

AUDIT COMMITTEE

6.00 P.M.

17TH SEPTEMBER 2014

PRESENT: Councillors Malcolm Thomas (Chairman), Roger Dennison (substitute for Geoff Knight), Tim Hamilton-Cox (substitute for Jon Barry), Richard Newman-Thompson, Elizabeth Scott, David Whitaker (for Minute Nos. 11 to 15 (part) only) and Peter Williamson

Apologies for Absence:

Councillors Jon Barry and Geoff Knight

Officers in Attendance:

Nadine Muschamp	Chief Officer (Resources) and Section 151 Officer
Andrew Clarke	Financial Services Manager (for Minute Nos. 11 to 16 only)
Derek Whiteway	Internal Audit Manager
Rosebella Kotonya	Information Management Officer (for Minute Nos. 11 to 16 only)
Jane Glenton	Democratic Support Officer

Also in Attendance:

Richard Lee Manager, KPMG LLP (UK)

11 **MINUTES**

The Minutes of the meeting held on 18th June 2014 were signed by the Chairman as a correct record.

12 **ITEMS OF URGENT BUSINESS AUTHORISED BY THE CHAIRMAN**

There were no items of urgent business.

13 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

14 **STATEMENT OF ACCOUNTS 2013/2014**

The Committee received the report of the Chief Officer (Resources) seeking Member approval for the 2013/14 audited accounts to allow the completion of financial reporting for 2013/14.

Members were advised that the draft accounts had been produced by 30th June 2014, in accordance with the Accounts and Audit Regulations, and certified by the S151 Officer on that date. They had been made available for public inspection and externally audited. It was noted that a number of minor presentational changes had been agreed during the audit, but no material adjustments had been required. The outcome of the external audit was set out in the auditor's formal report, which was attached as Appendix A to the report.

Richard Lee of KPMG LLP (UK), the Authority's external auditors, referred to the auditor's formal report and advised that the Authority had prepared high quality accounts

and supporting working papers. It was anticipated that an unqualified audit opinion and Value for Money (VFM) conclusion would be issued by 30th September 2014.

Three significant risk areas had been identified and it was reported that KPMG were satisfied the Authority had appropriate arrangements in place to address them. One new significant risk had been identified in relation to non-domestic rates (NNDR) provisions, following the introduction of the Business Rates Retention Scheme in April 2013. Members were advised that under the Scheme, the Authority would be liable for the cost of successful business rates appeals, and required to make provision for this within the financial statements and estimate the potential cost of outstanding appeals up until 31st March 2014. KPMG had included a recommendation to reflect this.

Following presentation of the reports, Members had the opportunity to raise questions.

The Financial Services Manager referred to the audited Statement of Accounts attached as Appendix B to the report for Committee's approval and the Chairman's signature before 30th September 2014, and advised that the explanatory foreword provided an overall summary of the Council's financial position for 2013/14 and an interpretation of the accounting statements.

A paper giving key information on the Statement of Accounts was circulated and details outlined to Members, who then had the opportunity to raise questions.

Members noted the draft form of the 'letter of representation' attached as Appendix C to the report, which was to be signed by the S151 Officer.

Approved unanimously:

- (1) That the report for 2013/14 issued by the Council's External Auditors be noted, together with the letter of representation to be signed by the S151 Officer.
- (2) That the audited Statement of Accounts for the financial year ended 31st March 2014 be approved and that the Accounts be signed and dated by the Chairman.

Councillor Whitaker left the meeting towards the end of the following item.

15 FINANCIAL REGULATIONS

The Committee received the report of the Chief Officer (Resources) to seek Members' endorsement for a newly drafted set of Financial Regulations and to propose amendments to an associated Article of the Council's Constitution.

It was reported that the Committee's revised Terms of Reference had been approved by Council and the Committee's responsibility was now to consider and endorse amendments to the Council's Financial Regulations and Contract Procedure Rules and to give any instructions on behalf of full Council to the Section 151 Officer, as may be appropriate. The revised Financial Regulations were attached as Appendix A to the report.

Members' attention was drawn to Section 4 of the Regulations covering the Management of Budgets, which had changed significantly to provide more clarity on the budget management framework and individual roles and responsibilities. Details were

outlined to Members.

Committee's endorsement was sought for the draft Regulations to be implemented by 30th September 2014, and for all documents and information contributing to the lower level of Standing Financial Instructions and Guidance to be reviewed so that a complete framework was in place by 31st March 2015.

It was reported that the S151 Officer and the Chief Officer (Governance) had discussed anomalies in the requirements for signing of contracts in Article 14.04 of the Constitution relating to 'Authentication of Documents'. The existing Article 14 and the proposed redraft were attached as Appendix B to the report for Members' consideration and for Committee's recommendation that it be approved by full Council.

The proposals were outlined in detail and Members had the opportunity to raise questions on the report.

Resolved unanimously:

- (1) That the newly drafted Financial Regulations be endorsed.
- (2) That the proposed revision of Article 14 of the Constitution be referred to Council for approval.

16 LOCAL GOVERNMENT OMBUDSMAN - ANNUAL REVIEW 2013/14

The Committee received the report of the Chief Officer (Governance) to enable consideration of the Local Government Ombudsman's (LGO) Annual Review Letter for the year ending 31st March 2014.

The Information Management Officer advised that there was now a single LGO in England, and a new business model was being used to record complaints. Decisions were now classified as either 'upheld' or 'not upheld'.

The LGO's Annual Review Letter and Local Authority Report for 2013/14 were appended to the report. It was noted that the LGO had received 19 complaints and enquiries against the Council. A total of 23 decisions had been made. Six of the decisions followed detailed investigation by the Ombudsman. Three of the complaints had been upheld. A remedy had been offered in two of these cases and a minor injustice had been identified in the third complaint.

Resolved unanimously:

That the report be noted.

The Information Management Officer left the meeting at this point.

The Financial Services Manager left the meeting at this point.

17 REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

The Committee received the report of the Internal Audit Manager to advise Members of the outcome from a self-assessment review against Public Sector Internal Audit

Standards as a contribution to the annual review of Internal Audit effectiveness, and to seek endorsement for a Quality Assurance and Improvement Programme.

It was reported that the self-assessment had been updated in accordance with the Public Sector Internal Audit Standards (PSIAS) and associated Local Government Application Note (LGAN) and reflected progress over the past six months.

Of the 334 lines in the PSIAS/LGAN, compliance had been achieved in 306 instances. Non-compliance had been demonstrated in two instances in relation to arrangements for the Internal Audit Manager's appraisal. Partial compliance was demonstrated in 26 instances. Appendix A to the report set out an update of those areas assessed as falling short of full compliance in the previous review of the PSIAS and a revised set of actions.

One of the most significant areas of progress was that relating to the development of a Quality Assurance and Improvement Programme (QAIP) and the associated requirements for periodic external assessments of the Internal Audit service.

A self-assessment had been undertaken in relation to characteristics of effectiveness, including compliance with proper practices and was attached as Appendix B to the report.

It was proposed that a statement of compliance with the PSIAS/LGAN and progress with associated action plans would be incorporated in the Internal Audit Manager's Annual Report to Audit Committee in future.

Resolved unanimously:

- (1) That the Internal Audit Manager's conclusions from the self-assessment exercises be accepted as evidence that Internal Audit is operating effectively and that the Committee can therefore place reliance on Internal Audit's report and work when considering the overall effectiveness of the Council's governance arrangements.
- (2) That the draft Internal Audit Quality Assurance and Improvement Programme (QAIP) attached as Appendix C to the report be noted and endorsed.

18 REVIEW OF GOVERNANCE AND THE ANNUAL GOVERNANCE STATEMENT 2013/14

The Committee received the report of the Chief Executive to seek the Committee's approval for the draft Annual Governance Statement for the 2013/14 financial year.

It was reported that a review had been undertaken of the Council's position and performance against the Code of Governance approved in September 2012. The results of the evaluation exercise were demonstrated in the Overview Chart and the Evaluation Summary attached as Appendix A to the report and outlined in detail.

Members were advised that the document detailing the identified 'sources' of assurance for the 78 elements of the Code of Corporate Governance had been updated. The review had not identified any issues meriting disclosure in the Governance Statement, other than a significant ongoing governance issue in relation to the Authority's information management arrangements.

The number of factors in which there remained a perceived shortfall in performance was seven which was a reduction of two on the number identified in the 2012/13 review. No factor had a perceived shortfall of more than one point. Where a shortfall existed, comments/conclusions were included in the evaluation on the current position on any plans to improve arrangements during 2014/15 and beyond.

It was reported that the Annual Governance Statement, attached as Appendix B to the report, had been drafted following the evaluation exercise. The statutory requirement was that the most senior officer (Chief Executive as Head of Paid Service) and the most senior member (the Leader), being satisfied that the document is supported by reliable evidence and accurately reflects the internal control environment, should sign the Statement by 30th September 2014. It was recommended that, as the Statement covered the requirements to produce a statement on Corporate Governance and Internal Financial Control, the Statement should also be signed by the S151 Officer and Monitoring Officer.

Resolved unanimously:

That the draft Annual Governance Statement for 2013/14 (attached as Appendix B to the report) be approved for signing by the Leader of the Council, Chief Executive, S151 Officer and Monitoring Officer.

19 INTERNAL AUDIT MONITORING

The Committee received the report of the Internal Audit Manager to advise Members of the latest monitoring position regarding the 2014/15 Internal Audit Plan, seek approval for proposed variations to the Plan and update Members on the results of recent audits.

It was noted that the report was based on the monitoring position up to 18th August 2014. A detailed monitoring report, as at that date, was attached as Appendix A to the report. A summary of the position at that date, taking into account ongoing and planned work commitments, was shown in a table in the report.

It was reported that, overall, current commitments totalled 498 days compared with the current plan of 690 days. This gave an uncommitted resource of 192 days, including both the general contingency of 40 days and the unallocated balance of the contingency for investigation work (22 days).

Members were advised that there was a vacant post of Principal Auditor in the Internal Audit Section and the Internal Audit Service was being reviewed. The outcome would be reported to the Committee.

It was reported that within the Assurance Work section, Preston City Council had requested that a programme of audits be developed in connection with the Revenues and Benefits Shared Service arrangements to provide assurance on controls surrounding their highest rated risks. It was estimated that this programme of work would require 35 days out of a total 40 days allocated in the plan to the Shared Service, and that inclusion of a corresponding programme of audits in relation to Lancaster City Council's arrangements would require 25 days, which was an increase of 20 days on the current plan budget.

Under the heading of Consultancy, 28 days had already been committed to support work regarding development of the Council's Complaints Policy, the review of Financial Regulations and development of the Council's Procurement Strategy. It was proposed that the plan budget be raised by 20 days to 35 days to cover these commitments and allow for a small amount of future work.

It was expected that the Ad Hoc Advice provided by the Service would be around 15 days greater than budgeted for. The variances which had to be found from within the plan totalled 55 days and to meet these demands it was proposed that there should be a reduction of 10 days to Assurance Work on 'Core Financial Systems', a reduction of 25 days to assurance work on 'Risk Based Audits' and that 20 days (i.e. half) of the General Contingency should be applied.

Details of the audit reports issued since the last update report to Committee on 22nd January 2014 were reported, together with the key conclusions and action points relating to those reports where a 'Limited' or 'Minimal' assurance opinion had been given.

An update was given on a tracked item relating to the maintenance of asset records, and it was noted that resources had been identified within Property Group and Financial Services to take forward the required actions, including a review of the IT systems used by the two services. It was planned that a reconciliation of the two systems would take place by the end of October 2014 and guidance in connection with inventories would be revisited with a view to it being issued by December 2014.

It was reported that Internal Audit was currently involved in an internal investigation relating to the income management and banking arrangements at one of the Council's establishments and details of the issues arising and any action taken would be reported to the Committee.

Resolved unanimously:

- (1) That the current monitoring position be noted.
- (2) That the proposed revisions to the Audit Plan, as set out in the table in paragraph 1.2 of the report, be approved.
- (3) That the results of recent audits (sections 3 – 5 of the report) be noted.

Chairman

(The meeting ended at 7.57 p.m.)

**Any queries regarding these Minutes, please contact
Jane Glenton, Democratic Services - telephone 01524 582068, or email
jglenton@lancaster.gov.uk**