



## **AUDIT COMMITTEE**

**4:30pm – 6:50pm**

**8 June 2010**

Present: Councillors Little (S) (chair), Bremner, Divers, Jeraj and Makoff

Also Present: Helen Devlin (Audit Manager) of the Audit Commission

Apologies: Councillors George and Waters

### **1. APPOINTMENT OF VICE CHAIR**

**RESOLVED** to appoint Councillor Driver as vice chair for the ensuing civic year.

### **2. MINUTES**

**RESOLVED** to agree the accuracy of the minutes of the meeting held on 30 May, subject to resolution (1) of minute 3 being amended to state “ask the Head of Finance to provide additional information on mitigation actions within future reports on the Corporate Risk Management Review.”

#### Internal Audit Planning for 2010/11

In response to a question from Councillor Jeraj, the Chief Executive said that it was likely that service plans would need to be reviewed in the light of any budget changes proposed by the Coalition Government including the proposed freeze on council tax and adjustments to the revenue support grant settlement.

**RESOLVED** to note the position.

#### Audit Opinion Plan 2008/09 and Annual Governance Report 2008/09

The chair reported that the District Auditors’ action plan had been circulated to members by email and hard copies were also circulated at the meeting.

### 3. PROGRESS REPORT

Helen Devlin, Audit Manager (Audit Commission) presented the report, and answered questions. She explained that the Norwich Highways Agency Committee would receive the report on their specific audit but it was also considered appropriate to update the City Council's progress. In response to a question from Councillor Makoff, the Finance Control Manager said that the fees for these audits were paid from the Highways Agency budget.

The Audit Manager (Audit Commission), explained that the delays to the completion of the audit for the Norwich Highways Agency Committee had been due to issues in respect of the audit of the City Council's accounts which were more complex than originally anticipated.

In response to a question from the chair, the Chief Accountant confirmed that the Council would be in a position to comply with the timescale for closure of accounts and completion of the audits for 2009/10.

**RESOLVED** to note the Audit Commission's report on work completed to date and work to be completed during the rest of the year.

### 4. FRAUD AND CORRUPTION – DISCUSSION PAPER

Helen Devlin Audit Manager, (Audit Commission) presented the report and answered questions.

The chair referred to the Committee's discussions at the workshop on "Protecting the Public Purse" held earlier in the day.

In response to a question concerning the review of the design of authorisation controls within the MacDonald Douglas property maintenance system, the Chief Accountant explained that McDonnell Douglas was no longer used and that there would be a review of audit controls within the system used by May Gurney who have been appointed as principal contractor.

**RESOLVED** to note the enquiries of the District Auditor in relation to the Council's fraud and corruption arrangements.

### 5. IFRS BRIEFING

Helen Devlin, Audit Manager (Audit Commission) introduced the report.

The Chief Accountant explained that the PFI elements of the 2009/10 accounts would be subject to IFRS standards and that other elements of the standards would be introduced within the accounts for future years. She said that a specific model had been commissioned for the PFI elements to ensure that they complied with the IFRS requirements.

Discussion ensued during which members proposed that regular progress reports on the implementation of IFRS standards should be provided to the Committee for information. The Chief Accountant explained that work on specific requirements concerning the Council's leases was being progressed with the support of dedicated

staffing resources. She said that the application of the IFRS standards had provided benefits to the accounting processes but their value in assisting the understanding of the accounts was questionable.

**RESOLVED** to –

- (1) note the briefing paper on “countdown to IFRS”; and
- (2) ask the Head of Finance to provide regular reports on progress of the implementation of the IFRS standards at future meetings of the Committee.

## **6. CODE OF AUDIT PRACTICE FOR LOCAL GOVERNMENT AND STATEMENT OF RESPONSIBILITIES**

Helen Devlin, Audit Manager (Audit Commission) presented the report. She explained that the Code of Practice and Statement of Responsibilities were likely to be subject to review by the Coalition Government and an update on any revisions would be reported to the Committee in due course. In response to questions, Helen Devlin explained that the use of natural resources had been added as a new key line of enquiry within the use of resources assessment and that the Audit Commission were required to provide assessments on the Council's spending on both statutory and non-statutory functions.

**RESOLVED** to note the 2010 Code of Audit Practice and Statement of Responsibilities as outlined in the report.

## **7. ANNUAL CERTIFICATION OF CLAIMS 2008/09**

The chair introduced a report by stating that, in view of differences of interpretation between the Audit Commission and City Council's officers it was likely that a further report on the certification of claims would need to be considered at the next meeting.

Helen Devlin, Audit Manager (Audit Commission) presented the report and explained that the Annual Certification of Claims was a new mandatory requirement included within the Audit Commission's work programme. The Finance Control Manager explained that the certification report covered a wide range of claims from grant paying departments. Whilst there was complete agreement with the Audit Commission's findings on some of the claims audited, there were other areas where there was not total agreement. He explained that staff within his section were involved in preparing and ensuring the accuracy of claims, in liaison with other departments, but some systems or input errors were not readily identifiable. A senior member of Financial Services staff reviews each claim before submission and queries any apparent anomalies, but this review does not seek to duplicate the depth of scrutiny that the audit process is resourced to provide.

Discussion ensued during which Councillor Makoff expressed concern regarding allowances for asset disposal proceeds and project generated income within the management and administrative payments disclosed in the New Deal for Communities claim. She requested an explanation of the checking procedures for this specific claim. She also requested information on the checks made on payment made to partners delivering grant activities and questioned why there had been

insufficient audited statements from those partners certifying the eligibility of receipts and payments.

**RESOLVED** to –

- (1) ask the Head of Finance to report back on the issues identified within the annual certification of claims following further discussions with the Audit Commission; and
- (2) ask the Head of Finance to provide a written reply to Councillor Makoff on the issues raised concerning the New Deal for Communities claim.

## **8. INTERNAL AUDIT AND COUNTER FRAUD PLANS 2010/11**

The Audit Manager presented the report and answered questions concerning the priority ratings included within the plan.

Discussion ensued during which Councillor Jeraj asked whether specific audit of parking permits and the sub letting of garages were considered as specific areas of work to be included within the audit plan. The Audit Manager said that the issue of parking permits had been subject to a previous audit but that the Council would rely on patrolling officers to identify any incidences of fraudulent use. This area of work was not considered a high risk within the counter fraud plan but that specific cases would be investigated as required. Managers would be required to report any occurrences of fraud within the process for which they were responsible.

**RESOLVED** to approve the internal audit and counter fraud plans for 2010/11 as detailed in the report.

## **9. DRAFT ANNUAL GOVERNANCE STATEMENT 2009/10**

The Audit Manager presented the report and explained that any further amendments to the draft statement would be highlighted when the report was brought to the next meeting.

Discussion ensued during which members referred to the recommendation of CIPFA that the Chief Financial Officer of the Council should report directly to the Chief Executive and be a member of the leadership team. The Audit Manager explained that specific wording would need to be drawn up to explain in the Council's annual governance statement the reasons why the Council had adopted alternative management arrangements and how these would deliver the same impact as those recommended by CIPFA.

The Audit Manager then referred to the significant governance issues outlined in the statement. He explained that the Council's response to the Audit Commission's annual audit and inspection letter for 2008/09 had been incorporated within the action plan and published on the Council's website. It was proposed that the action plan in respect of the Audit Commission's annual government report for 2008/09 be included as an appendix and published on the website. The explanation concerning the role of the Chief Finance Officer and the action plan to address the weaknesses identified within internal audit would need to be included as appendices to the annual governance statement and published on the Council's website.

Helen Devlin, Audit Manager (Audit Commission) expressed concern that some responses were to be added as appendices to the statement and suggested that these be included within the body of the statement to ensure transparency.

During further discussion, Councillor Bremner suggested that specific issues concerning the Council's transformation programme and preparations for unitary status should be included within the annual governance statement. He also referred to the need to address the business continuity as a priority, particularly as this had an impact upon the Council's use of resources score. The Audit Manager explained that the Council was making significant progress on business continuity issues. A review of business continuity plans had been included within the internal audit plan and network backup systems had been tested. Specific elements of business continuity arrangements had been introduced but the Council's overall strategy required improvements.

Whilst Unitary status, the Council's budget savings and transformation programme, were not considered to be significant governance issues to be included within this year's statement, an additional section could be added to explain how the issues identified in the previous year's report had been addressed.

Councillor Makoff referred to evidence in respect of the Members Development Charter in the governance statement and asked for information on how elements of the charter were being developed.

**RESOLVED** to –

- (1) note the draft annual governance statement for 2009/10 and the plans to address the significant issues within it; and
- (2) ask the Audit Manager to –
  - (i) respond to specific issues raised by members concerning specific issues raised during the discussion;
  - (ii) submit a report on the final version of the annual governance statement for 2009/10 to the next meeting.
  - (iii) liaise with the Head of Legal and Democratic Services in order to reply to Councillor Makoff's questions regarding the Members Development Charter.

**10. ANNUAL AUDIT FEE LETTER**

Helen Devlin, Audit Manager (Audit Commission) presented the report and explained that the fees for future audit work would need to be reviewed as a result of the Coalition Government's intention to abolish the comprehensive area assessment. It was likely that future fees would be based upon the statutory audit and value for money assessments but specific elements of the use of resources assessment which had scored 1 would be subject to additional work to be included within the audit fee.

During discussion, Councillor Makoff suggested that further information could be provided on numbers of hours used to calculate the audit fee. Helen Devlin explained that the fees were calculated on the basis of the size of the organisation to be audited and it was not normal practice to give a breakdown of these calculations.

**RESOLVED** to –

- (1) note the annual audit fee letter for 2010/11; and
- (2) ask the Audit Commission to provide a link to the website giving details of the method of calculation of the audit fees for Norwich City Council.

CHAIR