

## **AUDIT COMMITTEE**

**MONDAY 15 AUGUST 2011 AT 10.00 AM**

**PRESENT:** Councillor Mrs Mallinson (Chairman), Councillors Betton (from 11.00 am), Boaden (until 11.10 am), Bowman S (as substitute from Councillor Lishman), Nedved, Ms Patrick and Whalen (as substitute for Councillor Ms Franklin)

**ALSO**

**PRESENT:** Mr Richard McGahon (Audit Manager)

### **AUC.48/11 APOLOGIES FOR ABSENCE**

Apologies for absence were submitted on behalf of Councillors Ms Franklin and Lishman.

### **AUC.49/11 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.4 – Audit Services Progress Report. The interest related to the fact that she is a landlord.

### **AUC.50/11 MINUTES**

The Minutes of the meetings of the Audit Committee held on 11 April and 5 July 2011 were submitted.

**RESOLVED** – (1) That the Minutes of the meeting of the Audit Committee held on 11 April 2011 be agreed as a correct record and signed by the Chairman.

(2) That the Minutes of the meeting held on 5 July 2011 be received.

### **AUC.51/11 MINUTES OF RESOURCES OVERVIEW AND SCRUTINY PANEL**

The Minutes of the meeting of the Resources Overview and Scrutiny Panel held on 21 July 2011 were submitted for information.

Referring to Minute ROSP.48/11, a Member was saddened to note that feedback from the Employee Opinion Survey suggested that staff morale was somewhat reduced.

RESOLVED – That the Minutes of the meeting of the Resources Overview and Scrutiny Panel held on 21 July 2011 be noted and received.

#### **AUC.52/11      RESPONSE FROM THE EXECUTIVE**

There was submitted Excerpt from the Minutes of the Executive meeting held on 26 July 2011 (EX.093/11) setting out their response to a reference from this Committee concerning the IFRS Restatement of 2009/10 Accounts.

The Executive had resolved:

“(1) That the Executive welcomed the Audit Committee’s recognition of the work undertaken by the Audit Commission and Officers of the City Council in relation to the restatement of the 2009/10 Accounts.

(2) That the Executive would investigate the issues identified within the Audit Commission’s report in relation to Leases and particularly the need to ensure that Leases were correctly classified in the future.”

RESOLVED – That the decision of the Executive, as set out above, be received.

#### **AUC.53/11      FUTURE OF THE WORK OF THE AUDIT PRACTICE**

The Financial Services Manager submitted report RD.34/11 providing details of correspondence received to date in relation to the future of the work of the audit practice. She advised Members that the Department for Communities and Local Government (DCLG) had on 28 July 2011 issued a letter to all Local Authority Chief Executives detailing the process for future local audits and the transferring of the in-house audit practice to the private sector. The Audit commission had responded and had provided further details and a timetable for the procurement process and any interim arrangements. The Financial Services Manager outlined the key timescales, namely:

- The current Auditors would remain from 1 April 2011;
- Interim appointment for period 1 April 2012 to 31 August 2012. Any ad-hoc audit advice would be paid for by the Audit Commission;
- New Auditors (private firm) from 1 September 2012.

The Financial Services Manager explained that the consultation process for a new local audit framework had ended on 30 June 2011 and Officers from the DCLG were currently analysing the responses. They intended to refine their proposals and respond in due course, bringing forward primary legislation as soon as Parliamentary time allowed.

In conclusion, the Financial Services Manager advised that there was nothing that the authority could or should be doing at the current time.

The Audit Manager then explained that Ministers had decided that the best value for money should be achieved by outsourcing the work through a procurement exercise. The DCLG had therefore asked the Audit Commission to seek bids for the work currently undertaken by the in-house audit practice.

The Audit Manager added that the District Auditor and himself would remain in place until the Council's 2011/12 Accounts were signed and would transfer thereafter to a firm.

A Member asked whether there would be one national outsourced contract (for a period of three or five years) and, importantly, whether there would be continuity, at least initially, in terms of the people undertaking the City Council's audit.

The Audit Manager replied that, as far as he was aware, contracting would be undertaken on a national basis. The DCLG was interested in increased competition and clearly one national contract would not address that. Accordingly he expected that a number of contracts would be awarded. Referring to timescales, he expressed the hope that the position would be clarified by the Autumn.

On the second point the Audit Manager commented that it would be a matter for any new firm to decide how the audits were staffed, but acknowledged that clearly there would be some benefit if the same Auditors remained in place. It should be noted, however, that District Auditors were required to rotate (every five to seven years) irrespective of any change in management.

The Chairman said that the Committee would keep a watching brief on the national position / timescales, and requested that Members receive an update at a future meeting. She further suggested that the Committee recommend that the Executive raise the matter through the Cumbria Leadership Board in order that the Council was aware of the stance adopted by other Cumbrian Local Authorities.

Whilst the Member considered the above approach to be a very sensible course of action, he emphasised the need for the authority to be made aware of its position as soon as possible in order that it could respond proactively to any emerging dangers.

A Member asked whether the award of five year contracts could potentially mean that the Council would be bound to an audit firm which did not deliver the service it hoped to receive.

The Audit Manager said that the duration of contracts was ultimately a matter for the Audit Commission and DCLG. He outlined the process which would be undertaken in relation to the award of contracts, commenting that the Commission aimed to issue a Contract Notice in the Official Journal of the European Union in early September 2012.

He added that the audit firm would require to deliver a quality service irrespective of the size of the client, in addition to which professional standards had to be adhered to.

A Member sought clarification of the impact the transfer of the in-house audit practice to the private sector would have on the Council in financial terms.

In response, the Audit Manager explained that following the first three / five year contract period the Council could appoint its own Auditor and go through a bidding process, and it would be a matter for private firms to bid for that work.

The Legal Services Manager informed Members that the Contract Notice would set parameters and provide further detail.

A Member questioned whether provision existed within the process for an employee owned company to emerge.

The Audit Manager advised that the above scenario would be 'a mutual' in essence with senior audit practice staff taking leave of absence from the Commission and putting forward a bid on behalf of the mutual.

RESOLVED – (1) That the Audit Committee welcomed Report RD.34/11 and the verbal update provided by the Audit Manager concerning work on the future of local audit.

(2) That the Assistant Director (Resources) be requested to update the Committee on the national position / timescales at a future meeting.

(3) That the Audit Committee recommended that the Executive raise the matter at the Cumbria Leadership Board.

## **AUC.54/11      AUDIT SERVICES PROGRESS REPORT**

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

The Interim Audit Manager submitted report RD.33/11 summarising the work carried out by Audit Services since the previous report to Committee on 5 July 2011 and detailing the progress made against the 2011/12 Audit Plan up to 22 July 2011. She indicated that progress had been made on a number of high risk audit reviews along with work undertaken on the National Fraud Initiative data matching exercise, requests for unplanned work and the completion of remaining audits brought forward from 2010/11. She informed Members that 171 days of the 535 total direct audit days expected in 2011/12 were delivered by 22 July 2011. That was slightly above target of 165 days for the position in the year.

The Interim Audit Manager explained that the Audit Plan had to be flexible to meet the changing needs of the authority, together with issues that may arise during the course of the year that may require Audit's attention. The Audit Manager was responsible for drafting the necessary changes to accommodate requests for unplanned work which were then discussed with the Assistant Director (Resources) prior to approval by the Audit Committee. She outlined two changes to the agreed Audit Plan for consideration by Members. They required the substitution of two planned audits for two unplanned audits, details of which were provided. Both proposed amendments had been discussed and agreed with the Assistant Director (Resources).

A Member noted that Procurement General was last examined in September 2010 and, as a sizeable area, it had been intended that the next planned audit should concentrate on the authority's revised e-purchasing arrangements. She questioned why there had been limited developments in that area as a result of which it was deemed appropriate to postpone the review until 2012/13.

In response, the Assistant Director (Resources) explained that the introduction of the new Procurement Strategy necessitated a significant cultural change within the authority. Procurement would be via The Chest system, meaning that a great deal of training was required. He added that it was at the current time too early to measure outcomes and therefore the review should be deferred.

Another Member was concerned at the proposals to defer the two planned audits. He was particularly disappointed that the audit of Supporting People (Hostels and Resource Centre) was to be deferred. There were many issues around supporting people, and particularly homeless people, as evidenced in discussions at the Council meeting on 19 July 2011. The Member did accept that on occasion urgent audits required to be done, but questioned whether the audit of supporting people proposed for deferral was in fact the correct one.

In response, the Chairman suggested that Members should agree to the proposed changes to the Audit Plan, subject to the Assistant Director (Resources) submitting updates on procurement / purchasing and supporting people to the Committee after Christmas. That would enable the Committee to take an informed view as to when thorough audits of those areas could proceed.

The Interim Audit Manager then reported that, whilst there were no issues concerning follow up reviews, a comprehensive follow up of all recommendations emanating from the Audit of Grants was currently under way and the outcome of that would be reported once the exercise was fully complete.

She further reported that there were four recommendations from the audit report on the ICT Security Policy which had been followed up with the ICT Shared Service Manager and the status of those recommendations was included in the Action Plan Appended to this report. Particular reference was made to the actions taken to address Recommendation (A6), with Members having previously considered the associated risks surrounding the adequacy of data storage capacity when the report was presented to the Audit Committee in September 2010. It was advised that whilst monthly monitoring procedures were in place, capacity planning was to be considered when the new IT infrastructure to support the ICT Shared Service was planned which was expected by March 2011. An update on progress advised that the new infrastructure was now in place along with the tools to monitor usage. That would enable ictCONNECT to undertake capacity planning for all systems and data stores.

All remaining audit recommendations had been actioned and no further follow up work was deemed necessary.

In response to a question, the Interim Audit Manager advised that ICT was a large cross-cutting area. Other ICT audits were planned for the coming year which should ensure that necessary procedures were in place.

Following recommendations to amend the format of reports to the Committee the Interim Audit Manager advised that there were two final audit reports to be considered by Members. Those related to the Audits of Housing and Council Tax Benefit Overpayments and Properties with Rents and she outlined the content and recommendations in some detail.

Referring to the Audit of Housing and Council Tax Benefit Overpayments (Recommendation A1 – there are no comprehensive overpayment procedure notes available), a Member asked whether the 31 August 2011 deadline to ensure that procedures were fully defined and documented for Carlisle was likely to be met.

In response, the Assistant Director (Resources) said that he had met with the Assistant Director (Community Engagement) and the Partnership Manager on several occasions. A number of issues had impacted upon the situation, including the long-term sickness of the Team Leader (based in Allerdale) and the vacant Benefits Officer post here in Carlisle.

The Assistant Director (Resources) had arranged for recovery to be undertaken by the City Council's Senior Recovery Officer. Work was progressing, but he could not guarantee that would be completed by 31 August 2011.

The Chairman requested that a further report be submitted to the Committee should the deadlines set out in the audit report not be met.

Referring to Recommendation A3 (deadline 30 June 2011), the Chairman asked whether a sample selection of letters to claimants had been quality checked prior to posting to highlight any obvious anomalies.

The Assistant Director (Resources) confirmed that upon receipt of that recommendation he had immediately arranged for a member of the Finance Team to go through every single debt. A technical report was prepared and the issue was therefore progressing.

The Assistant Director (Resources) stressed that recovery was particularly important since the City Council had to pick up the majority of the costs if monies were not recovered. By way of background, he reported that he had recognised that performance had reduced in all three authorities (Allerdale, Copeland and Carlisle) and had therefore requested an audit as a matter of extreme urgency. He then outlined for Members the issues which impacted upon performance, particularly around overpayment recovery, and the temporary resources put in place to address the recommendations contained within the audit report. Associated costs would be met from recession monies provided by Government.

Referring to the backlog in overpayment work, a Member questioned whether action should have been taken earlier.

In response, the Assistant Director (Resources) stated that as soon as a downward trend was identified he had become instantly involved with a view to taking action to address the matter.

A Member recognised the difficulties around attracting trained benefits staff to fill vacancies and asked whether the duties associated to the vacant post had been delegated.

The Assistant Director (Resources) replied that, whilst it was not possible to bring in temporary resources to undertake the full range of duties, experienced sundry debtors staff could assist with the backlog.

The Interim Audit Manger added that the Benefit Officer post had now been advertised in the Shared Service.

A Member noted that at 19 April 2011 there were 131 cases with a value of £69,414.27 whereby the claimant had incurred an overpayment. He sought clarification of the current position.

In response, the Assistant Director (Resources) advised that the cases would now have moved on to the next stage. Reports concerning Bad Debt Write-offs would be submitted to the Executive on 30 August 2011.

A Member questioned what action was being taken internally to react to the absence of key Officers during periods of sickness, etc.

The Assistant Director (Resources) replied that that was a matter for the Shared Service.

The Audit Manager commented that the Revenues and Benefits Shared Service was a provider of key services for the authority and Members needed to ensure that continued.

The Chairman recommended that the Committee look at the Revenues and Benefits Shared Service and related protocols at a future meeting. She thanked the Assistant Director (Resources) for his diligence in picking the matter up and Audit Staff for what was a very comprehensive report.

The Chairman further sought an assurance that the control reports in IMAN and Academy were being fully utilised, which could form part of the Assistant Director's update report on the audit recommendations.

She then emphasised the importance of ensuring that records of telephone conversations and e-mails were filed on a corporate basis. That was particularly important from a freedom of information point of view.

The Legal Services Manager advised that a programme of training for Members and Officers, including freedom of information, was being rolled out as part of the Ethical Governance Programme. The Assistant Director (Resources) added that Benefits software prompted staff to make file notes.

The Committee then gave consideration to the Audit of Properties with Rents.

A Member referred to the issue of void properties and monitoring of lease conditions which appeared to be a significant concern in terms of risk for the authority. She questioned whether an update would be forthcoming.

The Interim Audit Manager advised that mechanisms were accepted by management to address the points referred to and these will be followed up in six months in accordance with standard practice.

RESOLVED – (1) That report RD.33/11 be received and progress made against the agreed 2011/12 Audit Plan be noted.

(2) That the Audit Committee had considered and agreed the proposed changes to the Audit Plan, as detailed within the report, subject to the Assistant Director (Resources) submitting a report (with input from relevant Officers) updating Members on the areas of Procurement and Supporting People after Christmas 2011. That would enable the Audit Committee to take an informed view as to when thorough audits of those areas could proceed.

(3) That the Executive be informed that the Audit Committee had considered the final audit of Housing and Council Tax Benefits Overpayments and had raised concerns as outlined above. Members were particularly concerned to ensure that the deadlines for completion of the agreed actions in response to the various recommendations were adhered to. The Committee had therefore requested a further report, setting out the current position with regard to the recommendations contained within the audit, should those deadlines not be met by the due dates.

The Committee wished to extend an invitation to the Portfolio Holder to attend their next meeting in September 2011.

(4) That the Audit Committee would give consideration to the Revenues and Benefits Shared Service at a future meeting.

### **AUC.55/11 CORPORATE RISK MANAGEMENT**

The Deputy Chief Executive submitted report CE.14/11 providing an update on the Council's risk management arrangements. The report contained the Risk Register presented to the Resources Overview and Scrutiny Panel on 21 July 2011, together with a more detailed Risk Management Action Plan as requested by the Audit Committee on 11 April 2011.

The current risks associated with delivering the Corporate Plan had been reviewed by the Senior Management Team and the Corporate Risk Management Group. A number of risks associated with delivering the Corporate Plan had now reached their target risk score and had been removed from the Corporate Risk Register but would remain on the respective service area operational risk register.

The Deputy Chief Executive explained that the new corporate risks in delivering the 2011/12 Corporate Plan objectives were currently being identified by the Senior Management Team along with the appropriate control strategies and would be incorporated into the corporate Risk Register. Those risks would be reported to the Resources Overview and Scrutiny Panel and the Audit Committee at their meetings in October.

He informed Members that the risk associated with providing Disabled Facility Grants had escalated due to the significant reduction in budget available to meet the demand and the risk had been included in the Corporate Risk Register, including mitigating actions being assessed. He advised Members that the format of the register had been amended slightly as the information was now generated from Covalent, the Council's performance, risk and project management system.

In conclusion, the Deputy Chief Executive outlined the matrix that scored the risk management level to which the Council was currently working, and which was a benchmark of the Council's level of risk management maturity.

A Member indicated that it would be helpful if greater detail could be provided in future. For example an organisational objective was to ensure that all Council activities were consistently operating at level 3 by November 2011 but she was unclear as to why level 3 was deemed appropriate.

She further requested that risk management training be made available for Members to enhance their understanding of the issues involved.

The Deputy Chief Executive replied that he had in the past provided training on risk management, in addition to which it may be useful to include the Office of Government Commerce framework. The Financial Services Manager may be able to arrange training via the Council's Advisor.

The Chairman indicated that the workshop should be open to all Members.

A Member noted that a risk control survey had been carried out by the underwriting section, Travelers Insurance Co Ltd on 19 April 2011 and asked whether Members could have sight of their findings and recommendations.

In response, the Financial Services Manager advised that the initial findings and recommendations, none of which were mandatory, had been reviewed at the Corporate Risk Management Group on 28 June 2011. Responsible Officers would be completing an Action Plan for discussion at the next CRMG and Audit Committee.

RESOLVED – (1) That the Audit Committee had considered and noted the content of report CE.14/11 as an indication of the continuing commitment to sound governance arrangements for corporate risk management.

(2) That future reports should include greater detail to assist Members in their understanding of the issues involved.

(3) That the Financial Services Manager be requested to make arrangements for a Workshop Session (for all Members) on Risk Management / the Office of Government Commerce framework.

(4) That the Committee looked forward to receiving details of the findings and recommendations / Action Plan emanating from the risk control survey carried out by the underwriting section, Travelers Insurance Co Ltd at their next meeting.

[The meeting ended at 11.38 am]