



### AUDIT COMMITTEE

4.30 p.m. – 5.55 p.m.

23 November 2010

Present: Councillors Little (Chair), Bremner, Driver, Jeraj, Makoff and Wright (J)

Also Present: Helen Devlin and Tony Poynton of the Audit Commission

Apologies: Councillors MacDonald and Waters

#### 1. MINUTES

**RESOLVED** to agree the accuracy of the minutes of the meeting held on 26 October 2010 subject to Item 4 – Annual Governance Report 2009/10 being amended in the fourth paragraph to state that 'a total of £867,000 was currently owed by CLG to the council'.

#### Progress on the transition to IFRS

In response to a question, the head of finance said that the audit commission would be meeting with council officers to agree targets to be included within the action plan for the transition to IFRS which would be reported at the next meeting. Helen Devlin, audit manager, Audit Commission, said that the council had scored an amber rating within the transition programme which indicated that it was not fully on track with the transition to IFRS at the present time.

**RESOLVED** to note the position.

#### 2. PROGRESS REPORT

Helen Devlin, audit manager, Audit Commission, presented the report and explained the current position regarding the winding up of the Audit Commission in 2012. Some of the Audit Commission's existing functions would be formally wound up at an earlier date. The Department for Communities and Local Government were currently working on a new audit framework which would enable local authorities to appoint their own external auditors. It was likely that there would be a phased approach to the new arrangements.

Helen Devlin explained that the Audit Commission was currently planning to establish a mutual business, involving all its employees, which would offer an alternative to the large accountancy firms in competing for local authorities auditing contracts. The new business would adopt an alternative ethos involving employee ownership.

In response to a question, the head of finance confirmed that the auditing function would be subject to a tendering process which would comply with European

regulations. He referred to the important role which the Audit Commission had played in public finance over a significant number of years and hoped that its principles and objectives would be maintained in the new audit framework.

Discussion ensued during which members referred to the importance of the Audit Commission's role in the understanding of the council's finances and governance structure and its proactive advisory role which had enabled the council to adopt the principles of continuous improvement.

In response to further questions, the head of finance said that it was likely that the council would benefit from reduced audit fees, at least in the short term, and that the audit committee would have an input into the tendering process.

Helen Devlin, audit manager, Audit Commission, then gave details of the work completed to date and the work to be completed during the rest of the year as detailed in the report. In response to a question, she confirmed that the timescales were as realistic as possible at the present time.

**RESOLVED** to note –

- (1) the position concerning the winding up of the Audit Commission and the proposals for the new audit framework;
- (2) the work completed to date and the work to be completed during the rest of the financial year for Norwich City Council.

### **3. INTERNAL AUDIT 2010/11 UPDATE**

The audit manager presented the report and said that he had been able to include details of the work of the council's fraud team for the first time. He explained the progress which had been made on the various audits detailed in the report. It was anticipated that four audits would need to be outsourced and that some medium priority audits might be subject to slippage during the remainder of the year.

Discussion ensued during which Councillor Makoff expressed concern about the protracted delays in the audit of new deal for communities grant claims. The head of finance explained the latest position concerning the audit of the claims and commented that the current year's claim was significantly lower than those submitted for previous years. The audit manager also answered questions on the resources allocated to the council's counter fraud plan.

Members then considered the management responses to the recommendations made by the audit team on audits which had been completed during the year. In particular, members expressed concern about the responses regarding the audit of accounts payable function. The audit manager explained that the role of the audit team was to highlight risks to managers who were ultimately responsible for the processes within their sections. The head of finance explained that a number of the issues raised were connected to the Oracle financial system. In particular, the setting up of suppliers' accounts needed to be carefully managed to ensure overall efficiency. Councillor Makoff questioned whether the use of the oracle system should be reviewed in view of the ongoing problems which had been encountered with the system over a number of years. The deputy chief executive explained that

the overall review of the council's IT system had been delayed due to preparations for the unitary bid and it would now be appropriate to include the financial systems within this review.

During further discussion, Councillor Bremner expressed concern about the number of old debts which had been retained on the debtor's ledger. The head of finance explained that the debt collection process had been recently reviewed and ongoing improvements would be introduced in due course.

Members then considered the audit plan for the forthcoming year and expressed concern that the delay in completing the previous year's audits could potentially hold up the current year's projects. The audit manager explained that the fundamental systems and resources audits would be completed by the end of the financial year and the remaining audits would be reviewed on a regular basis to establish whether any could be outsourced.

In response to a question from the chair, Helen Devlin, audit manager, Audit Commission, said that concerns had been raised previously concerning the resources allocated to the auditing function within the council. She referred to the need to ensure that audits of fundamental systems and resources were completed in view of their use within the Annual Governance Statement. The head of finance expressed concern that premature judgements should not be made by the audit commission concerning the auditing function within the council prior to its official opinion which would be reported later in the financial year.

**RESOLVED** to note the report detailing progress on the 2010/11 audit plan.

#### **4. COUNTER FRAUD ACTIVITY 2009/10**

**RESOLVED** to note the report of the audit manager detailing the council's counter fraud activity during 2009/10.

#### **5. WHISTLEBLOWING SUMMARY 2009/10**

The audit manager presented the report of the head of legal and democratic services and answered questions concerning the whistleblowing policy and associated procedures. In response to a question, the fraud verification team leader said that all of the council's frontline staff would be trained on the whistleblowing policy and all staff were required to indicate within the online workforce system that they had read the document.

**RESOLVED** to note the allegations made in 2009/10 under the council's whistleblowing policy.

#### **6. FRAUD AND CORRUPTION SURVEY 2009/10**

The audit manager presented the report and, in response to members' questions, explained that a number of the answers referred to the overall position during the period for which this survey referred. He confirmed that the council had not adopted a separate money laundering policy as these issues were covered within the council's fraud procedures. The head of finance explained that money laundering regulations had been subject to changes to legislation.

With regard to the question concerning housing benefit and council tax benefit fraud, the audit manager said that 168 cases had been identified as fraudulent from a total of 18,000 claimants.

**RESOLVED** to note the council's response to the audit commission's fraud and corruption survey 2009/10.

CHAIR