

## **AUDIT COMMITTEE**

**FRIDAY 13 JANUARY 2012 AT 10.00 AM**

PRESENT: Councillor Mrs Mallinson (Chairman)(until 11.05 am),  
Councillors Betton, Lishman, Nedved, Ms Patrick and Whalen  
(as substitute for Councillor Boaden)

ALSO

PRESENT: Ms Jackie Bellard (District Auditor)  
Mr Richard McGahon (Audit Manager)

### **AUC.01/12 APOLOGIES FOR ABSENCE**

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

### **AUC.02/12 DECLARATIONS OF INTEREST**

Councillors Nedved and Whalen declared a personal interest in accordance with the Council's Code of Conduct in respect of Agenda item A.7 – Carlisle Airport: Update. The interest related to the fact that they are substitute Members on the Development Control Committee.

### **AUC.03/12 WELCOME**

The Chairman welcomed Ms Jackie Bellard to her first meeting of the Audit Committee, commenting that the Audit Committee valued its good working relationship with the Audit Commission.

At the invitation of the Chairman, Ms Bellard explained that she was taking over from Mrs Murray as District Auditor. She outlined her personal and varied experience with the Audit Commission, expressing the hope that Carlisle would benefit from that good practice.

In conclusion, Ms Bellard indicated that she was very happy to be in Cumbria.

### **AUC.04/12 MINUTES**

The Audit Manager (Audit Commission) made reference to the recommendation at Minute AUC.75/11, pointing out that the words "District Auditor" should in fact read "Audit Manager".

RESOLVED – That, subject to the amendment as outlined above, the Minutes of the meetings of the Audit Committee held on 15 August, 27 September and 31 October 2011 be agreed as a correct record and signed by the Chairman.

#### **AUC.05/12 MINUTES OF RESOURCES OVERVIEW AND SCRUTINY PANEL**

The Minutes of the meeting of the Resources Overview and Scrutiny Panel held on 6 December 2011 were submitted for information.

In response to a question regarding new spending pressures, the Chairman suggested that the Member contact the relevant Portfolio Holder / Manager for further clarification.

RESOLVED – That the Minutes of the meeting of the Resources Overview and Scrutiny Panel held on 6 December 2011 be noted and received.

#### **AUC.06/12 RESPONSES FROM THE EXECUTIVE**

There were submitted Excerpts from the Minutes of the Executive meeting held on 31 October 2011 setting out their response to references from this Committee concerning:

##### **(a) EX.133/11 : Carlisle Airport – Audit Commission Report**

The Executive had welcomed the submission of Minute Excerpt AUC.61/11, together with the Audit Commission's ongoing interest in the Carlisle Airport: Audit Commission Report and Action Plan.

##### **(b) EX.134/11 : Future Work of Audit Practice**

The Executive had resolved that the Audit Committee be informed that the issue would be raised at a future meeting of the Cumbrian Chief Executives' Group.

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

#### **AUC.07/12 FUTURE OF THE AUDIT COMMISSION**

The District Auditor provided a verbal update on the future of the Audit Commission, commenting that there was little more to add to the update provided at the last meeting of the Committee (Minute AUC.75/11 refers). Tenderers had until 16 December 2011 to submit their completed tender responses which were commercially sensitive. A decision would be made in February 2012, following which a consultation process would take place

during March / April 2012. She undertook to keep the Committee up-to-date with progress.

RESOLVED – That the Audit Committee welcomed the verbal update provided by the District Auditor and would receive a further update at their next meeting.

## **AUC.08/12 ANNUAL AUDIT LETTER 2010/11**

The Audit Manager (Audit Commission) presented the Annual Audit Letter for the City Council, the purpose of which was to summarise the findings from the 2010/11 audit. The audit comprised two elements:

- the audit of the Council's financial statements; and
- the District Auditor's assessment of the Council's arrangements to achieve value for money in its use of resources.

The Audit Manager referred to the key elements detailed on page 3 of the Letter commenting that, as Members were aware, the requirement to prepare Accounts to comply with the International Financial Reporting Standards (IFRS) constituted a challenging task because of the scale and complexity of the changes required. He was therefore pleased to say that an unqualified opinion and certification had been issued on 29 September 2011. That represented a good solid performance by the City Council.

In September 2011 the District Auditor had determined an objection received in respect of the 2009/10 Accounts relating to a planning application at Carlisle Airport. Her report had been considered by the City Council on 13 September 2011, and the District Auditor had issued the Audit Certificate to formally close the 2009/10 audit on 29 September 2011. It was therefore pleasing to note that an update report on the matter would be considered by the Audit Committee later on the Agenda.

In addition, the District Auditor had on 29 September 2011 issued an unqualified value for money conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources for 2010/11.

The Audit Manager drew attention to the current and significant future challenges and the identification of further savings, emphasising that the Council would need to monitor the 2011/12 budget position closely and take corrective action where required. Although the Council had no history of overspending, the position moving forward would be increasingly challenging which would require more Member attention.

He referred to value for money criterion 2 (securing economy, efficiency and effectiveness), stressing that it was important that the Council established service standards and measured performance against them. That would help

the authority to judge whether service standards and performance were being maintained or improved as planned efficiency savings were being made.

The Audit Manager then highlighted the increasing pressure placed on the public sector as a whole by the economic downturn, commenting that he was aware that the Council was giving consideration to the issue of how to increase income from car parking. He added that the ongoing need to find savings was becoming increasingly difficult for the Council to achieve on its own. That increased the need for more partnership working, and accordingly Members would be faced with the task of deciding on the service areas the Council wanted to deliver and how that could best be achieved in the future.

In considering the report, a Member noted that the fee for the District Auditor's work in determining the objection on 2009/10 Accounts was £76,130. Whilst it was important that democracy was undertaken in a proper and transparent manner, the significant cost to the authority and ratepayers must also be recognised.

Another Member referred to the need for the Council to improve its understanding of the cost and income drivers for each service it delivered to ensure savings and efficiencies were sustainable. She questioned what areas (other than car parking) were being considered and taken on board.

In response, the Financial Services Manager explained that the issue of car parking formed part of the Local Environment Charges Report and impacted upon charges for 2012/13. Work was also underway to gain an understanding of the reasons for the fall in rental income from the Lanes shopping centre.

In conclusion, the Chairman thanked the Audit Manager and Financial Services Manager for their very useful comments. Members were aware of the budget process and, in particular, policies with regard to equality impact assessments.

RESOLVED – That the Committee welcomed submission of the Annual Audit Letter for 2010/11 and were particularly pleased to note that the District Auditor had on 29 September 2011 issued an unqualified opinion and certificate on the financial statements and also an unqualified value for money conclusion, stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources for 2010/11.

#### **AUC.09/12      AUDIT PLAN 2011/12**

The District Auditor presented the Audit Plan setting out the audit work the Audit Commission proposed to undertake for the 2011/12 audit. The Plan was based on the Audit Commission's risk-based approach to audit planning.

She outlined the background to the matter and requirement to comply with the statutory requirements governing her audit work, in particular:

- The Audit Commission Act 1998; and
- The Code of Audit Practice for local government bodies

The audit did not, however, relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

The District Auditor set out for Members the Commission's approach to identifying audit risks and had considered the additional risks relevant to the current audit of the accounting statements, details of which were provided. A key issue was the requirement for the Council to account for heritage assets in accordance with FRS 30 and the Code. She would also focus on the Council's planned programme of investment properties revaluations for 2011/12 and progress on ensuring the Council's Whole of Government Accounts return reflected the main financial statements.

The District Auditor added that she was required to give a statutory value for money conclusion on the Council's arrangements to secure economy, efficiency and effectiveness. The conclusion this year would be based on two criteria, specified by the Commission. She had considered the risks relevant to her value for money conclusion, details of which were set out on page 8 (Table 3) of the Plan.

In response to questions, the District Auditor said that the first issue was the identification of all heritage assets which work was ongoing. Thereafter valuation would be required. The issue would form a key part of the annual workshop for Chief Accountants' on 31 January 2012.

The Audit Manager (Audit Commission) further advised that many heritage assets were valued on an insurance basis. The Council may, however, wish to obtain fair valuations of certain specific assets and that would form part of the work referred to. He added that the earlier that work commenced the better.

In discussion, the Chairman and Members commented upon their concern to ensure that Carlisle had a vibrant City Centre and that they were aware of the sensitivities around the Lanes rental income.

The Town Clerk and Chief Executive pointed out that although the Council invested in the Lanes it did not manage the Centre.

In conclusion, 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. A number of assets (with a value of over £81 m) had not been re-valued since 31 March 2009, and although that was in line with the Code of Practice, which required five yearly valuations, the Council needed to be clear that a good assessment of the value of those buildings was in place.

RESOLVED – (1) That the Audit Plan for 2011/12 be noted.

(2) That the Audit Committee wished to draw the Executive's attention to the considerable amount of work required to ensure that the Council had accounted for heritage assets in accordance with FRS 30 Heritage Assets.

## **AUC.10/12      2011/12 FINAL ACCOUNTS PROCESS**

The Financial Services Manager submitted report RD.81/11 providing information regarding the 2011/12 Final Accounts process.

She reminded Members that under the Accounts and Audit Regulations 2011 the City Council's Statement of Accounts for 2011/12 required to be submitted to a relevant body (currently the Audit Committee) for approval by 30 September 2012. Prior to approval the Section 151 Officer would be required to sign off the Accounts by 30 June 2012.

The Financial Services Manager outlined the final accounts process which, in order to meet the prescribed deadlines, commenced in January with the production of an internal timetable for the completion of the various tasks involved. The timetable was monitored by Financial Services Officers and progress reported to the Senior Management Team throughout the process since it was essential that a corporate approach be taken to achieve a set of Accounts which gave a true and fair view of the financial position of the authority.

The 2010/11 Annual Governance Report considered by the Committee on 27 September 2011 acknowledged continuing significant improvements in the final accounts process compared to previous years. However, it also set out six recommendations. In addition, the Audit Commission had identified three significant risks that would need to be addressed as part of the closedown of the 2011/12 Accounts. Details of the recommendations, risks and work which had already commenced to address the same were provided.

The Financial Services Manager reminded Members that the previous Code of Practice (2010) introduced significant changes to the way authorities had to prepare their Accounts, the significant change for 2010/11 being the introduction of International Financial Reporting Standards. The 2011 Practitioners Guidance Notes, which were supplementary to the Code, had been received at the end of December and the implications therefore were currently being assessed. She added, however, that the main implication for the 2011/12 year end would be the requirement to recognise all of the Council's Heritage Assets on the balance sheet. Work would continue to assess the guidance notes and a report would be presented to the Committee in April with further details as necessary, especially if any changes were required to the draft Accounting Policies which were attached as an Appendix to the report. A training session was also proposed for June which would aid Members' understanding of the changes and their impact on the Accounts.

The Chairman undertook to discuss arrangements for the proposed training following the meeting.

RESOLVED – (1) That the Audit Committee noted the content of Report RD.81/11 and that any changes to the Statement of Accounting Policies would be reported to the Committee at its April 2012 meeting.

(2) That it be noted that training would be provided for Members at the June 2012 meeting of the Audit Committee.

## **AUC.11/12 CARLISLE AIRPORT: UPDATE**

Councillors Nedved and Whalen, having declared a personal interest, remained within the meeting room and took part in discussion on this item of business.

Pursuant to Minute AUC.61/11 and AUC.78/11, the Director of Governance submitted update report GD.06/12 concerning Carlisle Airport.

The Director of Governance reminded Members that on 13 September 2011, the Council considered a report arising out of the Audit Commission's investigation into a local government elector's objection to the Council's 2009/10 Accounts. They had also resolved to adopt the Action Plan appended to the report. The Audit Committee had been tasked with the role of overseeing the implementation of the Action Plan. At its meeting on 27 September 2011, the said Committee had requested update reports to monitor implementation of the same.

He then outlined details of the action taken by Officers to implement the Action Plan.

The Chairman welcomed the Director of Economic Development to the meeting.

A Member sought clarification of the changes made to address Recommendations 1 and 3 (strengthen arrangements for safeguarding and demonstrating the integrity and transparency of the regulatory planning process by ensuring that it is not unduly influenced by economic development aspirations) and (ensure that where legal advice identified issues requiring resolution, such issues are demonstrably resolved.....).

In response, the Director of Economic Development explained that she had, in conjunction with the Planning Manager, refined the layout of planning reports. The reports now clearly distinguished what was and was not material to the planning decision, and what weight should be given to particular issues. She was happy to assist any Member who remained unclear on the matter.

Referring the Recommendation 3, the Director of Governance explained the background to the issue. Internal and external advice was set out clearly in

writing and clarified verbally where necessary. It was the responsibility of the relevant Planning Officer to advise the Legal Section if the advice was not to be followed or if there was a query over the extent of the action taken. In such circumstances further legal advice would be provided.

Whilst recognising the very robust actions taken to address Recommendation 1, Members felt that it would be beneficial if (as part of the next update report) the Committee could receive examples of the previous and revised versions of planning reports as proof of the improvements put in place.

A Member welcomed the opportunity to seek advice and congratulated Officers for their efforts in assisting Members to come to a balanced view on planning applications.

Referring to Recommendation 7 (review the provision of specialised training for Members of the Council's Development Control Committee and other Committees that fulfil specific statutory roles .....), a Member believed that training was critical. He asked whether the monthly training should also become mandatory.

In response, the Director of Economic Development wished to encourage all Members to attend those sessions as part of their informed decision making. It was, however, a matter for Members to decide whether the sessions should be mandatory.

A Member then referred to Recommendation 9 (avoid tabling important documents in Committee meetings....) commenting that it was important that the public was aware of such documents.

The District Auditor stated that her preferred option was for the Audit Committee to monitor implementation of the Action Plan. The Audit Commission would look at what had been done in the context of the Value for Money conclusion.

In conclusion, the Chairman wished to place on record thanks and appreciation of the hard work undertaken by the members of staff within the Economic Development Directorate and Legal Services Section.

RESOLVED – (1) That the Audit Committee noted the steps which had been taken by Officers to implement the Action Plan as detailed in Report GD.06/12 and wished to receive a further update report at the next meeting. The report to include an additional column detailing the timescales involved.

(2) That the Director of Economic Development be requested to provide examples of both previous and revised planning reports as part of the next update report to the Committee.

(3) That the Committee would give further consideration to the issue of mandatory training.

## **AUC.12/12      AUDIT SERVICES PROGRESS REPORT**

The Audit Manager submitted report RD.76/11 summarising the work carried out by Audit Services since the previous report to Committee on 31 October 2011 and detailing the progress made against the 2011/12 Audit Plan up to 16 December 2011. She informed Members that, of the 535 direct audit days scheduled for completion in 2011/12, 371 direct audit days (69%) had been delivered by 16 December 2011 (week 38). That was considered to be on target for that position of the year.

The Audit Manager reminded Members that they had at their previous meeting asked that an update in relation to potential Health and Safety risks raised in the Audit of Insurance Arrangements be submitted to this meeting. The matter had also been raised in a subsequent risk management report and therefore had been addressed as a separate Agenda item.

Also at the last meeting, Members had asked that a brief update in relation to the position of the recommendation concerning the Bereavement Services operational risk register be submitted to this meeting (the audit considered that ..... there should be greater evidence available to demonstrate that operational risks were being appropriately managed). That recommendation was in relation to two service risks (shortage of burial space and private sector competition) managed through the operational risk register for the Neighbourhoods and Green Spaces Team.

The Neighbourhoods and Green Spaces Manager had now responded to the Audit recommendation and provided an outline of the management of those service risks, together with the control strategies in place which supported the reduction in their risk ratings. It had also been assured that, in line with corporate risk management practice, all risks would be kept under continuous review and reassessed as necessary.

She further reported that there were no further issues concerning follow up reviews which needed to be brought to Members' attention at this time.

The Audit Manager then outlined the content of and ratings attached to the final reports on the Audits of Improvement Grants and Value Added Tax, copies of which were appended to the report.

In conclusion, she requested that Members receive the report and note progress against the agreed 2011/12 Audit Plan.

In response to a question, the Financial Services Manager confirmed that the service arrangement with Price Waterhouse Cooper would be formalised into a contract signed by both parties by 31 January 2012.

**RESOLVED** – (1) That report RD.76/11 be received and progress made against the agreed 2011/12 Audit Plan be noted.

(2) That the completed Audit Reports, attached as Appendices B and C to the report, be received.

#### **AUC.13/12 PUBLIC AND PRESS**

RESOLVED – That in accordance with Section 100A(4) of the Local Government Act 1972 the Public and Press were excluded from the meeting during consideration of the following item of business on the grounds that it involved the likely disclosure of exempt information as defined in the paragraph number (as indicated in brackets against the minute) of Part 1 of Schedule 12A of the 1972 Local Government Act.

#### **AUC.14/12 HIGHWAY SAFETY – PRACTICES AND PROCEDURES**

(Public and Press excluded by virtue of Paragraph 3)

Pursuant to Minute AUC.76/11, the Director of Governance submitted private report GD.05/12 concerning Highways Safety – Practices and Procedures.

He reminded Members that they had on 31 October 2011 given consideration to the Audit Progress Report (RD.58/11) and requested an update on progress with regard to Recommendation R13 of the Audit of Insurance Arrangements. The Safety, Health and Environmental Manager had given his advice and recommendations, details of which were provided.

The Chairman expressed her thanks to all Members of the Audit Committee for what had been a very good piece of work.

RESOLVED – (1) That the content of Report GD.05/12 be noted.

(2) That it be noted that the Safety, Health and Environmental Manager would monitor progress with regard to the further work identified and report back as necessary.

The Chairman left the meeting.

Councillor Ms Patrick (Vice-Chairman) took the Chair and the meeting moved back into public session.

#### **AUC.15/12 DRAFT TREASURY MANAGEMENT STRATEGY STATEMENT, INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION STRATEGY 2012/13**

The Financial Services Manger submitted report RD.72/11 setting out the Council's Treasury Management Strategy Statement for 2012/13 in accordance with the CIPFA Code of Practice on Treasury Management.

She informed Members that the Investment Strategy and the Minimum Revenue Provision Strategy for 2012/13 were incorporated as part of the Statement, as were the Prudential Indicators as required within the Prudential Code for Capital Finance in Local Authorities.

She indicated that the draft version of the Statement was considered by the Executive on 19 December 2011 prior to the consultation period on the draft budget for 2012/13.

In conclusion, the Financial Services Manager advised that counterparty limits would be the subject of review during 2012 to take account of anticipated fluctuations in cash balances due to the impact of the asset review with additional capital receipts being received. A further report would be submitted to the Committee in due course.

RESOLVED – That the Audit Committee received Report RD.72/11 and noted the need to review counterparty limits during 2012.

## **AUC.16/12 CORPORATE RISK MANAGEMENT**

The Town Clerk and Chief Executive submitted report SD.02/12 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 5 January 2012.

Copies of an Addendum to the report, providing an update on the recommendations made by Travelers Insurance Co Ltd, had also been circulated.

The risks associated with delivering the Corporate Plan had been reviewed by the Senior Management Team and the Corporate Risk Management Group and were detailed within the report.

The Town Clerk and Chief Executive explained that the risk of insufficient redundancy payment provision had been added to the Corporate Risk Register. As had been highlighted in the Annual Audit Letter considered earlier, the need for a further £2.3 m in savings carried with it the risk of redundancies in the future, and he outlined the mitigating actions being considered to address that risk.

He added that the risk of significant sickness absence had been reinstated and predications estimated that over 13 days per full time equivalent would have been lost to sickness absence by the year end. The target day for the year was 9 days. On a personal note, he wished to have greater confidence in the quality of information which informed the reporting process. Control strategies were being developed to minimise the risk including a lean system review on sickness monitoring procedures.

He further agreed that there was a clear connection between successful return to work interviews and the reduction in absence and confirmed that there would be further detailed work on the sickness procedure and return to work interviews.

In considering the report, a Member indicated that he was totally supportive of the stance adopted by the Town Clerk and Chief Executive with regard to sickness absence and redundancy payments.

The Town Clerk and Chief Executive then gave an explanation of “enhanced redeployment initiatives” and responded to Members’ questions.

RESOLVED – (1) That the Audit Committee had considered and noted the content of report SD.02/12 (and the Addendum) as an indication of the continuing commitment to sound governance arrangements for corporate risk management.

(2) That the Committee would wish to undertake the Risk Management Training identified last year.

[The meeting ended at 11.25 am]