

## AUDIT COMMITTEE

6.00 P.M.

30TH JUNE 2010

**PRESENT:-** Councillors Malcolm Thomas (Chairman), Jon Barry, Abbott Bryning, Roger Dennison and Janice Hanson

Apologies for Absence

Councillors Geoff Knight and Keith Sowden

Also in attendance:-

Heather Garrett                      KPMG

Officers in attendance:-

Nadine Muschamp	Head of Financial Services
Derek Whiteway	Internal Audit Manager
Debbie Chambers	Principal Democratic Support Officer
Tom Silvani	Democratic Support Officer
Steven Milce	Head of Council Housing Services (part)
Stuart Hampson	Human Resources Manager (part)
Andrew Clarke	Accountancy Services Manager (part)
Ian Hurst	Council Housing Principal Administration Officer (part)

### 1 APPOINTMENT OF VICE-CHAIRMAN

The Chairman requested nominations for Vice-Chairman of the Committee for the Municipal Year 2010/11.

Councillor Janice Hanson was nominated by Councillor Jon Barry and seconded by Councillor Roger Dennison.

There being no other nominations, the Chairman declared Councillor Hanson appointed.

***Resolved:***

That Councillor Janice Hanson be appointed Vice-Chairman of Audit Committee for the Municipal Year 2010/11.

### 2 MINUTES

The minutes of the meeting on 20 January were agreed and signed as a correct record.

### 3 ITEMS OF URGENT BUSINESS AUTHORISED BY THE CHAIRMAN

There were no items of urgent business.

### 4 DECLARATIONS OF INTEREST

There were no declarations of interest.

## 5 RESULTS OF INTERNAL AUDIT WORK

The Internal Audit Manager presented a report to inform the committee of the results of the Internal Audit work and provided an update on the levels of assurance issued for areas audited since they were last considered by the committee on 20 January 2010.

Appendix A to the report provided an updated position on all those audits where the level of assurance had not yet reached 'reasonable'.

The group were informed that the audit report on 'Investigation RMS' had issued an assurance opinion of 'minimal'. The committee discussed this report in detail, there was some concern that some issues had been highlighted by third parties and questioned whether they should have been picked up by the audit process. The Head of Financial Services advised that since the issue in question had been identified the council had improved its Performance Management Framework, and it was not expected that a similar issue could arise in the future.

The Internal Audit Manager advised the committee that in accordance with the resolutions passed at the previous meeting of the committee on 20 January 2010, the Head of Council Housing had been invited to the meeting to provide a further update and assurance on 'Income Management (Housing Rents Direct Debit Payments)', and the Human Resources Manager had been invited to report on the progress of the Payroll/HR system. Both officers were in attendance at the meeting and the Head of Council Housing was accompanied by Council Housing Services' Principal Administration Officer.

The Head of Council Housing provided an update to the committee regarding Income Management (Housing Rents Direct Debit Payment), a briefing note on direct debits was provided to the group. It was reported that there had been some issues with the systems used by the service which were outside of the council's control. It was anticipated that the service would be upgrading to release 45 of Anite in the near future, and that work to introduce automated direct debit payments would commence as soon as possible.

The chair thanked the Head of Council Housing and the Principal Administration Officer for attending the meeting.

***The Head of Council Housing and the Principal Administration Officer left the meeting at this point.***

The Human Resources Manager reported to the committee on the Payroll/HR system project and on the review of the recruitment policy and procedures. The committee were informed that a "limited" assurance opinion had been provided regarding payroll, reflecting weaknesses in the existing manual system used to manage employees' changes in circumstances and update payroll records. The audit had recognised that the inefficiency of the manual system was a significant factor and that the implementation of an integrated Payroll/HR system could significantly improve control. Until this system was in place both Payroll and HR had reviewed procedures with a view to improving the accuracy of the records and efficiency of the manual system. The effectiveness of these procedures would be evaluated at a follow-up review scheduled for November 2010. The Human Resources Manager advised the committee that he fully supported the

findings of the report. The Human Resources Manager referred to his previous experience of managing a combined HR and payroll service in explaining the issues to the Committee and outlined how it was proposed to address these in procuring an integrated system.

The Human Resource Manager provided members with a briefing on the council's approach to workforce planning, a topic on which, under the Use of Resources assessment, the council had been judged as weak. The briefing made reference to the cultural and managerial aspects of achieving successful workforce planning as well as referring to the associated information and system requirements.

Members felt that the briefing would be interesting and useful for all Councillors and would make a suitable topic for a member briefing session. The Principal Democratic Support Officer agreed to look at incorporating Workforce Planning into the programme of member briefings later in the year.

***The Human Resources Manager left the meeting at this point.***

The committee were pleased with the progress made regarding Williamson Park, it was reported that a further audit review would be carried out during 2010/11 to assess the effectiveness of the committee in the near future.

The committee were advised that a full report regarding Markets would be presented to the next meeting of the committee.

***Resolved:***

- (1) That the report be noted.
- (2) That, provided all pending appeals had been completed, Audit Committee request a follow up report for 'Investigation RMS' to be presented to the next committee meeting.
- (3) That the Audit Committee request Internal Audit to track progress with systems implementations relating to the 'Income Management (Housing Rents Direct Debit Payment)' audit and that this be reported to the next meeting of the committee.
- (4) That the Audit Committee request Internal Audit to track progress with the Payroll/HR system project and that this be reported to a future meeting of the committee.
- (5) That the Audit Committee request Internal Audit to track progress with regard to Workforce Planning and that this be reported to a future meeting of the committee.
- (6) That the Audit Committee recommend Workforce Planning be put forward as a potential topic for one of the member briefing sessions arranged by Democratic Services

The Head of Financial Services presented a report to seek member's approval of the draft Statement of Accounts for 2009/10 and outline the audit process for information.

Members were advised that 2009/10 had been a challenging and uncertain year financially for the Council, particularly in view of the recession and the unclear prospects for recovery of Icelandic investment.

It was reported that the legal advice remained that priority status would be gained for both Landsbanki and Glitnir, the winding up boards of the two banks had taken different views and these would be tested through the courts. As the outcome of this process was unknown it was difficult to reach an informed view of the most likely outcome. For the purpose of the accounts, provisions had been made for around £2.2M of potential losses. It was reported that £2.1M of the £6.0M had been capitalised. The committee were informed that in the best case scenario the losses would be reduced to £800,000.

The committee queried how long it would take before it was known how much of the investment would be returned, it was advised that the process of litigation was expected to run for approximately another year. The cost of the litigation was being funded by all authorities with funds deposited in the banks on a pro rata basis based on the amount of investment. For Lancaster City Council this was approximately £5000 to £8000 a year.

The committee discussed pension liabilities, it was reported that the future costs and funding of pensions continued to be national issues for consideration by Government. The net position as at 31 March 2010 showed a liability of £59.743M compared to a liability of £40.910M for the previous financial year. This represented an increase in net liabilities of £18.833M.

***The Accountancy Services Manager left the meeting at this point.***

***Resolved:***

That the draft Statement of Accounts for the financial year ended 31 March 2010 be approved, and that the Chairman signs and dates the Accounts accordingly.

**7 INTERNAL AUDIT ANNUAL REPORT AND ASSURANCE STATEMENT 2009/10**

The Internal Audit Manager introduced a report that informed the Committee of the extent and outcome of Internal Audit work during the 2009/10 financial year and to present an annual Statement of Assurance regarding the Council's internal Control Framework.

Regarding assurance work, it was reported that 43 days fewer than planned had been delivered which was largely due to two investigations which had made a major demand on resources, diverting resources from planned audits. As in 2008/09, the Fair Pay Project was also one of the most resource intensive pieces of assurance work, accounting for 33 days.

It was reported that the total number of available days had been increased by 21 days, this had been a combination of unpaid overtime providing additional days, sickness levels being lower than provided for and training days being fewer than estimated.

It was noted that customer satisfaction with Internal Audit work had remained at a similar

level to previous years. Three of the 24 returned surveys had not met a target level of 8, two of these were questions relating to the risk management outcomes from the Audits concerned. The average score for question 8 *"The results of risk evaluation were discussed with the appropriate staff"* was affected by two low scores given by the Exchequer Services Manager. The circumstances surrounding this had been reviewed and it arrangements made to ensure full and appropriate consultation in the future.

The sole minimal assurance opinion during the year had resulted from the procedural review within Council Housing's Repair & Maintenance Service. Overall it was considered that the results demonstrated that procedures for reporting and following up audits and reporting progress to the Audit Committee were continuing to operate effectively.

**Resolved:**

- (1) That the report be noted.
- (2) That the Controls Assurance Statement be accepted.

**8 ANNUAL GOVERNANCE REVIEW AND GOVERNANCE STATEMENT 2009/10**

The Internal Audit Manager presented a report to seek the Committee's approval for the draft Annual Governance Statement for the 2009/10 financial year.

The evaluation results showed that whilst there had not been any dramatic changes in the evaluation there had been gradual improvements in a number of areas. The number of factors in which there was a remaining perceived shortfall in performance had increased by 1 (from 17 to 18). Where a shortfall existed plans to remove deficiencies would be developed.

The committee discussed element number 47 *"Ensuring the safety of staff, contractors and visitors"*, which had scored an assessment level of 6. It was reported that this reflected organisational change leading to accommodation changes raising potential access and security issues within council buildings. This issue would be addressed.

It was reported that for element number 23, regarding partnership working, arrangements were steadily improving with the ongoing roll-out of the partnership evaluation programme.

**Resolved:**

That the draft Annual Governance Statement for 2009/10 be approved for signing by the Leader of the Council, Chief Executive, Section 151 Officer and Monitoring Officer.

**9 ANNUAL EXTERNAL AUDIT FEE LETTER 2010/11**

Heather Garrett from the council's external auditors, KPMG introduced the letter communicating the proposed audit work and fees for the 2010/11 financial year.

It was reported that the indicative fee for the audit 2010/11 was £135,000 (plus VAT) which amounted to a £15,000 increase on the planned fee for 2009/10. Whilst the midpoint "scale rate" for an authority such as Lancaster would be £138,479, the

increased fee was still 2.5% below this, reflecting the levels of risk facing the council and the relative strength of its control and governance arrangements. The committee were advised that the Audit Commission were currently reviewing "scale rates" in light of the announcement that Comprehensive Area Assessment was to be abolished, this information was not available at the time the letter was written.

The committee were advised that the Audit Commission would subsidise the 'one-off' element of the cost of transition to International Financial Reporting Standards (IFRS) for local authorities. The Council will therefore be reimbursed £8,351 directly by the Audit Commission.

***Resolved:***

That KPMG be thanked for their presentation and that the External Audit Plan and related fees for 2009/10 be noted.

**10 INTERNAL AUDIT STRATEGIC AND ANNUAL PLANS 2010/11**

***Councillor Barry left the meeting during discussion of the following item.***

The Internal Audit Manager presented a report to seek the Committee's approval for a proposed three-year Internal Audit Strategic Plan and Annual Operational Plan for 2010/11.

It was reported that a key theme for 2010/11 was to support the council's change programme by assisting where possible with the implementation of the new service structures. The change programme was viewed as an opportunity to review the efficiency of business processes and to revisit and develop standards of governance, internal control and conduct in the organisation.

The Annual Audit Plan 2010/11 included an increased allocation to support work, this was to provide support and advice to management in the development of new policies, systems and projects. Additional resources had been allocated compared with previous years to support services and managers implementing revised organisational structures.

***Resolved:***

- (1) That the draft Internal Audit Strategic and Business Plan 2010/11 to 2012/13 be approved.

That the Internal Audit Annual Plan for 2010/11 be approved.

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Chairman

(The meeting ended at 8.20 p.m.)

**Any queries regarding these Minutes, please contact  
Tom Silvani, Democratic Services - 01524 582132 - email: [tsilvani@lancaster.gov.uk](mailto:tsilvani@lancaster.gov.uk)**