

AUDIT COMMITTEE

6.00 P.M.

29TH JUNE 2011

PRESENT: Councillors Malcolm Thomas (Chairman), Tim Hamilton-Cox (casual substitute for Jon Barry), Richard Newman-Thompson, Ian Pattison, Vikki Price and Peter Williamson

Apologies for Absence:

Councillors Jon Barry and Geoff Knight

Also in Attendance:

Councillor Susan Sykes
Heather Garrett KPMG

Officers in Attendance:

Nadine Muschamp	Head of Financial Services and Section 151 Officer
Derek Whiteway	Internal Audit Manager
Jane Glenton	Democratic Support Officer

1 APPOINTMENT OF VICE-CHAIRMAN

The Chairman requested nominations for the position of Vice-Chairman.

It was proposed by Councillor Newman-Thomson and seconded by Councillor Price:

“That Councillor Ian Pattison be Vice-Chairman of the Audit Committee for the Municipal Year 2011/12.”

There were no further nominations and the Chairman declared Councillor Ian Pattison to be nominated.

Resolved:

That Councillor Ian Pattison be Vice-Chairman of the Audit Committee for the Municipal Year 2011/12.

2 MINUTES

The Minutes of the meeting held on 19th January 2011 were signed as a correct record by the Chairman.

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 EXTERNAL AUDIT PLAN 2010/11

Heather Garrett, Audit Manager with KPMG, the Council's external auditors, guided Members through the External Audit Plan 2010/11 prepared by KPMG and the four appendices attached to the Plan, setting out details on expectations, the balance of internal controls and substantive testing, independence and objectivity requirements and quality assurance and technical capacity.

Members were advised that the Plan outlined how KPMG would deliver its audit work for the Council, and comprised two objectives, as summarised in the Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies*. These were the *financial statements* (including the Annual Governance Statement), which was an opinion on the Council's accounts, and *the use of resources*, which were the arrangements in place for securing economy, efficiency and effectiveness in the Council's use of resources (the *Value for Money Conclusion*).

It was reported that the audit work was based on an assessment of risk. Key risks had currently been identified as the *Medium Term Financial Plan (MTFP/Financial Standing)*, particularly in the light of the Comprehensive Spending Review, which would require the Council to make significant savings; the *Implementation of International Financial Reporting Standards (IFRS)*, which all local authorities were required to implement for 2010/11 financial statements; *Contingent Liabilities*, which could be significant if they were to crystallise (for example, Luneside East); and *Revenues and Benefits Shared Services*, which would include a change to processes requiring controls and close oversight to ensure that the planned efficiencies were delivered in the budget.

Members were advised that the conversion process for IFRS had ended on 31st March 2011. The Council had been following a conversion plan and had a project team to assist in achieving a smooth transition to IFRS.

It was reported that the work on the financial statements and the Annual Governance Statement involved four key stages - *planning, control evaluation, substantive procedures and finalisation*. The audit planning process and risk assessment were ongoing processes and would be kept under review and updated if necessary. The re-stated 2009/10 financial statement had been audited in February to ensure compliance with the CIPFA code. The impact of each key risk audit area on the Plan was outlined, and the Audit Commission would be updated on the risk issues throughout the audit.

Members were advised that the audit work was planned to detect errors that were material to the accounts as a whole and the margin of error (materiality) that could be accepted was £2.5m, which was 2% of total revenues. The audit fee had not changed from that agreed in the high level audit strategy in April 2010 and was below the Audit Commission's suggested scale fee. The audit fee was indicative and based on the Council meeting agreed expectations.

Details of the audit timeline were set out in the report and it was noted that the year end audit conclusions would be reported to Committee on 21st September 2011 and a summary of the audit, with key audit issues and outputs, would be contained in the annual audit letter issued in November 2011.

Following presentation of the External Audit Plan, Members raised questions on its content, which were suitably answered by the Audit Manager.

Resolved:

That the External Audit Plan 2010/11 be accepted.

6 EXTERNAL AUDIT PLAN AND FEES 2011/12

Committee received the letter from KPMG setting out the External Audit Plan and Fees 2011/12.

It was reported that proposals were based on the risk based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2011/12. Because the audit for 2010/11 had not been completed, the audit planning process for 2011/12, including the risk assessment, would continue as the year progressed and the fees would be reviewed and updated as necessary.

Members were advised that the proposed indicative fee for the audit for 2011/12 was £128,250 (plus VAT), which compared to the planned fee of £135,000 for 2010/11. It was estimated that the fee for the certification of 2011/12 grants and returns would be £40,000, dependent on unpredictable factors, including the number and nature of schemes which would require certification. The indicative fee was based on a number of assumptions, which were summarised in Appendix 1 to the letter.

Resolved:

That the External Audit Plan and Fees 2011/12 be accepted.

7 INTERNAL AUDIT ANNUAL REPORT AND ASSURANCE STATEMENT 2010/11

Committee received the report of the Internal Audit Manager to inform the Committee of the extent and outcome of Internal Audit work during the 2010/11 financial year and to present an annual Statement of Assurance regarding the Council's Internal Control Framework.

It was reported that the terms of reference of the Audit Committee included receiving the annual Internal Audit Report and Controls Assurance Statement. The Code of Practice for Internal Audit specified that *the Head of Internal Audit was to provide a written report to those charged with governance timed to support the Statement on Internal Control*. Both made a significant contribution to the Council's statutory duty to undertake an annual review of the Internal Control framework and publish a Statement on Internal Control. It was further noted that Internal Audit operated to standards set out in the CIPFA Code of Practice for Internal Audit and in accordance with an approved Audit Charter.

Members were advised that Internal Audit plans and assignments were developed on a risk-based approach. The Internal Audit Plan for 2010/11, which Committee had approved in June 2010, was based on the provision of 845 days of Internal Audit work divided evenly between assurance work (445 days) and other audit activity (400 days). Variations to this plan, which had taken into account staffing reductions in internal audit, had been approved by the Committee at its meeting in January 2011, resulting in a revised plan to provide 690 days.

The detailed outturn position as at 31st March 2011 was attached at Appendix A to the report and a summary of the final position for the year was set out in the report, showing that the total number of available days (830) in the revised plan had been met exactly. The number of chargeable days delivered was 7 less than planned due to the additional time devoted to reviewing working practices and team building following staffing changes in 2010.

It was reported that changes in demand for Internal Audit work had been managed in chargeable work areas to ensure that an acceptable level of assurance work was delivered. Overall, 12 additional days of assurance work had been delivered, and a great proportion of this work had been devoted to *core financial systems* and management arrangements, and fewer days work had been done in the *risk based assurance* category.

It was noted that a planned Value for Money study into the Council's use of mobile phones and other technology would be picked up during 2011/12. The reduction in time devoted to audit management mainly reflected the cancellation of Audit Committee meetings in April and November 2010 and April 2011. It was further noted that the level of resources required on investigative work remained manageable.

Members were advised that the Accounts and Audit Regulations 2011 required the Council to conduct an annual review of the effectiveness of Internal Audit and for a committee of the Council to consider the findings. Details of the review would be included within the Annual Review of Governance report to the next meeting of Committee.

It was reported that the completed assurance audits had resulted in the production of a report and action plan, which had been agreed by managers and submitted for consideration by the Audit Committee using four levels of opinion, these being *Maximum, Substantial, Limited* and *Minimal*. The assurance opinions issued from audits and follow-up reviews completed since 31st March 2010, and any subsequent changes in assurance level, were set out in Appendix B to the report.

The assurance opinions were summarised in the report, showing a *Maximum* assurance level had been given to 4 audits, including NNDR and Council Tax audits, and Treasury Management arrangements, with 13 scoring *Substantial*, 12 *Limited* and 0 *Minimal*. Members noted that the Audit Committee would continue to receive updates on progress with those audits that had not reached at least the *Substantial* assurance level, which presently consisted of the 12 audits whose assurance ratings stood as *Limited*. No significant control weaknesses had been identified in relation to the Council's key financial systems.

It was reported that the main messages arising from risk management audits would be incorporated in the governance review and Annual Governance Statement. No control weaknesses in Internal Audit activity had been identified by the assurance work that would warrant disclosure in the Statement.

Following presentation of the Internal Audit Annual Report and Assurance Statement 2010/11, Members raised questions on their content, which were suitably answered by the Internal Audit Manager.

It was proposed by Councillor Williamson and seconded by Councillor Newman-

Thompson:

- “(1) That the report be noted.
- (2) That the Internal Audit Manager’s Controls Assurance Statement contained in paragraphs 2.12 to 2.23 of the report, and specifically paragraph 2.16 (namely “*In the Internal Audit Manager’s view, the internal audit work undertaken has not identified any issues of sufficient significance to warrant specific mention in the annual governance statement,*”) be accepted as a contribution to the annual governance review and drafting of the Annual Governance Statement.”

Upon being put to the vote, Members voted unanimously in favour of the proposition, whereupon the Chairman declared the proposal to be clearly carried.

Resolved:

- (1) That the report be noted.
- (2) That the Internal Audit Manager’s Controls Assurance Statement contained in paragraphs 2.12 to 2.23 of the report, and specifically paragraph 2.16 (namely “*In the Internal Audit Manager’s view, the internal audit work undertaken has not identified any issues of sufficient significance to warrant specific mention in the annual governance statement,*”) be accepted as a contribution to the annual governance review and drafting of the Annual Governance Statement.

8 INTERNAL AUDIT STRATEGIC AND ANNUAL PLANS 2011/12

Committee received the report of the Internal Audit Manager to seek the Committee’s approval for a proposed three-year Internal Audit Strategic Plan and Annual Operational Plan for 2011/12.

It was reported that the terms of reference of the Audit Committee included *to approve Internal Audit strategic plans and the Annual Internal Audit Plan*, and the Code of Practice for Internal Audit specified that *the Head of Internal Audit must produce an audit strategy; this is the high-level statement of how the internal audit service will be delivered and developed in accordance with its terms of reference and how it links to the organisational objectives and priorities*. The Code also specified that *the Head of Internal Audit should prepare a risk-based plan designed to implement the audit strategy*.

The Internal Audit Business and Strategic Plan was attached at Appendix A to the report and had been developed using the Council’s standard template for its service business plans, but extended to incorporate two further elements of internal audit strategy, as set out in the Code of Practice, namely: *How the Internal Audit Manager will form and evidence his opinion on the control environment to support the Annual Statement on Internal Control*; and *how Internal Audit will identify and address significant local and national issues and risks*.

It was reported that a key strategic theme for Internal Audit in 2010/11 was supporting the Council’s change programme by assisting with the implementation of the new service structures and to review the efficiency of business processes and develop standards of governance, internal control and conduct in the organisation.

Members were advised that the draft Internal Audit Annual Plan 2011/12, attached at Appendix B, was designed to implement the Internal Audit Strategy, as required by the Code of Practice, and was based on estimated available resources of 685 days being delivered by the in-house team of 3.81 full-time equivalent staff. The Internal Audit Manager's role as Deputy Section 151 Officer had been estimated as requiring 15 days, giving a net allocation to audit activity of 670 days. Members noted that, should conflict of interest arise in relation to the role of Deputy Section 151 Officer, the Principal Auditor would carry out the work.

It was reported that a key element of work in the coming months would be to establish a robust Internal Audit service to the Revenues and Benefits Shared Services arrangement with Preston City Council. The Internal Audit Manager would consult with Service Heads, statutory officers and Management Team to inform and develop the detailed programme of audit assignments, which would be greatly influenced by the financial pressures affecting the Council and targeted as effectively as possible.

Development of the detailed programme would be formally reported and monitored by each meeting of the Audit Committee.

Following presentation of the Internal Audit Strategic and Annual Plans, Members raised questions on their content, which were suitably answered by the Internal Audit Manager.

It was proposed by Councillor Price and seconded by Councillor Williamson:

- “(1) That the Internal Audit Strategic and Business Plan for 2011/12 to 2013/14 be approved.
- (2) That the Internal Audit Annual Operational Plan for 2011/12 be approved.”

Upon being put to the vote, Members voted unanimously in favour of the proposition, whereupon the Chairman declared the proposal to be clearly carried.

Resolved:

- (1) That the Internal Audit Strategic and Business Plan for 2011/12 and 2013/14 be approved.
- (2) That the Internal Audit Annual Operational Plan for 2011/12 be approved.

9 AUDIT COMMITTEE WORK AND TRAINING PROGRAMME

Committee received the Audit Committee Work and Training Programme report of the Internal Audit Manager to seek the Committee's views on and adoption of a work and training programme for the 2011/12 municipal year.

It was reported that the Audit Committee's terms of reference set out the general and specific roles and responsibilities of the Committee, a number of which involved the Committee in considering regular and/or periodic reports, which required Members to have an understanding of the Council's financial management and corporate governance arrangements. The Audit Committee acted on behalf of full Council and had responsibility for statutory requirements in some instances, for example in approving the

Annual Statement of Accounts and the Governance Statement.

Members noted the draft work programme attached at Appendix A to the report, which set out the expected scheduling of reports to the Committee during the current municipal year. Some changes to the scheduling had been necessary, resulting from the Accounts and Audit Regulations 2011, which now required the Statement of Accounts to be approved by 30th September, rather than 30th June, each year. Reports, which were submitted to meet statutory deadlines, were highlighted in the draft schedule.

Members considered the programme and whether there were any further matters relating to the Committee's areas of responsibility, which they wished to be reported, but did not wish anything further to be included at the time.

Attached at Appendix B to the report was a list of potential training topics, including a suggested priority and possible timescale for delivery, taking into consideration various factors.

Members considered the programme and agreed the modes of delivery included in the appendix, with a preference for training taking place after 6.00 p.m. to fit in with work commitments.

It was proposed by Councillor Williamson and seconded by Councillor Newman-Thompson:

- “(1) That the draft work programme for the 2011/12 municipal year, attached as Appendix A to the report, be adopted.
- (2) That the list of potential training topics, attached as Appendix B to the report, be agreed as the training programme for the 2011/12 municipal year, with a preference for training taking place after 6.00 p.m. to fit in with work commitments.”

Upon being put to the vote, Members voted unanimously in favour of the proposition, whereupon the Chairman declared the proposal to be clearly carried.

Resolved:

- (1) That the draft work programme for the 2011/12 municipal year, attached as Appendix A to the report, be adopted.
- (2) That the list of potential training topics, attached as Appendix B to the report, be agreed as the training programme for the 2011/12 municipal year, with a preference for training taking place after 6.00 p.m. to fit in with work commitments.

Chairman

(The meeting ended at 7.10 p.m.)

**Any queries regarding these Minutes, please contact
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