



MINUTES

AUDIT COMMITTEE

4.30 pm – 6.35 pm

21 June 2011

Present: Councillors Little (Chair), Jeraj, Kendrick, Makoff, Waters and Wright

Also Present: Tony Poynton and Rob Murray of the Audit Commission

Apologies:

1. APPOINTMENT OF VICE CHAIR

RESOLVED to appoint Councillor Kendrick as vice-chair for the ensuing civic year.

2. MINUTES

RESOLVED to agree the accuracy of the minutes of the meeting held on 22 March 2011.

3. TERMS OF REFERENCE

The head of finance said that the committee was the responsible body for audit within the council and that the approval of the annual statement was a key governance statement. He said that the terms of reference required a few refinements to take into account amended terms and names of documents. Further amendments may be required to align the terms of reference with the government's future proposals for audit committees as well as to reflect the committee's responsibility for reviewing the contract regulations and financial standing orders of the council. He informed members that any amendments would need to be considered by the constitution working party.

In response to members' queries, the head of finance said that the risk register reports were scheduled to come to committee twice a year and that items for future audit committee meetings would be included on the cabinet forward agenda.

The audit manager said that copies of the CIPFA guidance would be circulated to new members.

RESOLVED to:-

- (1) ensure that future audit committee items were included on the cabinet forward agenda; and

- (2) circulate copies of the CIPFA guidance to new members.

4. INDEPENDENCE OF THE AUDIT COMMITTEE

The head of finance presented the report and explained that the council had been unable to respond to the government's consultation due to the purdah period. However, the proposals were still to go through parliament so any recommendations and comments could be fed through to local MPs.

Members were concerned about the cost of independent members and required clarification around the term 'relevant finance experience'. Members also queried whether the independent members would understand the culture of local government and said that they could have a conflict of interest. For example, the independent members would most likely be contracted from a small pool of people in the area. The head of finance confirmed the narrow group of professional firms would bring an element of risk. Members also stated that as elected members, they should be responsible for the audit of the council. A member suggested that officers from other local authorities could be invited to attend the committee, to offer independent advice. In response, a member said that the council's own officers provided the expertise and that the audit commission's regular attendance provided an independent voice.

Members said that they required further support in order to carry out their role on the audit committee, to ensure that they felt confident in making decisions, and that each decision was grounded in comprehensive information. The development of a competency framework for audit committee members could help to inform an appropriate training programme. The head of finance informed members that a workshop for members had been scheduled for September 2011 to provide technical insight into the council's statement of accounts.

The chair summarised that a balance was required and that the audit committee should retain its democratic function. He concluded that there was some difference in opinion of the benefit of independent professional advice to the committee.

RESOLVED:-

- (1) to ask the head of finance to develop a 12 month training programme for audit committee members;
- (2) to receive a further report on the detailed proposals following the publishing of the bill; and
- (3) to ask the head of finance to draft a letter to local MPs in response to the proposals.

5. PROGRESS REPORT 2010-11

Rob Murray, Audit Commission, presented the report and informed members that the conclusion of 2009/10 relied on the completion of the annual report of the certification of claims and returns. This was nearing completion. In response to members' questions, the head of finance explained that a certification letter would be sent directly to the DCLG and that a report summarising the grants made would be

presented to the audit committee. Rob Murray, Audit Commission informed members that a number of proposed legislative changes would have an impact upon grants within the next financial year. The impact was as yet unknown however an update report would be provided to the audit committee later in the year.

The head of finance informed members that the action plan had been included into the corporate performance monitoring system, providing regular updates and a reporting mechanism.

In response to a members' query regarding NELM, the head of finance said that the DCLG had raised a number of issues and that work was underway to resolve these. External accountants were reviewing grants claims and the position should be clear within the next two weeks. The outcome would be reported to the committee.

RESOLVED to note the progress report of the audit commission.

6. FEE LETTER 2011-12

Rob Murray, Audit Commission, explained the contents of the fee letter. Significant drivers for the year included the VFM conclusion work (which was to be reduced and streamlined); and the audit commission restructuring costs. These costs would be uncertain until the future of the audit commission was clarified. He informed members that rebate costs would be offered in autumn 2011.

In response to a question from the chair regarding whether there were any options to reduce the fee, Rob Murray, Audit Commission said that fees were expected to reduce significantly following the restructure. Tony Poynton, Audit Commission said that in the recent past, the benefits audit had been partially responsible for increased costs.

RESOLVED to note the audit work that the audit committee propose to undertake for the 2011/12 financial year.

7. ANNUAL REPORT ON INTERNAL AUDIT 2010-11

The audit manager presented the report and said that the annual audit opinion had been based on internal audit reviews which also looked at previous findings of the audit commission and the status of the recommendations made. The report should be viewed in conjunction with the annual governance statement.

In response to members' questions, the audit manager explained that some of the 2010/11 recommendations, as listed in appendix 1, needed completion; that the chargeable days target had been reduced from 74% to 70% due to a reduction in FTE; and that accounts receivable had been outstanding from the previous audit with partial assurance. An IT upgrade to the Northgate system would be required to ensure full PCI compliance.

The contract for purchase cards would be due for re-let in December 2011/January 2012 which would allow any control issues to be addressed. He said that in practice, most officers did not use their cards which reduced the liability from £1m to £200,000. There was a need to ensure that the bank complied properly with the automatic blocking of purchases. The head of finance said that he had some

concerns regarding the scheme and had instructed all non-use and low volume cards to be withdrawn. He had also requested further analysis work on whether to withdraw the full scheme.

Procurement and the review of internal control issues could be an area for future consideration because of the potential for fraud and savings. This was also an area highlighted by the audit commission report 'protecting the public purse.' A member said that a group of officers and the relevant portfolio holder were reviewing procurement and contracts, as part of the capital programme board.

RESOLVED to note the annual audit opinion and review the work of internal audit for 2010-11.

8. ANNUAL REPORT ON COUNTER FRAUD ACTIVITY 2010-11

The audit manager presented the report and said that it had been a successful year of counter fraud activity including the clearing of 85% of all matches under the national fraud initiative. A member suggested that the report should include the total number of people claiming benefits, to help set the context of the report.

The head of finance said that the work of the fraud team had increased the council tax base, which ultimately entitled the council to receive £200,000 for each of the next six years. He also congratulated the fraud team for their excellent press coverage, which could be used as a deterrent to fraud, and the good relationship they had built with the crown court. Members congratulated the officers but said that care should be taken to ensure that the publicity did not discourage those that were eligible to claim.

In response to a member's questions, the fraud team leader said that a housing fraud policy was being developed which should help to address the unlawful sub-letting of council properties; that a fraud awareness course was being arranged for officers within the housing service; and that a five year programme was being developed to identify fraudulent tenants.

RESOLVED to note the annual report on counter fraud activity 2010-11.

9. DRAFT ANNUAL GOVERNANCE STATEMENT 2010-11

The audit manager presented the report and said that the annual governance statement would continue to be updated until its submission on 30 June 2011.

In response to a member's query, the head of finance said that the statement of accounts would be discussed at the members workshop scheduled for September 2011. Any amendments would need to be approved at that point in time with the audit commission.

Some members suggested that there had been two omissions from the annual governance statement. These included the ongoing NELM issues which had had a substantial impact on internal audit; and the Connaught contractor going into administration. In response, the audit manager explained that NELM had not been considered a governance issue because it finished in 2009-10 and that it was referred to in section five in reference to the resource impact on the internal audit

team. With regard to the Connaught contract, he said that it had not been a control issue or governance issue because business continuity arrangements had been in place and re-procurement of the contract had been successful. Therefore the case demonstrated good governance. It could be reported within the business continuity and risk management section of the annual governance statement although the appropriateness of its inclusion would need to be considered. Rob Murray, Audit Commission, said that there was some merit in mentioning the Connaught issue in the foreword to the statement of accounts.

In response to questions from the chair, the head of finance said that the policy and budget framework was approved at full council in February 2011. Although some details had been deferred, these were not relevant for inclusion in the 2010/11 statement.

Members considered that some areas of the report required slight rephrasing to reflect that although the corporate improvement and efficiency board was no longer required, the work was ongoing; to include the frequency of the corporate governance group; and that staff were required to sign-up to the whistle-blowing policy which was available on the intranet. The head of finance confirmed that with regard to contractors, the council would need to provide the policies, but that it would be the responsibility of the contractors to manage their staff. If they were in breach of the policies, compliance would need to be investigated.

RESOLVED to approve the draft annual governance statement for 2010-11, subject to the following:

- (1) ask officers to consider the inclusion of the Connaught issue within the annual governance statement; and
- (2) amend the wording of the report to reflect the comments recorded in the minutes above, and to circulate to members for comment.

10. INTERNAL AUDIT AND COUNTER FRAUD PLANS 2011-12

The audit manager presented the report and informed members that there had been a few amendments to the draft internal audit plan. Amendments included an increase in resources due to the CLG queries around NELM; the requirement to audit the progress of the 'commissioning and grants payable' project; the incorporation of the sports facilities into the 'tourism, sports and events' audit; and the incorporation of care and repair into the 'maintenance of housing stock' audit. In response to a member's question, he said that whilst four audits were outsourced last year, the total would potentially double for the upcoming year due to the need for technical expertise, for example IT audits.

RESOLVED to approve the internal audit and counter fraud plans for 2010-11.

CHAIR