

AUDIT COMMITTEE

4 December 2012

Attendance:

Councillors:

Banister (Chairman) (P)

Berry J (P)

Cutler (P)

Mather (P)

Miller (P)

Power (P)

Southgate

Verney (P)

Weir (P)

Others in attendance:

Councillor Godfrey - Portfolio Holder for Finance and Administration.

1. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman welcomed to the meeting Mrs K Handy and Mr M Bowers from the Ernst Young, the Council's external auditors.

2. **MINUTES**

RESOLVED:

That the minutes of the previous meeting held on 25 September 2012 be approved and adopted.

3. **ANNUAL AUDIT LETTER 2011/12**
[\(Report AUD048 refers\)](#)

Due to the change over of responsibilities for external audit between the Audit Commission and Ernst and Young, the Report was presented by the Head of Finance. Mrs K Handy and Mr M Bowers from Ernst and Young were in attendance.

The Annual Audit Letter had been published on the Council's website and made available to all Members before the end of November, which was a statutory requirement.

RESOLVED:

1. That the Annual Audit Letter be accepted.

4. **CERTIFICATION OF CLAIMS AND RETURNS 2011/12 – ANNUAL REPORT**

[\(Report AUD049 Refers\)](#)

Due to the change over of responsibilities for external audit between the Audit Commission and Ernst and Young, the Report was presented by the Head of Finance who had been fully briefed by the Audit Commission on the matters arising.

The Annual Report had been published on the Council's website and made available to all Members, which was a statutory requirement.

The Head of Finance provided additional detail in respect of the two qualification letters that were issued in 2011/12 in respect of the Housing and Council Tax Benefit claim and the Pooling of Housing Capital Receipts return; both of which were considered to relate to minor issues. In addition, the correction of errors relating to Housing Revenue Account subsidy was explained further.

RESOLVED:

That the Certification of Claims and Returns 2011/12 – Annual Report be noted.

5. **ANNUAL GOVERNANCE STATEMENT AND CORPORATE RISK MONITORING UPDATE**

[\(Report AUD045Refers\)](#)

In response to Members' questions, the officers gave the following replies.

The increased Risk Score for Asset Management reflected the wider options that were now being considered for the future of the River Park Leisure Centre. These were over and above those of refurbishment and would involve a range of funding for various options (Corporate Risk CR5003 refers).

The Head of Finance was satisfied that the Council's processes were robust to deliver a balanced budget within the context of recession and reduced resources for local government (Corporate Risk CR5004 refers).

The Council's partnership arrangements were robust enough to form new partnerships to deliver objectives that arose from Hampshire County Council assuming responsibility for public health and wellbeing from April 2013 (Corporate Risk CR5012 refers). This would need to be reviewed in the light of experience.

Under Housing Finance Reform, there was now a significant issue as changes in rent policy would determine the income stream to the Housing Revenue Account (HRA), which in turn would need to be reflected in the HRA

Business Plan. The Council had already undertaken some modelling work on the effect of changes in rent (Corporate Risk CR5005 refers).

In leading the response to Climate Change, the Council was now making progress through practical steps within the programme (Corporate Risk CR5001 refers).

In respect of Capacity, the Chief Executive would respond separately to Members to the enquiry about risk to capacity as a result of organisational change (Corporate Risk CR5006 refers).

The Council was awaiting the Secretary of State's determination of the Compulsory Purchase Order in respect of Silver Hill (Corporate Risk CR5002 refers).

The proposed Business Continuity exercise would test IT Disaster Recovery at the Council's reserve site at Adams Continuity at Basingstoke. The test would also include officers from each of the service critical functions within the Business Continuity Plan (Corporate Risk CR5009 refers).

RESOLVED:

That no issues be raised with the relevant Portfolio Holder or items of significance be drawn to the attention of Cabinet.

6. INTERNAL AUDIT PROGRESS REPORT TO 31 OCTOBER 2012
([Report AUD046 Refers](#) less Exempt Business)

At the meeting of the Committee held on 25 September 2012, it had been decided that due to the volume of business to be transacted, the Report on Internal Audit Annual Report 2011/12 (AUD032) would now be re-considered at a future meeting of the Committee, where the Head of Estates would be in attendance to answer questions on the Guildhall and Markets items. Report AUD046 included a further update on the content of Report AUD032.

The Internal Audit Partnership Manager reported that 46% of audits had now been completed by the end of November. The end of year target was 95% of audits been completed, but the outturn would be approximately 89% of the programme being completed. The revised outturn target of 89% was important as it would still provide be a robust annual opinion in support of the Annual Governance Statement. A report would be taken to the Corporate Management Team to consider resources to manage the shortfall and prioritise work. Some audit days had been spent on work outside of the planned programme.

In reply to questions, the Internal Audit Partnership Manager stated that the highest priority was to concentrate on the Council's key Financial Systems. It was also clarified that the audit of Council Tax did not include Business Rates, which was the subject of a separate audit. The Head of Finance added that in respect of debt management, the required actions were being progressed in priority order.

In respect of item C.4 – Market follow-up 2011/12, the Head of Estates explained the actions taken to prevent fraud in the operation of the Market. These actions included regular site visits to check the pitches and also meetings with traders where issues could be raised. With its close proximity to the City Offices the market was scrutinised to a high degree. The number of pitches was matched to returns from the market operator in order that reconciliation could take place, including those relating to the type of stall. The City Council had a list of names of stallholders and the rents that they paid, which was a follow-up to a finding from the previous audit. The audit was very thorough and dates had been set for implementation of its findings and progress was regularly updated. This gave assurance that the outcomes were being achieved. A follow-up audit would take place in March 2013.

With regard to Car Parks Special 2010/11, an update from the Head of Access and Infrastructure on the agreed actions was circulated at the meeting and is detailed below.

AIN 017 – A system has been established to ensure that car park income reconciliation is undertaken (see AIN021) in relation to tickets issued and income received. This task is performed by the Assistant Car parking manager however no deputising arrangements are in place at present. In order for this to be actioned a procedure/ process needs to be written. Unavoidable staff absences due to bereavements, jury service and other work pressures have prevented the actions requirement from being completed. The Parking Manager is reprioritising work loads to enable this to be undertaken by the end of February.

AIN 021 - The reconciliation process in relation to car parking income, ie tickets issued and income received, has been agreed and established between car parks and finance teams, and is now in place and operating on a monthly basis. This is working well and only a few final adjustments are required before this risk can be signed off as fully complete. The final adjustments will be made by the end of February 2013.

In reply to Members' questions, the Internal Audit Partnership Manager stated that there was an intention to re-audit this area of work as it represented a high risk. The Head of Finance added that there had been fraud in this area before and the income from Car Parks was significant to the Council and the intention was that the actions would be addressed before February 2013, if at all possible.

The Head of Estates provided further details in respect of audits EST036/037 relating to cash collection in the staff canteen and assured Members that stock control was now provided through the Guildhall's processes and would show reduced costs. In addition, stock control would be the subject of an external stock control audit and wastage could be reduced under the Guildhall's control. The till was also visible to users of the staff canteen.

RESOLVED:

That the matters raised by Internal Audit and action taken by Management be noted.

7. **TREASURY MANAGEMENT MID YEAR REVIEW 2012/13**
 ([Report AUD047 Refers](#))

The Head of Finance highlighted that the Council had taken on no new borrowing this year to date and was not intending to take on any more before the year end. Additionally, the investment in the Local Authorities Mutual Investment Trust (LAMIT) represented 4% of the Council's investments, but returned 30% of the income. From data obtained from Arlingclose Client Benchmarking, the Council's investments represented below average risk, but also achieved a below average return.

It was also explained that the rates of interest achieved on investments were as follows:

| | |
|--------------------------|-------|
| Current Account – | 0.8% |
| Call Accounts - | 0.75% |
| Money Market Funds - | 0.57% |
| Local Authorities - | 0.39% |
| Debt Management Office - | 0.25% |
| Banks- - | 0.6% |
| Building Societies - | 0.47% |
| Long Term Investments - | 6.8% |

The rates of interest achieved on investments would be included in future Reports.

RESOLVED:

That the Treasury Management Mid Year Monitoring Report for 2012/13 and the updated Prudential Indicators provided at Appendix A to the Report be approved.

8. **INTERNAL AUDIT PARTNERSHIP REVIEW**

The Head of Finance provided an update on the review of the Internal Audit Partnership.

The Head of Finance reported that the Council's Constitution (Part 4 – Financial Procedure Rules – paragraph 3) required that the provision of a continuous internal audit in accordance with the CIPFA Code of Practice for Internal Audit in Local Government be ensured.

The Council's Internal Audit service was currently delivered in partnership with Havant and Test Valley Borough Councils, whereby the Internal Audit Partnership Manager was employed by Havant and worked across the three councils. Havant had been considering how they could bring together the

internal audit services for East Hampshire (which was currently outsourced) and themselves, to support their alignment of shared management teams and shared systems across the two authorities.

Various options had been considered by them, including whether the current three way partnership arrangements could be stretched four ways. In conclusion, Havant were now progressing with a view to TUPE transfer of their own staff to the Hampshire County Council/Southampton City Council (HCC/SCC) Internal Audit partnership on 1 April 2013.

As a consequence the Head of Finance was now commencing a review of options for the delivery of Internal Audit services. This would include consideration of the City Council also joining the HCC/ SCC partnership. The intention was to provide a report to the next meeting of the Personnel Committee in January 2013 to ease uncertainty for staff and to minimise service disruption. The Audit Committee was a stakeholder in this process.

In answer to a Member's question, that Head of Finance stated that the City Council would need to ensure that its own requirements were met and this would include it having a voice in any larger partnership arrangement, or in any other options that might be pursued.

RESOLVED:

That the oral update be noted.

9. **EXEMPT BUSINESS**

RESOLVED:

1. That in all the circumstances, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

2. That the public be excluded from the meeting during the consideration of the following items of business because it is likely that, if members of the public were present, there would be disclosure to them of 'exempt information' as defined by Section 100I and Schedule 12A to the Local Government Act 1972.

| <u>Minute Number</u> | <u>Item</u> | <u>Description of Exempt Information</u> |
|----------------------|--|--|
| ## | Internal Audit Annual Report to 31 October 2012 Appendix E (E1 Cash Collection) |) Information relating to the financial or business affairs of any particular person (including the authority holding that information).) (Para 3 Schedule 12A refers) |

| | | |
|---|---|--------------------------------|
| Appendix E (Guildhall Stock Control) |) | Information relating to any |
| |) | individual. (Para 1 Schedule |
| |) | 12A refers) |
| |) | |
| |) | Information which is likely to |
| | | reveal the identity of an |
| | | individual. (Para 2 Schedule |
| | | 12A refers) |
| | | |
| | | Information relating to the |
| | | financial or business affairs |
| | | of any particular person |
| | | (including the authority |
| | | holding that information). |
| | | (Para 3 Schedule 12A refers) |
| | | |
| | | Information relating to any |
| | | consultations or negotiations, |
| | | or contemplated |
| | | consultations or negotiations, |
| | | in connection with any labour |
| | | relations matter arising |
| | | between the authority or a |
| | | Minister of the Crown and |
| | | employees of, or office |
| | | holders under, the authority. |
| | | (Para 4 Schedule 12A refers) |

10. **INTERNAL AUDIT PROGRESS REPORT TO 31 OCTOBER 2012**
(Report AUD046 exempt appendix E refers)

The Committee considered the above Report which set out issues relating to Cash Collection and Guildhall Stock Control (details in exempt minute).

The meeting commenced at 6.30pm and concluded at 8.15pm.