

AUDIT COMMITTEE

FRIDAY 14 JANUARY 2011 AT 10.05 AM

PRESENT: Councillor Mrs Mallinson (Chairman), Councillors Bowditch, Mrs Farmer, Layden, Mrs Parsons (as substitute for Councillor Lishman) and Ms Patrick

ALSO

PRESENT: Mrs Karen Murray (District Auditor, Audit Commission)
Mr Richard McGahon (Audit Manager, Audit Commission)

AUC.01/11 WELCOME

The Chairman welcomed all those present and, in particular, the Interim Audit Services Manager to her first meeting of the Committee in that capacity.

AUC.02/11 APOLOGIES FOR ABSENCE

Apologies for absence were submitted on behalf of Councillors Hendry and Lishman; and the Strategic Director and Deputy Chief Executive.

AUC.03/11 DECLARATIONS OF INTEREST

Councillor Mrs Mallinson (Chairman) declared a personal interest in accordance with the Council's Code of Conduct in respect of the following Agenda items for the reasons stated:

Item A.6 – Audit Services Progress Report – in her capacity as Member of Cumbria County Council

Item A.5 – Annual Governance Statement Action Plan – since she served on the Board of Riverside Carlisle

Councillor Layden declared a personal interest in accordance with the Council's Code of Conduct in respect of Agenda item A.5 – Annual Governance Statement Action Plan as he served on the Board of Riverside Carlisle.

AUC.04/11 AGENDA

The Chairman moved that Agenda item A.5 – Annual Governance Statement Action Plan be moved up the Agenda to facilitate the attendance of the Assistant Director (Community Engagement), which course of action was agreed.

AUC.05/11 MINUTES

The Minutes of the meeting of the Audit Committee held on 30 November 2010 were submitted.

RESOLVED – That the Minutes of the meeting of the Audit Committee held on 30 November 2010 be agreed as a correct record and signed by the Chairman.

AUC.06/11 MINUTES OF RESOURCES OVERVIEW AND SCRUTINY PANEL

The Minutes of the meeting of the Resources Overview and Scrutiny Panel held on 7 December 2010 were submitted for information.

RESOLVED – That the Minutes of the meeting of the Resources Overview and Scrutiny Panel held on 7 December 2010 be noted and received.

AUC.07/11 ANNUAL GOVERNANCE STATEMENT ACTION PLAN

Councillors Layden and Mrs Mallinson, having declared personal interests, remained within the meeting room and took part in discussion on the matter.

The Financial Services Manager submitted report RD.68/10 updating the Committee on progress made to the Annual Governance Statement Action Plan. She informed Members that in accordance with established practice the Action Plan was monitored and the updated status reported to Members at each meeting of the Committee. She added that there were no new areas of risk arising from the Audit Reviews or from the Risk Register which needed to be drawn to Members' attention at the current meeting.

The Financial Services Manager reported that the National Officer Code of Conduct issue had been removed from the Appendix to the report, as agreed by Members at their previous meeting, since the Council had prepared its own Code which was approved by full Council in September 2010.

In conclusion she advised that the Assistant Director (Community Engagement) was in attendance to answer any detailed questions Members may wish to ask in relation to the Community Empowerment pilots.

In response to questions, the Assistant Director (Community Engagement) outlined in more detail the different approaches taken by the Harraby and Longtown Community Empowerment Pilots in developing the concept of empowerment. Work on the

ground was restricted by the availability of financial resources and he was reluctant to comment on whether one pilot had been more successful than the other.

The Assistant Director (Community Engagement) made reference to the special meeting of the Community Overview and Scrutiny Panel held on 12 October 2010 when consideration had been given to the pilot projects, and paid tribute to the valuable contribution made by residents, stakeholders and Officers. Learning could be brought to bear in moving the matter forward.

A Member commented upon the difficulty of getting local people involved which meant that often a narrow section of the community with a large voice were heard, which did not necessarily reflect the view of the silent majority.

The Assistant Director (Community Engagement) said that engagement could be undertaken in a number of ways, e.g. via Neighbourhood Forums, working relationships with the County Council and agencies such as Riverside Carlisle and the Police. He acknowledged the need to ensure that people's voices were heard.

Referring to the next steps, he emphasised the importance of working with communities within the limited resources available. There should not be an expectation that empowerment pilots were a means of raising resources.

A Member said that, with the closure and demolition of the School, Longtown had lost a very good and valuable resource, and that nothing had been erected in its place due to the current financial climate.

In response, the Assistant Director (Community Engagement) advised that CALC was going a good job in promoting rural issues. Parish Plans were also a good vehicle to start building upon.

The Chairman indicated that issues such as the lack of outcomes/timelines and the impact of locality working required to be picked up prior to the Annual Governance Statement being submitted to the City Council.

The Assistant Director (Community Engagement) advised that discussions were currently taking place with the PCT. With regard to the implications of the Decentralisation and Localism Bill, he pointed out that the matter would be the subject of discussion at a Conference to be held at Carlisle Racecourse on 15 January 2011.

RESOLVED – (1) That the Annual Governance Statement Action Plan and the current position relating to the area identified be noted.

(2) That the Assistant Director (Community Engagement) be requested to take on board the issues raised by Members as detailed above.

AUC.08/11 FUTURE OF THE AUDIT COMMISSION

The District Auditor provided a verbal update on the future of the Audit Commission.

The District Auditor reiterated, for the benefit of those Members not in attendance at the last meeting, the background to the Government's intention to disband the Audit Commission (Minute AUC.75/10 refers). She added that the latest indications were that the timetable for the introduction of any new arrangements and the transition to them was ambitious and may slip by twelve months since it was unlikely that sufficient Parliamentary time would be available this year to process the necessary legislation. It was therefore likely that she would be responsible for auditing the Council's 2012/13 Accounts.

Also, the Secretary of State wanted the abolition to give authorities freedom in terms of the procurement of audit services. That was a complex matter and work was underway at CLG to consider what the framework and safeguards needed to be.

In conclusion, the District Auditor said that there was nothing which the Council could or should do at the present time.

A Member commented that he was not happy with the proposal and welcomed the fact that it was likely to be delayed by a year.

In response, the District Auditor expressed the hope that the Audit Commission's Audit Practice which included the Audit Manager, colleagues and herself could move to the private sector, possibly as an employee owned organisation. Permission for that had been sought from CLG.

RESOLVED – That the Audit Committee welcomed the verbal report provided by the District Auditor.

AUC.09/11 AUDIT OPINION PLAN 2010/11

(a) The District Auditor presented the Audit Opinion Plan for the 2010/11 audit setting out the audit work the Audit Commission proposed to undertake for the audit of financial statements and the value for money conclusion for 2010/11.

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

- The Audit Commission Act 1998; and
- The Code of Audit Practice

The District Auditor set out for Members the Commission's approach to identifying opinion audit risks and had considered the additional risks appropriate to the current opinion audit, details of which were provided. On the basis of the risks identified, she would produce a testing strategy which would consist of testing key controls and/or substantive tests of transaction streams and material account balances at year-end.

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 approach to which had been reviewed for 2010/11. The conclusion this year would be based on two criteria, specified by the Commission, in

relation to the Council's arrangements for securing financial resilience and challenging how the Council secured economy, efficiency and effectiveness. A risk assessment of the Council's arrangements would be undertaken and consideration given to whether any further VFM audit work was needed to support this conclusion. She would discuss with Officers and report to the Committee on any risks identified.

Details of the key milestones and deadlines for preparation of the financial statements by 30 June 2011 were provided.

The fee for the 2010/11 audit was £123,075 as indicated in the letter of 27 April 2010. The Audit Commission had increased scale fees for 2010/11 by 6% to reflect the additional work required by the introduction of International Financial Reporting Standards (IFRS). The Commission had, however, recognised the financial pressures faced by audited bodies had refunded those transitional costs, resulting in the Council receiving a refund of £7,031 in April 2010.

The District Auditor informed Members that she had held the fee the same for 2010/11 to try and reflect the improvements seen in the 2008/09 and 2009/10 accounts. In setting the fee a number of assumptions had been made, details of which were provided. Additional work would require to be undertaken where those assumptions were not met which was likely to result in an increased audit fee. If that was the case, she would discuss that first with the Assistant Director (Resources) and issue supplements to the plan to record any revisions to the risk and the impact on the fee.

The District Auditor added that the Commission had written to all audited bodies on 9 August 2010 about its proposed new arrangements for local value for money audit work. That indicated the impact on audit fees for 2010/11 would be considered as part of the Commission's consultation on its work programme and scales of fees for 2011/12, planned for September 2010. The Secretary of State's announcement on the Government's intention to abolish the Commission delayed consultation until December 2010. The consultation period had ended on 7 January 2011 and the impact on 2010/11 and 2011/12 fees should be known by the end of February 2011.

The Chairman requested the submission of a report outlining progress in relation to the additional risks detailed on page 6 of the Audit Opinion.

In response, the Financial Services Manager undertook to prepare a report for consideration at the April 2011 meeting of the Committee.

RESOLVED - (1) That the Audit Committee welcomed the submission of the Audit Opinion Plan 2010/11.

(2) That the additional risks, detailed on page 6 of the Audit Opinion Plan, be drawn to the attention of the Executive and the Senior Management Team, it being noted that the Audit Committee would monitor the matter at their April 2011 meeting.

(b) The Chairman referred to the formal objection to the Council's Accounts raised by an elector relating to Carlisle Airport and asked that the District Auditor update the Committee on progress.

It was noted several Members of the Development Control Committee were in attendance in their capacity as Members of the Audit Committee. By way of clarification, the Assistant Director (Governance) advised that, since the Audit Committee was only receiving an update and Members were making no comment, no conflict of interest would arise.

In response, the District Auditor indicated that she could only provide a general update at this time. She had undertaken a great deal of work on the matter, including meetings with both parties. Additional information had been received and she had taken legal advice from the Audit Commission's legal adviser to understand the issues involved.

The matter was now around 80% complete, the next stage being to clarify any outstanding details. She would then be in a position to look at all the evidence presented and determine the next steps.

The District Auditor hoped to be in a position to form a provisional view by the end of January / beginning of February 2011 which would be shared with the objector and the City Council. The next steps for the Council would ultimately be dependant upon her final view because the Audit Commission Act 1998 set out what the Council must do in respect of the formal audit actions.

In conclusion, the District Auditor thanked the Assistant Director (Governance) and his staff for their assistance in providing all necessary information in a timely manner.

On behalf of the Committee, the Chairman thanked the District Auditor and the Assistant Director (Governance) for the additional work undertaken.

The District Auditor then responded to a Member's question.

RESOLVED – (1) That the update provided by the District Auditor be welcomed.

(2) That the Audit Committee wished to place on record their thanks for the considerable amount of work undertaken by the District Auditor and the Assistant Director (Governance) in relation to the objection to the Accounts.

AUC.10/11 2010/11 FINAL ACCOUNTS PROCESS

The Financial Services Manager submitted report RD.72/10 providing information on the 2010/11 final accounts process.

She reminded Members that under the Accounts and Audit Regulations 2003 the City Council's Statement of Accounts for 2010/11 required to be submitted to a relevant body (currently full Council) for approval by 30 June 2011. Prior to approval the Audit

Committee would be required to scrutinise and consider the Accounts for recommendation to Council at their June meeting.

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 Accounts would be the first full set of Accounts prepared under the International Financial Reporting Standards (IFRS) and represented a significant change in the way the Accounts were prepared and presented. The Committee had been kept informed of the transition to IFRS via previous reports.

The 2009/10 Annual Governance Report considered by the Committee on 24 September 2010 acknowledged continuing significant improvements in the final accounts process compared to previous years. However, it also set out four recommendations and work had already commenced to ensure that those issues were addressed prior to the production of the 2010/11 Accounts. Improvements had been made in 2009/10 and the requirements of the Financial Reporting Standards were under continuous review.

The Financial Services Manager reported that the Previous Statement of Recommended Practices (SORPs) had introduced significant changes to the way authorities prepared their accounts, details of which were provided.

She added that the significant change for 2010/11 was the introduction of a new Code of Practice on Local Authority Accounting to aid the implementation of IFRS and which would replace the previous versions of the SORP. The 2010 Practitioners Guidance Notes, which were supplementary to the Code, had only been received at the end of December and the implications thereof were currently being assessed. Work would continue to assess the guidance notes and a report with further details would be presented to the Committee at its April 2011 meeting. In addition, a training session was proposed for June 2011 to aid Members' understanding of the changes and the impact on the Accounts.

Referring to the issue of training, the Chairman informed the meeting that she had spoken to the County Council who were 'in principle' happy to look at joint training with the City Council.

In discussion the Financial Services Manager said that it would be prudent to involve all Members since the Accounts were submitted to full Council for consideration.

RESOLVED – (1) That Report RD.72/10 be received and noted.

(2) That it be noted that training would be provided for Members at the June 2011 meeting of the Audit Committee.

AUC.11/11 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 Services Manager submitted report RD.69/10 summarising the work carried out by Audit Services since the previous report to Committee on 30 November 2010.

She outlined in some detail the content of and ratings attached to the final report on the Audit of the Use of Consultants, a copy of which was appended to her report.

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

Referring to the ongoing 2010/11 Audit Work Programme, the Interim Audit Services Manager reminded Members that the Audit Shared Service had gone live on 1 December 2010 and auditors had transferred to the County Council under TUPE arrangements from that date. The Audit Team continued to concentrate on completing the Audit Plan for 2010/11, the main area of focus at this time being completion of the material system reviews which, historically, dominated much of the available audit time in the latter half of the financial year. Those reviews were agreed in advance with the Audit Commission and focus on the key financial systems of the Council. The outcome of those material system reviews would be presented to the Audit Committee early in the new financial year.

The 2010/11 Audit Plan was presented to the Committee meeting on 9 April 2010 (RD.4/10), with necessary revisions to the Plan being reported (RD.58/10) at the meeting on 30 November 2010. To assist Members in monitoring progress against the agreed Audit Plan, progress had been recorded for the period 4 October to 10 December 2010.

The Interim Audit Services Manager reported that 56% of days available in the period represented productive audit time. That had fallen short of the target of 66.4% for the reasons stated. She further drew Members' attention to the report at Appendix B which illustrated the work undertaken to date. Based on current projections a sufficient number of productive audit days should be available to complete the Audit Plan.

At the last meeting consideration was given to the outcome of the audit of Green Spaces, and concern raised over the CRB checking process for agency staff working in that service area.

Members sought an assurance in that regard and, following further discussions with the Assistant Director (Local Environment), the Neighbourhoods and Green Spaces Manager and Officers from Personnel Services regarding the employment of agency staff in positions where CRB checks were appropriate, arrangements had been put in place to review and have those completed if necessary without further delay.

Additional recommendations to improve on current processes were also in the process of being agreed.

The issue was an extremely crucial and sensitive area which demanded a high level of assurance. Given the Government's announcement to scale back on their plans to introduce a new Vetting and Barring Scheme and the level of preparatory work undertaken by Officers on the implementation of the Safeguarding theme, Audit Services intended to undertake further work during the early part of 2011/12, which would seek assurance that robust corporate procedures were in place and effectively embedded in the organisation.

The Interim Audit Services Manager commented that, following on from the audit follow up of the ICT Security Policy Audit Progress Report, Members had requested assurance of audit coverage of ICT in a shared services environment. The approach to delivering ICT audits had, to date, focussed on key areas identified through the use of CIPFA control matrices. Whilst still relevant areas for ICT review, the change in the service delivery model meant that Internal Audit should be proactive in its approach to identifying new risks and opportunities brought about through a Shared ICT service arrangement.

She was therefore liaising with Allerdale Borough Council's Internal Audit Section and the Shared ICT Services Manager to ensure that all risks were identified and full audit coverage achieved through the co-ordination of audit work in both authorities. A preliminary meeting had been held to determine the approach and priority areas for review. All new ICT areas raised as potential audit reviews would be factored into the audit planning process for 2011/12 and Members would be advised upon the outcome through the presentation of the draft Audit Plan at their April 2011 meeting.

The Financial Services Manager and Interim Audit Services Manager then responded to a number of questions from Members.

In addition, the Financial Services Manager undertook to provide a written response detailing the breakdown of costs attributable to the Council / NWDA with regard to Carlisle Renaissance (page 13 referred).

A Member questioned whether the miscoding of large sums of expenditure would be picked up by the Audit Commission.

In response, the District Auditor explained that the classification of expenditure was at a different level for her interest. It was important nonetheless that expenditure was coded correctly and, if a decision was taken to publish all expenditure over £500, that would become more so. Miscoding could be publicly damaging for the authority.

The Financial Services Manager added that budgetary control courses were held on an annual basis, when the importance of coding and the implications of not getting it right were emphasised. That training may need to be mandatory in the future.

A Member referred to the considerable criticism levelled towards the use of consultants, commenting that it could be forgotten that some consultants were very good and their services required on occasion.

Discussion arose around the importance of the work initially undertaken by Audit in 2005 in relation to the use of consultants which was not finalised at that time.

Referring to the CRB checking process, a Member expressed the view that if a person was cleared once that should be all that was necessary.

The Interim Audit Services Manager undertook to look at that point.

Members congratulated the Interim Audit Services Manager for what was a very good and helpful report.

RESOLVED – (1) That report RD.69/10 be received.

(2) That the Audit Committee wished to draw the Executive's attention to recommendations A.1 (There is no clearly defined standard definition of what constitutes consultancy) and A.2 (There is an unacceptable level of miscoding of expenditure) of the Audit Report on the Use of Consultants.

(3) That the Senior Management Team give consideration to mandatory training for staff on budgetary control to prevent the miscoding of expenditure in future and that Audit Services monitor the position on a monthly basis.

(4) The Financial Services Manager to provide a written response to the question raised regarding Carlisle Renaissance costs.

**AUC.12/11 DRAFT TREASURY MANAGEMENT STRATEGY STATEMENT,
INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION
STRATEGY 2011/12**

The Financial Services Manager submitted report RD.60/10 setting out the Council's Treasury Management Strategy Statement for 2011/12 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 2011/12 were incorporated as part of the Statement, as were the Prudential Indicators as required within the Prudential Code for Capital Finance in Local Authorities.

The Financial Services Manager indicated that the draft version of the Statement was considered by the Executive on 22 December 2010 prior to the consultation period on the draft budget for 2011/12.

She further reported that the Executive would on 19 January 2011 be asked to approve, for recommendation to Council on 1 February 2011, an increase to the Counterparty limit for Lloyds Group Banks and RBS Group Banks to £8 million as detailed in report RD.71/10.

Members indicated their agreement with that recommendation.

RESOLVED – That the Audit Committee received report RD.60/10.

AUC.13/11 CORPORATE RISK MANAGEMENT

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

In the absence of the Deputy Chief Executive, the Assistant Director (Governance) presented report CE.42/10 providing an update on the Council's Corporate Risk Register.

The current risks associated with delivering the Corporate Plan had recently been reviewed by the Senior Management Team and the Corporate Risk Management Group. The Risk Register showed both the current (December 2010) and previous (September 2010) risk matrices. Initiatives to reduce the risks continued to be developed and opportunities for new ways of working with Partners and communicating with residents were being developed.

The Assistant Director (Governance) informed Members that the 'Equality and Diversity' risk – the risk that the Council failed to meet Equality Framework targets – had been deleted from the Register. He added that the Council had reached the required standard through self assessment and peer assessment for 'Achieving' level of the Equality Framework for Local Government. The March 2011 target for reaching that standard had been exceeded; the standard being attained on 19 October 2010.

The Resources Overview and Scrutiny Panel had on 6 January 2011 considered the matter and welcomed submission of the report (ROSP.08/11).

RESOLVED – That the report be received.

[The meeting ended at 11.35 am]