

AUDIT COMMITTEE

6.00 P.M.

19TH JANUARY 2011

PRESENT: Councillors Malcolm Thomas (Chairman), Janice Hanson (Vice-Chairman), Jon Barry, Abbott Bryning, Roger Dennison, Geoff Marsland (substitute for Geoff Knight) and Keith Sowden

Apologies for Absence:

Councillor Geoff Knight

Also in Attendance:

Heather Garrett KPMG

Officers in Attendance:

Nadine Muschamp	Head of Financial Services
Sarah Taylor	Head of Governance (for Minute Nos. 18 to 21 only)
Derek Whiteway	Internal Audit Manager
Jane Glenton	Democratic Support Officer

18 MINUTES

The Minutes of the meeting held on 22nd September 2010 were signed as a correct record by the Chairman.

19 ITEMS OF URGENT BUSINESS AUTHORISED BY THE CHAIRMAN

There were no items of urgent business.

20 DECLARATIONS OF INTEREST

There were no declarations of interest.

The Chairman advised that, with the agreement of the Committee, the next item of business had been brought to the beginning of the meeting to allow the Head of Governance to leave the meeting.

21 LOCAL GOVERNMENT OMBUDSMAN - ANNUAL REVIEW 2009/10

Committee received the report of the Head of Governance on the Local Government Ombudsman – Annual Review 2009/10, which highlighted particular matters of interest contained in the Annual Report. A copy of the Annual Review was appended to the report.

The Head of Governance advised that the purpose of the Annual Review was to provide national statistics and information, and to give the Ombudsman's reflections on the complaints received against the City Council over the last year.

The key issues in 2009/10 were set out in the report. In 2009/10, the Ombudsman had received a total of 18,020 complaints nationally, compared with 21,012 in the previous year, representing a decrease of 14.2%. Housing and planning complaints remained the largest two categories of complaint.

Members were advised that the Information Management Officer (IMO), who was responsible for co-ordinating replies and ensuring that Service-based officers met the average response time of 28 days required by the Ombudsman, had transferred from Information Services to Governance in December 2010.

The Head of Governance informed Members that she intended to monitor Ombudsman complaints and the preparation of the Council's responses to ensure that there was an improvement in response times.

Members considered the Annual Review in detail and did not wish to submit any comments to the Ombudsman.

Resolved:

That the Ombudsman's Annual Review for 2009/10 be noted.

The Head of Governance left the meeting at this point.

22 ANNUAL AUDIT LETTER

Heather Garrett of KPMG presented the Annual Audit Letter, which summarised the key issues arising from its audit for the City Council, and highlighted areas of good performance and further work that was required to achieve best practice. A summary of reports issued was provided at Appendix A to the report. It was noted that all Councillors had been invited to attend the presentation.

Members were advised that the main responsibility of KPMG was to carry out an audit which reported on the Use of Resources (UoR) and Financial Statements. An unqualified value for money conclusion had been issued regarding the UoR for 2009/10, which meant that KPMG were satisfied that the City Council had put into place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

KPMG had issued an unqualified opinion on the City Council's accounts on 27th September 2010, which meant that they believed that the accounts gave a true and fair view of the financial affairs of the Council and of the income and expenditure recorded during the year.

There were no new recommendations arising from the 2009/10 audit work in relation to high risk, and all prior year recommendations had either been addressed by management or were in the process of being implemented.

Four recommendations had been identified by KPMG in 2008/09 for the City Council to address in relation to treasury management following the collapse of the Icelandic Banks. Two had been fully implemented, one relating to Internal Audit's review of treasury management activities had been partially implemented, and the final recommendation relating to the training of officers and members who were involved in treasury management activities was in the process of being implemented. Members' preference was for the next training to be provided following the local election in May.

The Council was making good progress to comply with the requirement to report under International Financial Reporting Standards (IFRS), which required the 2009/10 financial

statements to be converted to IFRS to form the comparative period. The Council needed to ensure that Members were aware of the impact of IFRS to allow them to properly discharge their responsibilities and approve the financial statements in June 2011.

It was reported that the Audit Commission had reviewed its work programme for 2010/11 onwards. KPMG would therefore apply a new approach to local VFM audit work from 2010/11 onwards, based on a reduced number of reporting criteria specified by the Audit Commission, and advise of any changes to audit arrangements arising in the light of the proposed abolition of the Audit Commission from 2012.

The Chairman thanked Heather Garrett for her presentation.

Resolved:

That the report be noted.

23 RESULTS OF INTERNAL AUDIT WORK

Committee received the report of the Internal Audit Manager to inform of the results of Internal Audit work for the period. Appendix A to the report provided the updated position for all previously reported audits where the level of assurance had not yet reached 'reasonable'.

Listed in the report were areas audited since the last meeting of the Committee, together with an assurance opinion. Members' attention was drawn to the audits where a 'reasonable' level of assurance had not been achieved. Action plans and/or internal audit follow-up reviews had been scheduled for these audits.

The Internal Audit Manager advised that the assurance level for Council Housing RMS had been raised from 'minimal' to 'limited' and it was expected that this could be raised further to 'reasonable' with implementation of the action plan. Significant progress had been made following the transfer of the function to Health and Housing Services and the appointment of the new Operations Manager.

It was recommended that the Internal Audit Manager continue to track this audit in the normal way and report to a future meeting of the Committee on progress with implementation of the action plan.

Resolved:

- (1) That the report be noted.
- (2) That the Internal Audit Manager continue to track audit ref 07/0764 – Council Housing RMS in the normal way and report to a future meeting of the Committee on progress with implementation of the action plan.

24 INTERNAL AUDIT MONITORING

Committee received the report of the Internal Audit Manager to advise Members of the latest monitoring position regarding the 2010/11 Internal Audit Annual Plan, which Committee had approved on 30th June 2010, and to seek approval for a variation to the 2010/11 Annual Plan and endorsement for future year resourcing proposals. A detailed

monitoring report, as at 14th December 2010, was attached as Appendix A to the report.

It was reported that the summary of the monitoring position showed that overall known and anticipated commitments totalled 645 days compared with the original plan of 845 days. It was estimated that 690 days could be delivered, taking into account staffing changes during the year, with 45 days remaining uncommitted. With the, as yet, unused general contingency of 40 days, there were 85 audit days available to allocate to new activity, mainly allocated to financial systems work during the final quarter of the year.

Members were advised that a revised audit needs assessment had been undertaken, which identified 127 auditable activities. These were set out at Appendix B to the report. It was proposed that Lancaster City Council would provide internal audit services for both councils in the shared services arrangements for Revenues and Benefits services and these had been estimated at 40 audit days per annum.

It was reported that an estimated average of half of the high priority areas would be covered along with a quarter of the medium priority areas and a lower proportion of around one-eighth of the low priority areas in any one year to ensure that audit work was focused on high-risk, high priority issues and to recognise that assurance may be obtained from other sources in some areas. It was proposed that a ring-fenced allocation of resources be retained (reduced from 90 to 60 days) for audit of the Council's core financial systems. Other areas of work had also been reviewed and proposals sought to maintain the level of assurance work provided to the Council.

Members were advised that the internal audit needs assessment and work programme aligned with the 690 days that an establishment of 3.8 FTE audit staff would be expected to provide, and this staffing resource could be achieved with the currently vacant Senior Auditor post being deleted from the establishment. It was noted that Personnel Committee would consider proposed Financial Services' staffing changes at its meeting on 1st February 2010.

Committee considered the report in detail, and commented upon the needs assessment and proposals relating to internal audit resources. Members expressed concerns regarding the Council's reduced workforce and the impact this could have on the delivery of some work areas. Members were advised that these issues were being addressed through the normal performance management monitoring and reporting channels. It was noted that the Audit Committee could, if necessary, request managers to report to it on how risks associated with change were being managed.

Members also questioned how audit arrangements would be managed under the proposed sharing of Revenues and Benefits services with Preston City Council. The Internal Audit Manager advised that this still had to be discussed and agreed with the relevant parties. Details would be included in future updates to the Audit Committee on the monitoring of internal audit.

Resolved:

- (1) That the current monitoring position be noted.
- (2) That the proposed changes to the 2010/11 internal audit plan resulting in a reduction of 155 audit days be approved.

- (3) That the revised audit needs assessment be noted and the proposed internal audit resource and staffing changes endorsed.

Chairman

(The meeting ended at 7.07 p.m.)

**Any queries regarding these Minutes, please contact
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