

**AUDIT COMMITTEE**

**29 June 2011**

Attendance:

Councillors:

Hammerton (Chairman) (P)

Banister (P)  
Higgins  
Hutchison  
Mather (P)

McLean (P)  
Mitchell (P)  
Sanders (P)  
Verney (P)

Deputy Members:

Councillor Power (Standing Deputy for Councillor Hutchison)

Others in attendance who addressed the meeting:

Councillor Wood - Portfolio Holder for Finance and Estates.

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1. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman welcomed to the meeting Mr P Jarvis (District Auditor) and Mr M Bowers (Audit Manager) from the Audit Commission, the Council's external auditors.

The thanks of the Committee were also forwarded to Alexis Garlick, Head of Finance, and her team for the preparation of the year end accounts for the Council.

2. **APPOINTMENT OF VICE-CHAIRMAN FOR THE 2011/12 MUNICIPAL YEAR**

RESOLVED:

That Councillor Banister be appointed Vice-Chairman for the 2011/12 Municipal Year.

3. **FUTURE MEETING DATES AND TIMES**

RESOLVED:

1. That the timetable of meetings for 2011/12 be agreed as set out on the agenda.

2. That meetings of the Committee normally commence at 6.30pm, except on 26 September 2011 when the meeting will commence at 5.00pm to facilitate a meeting of The Overview and Scrutiny Committee to meet at 7.00pm on the same evening.

4. **REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT (INCLUDING END OF YEAR REPORT TO 31 MARCH 2011)**

(Report [AUD001](#) Refers)

In reply to questions from the Committee, the Head of Internal Audit stated that a good response had been received from management to areas that had been given a limited opinion as detailed in Section 2 of the Report, including car parks and cash collection. In the case of car parks, the reasons for the deficient income had been investigated and had led to a successful prosecution.

It was further explained that the limited opinion in respect of creditors was valid at the time that the audit was undertaken and referred to the segregation of duties. A further audit was being undertaken currently. The limited opinion in respect of Housing Services referred to results and tests of records, which could be more effective. The audit was at draft report stage.

The audit of flexible working was now complete and would be reported to a future meeting. This had been delayed in its completion due to the redirection of audit resources towards special investigations during the last financial year.

With regard to the High Risk Internal Audit Agreed Actions Outstanding as set out in Appendix D of the Report, in respect of a review of tendering procedures, the Corporate Director (Governance) stated that the high level actions had been completed with new Contracts Procedure Rules agreed at Council in July 2010. However, outstanding actions associated with the guidance would need to take account of the new transparency requirements and this action was expected to be achieved by September 2011.

The sums involved in the special investigations referred to in Appendix B, page 13 of the Report were approximately £8,500 for market rents and £7,500 for car parks with no material financial loss for housing. It was also reported that in respect of the overpayment of wages, in the highest case the monies were being repaid through substantial monthly salary deductions over a defined period.

The Head of Internal Audit agreed to circulate to Committee members the details referred to in Paragraph 2.5, page 19 of the Report for the one recommendation raised in a previous audit that still required attention.

Members requested that future reports contain additional detail in respect of the most important highlighted cases.

## RESOLVED:

1. That the findings contained in the review of the effectiveness of Internal Audit and the conclusion that there is a substantial compliance with the CIPFA Code of Practice for Internal Audit in Local Government 2006 be noted.
2. That the matters raised by Internal Audit and action taken by management be noted.

5. **RISK MANAGEMENT UPDATE**

(Report [AUD002](#) Refers)

The Committee explored the relationship between the risk management process and the outcomes of the Council's Informal Scrutiny Groups where their work overlapped.

It was noted that the Informal Scrutiny Groups would take a view on process and timetable and gave confidence that the correct course of action was being followed, which in turn may have an outcome on how officers addressed the risk. For example, the Asset Management Plan (Corporate Risk 5003) would be reported to Cabinet in September, and the draft report would be submitted to the Asset Management Informal Scrutiny Group for its consideration in the autumn.

Members requested that consideration be given to combining the quarterly updates (as set out in Appendix B to the Report) as a separate column within the information provided in the Corporate Risk Register April 2011 - March 2012 (as set out in Appendix A to the Report) for ease of understanding. It was also requested that Members be offered the opportunity to be trained in the use of the Council's Risk Management Tool.

## RESOLVED:

That the following be noted:

1. The requirement to provide more information in the judgement of current and target risk scores.
2. The Corporate Risk Register and the progress in treating these risks.
3. The intention of reporting progress with Emerging Issues and Corporate Risk together.
4. Additional training in the use of the Risk Assessment Tool.
5. Additional guidance to officers in outlining Risk Management Issues within Committee reports.

6. **CORPORATE GOVERNANCE REPORT AND ANNUAL GOVERNANCE STATEMENT**

(Report [AUD003](#) Refers)

At the invitation of the Chairman, Councillor Wood informed the meeting that although the Council did have a balanced three year budget there was a need to make some changes in respect of assumptions on income, which was lower than expected, and that this would be reported to Cabinet in July.

In reply to Committee questions on Appendix C, the officers explained that the consultation process on the budget had been thorough and had included presentations to parish councils and local businesses as well as political scrutiny. Full Council was able to make changes when the Budget was submitted by Cabinet for approval.

In respect of the e-induction portal facility, the employee Code of Conduct induction module was required to be signed off by individual new starters and was monitored by the Head of Organisational Development.

The comments on the anti fraud and corruption policy with regard to arrangements for whistle blowing were designed to bring the intranet link to the Internet version into line to ensure consistency of information.

The monitoring of individual Member's performance to assess training needs would take considerable resources to monitor and instead an approach was taken to consult group leaders/managers on general needs.

Although the consultation "E-panel" had proved unsuccessful, the Council did have a number of successes in consultation on specific topics, such as Blueprint, and was working on different ideas to ensure that the public's views were considered effectively.

RESOLVED:

1. That the Audit Committee approves the Annual Governance Statement for 2010/11 as set out in Appendix A of the Report.

2. That the issues arising and proposed actions identified in Section 5 of Appendix A be noted, and that a monitoring report be brought back to the Audit Committee in six months time.

7. **TREASURY MANAGEMENT POLICY AND PRACTICES**

(Report [AUD004](#) refers)

The Head of Finance answered questions from the Committee. With regard to the guidance that no more than 25% of outstanding investments be placed in any one institution at the time the investment is made, it was explained that this was in conjunction with maximum investment limits in a range of £1 million to £3 million. The cash available for the Council to invest was continuing to reduce so that as the total funds invested reduced, the 25%

constraint would override the £3m limit. In addition, it was likely that the Council could shortly enter a period where it borrowed money, particularly if it was required to under the provisions in the Localism Bill for the revised financing arrangements for the Housing Revenue Account.

The Head of Finance reported that training would be provided to Members on Treasury Management.

RESOLVED:

That following consideration of the Treasury Management Policy and Practices no matters be raised for further consideration with the Head of Finance.

8. **EXTERNAL AUDIT PLAN 2010/11**

(Report [AUD005](#) refers)

Mr P Jarvis (District Auditor) and Mr M Bowers (Audit Manager) from the Audit Commission outlined the Audit Plan to the Committee.

Mr Jarvis and Mr Bowers confirmed that specific recommended audit actions on risks and controls, as highlighted in the Report, had been brought to the attention of management, including the Head of Finance.

RESOLVED:

That the external Audit Plan 2010/11 be noted.

9. **ANNUAL AUDIT FEE 2011/12**

(Report [AUD006](#) refers)

Mr P Jarvis (District Auditor) and Mr M Bowers (Audit Manager) from the Audit Commission explained the basis of the annual audit fee 2011/12 to the Committee.

RESOLVED:

That the Audit Fee 2011/12 be noted.

10. **FUTURE OF LOCAL PUBLIC AUDIT - CONSULTATION**

(Report [AUD007](#) refers)

The Committee noted that the Report was not notified for inclusion within the statutory deadline. The Chairman agreed to accept this item onto the agenda, as an item requiring urgent consideration, in order that the matters detailed within the Report could be determined at the earliest opportunity to enable comments to be made within the consultation deadline.

The Committee gave consideration to the suggested responses to consultation as proposed by the Head of Finance and as detailed in the Appendix to the Report. She stated that since publication of the Report, representations had been received on the consultation responses relating to the suggested inclusion of independent members on Audit Committees (point 12) and to the audit thresholds for smaller bodies (point 42).

Following debate, amendments to the responses to consultation in respect of points 12 and 42 were agreed as set out in the resolution below.

**RESOLVED:**

That following consideration of the proposed responses to the "Future of Public Audit – consultation" the following changes to the responses be made:

Point 12 . Do you think we have identified the correct criteria to ensure the quality of independent members? If not, what criteria would you suggest?

***Yes. However we would also comment that we do not agree with the notion of independent members on the Audit Committee. This is overly prescriptive and misunderstands the relationship between the council and elected members. Elected (non-executive) Members are already independent of the organisation and represent the interests of local tax payers. We do not consider that a further level of independence is required or appropriate. We are also concerned that these proposals would increase the costs to the tax payers.***

Point 42 . Which option provides the most proportionate approach for smaller bodies?

*We believe that the proposed threshold for level 1 should be increased from <£1,000 to up to £15,000 as the additional burdens and costs would exceed any benefit to be gained. Consequently level 2 should be amended to over £15,000 and up to £50,000.*

**11. STATEMENT OF ACCOUNTS 2010/11**  
(Report [AUD008](#) refers)

The Head of Finance gave a presentation on the pre-audit Statement of Accounts.

In accordance with the new legislation, the pre-audit statement of accounts would be signed by the Head of Finance on 30 June 2011. The Statement of Accounts would be published on the City Council's website and would be available for public inspection from 15 July to 11 August 2011, with the Auditor available to answer any questions from electors on 12 August 2011.

The final (audited) accounts would be required to be approved by the Audit Committee by 30 September 2011, and there would be opportunity at the next meeting for the Committee to review the Statement of Accounts in detail, whilst also receiving the Annual Governance Report from the External Auditor.

Audit Committee members would receive training on their responsibilities in respect of the statement of accounts prior to the meeting of the Committee to be held on 26 September 2011.

The principal changes to the presentation of accounts were brought about by adoption of the International Financial Reporting Standards. These included more disclosures on the Accounts including new sections relating to the Movement in Reserves statements, Comprehensive Income and Expenditure statements, Balance Sheet and Cash Flow statements. There were also new accounting policies to take into consideration, for example the treatment of depreciation on Council properties valued in excess of £1.5million and the treatment of untaken annual leave.

Significant movements in the Balance Sheet from the previous year included a decrease in the liability of local government pensions following the link of pensions to the consumer price index (a decrease in liability of £16m) and the revaluation of long term assets held by the City Council (an increase of £24m). It was explained that, within the Comprehensive Income and Expenditure Account, underlying service performance was showing a net underspend of £0.8m comprising underspends of £2.1m offset by overspends in relation to provisions and lower income of £1.3m. A more detailed explanation of the movements would be contained in the financial outturn report.

The External Auditors had also raised a query in relation to the Council's retained capital receipts which is being taken up with DCLG. Whilst this query is outstanding an equivalent amount is being retained and will not be committed until the matter has been resolved.

**RESOLVED:**

That the changes in the requirements for approval of the Statement of Accounts for 2010/11 be noted and that the presentation from the Head of Finance on the pre-audit Statement of Accounts be received.

The meeting commenced at 6.30pm and concluded at 8.55 pm.

Chairman