

AUDIT COMMITTEE

WEDNESDAY 14 JANUARY 2009 AT 10.00 AM

PRESENT: Councillor Mrs Mallinson (Chairman), Councillors Allison, Hendry (until 11.45 am), Layden, Lishman and Stothard

ALSO

PRESENT: Ms Gina Martlew (Audit Manager, Audit Commission)
Ms Angela Stubbs (Principal Auditor, Audit Commission)

AUC.1/09 WELCOME

The Chairman welcomed Ms Gina Martlew and Ms Angela Stubbs to the meeting.

At the invitation of the Chairman, Ms Martlew introduced herself to the Committee advising that Mr McGahon (Audit Manager) had been seconded to the Audit Commission in London. She further advised that Mrs Karen Murray (District Auditor) was on maternity leave and had been replaced by Mr Cameron Waddell.

AUC.2/09 APOLOGIES FOR ABSENCE

There were no apologies for absence.

AUC.3/09 DECLARATIONS OF INTEREST

There were no declarations of interest affecting the business to be transacted.

AUC.4/09 MINUTES

The Chairman indicated that the Minutes of the previous meeting should be included as an Agenda item in the future, which was agreed.

RESOLVED – (1) That the Minutes of the meetings of the Audit Committee held on 21 August and 26 September 2008 be agreed as a true record and signed by the Chairman.

(2) That the Minutes of the previous meeting of the Committee be included as an item on future Agenda.

**AUC.5/09 MINUTES OF THE CORPORATE RESOURCES OVERVIEW
AND SCRUTINY COMMITTEE**

The Minutes of the meetings of the Corporate Resources Overview and Scrutiny Committee held on 16 October; 17 November and 8 and 11 December 2008 were submitted for information:

A Member indicated that he wished to raise issues regarding Carlisle Renaissance, but would do so in conjunction with the Annual Governance Statement Action Plan later on the Agenda.

RESOLVED – That the Minutes of the meetings of the Corporate Resources Overview and Scrutiny Committee held on 16 October, 17 November, 8 and 11 December 2008 be noted and received.

**AUC.6/09 RESPONSE FROM THE EXECUTIVE – ANNUAL
GOVERNANCE REPORT 2007/08**

There was submitted Minute Excerpt EX.266/08 setting out the response of the Executive on 20 October 2008 to the comments of this Committee (AUC.53/08) on the Annual Governance Report 2007/08.

The decision was:

“That the Executive

1. Take account of the comments of the Audit Committee.
2. Note that further advice on the mechanism for future approval of the accounts to establish the timescale and resource implication involved is to be considered further by the Audit Committee.”

RESOLVED – That the response be noted.

**AUC.7/09 ARRANGEMENTS IN RESPECT OF THE APPROVAL OF
THE CITY COUNCIL’S ACCOUNTS**

Further to Minute AUC.53/08, the Director of Corporate Services submitted joint report with the Director of Legal and Democratic Services LDS.01/09 concerning arrangements for the approval of the City Council’s Accounts.

The Director of Legal and Democratic Services then outlined the legal and procedural requirements in respect of approval of the Council’s Annual Statement of Accounts and how those were complied with. He further explained the advantages and disadvantages of changing the current procedure to allow the Audit Committee, rather than full Council, to deal with formal approval of the Accounts, together with procedures in ‘best practice’ authorities.

Members were requested to consider whether they wished:

- (i) to maintain the status quo and make no recommendations to full Council regarding changing the current sign off arrangements for the Accounts, or
- (ii) recommend that Council changes the existing arrangements and delegates to the Audit Committee full responsibility for considering and formally approving by resolution the Council's Statement of Accounts in accordance with Regulation 10(3) of the Accounts and Audit Regulations 2003. If the Committee wished to recommend that, it should include a further recommendation to Council that the Director of Legal and Democratic Services be authorised to make all necessary alterations to the Council's Constitution, particularly in respect of the Council's functions and the Rules of Governance of the Audit Committee, to facilitate that delegation and change in responsibility.

The Audit Manager advised that Audit Committees were quite often given delegated powers and responsibility for considering and formally approving Statements of Accounts. It would also be possible for the Council to set up a separate properly constituted and politically balanced Committee to approve the Accounts additional to the Audit Committee.

In discussion, certain Members expressed a preference to maintain the status quo whereby the Audit Committee had responsibility for reviewing the Annual Statement of Accounts and making recommendations to full Council in respect of formal approval thereof. They were particularly concerned that if current arrangements were changed back bench Members who had strong views would not have the opportunity to express them.

A Member referred to the advantages of delegating the approval process to the Audit Committee and pointed out that, of the authorities who had responded to the quick survey, seven out of ten had delegated such approval.

The Director of Corporate Services advised that work was ongoing at a national level to seek to streamline the Accounts approval process and the issue would come back before Members as appropriate.

Members expressed concern around the issues of continuity of Membership of the Audit Committee and the provision of necessary training to enable Members to undertake effectively their role on the Committee.

RESOLVED – (1) That the Audit Committee had considered the advantages/disadvantages of changing current procedures and was aware that certain other local authorities had delegated approval of their Accounts to an Audit/Accounts Committee; but at the current time felt that responsibility for formal approval of the City Council's Statement of Accounts should remain with full Council.

(2) That the Committee was concerned at the lack of continuity of its Membership and the corresponding impact upon the competency of Members to undertake their role on the Committee.

AUC.8/09 2008/09 FINAL ACCOUNTS PROCESS

The Director of Corporate Services submitted report CORP.73/08 providing information regarding the 2008/09 Final Accounts process, together with a summary of the key issues arising from the previous year's process and how those were addressed.

The 2007 Statement of Recommended Practice (SORP) introduced significant changes to the way authorities prepared their Accounts and further changes were also required as a result of the 2008 SORP, details of which were set out in the report.

The Director further reported the introduction of International Financial Reporting Standards (IFRS), emphasising that the implementation thereof would have a significant impact on the Council and the transition process should not be underestimated. Non-compliance with IFRS would have a significant impact on the Council, with potential material errors in the accounts, qualification of the accounts and reduced scores for Use of Resources and Comprehensive Area Assessments. An Action Plan had been drafted at Appendix A to highlight the major changes affecting the Council.

Details of the current position on proposed changes to the Accounts and Audit Regulations were provided. The existing Statement of Accounting Policies had been reviewed to reflect the changes in the 2008 SORP and also to provide further explanation of other existing policies. Those were attached at Appendix B and Members were asked to consider the accounting policies as outlined to provide the basis for preparation of the 2008/09 Accounts.

The Director was aware of the need for training for Members and proposed that be put in place as soon as the membership of the Committee was confirmed for the next municipal year in May 2009.

Referring to training, a Member recalled issues around Member availability during the summer months and also how past training was funded. He requested that consultation be undertaken with Members regarding the date for future training, and that Officers liaise regarding payment arrangements. The Chairman felt that the competency of Members to sit on the Audit Committee required to be looked at and included within the Terms of Reference.

In terms of the impact on the City Council, Members referred to the main issues that would have a significant effect as detailed in the report and asked whether it would be necessary to recruit additional staff. The Director felt that Financial Services could probably deal with the matter within existing resources. There were, however, capacity issues within Property Services which were being looked at and flagged up as a risk. A further report on that aspect would be required. One of the changes was the requirement to account for outstanding holidays and flexi balances at the year end. She stated that this should not be a significant issue in the Council as there were strict controls in operation to limit carry forwards. She further highlighted the

significant change in the treatment of leases and asset valuations within the International Accounting Standard which was a large piece of work.

Members were concerned at the timescales around implementation of IFRS and the potential for material errors, qualification of the Accounts and reduced scores for Use of Resources. They questioned when guidance would become available and whether the Audit Commission would make any allowances in the first year.

In response the Director of Corporate Services advised that CIPFA was currently working on new guidelines, but she was unsure of the timescales for publication thereof. The Audit Manager said that Officers were working to get ahead of the game which was excellent. On the issue of employee benefits she would not expect the submission of large volumes of figures since the authority could demonstrate that it was not a significant issue. The implementation of IFRS would affect all Councils and, if all Accountants in Cumbria came together to share their expertise, that would help. The Director added that expertise was shared, but was spread thinly which was a problem in terms of resources.

Discussion arose around the issue of the proposed changes to the Accounts and Audit Regulations. In response to questions, the Director advised that currently remuneration information for senior managers in excess of £50,000 was declared, but not by name. She was unsure what the requirement to name Officers added to the value of the Accounts.

A Member found the requirement for 2009/10 onwards to disclose Senior Managers' remuneration information by name to more closely match central Government and private sector reporting difficult to accept. The Director said that it would be possible to raise that issue in response to the consultation.

The Audit Manager advised that in the NHS Officers' names were disclosed in the remuneration reports. Her understanding was that it was open to people to choose not to be named. The Committee could feed views back through the Director. The Director of Legal and Democratic Services outlined the position in terms of Freedom of Information requests whereby the justification for disclosure of names was that the public was paying for those salaries.

The difficulties caused by lack of clarity around the definition of 'trivial', 'material' and 'fundamental' errors were recognised. The Chairman stressed the importance of demonstrating that the Committee was taking ownership of the process for implementation of the new regulations and related staffing implications. She reiterated the concerns raised at the last meeting regarding the need to ensure that a new Asset Register was in place so that the information collated was in an appropriate format to enable future accounting entries to be determined.

The Director of Corporate Services emphasised the importance of getting the system correct so that the position could be easily monitored. The Working Group was looking at the various options and hoped to progress matters fairly quickly. In response to a question, she confirmed that the most significant change was the need to split assets into their constituent components.

RESOLVED – (1) That the Committee was concerned at the introduction of the International Financial Reporting Standards and the potential impact upon Carlisle City Council.

(2) That the Committee noted that CIPFA had yet to issue guidance which impacted on the authority's ability to finalise working practices.

(3) That the Committee wished to highlight to the Executive the significant changes to the way in which the Council would have to account for its fixed assets; and the treatment of leases in the International Accounting Standard. They particularly emphasised the risk to the authority should the necessary systems not be put in place to ensure that future accounting entries could be determined; and the potential risks on external funding.

(4) That the Director of Corporate Services be requested to submit a report to the next meeting of the Committee outlining risks to the authority.

(5) That the Director of Corporate Services be requested to arrange for training to be provided for Members of the Committee (to be open to other Members to attend should they so wish) and that consultation take place with Members regarding the scheduling thereof. Officers should also liaise over funding for the training.

AUC.9/09 ANNUAL GOVERNANCE STATEMENT ACTION PLAN

The Head of Audit Services submitted report CORP.76/08 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. Members' attention was drawn to items 4 and 7 which had been identified in the Annual Governance Statement as significant.

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.

The Audit Manager said that the preparation of the Annual Governance Statement was the responsibility of the Council and demonstrated that the Council had obtained the necessary assurance that governance was operating policy. Having an action plan and following it up regularly was good practice. (The Council was required to have an AGS as part of its accounts).

In response to questions the Head of Audit Services advised that the authority had made comments, via the Standards Committee, in response to consultation on the National Member Code of Conduct. They had not done so in relation to Officers due to pressure of work.

The Director of Legal and Democratic Services said that, as he understood it, an Officer Code of Conduct would be in place in a matter of months rather than years. It would be necessary for the Council to formally adopt the Code, following which Member Services would write to all staff outlining their responsibilities under the Code. Responsibility for monitoring the Code would be a matter for individual Directors.

A Member referred to item 8 (ensure that there were robust arrangements for partnership monitoring and governance relating to Carlisle Renaissance) and to Minutes CROS.130/08 and CROS.151/08(j) which respectively recorded that “every six months (in July and January) Carlisle Renaissance submit a report on progress with the Carlisle Renaissance Action plan to a special meeting of the Committee’ and ‘the Council made a large contribution to Carlisle Renaissance because it had been identified as a priority for the Council’. The Minutes did not, however, contain any detail as to what the contributions made by the City Council and other partners had been spent on which was a risk.

The Director of Legal and Democratic Services outlined the role of this Committee as opposed to the Corporate Resources Overview and Scrutiny Committee.

The Director of Corporate Services informed Members that the issue of Carlisle Renaissance would be debated at a special meeting of the Corporate Resources Overview and Scrutiny Committee on 28 January 2009 and Members may wish to submit a recommendation to that Committee to look at the issue.

In response to questions, the Head of Audit Services outlined the position regarding the policy for confidential reporting together with the difficulties associated thereto.

Referring to item 3 (Community Empowerment Pilots to be developed) a Member suggested that it would be helpful to ask the Community Overview and Scrutiny Committee to look at the process of Parish planning.

RESOLVED – (1) 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.

(2) That the Committee sought reassurance from the Corporate Resources Overview and Scrutiny Committee that they were monitoring the governance of Carlisle Renaissance and particularly the use to which contributions made by the City Council and other partners were put.

(3) That the Community Overview and Scrutiny Committee be requested to consider the issue of Parish planning.

AUC.10/09 AUDIT SERVICES PROGRESS REPORT

The Head of Audit Services submitted report CORP.75/08 summarising the work carried out by Audit Services since the previous report to Committee on 26 September 2008.

The final reports on the Audits of Creditor Payments; Electoral Registration; Equality and Diversity; Partnerships; Members' Expenses; Planning Income; Sundry Debtors/Miscellaneous Income; Treasury Management; and Tullie House were appended to the report.

Work had also commenced on a number of other reviews, including the 'material' systems, and the final reports would be presented to Members in due course.

The Head of Audit Services reported that an investigation was undertaken relating to fraudulent mis-use of the authority's Council Tax system by an employee who had since left the authority's employment. There was no financial loss to the Council and the matter was reported to the Police under the terms of the Theft, Fraud and Corruption Response Plan. The Police were now instigating proceedings against the perpetrator. The situation had been brought to light by the authority's standard control procedures and subsequent checks by Audit Services had revealed no system weakness.

Follow-up reviews had been undertaken where appropriate during the period covered by the report and there were no new issues which needed to be drawn to Members' attention.

The Head of Audit Services further stated that Members would recall that it had been agreed that progress in respect of the MASS Database in relation to fixed assets, and the need to enhance the role of the External Funding Officer in order to provide a central co-ordinating role to manage the external funding function both strategically and to provide operational support, would continue to be monitored by Audit Services and developments reported to the Committee. He drew Members' attention to information supplied by the Head of Economic Development, Tourism and Property in that regard as detailed within the report.

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

The Chairman suggested that, for the sake of completeness, the comments of the Head of Economic Development, Tourism and Property with regard to the MASS Database and External Funding Officer be forwarded to the Executive (Minute AUC.8/09 refers).

Referring to the Audit of Payments to Members (page 59, ref 1), a Member suggested that the wording be amended to read 'Checks covering Members' motor insurance policies and vehicle MOT certificates will be undertaken, along with the retention of evidence (photocopies)'.

In response the Head of Audit Services advised that Payroll would add a paragraph onto the claim form whereby Members had to declare that they were legally insured. Officers were required to produce evidence in that regard.

Following discussion, Members asked that their concerns regarding the safeguards and robustness of the system be noted. The Director of Corporate Services said that a sample check could be undertaken each year with regard to Members.

Certain Members were surprised to note that the Assistant Pay and Reward Manager had stated that there was no requirement for Members' claim forms to be signed by an authorised signatory and therefore no arrangements in place for that to happen. They felt the matter required further investigation.

The Audit Manager advised that it was a matter for the Council to decide upon its policy for Members to claim expenses and, if they wished, that could be changed. The Auditors could only audit the system in place.

The Director of Corporate Services considered that the issue was operational. Officers could introduce a test check and report back to the Committee if they felt that a change was necessary.

Members were concerned to note that the Audit of Creditors had concluded that the General Expenses expenditure code was used too frequently and Financial Services staff regularly had to transfer items out and post to correct expenditure codes. The Director advised that, although there had been an improvement, this was an ongoing issue and the use of correct coding was emphasised as part of all financial training.

Referring to the Audit of Equality and Diversity, Members were concerned to note that only a restricted level of assurance could be given in relation to the systems of control. In addition, progress in promoting equality and diversity within the Council and its services had been slow and was behind that made in most other Councils, which may impact upon the Council's Use of Resources score.

In response, the Head of Audit Services reassured the Committee that the matter would be followed up as part of the process.

RESOLVED – (1) That the concerns of the Committee regarding the failure by authorised signatories to code expenses accurately be drawn to the attention of the Senior Management Team.

(2) That the Committee's concerns at the slow progress in promoting Equality and Diversity within the Council and its services, and the potential risk to the Council's overall Use of Resources score be conveyed to the Executive; together with the comments of the Head of Economic Development, Tourism and Property regarding the MASS database and External Funding Officer.

(3) That Officers investigate further whether Members' claim forms should be required to be signed by an authorised signatory and report back to the Committee as necessary.

AUC.11/09 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.12/09 USE OF RESOURCES 2007/08

(Public and Press excluded by virtue of Paragraph 3)

The Director of Corporate Services submitted report CORP.79/08 advising Members of the results/feedback on Carlisle's 2007/08 Use of Resources assessment; actions required to improve the 2008/09 UOR assessment score; and future reporting arrangements.

The Audit Manager presented the draft Use of Resources Report for the 2007/08 audit. She reminded Members that the previous Audit Manager had on 21 August 2008 given a presentation on the key judgements which the Audit Commission would make regarding the Use of Resources and Direction of Travel. The areas for assessment were as shown within the report.

She emphasised that the Use of Resources report was the last one under the current regime and the Council would need to look at the Action Plan going forward. From 2008/09 the Auditors' assessment of use of resources would be based on new key lines of enquiry. Accordingly the Audit Commission was in the process of planning a session (open to all Cumbria Councils) for 9 February 2009 when they could get together and talk through various scenarios.

The Audit Manager, Principal Auditor and Director of Corporate Services then responded to Members' questions regarding the overall level of performance achieved and the potential for future improvement.

A Member referred to the areas of risk of not maintaining the current overall level of performance, expressing concern at the budgetary constraints currently faced by the Council and impact upon staffing, which meant that it may not be possible to do everything set out in the Action Plan. She was

particularly concerned at the potential to achieve the required level on the current Equality Standard for Local Government.

The Audit Manager gave an assurance that the Council's priorities were taken into account as part of the Direction of Travel review. It was unlikely that one item would result in a reduced score.

Members were pleased to note the improved performance and achievement reached as detailed within the report and wished to place on record their thanks to staff for work undertaken over the past year.

RESOLVED – (1) That the Committee wished to highlight to the Executive the main areas of risk of not maintaining the current overall level of performance, as detailed at section 5.2 of report CORP.79/08.

(2) That the Committee was appreciative of and wished to thank members of staff for work undertaken to improve performance over the past year.

[The meeting ended at 12.05 pm]