

AUDIT COMMITTEE

5 December 2011

Attendance:

Councillors:

Hammerton (Chairman) (P)

Banister (P)

Higgins (P)

Hutchison (P)

Mather (P)

McLean

Mitchell (P)

Sanders (P)

Verney

Deputy Members:

Councillor Warwick (Standing Deputy for Councillor McLean)

1. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman welcomed to the meeting Mr S Taylor (Director of Audit) and Mr M Bowers (Audit Manager) from the Audit Commission, the Council's external auditors.

2. **MINUTES**

RESOLVED:

That the minutes of the previous meeting held on 26 September 2011 be approved and adopted.

3. **ANNUAL AUDIT LETTER 2010/11**
[\(Report AUD021 Refers\)](#)

Mr S Taylor and Mr M Bowers from the Audit Commission introduced the Annual Audit Letter for 2010/11.

In both the audit of financial statements and the assessment of arrangements to achieve value for money in the use of resources, the opinions had been unqualified and represented positive conclusions. The letter also included current and future challenges over the next 12 months, which included the proposed changes in the Government's Welfare Reform Bill and the Localism Act. The Audit Commission's representatives thanked the City Council's officers for their co-operation in preparation of the accounts.

In answer to Members' questions, Mr Taylor confirmed that the Council should be mindful of the funding implications for enabling local groups to take over community facilities and services under the Localism Act.

The Head of Finance also confirmed that the Council was publishing all expenditure in excess of £500 in accordance with new public services and transparency requirements. The objective was that, in time, these would be published on a monthly basis. The officers were also alert to the possibility of fraud that could result from such publication and, for example, additional validations of supplier details were being undertaken.

The Committee expressed its gratitude to the officers in achieving a positive Annual Audit Letter, particularly given the added complexity of the additional challenges arising from the introduction of IFRS accounting.

RESOLVED:

That the Annual Audit Letter be accepted.

4. **FUTURE OF LOCAL AUDIT – PROCUREMENT UPDATE**
([Report AUD022 Refers](#))

In reply to a Member's question, Mr Taylor clarified that the period of consultation with audited bodies on the auditor appointments was to prevent conflicts of interest where the appointed auditor was already employed by a local authority for other consultancy work. In such cases, an alternative appointment could be made.

The Chief Executive on behalf of the Committee thanked the representatives of the Audit Commission for their work on behalf of the authority.

RESOLVED:

That the proposals for the future of local audit be noted.

5. **POOLING OF HOUSING CAPITAL RECEIPTS**
([Report CAB2246 refers](#))

MINUTE EXTRACT CABINET 9 NOVEMBER AND OVERVIEW AND SCRUTINY 14 NOVEMBER 2011
([Report AUD024 Refers](#))

The Corporate Director (Governance) reported that, in accordance with Cabinet's decision, the pooling payment of £1,635,280 had now been made to the Department of Communities and Local Government (DCLG).

In reply to questions from the Committee, the Corporate Director (Governance) and the Head of Landlord Services explained that the decision in principle to dispose of the properties referred to in report CAB2246 (Barnes House and 84-88 Sussex Street) had already been taken by Cabinet. It was

noted that the properties would now be used on a temporary basis for homeless accommodation over the next 12 months. However, the need for the temporary accommodation would be reviewed in 2012/13, at which point the longer use of the properties in question could also be reconsidered. The valuation and price for disposal would also need to be considered by Cabinet in due course. The properties should be disposed of in due course as they were unsuitable for conversion for long term use by the Council.

The Corporate Director (Governance) also explained the background to the decision to take the course of action to pool the Housing Capital Receipts. Under a recent consultation paper, the DCLG had outlined how it intended to clarify for the future the rules regarding the pooling of housing capital receipts. The City Council had also taken legal advice as to whether there was a case for redress following the sign off of the Accounts by the Council's external auditors since 2006, when the original decision was taken. However, the advice provided was that such a course of action was unlikely to be successful, principally based on advice that the City Council had primary responsibility over the issue (and the position of the external auditor was ancillary) and that the Council was not in a position to show actual loss as the pooling requirement meant that the relevant proportion of the receipts always belonged to the Government.

RESOLVED:

That the report be noted.

6. **INTERNAL AUDIT PROGRESS REPORT TO 30 NOVEMBER 2011**
([Report AUD017 refers](#))

The Internal Audit Manager updated the Committee on the latest position in respect of outstanding high risk audit actions set out in Appendix C to the report. The latest position showed improvement as the action referred to under Code OD/031 had been completed; AIN/017 had also been completed; AIN/021 would commence in December 2011; LEG/004 was still outstanding, but work had been undertaken on revising the Contract Procedure Rules (approved by Council), although contract management guidance was still required; EST/036, EST/037 and EST/038 would commence in January 2012, and that LAN/017 would be considered under the Council's new Property Services arrangements.

In answer to a Member's question, the Internal Audit Manager explained the balance of auditor time spent between the authorities in the Audit Partnership and how judgments were made on the allocation of audit resources to deal with the work. The approach had been discussed by Corporate Management Team which supported taking a risk based approach, utilising in house or external audit services as required and undertaking shorter audits.

Members asked further questions of the Internal Audit Manager and the Head of Landlord Services over the findings of the internal investigation into Property Services as set out in Appendix B to the Report. The Head of

Landlord Services explained that a number of control weaknesses had been identified, which could have had the potential to lead to errors, but no significant errors had been found. He was satisfied with the actions proposed to reduce risk and that a number of these would be progressed through the Cabinet (Housing) Committee. In respect of the review of mileage claims submitted by officers within Property Services, the resultant investigation had identified a number of corporate actions to be implemented and these were being progressed by Payroll Services and by making the instructions and associated guidance on the rules regarding mileage claims more accessible to staff.

In respect of Appendix C, Internal Audit follow-up Review of Outstanding High Risk Audit Actions, the officers were requested to consider whether additional information could be included in future reports to allow Members to better understand the scale of the risk.

RESOLVED:

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

7. **ANTI-BRIBERY POLICY AND ACTION PLAN**
([Report AUD018 refers](#))

The Internal Audit Manager stated that a framework had been designed to mitigate the risks of bribery and that such a measure would be expected to be in place by third parties undertaking business with the Council. All staff in the authority would be made aware of the policy.

In response to questions, the Corporate Director (Governance) explained that the policy would become part of the Constitution to complement existing guidance, which was already contained within this document.

RESOLVED:

That Winchester City Council's Anti-Bribery Policy (Appendix A) and Action Plan (Appendix B) be approved and incorporated in the Anti- Fraud and Corruption Section of the Constitution.

8. **INTERNAL AUDIT CHARTER**
([Report AUD019 refers](#))

The Committee noted that the Internal Audit Team had recently been awarded Customer Service Excellence Accreditation and Members' appreciation for the good work carried out by the team was forwarded to the Internal Audit Manager.

RESOLVED:

That the Internal Audit Charter be approved.

9. **INTERNAL AUDIT PARTNERSHIP REVIEW AND INTERNAL AUDIT RESOURCES**

([Report AUD023 refers](#))

The Head of Finance stated that the Audit Committee was being consulted as part of proposals to reduce the Audit Team by half a full time equivalent post. The post was vacant at the present time and had the support of Personnel Committee for its deletion. The Corporate Management Team had requested that consultation take place on the proposals to take into account potential efficiencies, balances to risks and internal audit arrangements. The close of consultation would be in March 2012 and a consequence of the post deletion would be a reduction in the total number of audit days available.

In answer to Members' questions, the Internal Audit Manager clarified that temporary staff would supplement the team as required and that, with a risk based approach to audit, a method could be developed to offset some of the lost auditing days without impacting on service delivery.

RESOLVED:

That the consultation on the proposed reduction to internal audit days from 2012/13 be noted and that no matters be raised.

10. **ANNUAL GOVERNANCE STATEMENT AND CORPORATE RISK MONITORING**

([Report AUD016 refers](#))

The Committee noted that in the Appendix to the Report, there was a repetition of the wording on page 7 under the action to be taken relating to Performance Management and Leading the Response to Climate Change and the correct wording was provided to the meeting. The Chief Executive added that consideration would also be given to including additional information on risks in future reports for improved clarity and to allow Members to better understand the risk.

In reply to questions about the mobilisation of new contracts and the risk impact, it was noted that an update report on the Environmental Services Contract would be submitted to Cabinet and the Overview and Scrutiny Committee in January 2012.

RESOLVED:

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

11. **TREASURY MANAGEMENT MID-YEAR REVIEW 2011/2012**

([Report AUD015 refers](#))

The Head of Finance stated that the principal points within the Report were that the Council had no external debt and that, in response to a deteriorating

investment market, the Council's risk adverse policies meant that returns were relatively low.

In view of the implications of Housing Finance Reform, as detailed in report AUD020 and in the Minute post, and in the context of decreasing cash reserves, the Council had a policy to invest in the short term. This was to maintain liquidity and security requirements rather than to undertake long term investments that offered increased returns but with associated increased risk.

Members enquired whether better returns on investments could be achieved, particularly when the negative effect of inflation was taken into consideration. Options discussed included increasing borrowings to hedge against inflation or to further invest in the Local Authorities Mutual Investment Trust. The Head of Finance commented that with the Capital Financing Payment taking place in 2013 the Council would at this stage have less cash to invest.

RESOLVED:

1. That the Treasury Management Mid-Year Monitoring Report for 2011/12 be approved.
2. That the updated Prudential Indicators provided at Appendix A to the report be noted.

12. **TREASURY MANAGEMENT STRATEGY – IMPLICATIONS OF HOUSING FINANCE REFORM**
([Report AUD020 refers](#))

The Head of Finance stated that this was the first in a series of reports to Members, which would provide information prior to setting the budget in the context of Housing Finance Reform. The Report highlighted the changes in strategy that would be required to have the fundamentals in place for implementation of Housing Finance Reform. For example, the Report recommended a change to key performance indicators to set the new cap to borrow against for housing at £166,300,000, which would allow a payment of £157,393,000 to be made to the Department of Communities and Local Government on 28 March 2012. The Housing Refinancing Informal Policy Group would also provide guidance for this transition period.

The Committee agreed to the approach taken in respect of Housing Finance Reform and further debated the options for temporary investment. The Head of Finance commented that this would be considered by the Council in the process of approving the Revised Treasury Management Strategy.

RESOLVED:

- That the Audit Committee note the implications of the Housing Finance Reform on the Treasury Management Strategy for 2011/12 and the Prudential Indicators that will be affected.

13. **MUNICIPAL MUTUAL INSURANCE – LIABILITY AS A MEMBER**
([Report AUD014 refers](#))

The Head of Finance reported that the information within the Report would be taken into consideration when preparing the Council's Statement of Accounts for 2011/12.

RESOLVED:

That the report be noted.

The meeting commenced at 6.30pm and concluded at 9.05pm.

Chairman