.

The Audit Manager outlined the process undertaken, emphasising that all appropriate parties had been given the opportunity to comment at every stage.

The Director of Corporate Services added that Officers could bring the entire list before the Committee on an annual basis so that Members were assured as to the process.

Another Member welcomed the precise nature of the report and did not wish to return to a scenario of having to wade through reams of paper.

2. Action 9 (Ensure that the National Officer Code of Conduct is adopted in due course. In the meantime, a local Code will be developed based on neighbouring Authorities' Codes) – a date for completion should be set as a matter of good practice and transparency.
3. Action 13 (To ensure that staff appraisals are undertaken in accordance with Council policy) – what was that policy?

The Deputy Chief Executive informed Members that all staff should have an annual appraisal, with a six monthly review.

4. The Committee would welcome an update on action 18 (review arrangements for extracting the figures from the ledger and ensuring that the Service Expenditure Analysis disclosed in the accounts is in accordance with the Best Value Accounting Code of Practice).

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.57/08 CORPORATE RISK MANAGEMENT

The Deputy Chief Executive presented report CE.24/08 the purpose of which was to update Members on the Council's Risk Register.

The report contained the Risk Register presented to the Corporate Resources Overview and Scrutiny Committee on 24 July 2008 and referred to in the minutes of that date. Subsequent amendments and scores, discussed and agreed by the Senior Management Team and Corporate Risk Management Group, would be presented to the Corporate Resources Overview and Scrutiny Committee in October 2008.

Any change in the scored status of the risk was shown by a symbol in the movement column. Current action status / control strategy sections were addressed and the scoring of risks amended accordingly and revisions consolidated on a quarterly basis.

RESOLVED – That the Corporate Risk Register, as an indication of the continuing commitment to sound governance arrangements for corporate risk management, be noted.

[The meeting ended at 11.37 am]