



AUDIT COMMITTEE

Public

Date of Meeting: 16th April 2012

Title: AUDIT COMMITTEE'S ANNUAL REPORT

Report of: The Chairman of the Audit Committee

Report reference: RD05/12

Summary:

This report provides a summary of the work undertaken by the Audit Committee during the period 05th July 2011 to 13th January 2012.

Recommendations:

It is recommended that the Audit Committee note and accept this report.

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Audit Manager

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Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers: None

CITY OF CARLISLE

To: The Audit Committee
16th April 2012

RD05/12

AUDIT COMMITTEE'S ANNUAL REPORT 2011/12

1 Background Information

1.1 In accordance with paragraph 3.3 of the Audit Committee's Rules of Governance - attached to this report for Members' information as **Appendix A** - the Chairman of the Audit Committee is required to present an Annual Report on the work of the Audit Committee to the full Council.

1.2 The Members of the Audit Committee for this municipal year are -

Conservative

Mallinson E (Chairman)

Nedved

Lishman

Bowman C (Substitute)

Craig (Substitute)

Parsons (Substitute)

Labour

Patrick (Vice Chair)

Boaden

Franklin

Whalen (Substitute)

Bowditch (Substitute)

Wilson (Substitute)

Independent

Betton

Graham (Substitute)

This Report covers the meetings of the Audit Committee held on.

05 July 2011

15 August 2011

27 September 2011

31 October 2011

13 January 2012

2 **Audit Committee's Programme of Work**

2.1 At the commencement of the year, the Committee agreed a Programme of work for the forthcoming year that outlined the areas to be considered at each meeting.

2.2 The Programme for the above period included the following topics that were considered at each of the meetings:

Minutes of the Corporate Resources Overview and Scrutiny Committee or latterly the Resources Overview and Scrutiny Panel – these were submitted to each meeting of the Audit Committee for information and any member comments.

Responses from the Executive/Overview and Scrutiny – these were submitted for consideration and comment.

Audit Services Progress Reports – these provided summaries of the work carried out by Audit Services since the previous meeting of the Committee. A copy of each Final Audit Report was appended to these Progress Reports, together with any relevant information relating to any follow-up reviews that had been undertaken where members' attention needed to be drawn to any outstanding recommendations and the reasons for these.

Annual Governance Statement Action Plan – this regular report appraises members of progress made on the Annual Governance Statement Action Plan.

Risk Management Policy and progress – officers have provided Members of the Committee with information relating to the work of the Corporate Risk Management Group and the updated Corporate Risk Register on a regular basis, for noting and action if necessary.

The programme also included a number of topics that are considered on an annual

or an ad-hoc basis -

2.2.1 Meeting held 5th July 2011. At this first meeting of the new municipal year , nominations were received and the Chairman and Vice- Chairman of the Audit Committee were appointed. At this meeting, the Committee considered: -

- An update outlining the risk assessment that had been undertaken by the Council's Insurers was provided and it was advised that a detailed Action Plan resulting from this would be submitted to a future Audit Committee.
- Report RD.22/11. A verbal update considering the future of the Audit Commission. Members were informed of the Department for Communities and Local Government (DCLG) had outlined the current position regarding the intention to abolish the Audit Commission. At the time, the final decision from the DCLG was expected by 16th July 2011. A further consultation paper was submitted outlining the future of Local Public Audit which set out the requirements to establish a local audit framework and the Financial Services Manager outlined the combined response from the Society of District Council Treasurers (SDCT) and the District Council Chief Executive's Network (DCN). Further discussions ensued with input from Members, the Financial Services Manager, and the Head of the Internal Audit Shared Service, who outlined the County Council's approach. Considerations were to be reported at a future Committee.
- The Audit Commission's annual audit fee for 2011/12, together with a proposed itinerary of work was confirmed. The scale fee for Carlisle City Council was set at £116,921, with an option for variation that would be considered separately dependant on outcome.
- The report from the Audit Manager (Audit Commission) regarding the International Financial Reporting Standards (IFRS) Restatement of 2009/10 Accounts for Carlisle City and the subsequent implications involved with the restatement exercise and further work deemed necessary to provide assurance. The conclusion was that after reviewing the skeleton 2010/11 accounts, which included the 2009/10 restated figures that the Council had made good progress and had produced comprehensive working papers to support the accounts. Further comments were made with regards to the issue of classification and treatment of certain leases, and capital grant receipts, which were believed, may require further audit work as it was an area of concern if the issues were not resolved. This was agreed, after noting and accepting the significant resource implications involved.

- Report RD.21/11. The Annual Statement of the 2010/11 accounts as reported by the Chief Accountant. These accounts reflected the summarised financial outturn information that had been recently been considered by the Executive and Resources Overview and Scrutiny Panel but were still subject to audit. Particular reference was made to the implications of IFRS, together with the feedback of the training session that had taken place on the 8th of June, designed to update Members on the reporting changes. Supporting reports were presented by the Director of Resources, namely the Provisional General Fund Revenue Outturn 2010/11, Provisional Capital Outturn 2010/11 and Revised Capital Programme 2011/12, summarising the provisional outturn for the General Fund Revenue Budget and providing reasons for variances and providing details of the revised capital programme for 2011/12.

The Annual Governance Statement which formed part of the Annual Statement of Accounts had been circulated in conjunction with report RD.23/11. It was a requirement of the 2010 Code that the Annual Governance Statement be considered and approved separately.

- Report RD.13/11. - The Treasury Management Outturn 2010/11 report was presented in line with the Financial Procedure Rules and CIPFA Code of Practice on Treasury Management. The regular report on Treasury Transactions for the period 1st January 2011 – 31st of March 2011 was also submitted. Discussions ensued as to market conditions and the impact on the Council's reserves. It was agreed that the situation would continue to be monitored and reported upon.
- Report RD.20/11. - The Audit Services Progress Report was presented by the Audit Services Manager. The report outlined the changes to the original plan which were a result of transformational changes and business need. Seven reports were considered by members. Particular reference was made to the audits of Grants, Cash Collection and Income Management and Health and Safety. Concerns were discussed and resolved and further emphasis was placed on controls surrounding training to ensure all risks are mitigated and updates on progress would be provided.
- Report RD.19/11. - The Audit Services Outturn Report 2010/11. Despite the circumstances regarding staff absence, a positive outturn report was presented which went on to outline the continuing benefits and additional resources made available via the Audit Shared Service arrangement. A new report format was

discussed and agreed and the matters of service benchmarking, fraud reporting and revised audit reporting arrangements were also considered.

- Report RD.23/11. - The Annual Governance Statement, that was presented by the Financial Services Manager outlined to Members that the Annual Governance Statement had been certified by the Council's S151 Officer, by 30th June 2011, in accordance with statutory requirements and would be formally agreed following the agreed audit process by September 2011.

2.2.2 Meeting held 15th August 2011. At the Committee consideration was given to:

Report RD.34/11. The Financial Services Manager outlined the position surrounding the future of the Audit Commission and the proposals offered. The main issues were:

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

The circumstances surrounding the appointment and subsequent delivery of service was discussed at length, with the issue of a procurement exercise being the way forward, appreciating value for money and service delivery. It was agreed that the Director of Resources undertake this exercise and update the Committee on the national position.

- Report RD.33/11 summarised the progress against the Audit Plan undertaken by Audit Services. It was explained that resources had been concentrated on the high risk audit reviews with particular attention paid to the compulsory completion of the National Fraud Initiative data matching exercise. Members highlighted their areas of particular concern regarding Procurement, Properties with Rents, the Supporting People Initiative, Housing Benefit Overpayments and the emphasis on Grant Payments, which were incorporated into the Audit Plan and have been prioritised. It was also reported that all outstanding recommendations relating to the ICT audit had been followed up and effectively actioned.
- Report CE, 14/11 Corporate Risk Management paper reported an update on the Council's risk management arrangements, reiterating the link to the Corporate Plan identifying strategic risks, then concentrating on operational risks. Members requested a training package which was provided.

2.2.3 Meeting held on 27th September 2011.

- The District Auditor informed the Committee that a local government elector had made an objection to the Council's 2009/10 accounts under section 16 of the Audit Commission Act 1998. As a result of the enquiry, a review had been undertaken, and a number of recommendations were made and an action plan implemented. The concerns raised by this review had been reflected in the Annual Governance letter. The Committee went on to consider each recommendation in turn, which consisted of lengthy discussions with supporting professional advice/ guidance provided on each matter raised.
- The verbal report presented by the District Auditor regarding the future of the Audit Commission informing Members of the tendering process and the significant involvement of the Cumbria Leadership Board. It was agreed that this was the way forward and feedback was a requisite.
- A report from the District Auditor summarising the findings from the 2010/11 audit report regarding Annual Governance. Members attention was directed to the following:
 - To take note of the adjustments to financial statements.
 - To approve the Letter of Representation.
 - To agree the Councils response to the proposed Action Plan,
 - To agree a fee of £9,480 for additional work regarding accounting treatment of leasing.
- Report RD.47/11 Letter of Representation was presented in accordance with Auditing Standards. This was approved by the Director of Resources.
- Report RD.48/11 – Statement of Accounts 2010/11. The Chief Accountant stated that an action plan, considering IFRS recommendations had been considered and implemented.
- Report RD.44/11 – Audit Services Progress Report was considered. Final reports on Risk Management and ICT Security were received. Emphasis was placed on ensuring recommendations were acted upon.
- Report RD.48/11. The Director of Resources presented a secondary report regarding the progress on the recommendations made regarding the Housing and

Council Tax Overpayment Audit. The report outlined the positive steps taken to resolve the issue and to assure that the agreed action plan was implemented.

- Report RD.40/11 was presented by the Chief Accountant who reported the quarterly summary of Treasury transactions. Further detail was given with regard to the recommended coding system used the Council's Treasury Advisor.

Meeting held on 31st October 2011.

A verbal report was presented outlining the Audit Commissions way forward. The following further reports were also considered:

- Report RD.58/11 summarised the work carried out by Audit Services. A marked indicator highlighted overruns on audit assignments which management were addressing to bring the Audit Plan back in line. Members noted the follow up on Grants and considered the audits of Insurance and Bereavement Services. It was agreed that identified risks be acted upon.
- The Chief Accountant presented report RD.59/11 which set out the proposed amendments to the Council's Financial Procedure Rules. The agreed amendment would give the Director of Resources the discretion to write off bad debts without limit which is consistent with the scheme of delegation.
- Report RD.60/11 updated the Council with regard to risk management arrangements. The Corporate Risk Register had been reviewed by the Senior Management Team and the Corporate Risk Management Group. A number of recommendations were highlighted, and progress will be monitored via report CE.29/11.

2.2.5 Meeting held on 13th January 2012. At this meeting, the Committee considered –

- The District Auditors verbal update regarding the future of the Audit Commission.
- The Annual Audit Letter was received. An unqualified opinion and certification was issued on the 29th September 2011.

The unqualified value for money conclusion stated that the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources 2010/11. It was agreed and appreciated that an unqualified opinion was given with regard to the Financial Statements and VFM considerations.

- The District Auditor presented the Audit Plan outlining the requirement to comply with the statutory requirements.
 - The Audit Commission Act 1998;
 - The Code of Audit Practice for local government bodies.

The key issues identified were:

- Heritage Assets and compliance with FRS 30.
- Investment Property Revaluations.

The Audit Manager (Audit Commission) referred to the requirement for the Council to ensure that the value of its investment properties reflected market conditions at the balance sheet date. There was evidence that some significant assets had not been re-valued since 2009.

- Report RD.81/11. The Financial Services Manager presented a report on the Final Accounts Process in accordance with the Accounts and Audit Regulations 2011. The Financial Services Manager outlined the final accounts process that has been specifically designed to incorporate both staff and system requirements. Consideration has been paramount in incorporating the IFRS requirements.
- An update on the Carlisle Airport report, which was originally considered by the Committee in September 2011, was provided to members. The Director of Governance provided details of the progress made against the agreed action plan and the Director of Economic Development was present at the meeting to answer specific questions arising from members. A further progress report was requested at a subsequent Audit Committee.
- Report RD.76/11. Summarised the work undertaken by Internal Audit during the period. The final audit reports on Improvement Grants and Value Added Tax were received and approved. It was noted that Health and Safety recommendations were being progressed by the Safety, Health and Environmental Manager.
- Report RD.72/11. The Financial Services Manager outlined the Council's Treasury Management Strategy Statement for 2012/13 in accordance with the CIPFA Code of Practice in Treasury Management. It was advised that counterparty limits would be subject to review during 2012 to take account of anticipated fluctuations in cash balances due to the asset review.

- Report SD.02/12. The Town Clerk and Chief Executive gave an update on the Council's Risk Management Arrangements, also presenting an independent report provided by the Councils insurers, Travellers.
- Issues regarding staff sickness and redundancy payments were highlighted. Concerns were expressed as to the quality of sickness reporting data, but steps were to be taken to address the issue via a lean systems review. The risk of insufficient redundancy payment had been added to the Corporate Risk Register. Further training is proposed later in the year, which would assist Members understanding of the Council's risk management arrangements.

3 **Conclusion**

- The existence of the Audit Committee and its work programme enable the Council to demonstrate that it is following the recommended best practice in respect of the CIPFA Practical Guidance for Audit Committees in Local Authorities. The Committee has strengthened the Council's internal control process through its ability to ensure that systems and controls are robust, that challenges are raised as appropriate, and that adequate follow-up procedures are in operation in relation to Audit recommendations. This has been noted and commented on by the Audit Commission's Audit Manager.

4 **Recommendation**

4.1 It is recommended that the Audit Committee note and accept this report.

Cllr. E. Mallinson
Chairman of the Audit Committee

Appendix A

AUDIT COMMITTEE RULES OF GOVERNANCE

1. STATEMENT OF PURPOSE

- 1.1 The purpose of an Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

2. TERMS OF REFERENCE

2.1 Audit Activity

To consider the Audit Services Manager's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements.

To consider summaries of specific internal audit reports as requested.

To consider reports dealing with the management and performance of the providers of internal audit services.

To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale.

To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.

To consider specific reports as agreed with the external auditor.

To comment on the scope and depth of external audit work and to ensure it gives value for money.

To liaise with the Audit Commission over the appointment of the Council's external auditor.

To commission work from internal and external audit.

2.2 Regulatory Framework

To maintain an overview of the Council's Constitution in respect of Contract Procedure Rules, Financial Regulations and financial Codes of Conduct and Behaviour.

To review any issue referred to it by the Town Clerk and Chief Executive or a Director, or any Council body.

To monitor the effective development and operation of risk management and corporate governance in the Council.

To monitor Council policies on "Raising Concerns at Work" and the anti-fraud and anti-corruption strategy and the Council's complaints process.

To oversee the production of and approve the authority's Annual Governance Statement.

To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

To consider the Council's compliance with its own and other published standards and controls.

2.3 Accounts

To approve the Annual Statement of Accounts, income and expenditure and balance sheet. To consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

3. ACCOUNTABILITY

- 3.1 The Audit Committee will be a stand alone Committee of the Council. All Audit Committee members will act in the interests of the Council and not on behalf of any political party, constituency, ward, or interest group.
- 3.2 The Chairman of the Audit Committee will be appointed by the Committee. The Chairman and the Committee will ensure that relevant issues are promptly brought to the attention of the Executive, Overview and Scrutiny Panels and Regulatory Committees or the full Council.
- 3.3 The Chairman of the Audit Committee will present an Annual Report on the work of the Audit Committee to the full Council.

4. AUTHORITY AND ACCESS

- 4.1 The Audit Committee has a right to request relevant information from appropriate or relevant Members and Officers of the Council.
- 4.2 The Audit Committee will not be able to transact the powers, functions and duties reserved to the full Council, the Executive, Overview and Scrutiny and other Regulatory Committees.
- 4.3 The Audit Committee will have access to in-house financial, legal and any other professional advice necessary to carry out its functions.
- 4.4 The Chairman of the Audit Committee and the external and internal auditor will meet as necessary and the Council's Audit Services Manager will provide necessary services and support and assistance to the Audit Committee.
- 4.5 Any Member, Officer or member of the public who has any concern covered by the Terms of Reference of the Audit Committee may raise the matter with the Chairman of the Committee who will obtain, if necessary, relevant advice from the Council's Monitoring Officer or the Section 151 Finance Officer before taking any action with regard to the same.

5. MEMBERSHIP

- 5.1 Audit Committee members will be appointed by the Council and consist of 7 members in accordance with the rules governing political balance. No member of

the Executive and no chair of the Overview and Scrutiny Panels will be eligible to be a member of the Audit Committee.

- 5.2 The Audit Committee will be provided with administrative support by the Governance Directorate and reports/decisions of the Audit Committee will be recorded and published on CMIS in the usual way. The Resources Directorate will provide technical support to the Committee when required. As the decisions of the Audit Committee will not be of an executive nature, the decisions will not be the subject of a request for call-in. If any Member is concerned about any decision of the Audit Committee, s/he should raise the matter with the Chairman of the Audit Committee, the Monitoring Officer, the Section 151 Finance Officer and/or ask an oral question of the Chairman of the Audit Committee at the Council meeting in accordance with the relevant Council Procedure Rules.

6. ATTENDANCE

- 6.1 The Audit Committee shall meet on a regular basis as provided for in paragraph 7 below. Officers and others may attend all or part of the meeting at the invitation of the Committee. Attendees will usually include:

- The Leader or Deputy Leader
- The Portfolio Holder for Finance
- Town Clerk and Chief Executive
- Director of Resources (Section 151 Finance Officer)
- Director of Governance (Monitoring Officer)
- Audit Services Manager
- Other Directors and Managers, as required

- 6.2 Subject to the relevant meeting complying with the Access to Information paragraphs for the exclusion of members of the public, the Audit Committee will at least annually meet :

- (i) in private, with the external and internal auditors together; and/or
- (ii) in private, with the external auditor.

7. MEETINGS

- 7.1 The Audit Committee will meet at least four times a year in accordance with the schedule of meetings agreed by the Council. The External Auditor or the Audit Services Manager may request a meeting if they consider it necessary and other special meetings may be called in accordance with the Council's Procedure Rules.

7.2 The members of the Audit Committee will commit to receiving appropriate training and development necessary to fulfil their roles.

8. QUORUM

8.1 The quorum for any meeting will be one quarter of the elected members of the Committee, subject to there being not less than two elected members present at any time.

9. WORK PROFILE OF THE AUDIT COMMITTEE

9.1 In furtherance of the Terms of Reference and not otherwise, the Audit Committee is likely to receive and advise upon the following areas of work :

- Whether there is an appropriate culture of risk management and related control throughout the Council;
- the Annual Governance Statement;
- the annual Statement of Accounts, including changes in and compliance with accounting policies and practices, major judgemental areas and significant adjustments resulting from the audit;
- significant changes required to Financial Procedure Rules and the Contracts Procedure Rules.
- the framework and processes for risk assessment, analysis and management within the Council;
- the effective co-ordination between internal and external audit;
- the budget needed to resource effective internal and external audit and other responsibilities of the Audit Committee; and
- generally, on how the Audit Committee could add value to the work and operation of the Council.

9.2 External Audit and Inspection Agencies

- To note the fees and terms of engagement of the external auditor.
- To review the planned programme of work with the external auditor.

- To consider the annual statutory audit and to advise the Executive on any response to any audit management letters, reports and investigations, including Value for Money studies and other inspection reports.
- To review whether agreed external or internal audit or inspection recommendations have been implemented by the Executive as timetabled.
- To discuss with the external auditor any problems, reservations or issues arising from the interim or final audit or other investigations.
- To review the external auditor's independence and objectivity and annually appraise the Executive on the effectiveness and value for money of the external audit service.

9.3 Corporate Governance Framework

- To review and advise the Executive on the embedding and maintenance of an effective system of corporate governance including internal control and risk management.
- To give an assurance to the Council that there is a sufficient and systematic review of the corporate governance, internal control and risk management arrangements within the Council.
- To review the Annual Governance Statement and make appropriate recommendations to the Council, the Executive, the Overview and Scrutiny Panels and Regulatory Committees.
- To ensure that any significant weaknesses identified are remedied.
- To commission, if necessary, any relevant investigations into matters of particular concern relating to internal control.
- To ensure that the impact of any alleged or fraudulent activity on the Council's framework of internal control is reviewed and, where necessary, to recommend changes to strengthen the control framework.
- To receive reports relating to those aspects of whistle blowing or alleged or actual fraudulent activity which relate to the Terms of Reference of the Audit Committee.

9.4 Internal Audit

To review and make recommendations to the Executive regarding :

- The effectiveness of internal audit;

- the internal audit function to ensure it is adequately resourced;
- the internal audit strategy, annual plan and to monitor delivery of the plan;
- any internal audit protocols and policies;
- significant audit findings, together with the response from managers to these reports;
- any difficulties encountered by internal audit including any restrictions on the scope of activities or access to required information;
- agreed internal audit recommendations to ensure they are implemented by management as timetabled; and
- the annual report from the Audit Services Manager.

9.5 Other

To consider and make recommendations to the Executive on :

- the selection and terms of appointment of other appropriate advisors and consultants;
- governance issues relating to the operation of the Audit Committee, and
- the proportionality, independence, and appropriateness of any of the Council's policies relating to any audit or governance matters.
- such other matters of an audit, financial or governance nature as fall within the terms of reference of the Committee or as may be referred by the Council.