

AUDIT COMMITTEE

6.00 P.M.

19TH SEPTEMBER 2007

PRESENT:- Councillors Malcolm Thomas (Chairman), Jon Barry, Shirley Burns (Substitute for Roger Dennison), Tony Johnson, Geoff Knight, Karen Leytham and Rob Smith (Substitute for Janice Hanson).

Apologies for Absence

Councillors Roger Dennison and Janice Hanson

Officers in attendance:-

Nadine Muschamp	Head of Financial Services and Section 151 Officer
Derek Whiteway	Internal Audit Manager
James Doble	Principal Democratic Support Officer
Kevin Wharton	KPMG LLP
Andrew Mee	KPMG LLP
Mike Tye	Audit Commission

10 MINUTES

The minutes of the meeting held on 27th June 2007 were agreed and signed as a true and accurate record.

11 DECLARATIONS OF INTEREST

There were no declarations of interest.

12 COMMITTEE MEETING TIME

The Principal Democratic Support Officer introduced a report requesting the Committee to consider their preferred meeting times for the municipal year 2008/09. The Committee in discussing the issue felt that their current meeting time of 6pm should be recommended to remain unchanged.

Resolved:

That the committee's current meeting time of 6pm should be recommended to remain unchanged.

13 LOCAL GOVERNMENT OMBUDSMAN - ANNUAL LETTER 2006/07

The Principal Democratic Support Officer introduced a report on behalf of the Head of Information and Customer Services. In introducing the report it was highlighted that performance had improved on response time on the previous year and also appeared to be improving in the current year. In the course of discussion members welcomed the report and noted that whilst there had been no findings of maladministration against the authority, it would be helpful for the committee to receive a brief synopsis of the ombudsman complaints the authority had received, the outcome and learning points

from these.

Resolved:

- 1) That the Ombudsman's Annual Letter for 2006/07 be noted.
- 2) That no comments be submitted to the Ombudsman on the Annual Letter for 2006/07 and that the Ombudsman not be invited to provide a presentation not be pursued at this time.
- 3) That the committee receive a brief synopsis of the Ombudsman complaints the authority has received in 2006/07, including the outcome and learning points from these.

14 STATEMENT OF ACCOUNTS 2006/07

Mike Tye (Audit Commission) introduced a report setting out the findings of the Audit Commission as the Council's external auditor with regard to the Statement of Accounts 2006/07. It was reported that they were a good set of accounts and that Financial Services had done well to produce them in the short timescale that was now required by legislation.

The committee queried the background to the two adjustments that had been made to the financial statements and it was outlined that in order to comply with the new presentational format of the accounts it had been necessary to restate the 2005/06 accounts in the current format and in doing so £5.1 million had been incorrectly analysed between Local Authority Housing and Other Housing Services categories. On the second adjustment it was confirmed that in relation to non-domestic rates incorrect accounting information had been produced with regard to the collection fund, which whilst not affecting the Council's bank reconciliation had resulted in the wrong information be presented.

Resolved:

- 1) That the annual governance report for 2006/07 issued by the Audit Commission and the representations made by the Section 151 Officer be noted.
- 2) That the Council place on record its thanks to Financial Services.

15 STATEMENT ON INTERNAL CONTROL & CORPORATE GOVERNANCE

The Section 151 Officer outlined that at the last meeting the Audit Committee had approved the Statement of Internal Control and Corporate Governance; however since then whilst the Chief Executive, Section 151 and Monitoring Officers had all signed the approved Statement, the Leader of the Council had not signed the Statement suggesting that the Audit Committee may wish to amend the statement with the inclusion of the following text in paragraph 5 of the document.:

'Following the Council meeting on 20th June 2007 a further process has been introduced to ensure that Members are formally briefed on all the risks and implications involved in the event of a Motion to Council'.

The Principal Democratic Support Officer advised Members that if Members were minded to amend the Statement of Internal Control and Corporate Governance, the proposed wording would need to be amended, as the Committee did not have constitutional authority to introduce a process to the Council Procedure Rules, but could propose an amendment to the Council Business Committee, who had the authority to amend the Council Procedure Rules.

Members discussed the issue in some depth; however felt that they could not form a conclusion before deciding whether or not to recommend an amendment to the constitution.

Resolved:

- 1) That this item be adjourned pending discussion of the proposed constitutional amendment in respect of formalisation of briefings on motions on notice.

16 CORPORATE GOVERNANCE - CONSTITUTIONAL AMENDMENT

The Principal Democratic Support Officer introduced a report that had been requested to enable the Audit Committee to consider whether a formal process should be introduced to include an officer briefing note alongside all Member motions. It was outlined that it was custom and practice on receipt of any Notice of Motion for officers to consider any implications for the Council and where necessary to provide a briefing note to accompany the motion on the agenda, covering any risks and the opportunity for Members to question the relevant Director prior to debate. The Principal Democratic Support Officer highlighted that regardless of any decision on whether to amend the constitution officers had a duty and would continue to advise meetings of potential risks and issues with regard to issues that they are making decisions on.

Members discussed the merits in amending the constitution and after much debate it was proposed by Councillor Smith and seconded by Councillor Leytham that: 'The constitution be amended as set out in the report. On being to the vote, the motion was carried 4 in favour, 1 against and two abstentions.

Resolved:

That a new Council procedure Rule 15.3 as set out below (with the subsequent re-numbering of paragraphs 15.3 and 15.4) be agreed for recommendation as a constitutional amendment to the Council Business Committee.

15.3 Officer Briefing Note

Where a Motion for which Notice has been given is included on the Agenda, an officer briefing note will be included on the Agenda to accompany that motion setting out in particular any key risks and potential financial and legal implications for the Council should the proposed motion be carried.'

17 STATEMENT ON INTERNAL CONTROL AND CORPORATE GOVERNANCE - RECONVENED

The Committee noted that it had agreed to recommend that the Constitution be amended to formalise the position of briefing notes on motions on notice at full Council

(Minute16 refers).

In the course of discussing the issue it was considered that whilst it was felt appropriate to formalise the arrangements for the future in terms of briefing notes, the Committee did not feel that the current informal arrangements represented a significant control weakness worthy of disclosure in the Statement itself.

The committee therefore felt that in considering this on balance the Statement of Internal Control and Corporate Governance for 2006/07 should not be amended.

It was proposed by Councillor Burns, seconded by Councillor Smith that:

“That in light of the Committees proposal that the constitution be amended to formalise the position of briefing notes on motions on notice at full Council, the Statement of Internal Control and Corporate Governance should not be amended”

Resolved:

That in light of the Committees proposal that the constitution be amended to formalise the position of briefing notes on motions on notice at full Council, the Statement of Internal Control and Corporate Governance should not be amended.

(Councillor Johnson left the meeting)

18 AUDIT COMMISSION IT REPORTS

Mike Tye (Audit Commission) introduced two reports setting out the results of reviews undertaken with regard to IT risk assessment and Your Business at Risk. Members asked a number of questions on the reports and in the course of discussion it was suggested that it would be helpful if further work could take place to assist with energy efficiency in ensuring computers were turned off each night. The Internal Audit Manager agreed to investigate how this might be achieved.

Resolved:

- 1) That the Audit Commission reports and action plans be noted.
- 2) That the Internal Audit Manager investigate how further work could take place to assist with energy efficiency in ensuring computers were turned off each night. might be achieved.

19 AUDIT AND INSPECTION PLAN

Andrew Mee (KPMG LLP) introduced the proposed Audit and Inspection Plan for 2007/08, it was noted that whilst KPMG LLP were the appointed external auditors there would still be a role for the Audit Commission including the Corporate Performance Assessment and Direction of Travel assessments. In particular the Committees attention was drawn to a review of the Medium Term Financial Plan and a cross cutting review of health inequality.

Resolved:

That the plan be noted.

20 AUDIT COMMISSION - NATIONAL FRAUD INITIATIVE

The Internal Audit Manager introduced a report which set out the measures that the Council should adopt in order to comply with the National Fraud Initiative. It was noted that this work would involve quite extensive data matching. The committee noted the report and the requirements which it placed upon the Council.

Resolved:

- 1) That the report be noted and endorsement given to the proposed arrangements to comply with the National Fraud Initiative (NFI) as set out in the report and to the follow up of and investigation of matches arising from the NFI.
- 2) That the Head of Financial Services be appointed as the 'Senior Responsible Officer for NFI purposes with responsibility for ensuring compliance with the Code of Data Matching Practice' and that the Principal Auditor be named as the Council's key contact with the NFI for all future data matching exercises.
- 3) That the Council's Financial Regulations and Procedures be amended in order to formalise the approach to future NFI exercises.
- 4) That following formalisation of the Council's NFI arrangements, the Information Management Group considers the proposed procedures with a view to inviting the Information Commissioner to review these for the purposes of monitoring compliance with data protection principles.

21 INTERNAL AUDIT PLAN AND MONITORING

The Internal Audit Manager introduced the Internal Audit Plan and Monitoring for the current year. The Committee noted the allocation of audit days and the proposed audit coverage.

Resolved:

That the report be noted.

22 UPDATE TO FINANCIAL REGULATIONS AND PROCEDURES (Pages 1 - 6)

The Head of Financial Services introduced a report setting out proposed revisions to the contract procedure rules in line with recent developments with regard to project and capital programme management, outlining the key proposals. In the course of discussion it was suggested that the text should be checked to ensure that all abbreviations were in the first instance set out in full.

Resolved:

- 1) That approval be given to the update of Financial Regulations and Procedures

relating to capital schemes as set out in the annex (Minute Item 22) to these minutes.

- 2) That the Head of Financial Services be delegated amend the Financial Regulations and Procedures to ensure that all abbreviations are in the first instance set out in full.

23 REVISED TERMS OF REFERENCE FOR BUDGET & PERFORMANCE PANEL
(Pages 7 - 8)

The Principal Democratic Support Officer introduced a report setting out revised Terms of Reference for the Budget and Performance Panel which the Panel had resolved to recommend for adoption in order to assist them in providing scrutiny in these two areas of importance for the Council.

Resolved:

That Council be recommended to adopt the Terms of Reference of the Budget and Performance Panel as set out in the annex (Minute Item 23) to these minutes.

Chairman

(The meeting ended at 8.00 pm)

**Any queries regarding these Minutes, please contact
James Doble, Democratic Services - telephone (01524) 582057 or email
jdoble@lancaster.gov.uk**

ASSET MANAGEMENT WORKING GROUP**TERMS OF REFERENCE****PURPOSE OF THE GROUP**

Provide advice and guidance on the best use of Council assets as necessary.

Provide co-ordinated organisation, direction and authority to implement projects within the approved capital programme to meet corporate priorities, achieve outcomes and realise benefits that are of strategic importance.

In fulfilling its responsibilities the Group will take account of:

- Capital accounting regulations and associated legislation
- The Corporate Plan, Corporate Property Strategy, Capital Investment Strategy, Medium Term Financial Strategy, and other relevant policies, initiatives and targets, particularly the Council's Financial Regulations and Procedures and Contract Procedure Rules
- Best practice in asset management
- The standards and principles sets out in Lancaster City Council's Approach to Project Management (LAMP)

SPECIFICALLY THE GROUP WILL:

1. Develop, monitor and keep under review the Council's capital investment appraisal system to support corporate priorities and the overall budget and planning processes, and in line with any further associated requirements that Cabinet may specify from time to time
2. Keep under review the strategic management of the Council's land and property assets
3. Contribute to the development, monitoring and review of the Council's Corporate Property Strategy (incorporating the Asset Management Plan) and its overall Capital Investment Strategy
4. Keep under review external funding opportunities
5. Lead on establishing and maintaining the LAMP methodology as the corporate standard for capital project management
6. Support the successful delivery of individual projects and the wider objectives of the Capital Programme through visible leadership and commitment
7. Consider submitted Project Mandate/Project Initiation Document (PID)s relating to individual projects and authorise commencement of approved projects (incorporating also the s151 officer's agreement of funding being in place, as required under Financial Regulations).
8. Monitor and review the progress of projects through Highlight Reports submitted by Project Executives at intervals agreed with the AMWG
9. Consider Exception Reports, submitted by Project Executives, of the options available and the preferred solutions to deal with the implications of any forecasted deviations from set project tolerance levels.

ASSET MANAGEMENT WORKING GROUP

10. Approve the recommended options as presented in Exception Reports, or suggest alternatives that will maintain focus on the successful delivery of projects and the wider objectives of the Capital Programme
11. Report to the Performance Management Group, on an exception basis, on matters relating to individual projects and annually on the overall achievement of the Capital Programme.

CAPITAL PROGRAMMES

Why is this important?

- 2.50 Capital expenditure involves acquiring or enhancing fixed assets with a long-term value to the authority, such as land, buildings, and major items of plant, equipment or vehicles. Capital assets shape the way services are delivered in the long term and create financial commitments for the future in the form of financing costs and revenue running costs.
- 2.51 **The capacity of an authority to finance capital is constrained.** This means that capital expenditure and financing plans should form part of an overall investment strategy, and should be carefully prioritised in order to maximise the benefit of scarce resources.

Key controls

- 2.52 The key controls for capital programmes generally are:
- a) Capital schemes and their funding should be in line with the Council's Capital Investment Strategy, which forms part of the policy framework and so requires full Council approval.
 - b) **Each year Cabinet will review the Strategy and make recommendations to full Council, taking account of the requirements of and guidance on CIPFA's Prudential Code for Capital Finance in Local Authorities.**
 - c) Capital schemes should also be in line with the Council's Asset Management Plan (also known as the Corporate Property Strategy).
 - d) Proposals for capital improvements and alterations to buildings must be supported by the appropriate Corporate Director/s or Service Head/s.
 - e) **Estimated revenue implications should be calculated for all scheme proposals, including whole life costs, where the size or nature of the project requires it.**
 - f) **All new projects will be managed using LAMP, as appropriate to their size, level of risk and/or complexity.** Through this, accountability for each project will be accepted by a named manager, i.e. the project executive.
 - g) Commencement of any capital scheme is subject to:
 - **the approval of a project mandate and/or project initiation document in line with Lancaster City Council's Approach to Managing Projects – known as 'LAMP'**
 - the approval of the Section 151 Officer (to confirm availability of funding)
 - h) **Financial monitoring of progress is undertaken in accordance with the Council's corporate arrangements, including comparison of actual and forecast expenditure and income, against approved budgets.**
 - i) As part of the annual budget process, full Council approves the full programme of capital expenditure and financing for future years, including revenue implications.

- j) Schedules of projects for specific programmes within the overall capital budget approved by full Council (for example, minor works and grants, or externally funded programmes such as SRB) must be submitted to the Cabinet for approval, or under other delegated arrangements approved by Cabinet.
- k) Any in-year changes to schemes, or new scheme proposals, will be considered in line with the arrangements below.

2.53 The key tolerances for in-year changes to existing schemes within the capital programme are:

- a) Full Council approval is required for any scheme proposal which falls outside of the approved Capital Investment Strategy or budget framework. Only full Council may delete schemes from the approved Programme.
- b) The Head of Financial Services may update the Capital Programme for transferring amounts between schemes contained within the approved programme, subject to:
 - there being no additional call on the Council's finances, in capital or revenue terms;
 - the transfer being no greater than £10,000 or 10% of a scheme's total budget, whichever is the greater; and
 - the transfer being supported by the Asset Management Working Group, relevant Director/s and Cabinet Member/s, and it being in accordance with the approved Capital Investment Strategy.
- c) Likewise the Head of Financial Services may also update the Capital Programme and/or Revenue budget in respect of any accounting changes or requirements, which have no impact on the Council's budgetary position. (e.g. in respect of lease v buy appraisals).
- d) Cabinet approval is required for all other transfers above £10,000 or 10% of a scheme's total budget, whichever is the greater, subject to no scheme being deleted (entirely or effectively) and it being within the overall budget framework.
- e) Project Executives / Boards have no authority to incur expenditure above the budget as included in the approved Programme. Where the budget reflects a separate programme in itself (e.g. EDZ, SRB), then the relevant Programme Board has no authority to incur expenditure above the budget line, but it may make budget transfers between individual projects within its programme, subject to delegated authority being granted by Cabinet.

2.54 The key controls for considering any new scheme proposals that arise in-year are as follows:

- a) The Head of Financial Services may update the Capital Programme to include new schemes, subject to:
 - there being no additional call on the Council's finances, in capital or revenue terms;
 - there being no prudential borrowing requirement or expectation;
 - the gross capital cost of the scheme not exceeding £250,000;
 - the proposal being supported by the Asset Management Working Group, relevant Director/s and Cabinet Member/s, and it being in accordance with the approved Capital Investment Strategy;

- the project being similar in nature and scope to schemes already contained within the approved Programme;
 - the Council already has, or has had within the last two years, an established full formal relationship as an Accountable Body (if applicable); and
 - the timing of proposal is such that it cannot reasonably be considered as part of the annual budget and planning process.
- b) Cabinet approval is required for any new scheme proposal which does not meet the above conditions.
- c) Furthermore, full Council approval is required for any new scheme proposal which:
- falls outside of the approved Capital Investment Strategy; or
 - falls outside of the Prudential Indicators, as calculated under the Prudential Code; or
 - cannot otherwise be met from within the approved revenue / capital budget, allowing for any discretion or budget flexibility that Cabinet may have (e.g. through the Medium Term Financial Strategy.).

2.55 Any delegations in line with the above would be subject to the key decision criteria (i.e. inclusion in the forward plan and call-in), as appropriate.

Responsibilities of the Section 151 Officer

- 2.56 To report retrospectively through the Council's corporate financial monitoring and performance management arrangements, on any such updates he/she has effected under the above delegations. *(From an officer perspective, they would also be included in the reports to Performance Management Group).*
- 2.57 To prepare capital estimates jointly with Corporate Directors or Service Heads and the Chief Executive and to report them as appropriate for consideration.
- 2.58 To prepare and submit reports to the Cabinet on the overall projected income, expenditure and resources compared with the approved estimates, as part of reviewing the Council's Capital Investment Strategy.
- 2.59 To issue guidance concerning capital schemes and controls, for example, on project appraisal techniques and capital finance legislation. The definition of 'capital' will be determined by the Section 151 Officer, having regard to government regulations and accounting requirements. A copy of the current definition is attached to these procedures.
- 2.60 To advise Cabinet, Corporate Directors and Service Heads on the availability of funding with regard to the commencement of capital schemes.
- 2.61 To provide appropriate advice and guidance to Members and Officers, and to establish appropriate performance monitoring and reporting procedures, as required under the Prudential Code for Capital Finance in Local Authorities.

Responsibilities of Corporate Directors and Service Heads

- 2.62 To ensure that all capital proposals have undergone a project appraisal in accordance with LAMP guidance, and other financial appraisal guidance as may be issued by the Section 151 Officer.

- 2.63 To manage capital projects using 'LAMP', and to comply with other guidance concerning capital schemes and controls issued by the Section 151 Officer or other relevant officers.
- 2.64 To prepare regular reports reviewing the capital programme provisions for their services and highlighting actual or expected variances. This includes monthly returns for submission to the Section 151 Officer, and reporting as required under the Council's Performance Management Framework. It also includes reporting on an exceptions basis, as and when appropriate.
- 2.65 To ensure that adequate records are maintained for all capital contracts.
- 2.66 To proceed with projects only when all relevant approvals have been obtained.
- 2.67 To ensure that credit arrangements, including for these purposes, all leasing agreements, are not entered into without the prior approval of the Section 151 Officer and, if applicable, approval of the scheme through the capital programme.
- 2.68 To consult with the Section 151 Officer and seek other relevant officer advice, when considering whether to pursue external or other funding opportunities for capital investment, or in developing capital scheme proposals. Such advice should be sought as early as possible in the process.

NOTE THAT SUBSTANTIVE CHANGES HAVE BEEN HIGHLIGHTED.

BUDGET AND PERFORMANCE PANEL**PROPOSED TERMS OF REFERENCE**

1. To scrutinise the Council's arrangements and performance in relation to financial planning, including budget / target setting. e.g. items within the Budget Framework including :
 - ❑ reviewing the effectiveness of the budget setting process,
 - ❑ role of Star Chamber,
 - ❑ contents of the Medium Term Financial Strategy and
 - ❑ Capital Investment Strategy and
 - ❑ financial targets in the Corporate Plan.

2. To review the management of resources by scrutinising the Council's financial performance in year against agreed budgets or other targets. e.g.
 - ❑ capital and revenue spending against approved budgets,
 - ❑ specific activities including treasury management, generation of revenue and capital income targets and
 - ❑ monitoring of financial savings/efficiency targets (MTFS/Gershon).

3. To monitor and review by exception reporting within the PRTs the performance of the Council's services, Partnerships and contractual arrangements in delivering specific strategic and operational objectives and outcomes. e.g.
 - ❑ receive Performance Review Team reports,
 - ❑ monitor the delivery and effectiveness of Service Level Agreement targets,
 - ❑ assess performance against key performance indicators and benchmarks,
 - ❑ assess whether services and partnerships are delivering their expected outcomes.

4. To scrutinise the Council's policies and procedures and other supporting arrangements for securing value for money (i.e. economy, efficiency, effectiveness) e.g.
 - ❑ value for money strategy,
 - ❑ procurement practices,
 - ❑ income management and collection arrangements,
 - ❑ asset management practices
 - ❑ insurance arrangements.

5. To consider risk management issues in reviewing and scrutinising performance.

6. To make recommendations as appropriate in respect of the above.

This page is intentionally left blank