

AUDIT COMMITTEE

6.00 P.M.

21ST SEPTEMBER 2011

PRESENT: Councillors Ian Pattison (Vice-Chairman), Geoff Knight, Richard Newman-Thompson, Susan Sykes (substitute for Malcolm Thomas) and Peter Williamson (for minute numbers 13 (part) to 17 only)

Apologies for Absence:

Councillors Malcolm Thomas (Chairman) and Vikki Price

Also in Attendance:

Steve Clark	KPMG LLP (UK)
Heather Garrett	KPMG LLP (UK)

Officers in Attendance:

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

Councillor Ian Pattison, Vice-Chairman in the Chair

10 MINUTES

The Minutes of the meeting held on 29th June 2011 were signed as a correct record by the Chairman.

11 ITEMS OF URGENT BUSINESS AUTHORISED BY THE CHAIRMAN

There were no items of urgent business.

12 DECLARATIONS OF INTEREST

There were no declarations of interest.

Councillor Williamson arrived mid-way through the following item.

13 STATEMENT OF ACCOUNTS 2010/11

Committee received the report of the Head of Financial Services, which sought Member approval for the 2010/11 audited accounts to allow completion of the financial reporting for 2010/11.

Members were advised that, in accordance with the new requirements of the Accounts and Audit Regulations, the draft accounts for 2010/11 had been produced by 30th June and certified by the Section 151 Officer on that date. They had then been made available for public inspection and had been externally audited. The external auditor's formal report was attached at Appendix A to the report.

Steve Clark, Director, KPMG LLP (UK) informed Members that there were no major issues to report. The process involved much work for officers and the Authority's approach worked well, with good quality accounts and supporting working papers. One material audit adjustment to correct a duplicated entry had been identified in relation to the Collection Fund, but this was purely presentational in nature and had no impact on the fund's net balance and no impact on the general fund or net assets. It was anticipated that an unqualified audit opinion would be issued by 30th September 2011.

Heather Garrett, Manager, KPMG LLP (UK) advised that the report summarised the key issues identified during KPMG's audit of the Authority's financial statements for the year ended 31st March 2011 and the assessment of the Council's arrangements to secure value for money (VFM) in its use of resources. It had been concluded that the Authority had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. VFM risks were set out in KPMG's Audit Fee Letter 2010/11 in relation to the financial resilience of the Authority, which was an issue for all local authorities following the comprehensive spending assessment.

Members were advised that the audit was split into four phases, namely Planning, Control Evaluation, Substantive Procedures and Completion. It focused on the final two stages of Substantive Procedures and Completion and included any findings in respect of the control evaluation that KPMG had to report. As required by the Code of Audit Practice, the audit had been carried out in an objective and independent manner.

A number of presentational changes to the notes to the financial statements had been noted. A full list of significant audit adjustments had been included at Appendix 3, and all of these had been adjusted by the Authority. Recommendations that would strengthen the Authority's control environment were detailed in Appendix 1. It was noted that the Authority was addressing risks and issues appropriately, and that this reporting period had been the first for the Authority under International Financial Reporting Standards and it had responded well.

It was reported that the Council must consider and approve the accounts, then ensure they were signed and dated by the Chairman of Audit Committee by 30th September 2011. It was noted that the approval process represented an opportunity for the City Council to consider the outcome of external audit and ensure that its financial reporting was appropriate and any necessary action taken.

The adjusted, audited accounts were attached at Appendix B for Members' consideration and approval, and it was noted that the external auditor required a 'letter of representation' in support of completing the audit, which would be signed by the Section 151 Officer. A copy of the letter of representation was attached at Appendix C to the report.

Members were advised that it was expected the external auditor would issue their opinion on the accounts once they had been approved and the letter of representation forwarded. Conclusion of the audit would follow in due course. The Head of Financial Services would ensure that the accounts were published by 30th September through a copy being made available at the town halls and through the Council's website.

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

- “(1) That the report for 2010/11 issued by the Council’s External Auditors and the letter of representation, to be signed by the Section 151 Officer, be noted.
- (2) That, subject to no comments being received by noon on Monday, 26th September 2011 that indicate otherwise, the Statement of Accounts for the financial year ended 31st March 2011 be approved and that the Chairman of Audit Committee signs and dates the Accounts accordingly.”

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 for 2010/11 issued by the Council’s External Auditors and the letter of representation, to be signed by the Section 151 Officer, be noted.
- (2) That, subject to no comments being received by noon on Monday, 26th September 2011 that indicate otherwise, the Statement of Accounts for the financial year ended 31st March 2011 be approved and that the Chairman of Audit Committee signs and dates the Accounts accordingly.

14 REVIEW OF GOVERNANCE AND THE ANNUAL GOVERNANCE STATEMENT 2010/11

Committee received the report of the Chief Executive, which sought Committee’s approval for the draft Annual Governance Statement for the 2010/11 financial year, in accordance with the Committee’s terms of reference (part 3, section 8 of the Constitution).

It was reported that it was necessary to prepare and publish an Annual Governance Statement in England, in accordance with proper practices to meet the statutory requirement set out in Regulation 4 (24) of the Accounts & Audit (England) Regulations 2011. Its publication also incorporated and satisfied the requirement to produce a Statement on Internal Financial Controls (SIFC) under the Local Government Statement of Recommended Practice (SORP).

Members were advised that ‘proper practices’ were set out in the framework and guidance Delivering Good Governance in Local Government, which required the Council to develop and maintain a Local Code of Corporate Governance. This had been approved by Audit Committee on 23rd January 2008. The Council was also required to prepare a Governance Statement in order to report publicly on an annual basis on the extent to which the Council complied with its own Code. The Annual Governance Statement had been drawn up following a review of the Council’s framework.

It was reported that a review had been undertaken of the Council’s position and performance against the Local Code of Corporate Governance. The results of the evaluation exercise were demonstrated in the Overview Charts, which were attached at Appendix A to the report, together with the Evaluation Report. These showed that there had been gradual improvements in a number of areas and highlighted some areas where the financial climate and organisational change raised some additional challenges to maintaining effective governance. The number of factors in which there remained a perceived shortfall in performance had reduced from 18 to 11, and none had received a

shortfall of more than 1 point. The Code of Governance consisted of 67 elements within 6 core principles, which underpinned the Council's system of governance. The core principles were set out in the report.

Members were advised that a document had been compiled which detailed the identified 'sources' of assurance for each element of the Code, ranging from a record of official policy and strategy documents, such as the Constitution, to the reviews such as internal audit and external audit reports to procedures such as one-to-one management meetings. Individual 'assurance statements' had been sought from Service Heads in relation to internal control and governance arrangements within their areas, and these had been built into the overall evaluation. Significant matters raised in those statements had been included in the Governance Statement.

It was reported that the Accounts & Audit (England) Regulations 2011 included a requirement that local authorities undertake an annual review of the effectiveness of their Internal Audit, and that this should form a part of the overall review of governance. Details of the self-assessment that had been undertaken in relation to 'characteristics of effectiveness' were shown at Appendix B to the report.

Members were informed that they should also consider their own perceptions and experiences relating to the work and output of internal audit through the Audit Committee, and were advised that internal audit was operating effectively and could place reliance on its reports and work in considering the overall effectiveness of governance arrangements.

It was reported that the Annual Governance Statement attached at Appendix C had been drafted following the evaluation exercise. The timescale for production of the Statement coincided with that for approval of the financial accounts of 30th September 2011. It was required that the Statement be approved at a meeting of the Council or delegated committee (i.e. Audit Committee) and follow a prescribed format.

The statutory requirement was that the most senior officer (the Chief Executive or equivalent) and the most senior Member (Leader or equivalent) should sign the Statement and be satisfied that the document was supported by reliable evidence and accurately reflected the internal control environment, which emphasised that the document was about corporate controls and was not confined to financial issues. The Statement covered the requirements to produce a statement on Corporate Governance and on Internal Financial Control and it was therefore recommended that the Section 151 Officer and Monitoring Officer also sign the Statement, as in previous years.

It was reported that actions relating to those 'Significant Governance Issues' identified in Section 5 of the draft Governance Statement had already been acknowledged and reflected in the Council's Corporate Plan and individual Services' Business Plans.

It was proposed by Councillor Knight and seconded by Councillor Sykes:

"That, subject to no comments being received by noon on Monday, 26th September 2011 that indicate otherwise, the draft Annual Governance Statement for 2010/11 be approved for signing by the Leader of the Council, Chief Executive, Section 151 Officer and Monitoring Officer."

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:

That, subject to no comments being received by noon on Monday, 26th September 2011 that indicate otherwise, the draft Annual Governance Statement for 2010/11 be approved for signing by the Leader of the Council, Chief Executive, Section 151 Officer and Monitoring Officer.

15 LOCAL GOVERNMENT OMBUDSMAN - ANNUAL REVIEW

Committee received the report of the Head of Governance to enable Members to consider the Ombudsman's Annual Review Letter and Report for 2010/11.

It was reported that the Local Government Ombudsman (LGO) had recently published its Annual Report for 2010/11, giving an overview of its work nationally. In addition, it had published an annual review letter and report relating to each council. A copy of the City Council's annual review letter and report were appended to the report.

Members were advised that the LGO now provided a standalone statement of reasons for its decisions to both the complainant and council, which replaced the former practice of communicating decisions by letter to the complainant and supplying a copy to the council. The Ombudsman's power had been extended to include dealing with complaints regarding adult social care and those about schools by pupils or their parents, but these extensions did not directly affect the City Council.

It was reported that the Ombudsman had received a total of 21,840 complaints in 2010/11, compared with 18,020 in the previous year, which was an increase of 21.2%. It was noted that the highest numbers of complaints had been received regarding housing, particularly housing repairs and housing allocations.

The Ombudsman provided training in complaints handling, and a survey carried out in 2010/11 showed a positive outcome from that training and the findings would inform how the Ombudsman developed and provided training in the future.

Members were advised that a total of 28 cases had been received by the City Council from the Ombudsman in 2010/11. Eleven of these had been forwarded to the investigation team and there were no findings of maladministration against the Council. One case had been resolved by local settlement when the Council had agreed to pay £150 in compensation. The other 15 cases in which decisions had been made in 2010/11 comprised 2 relating to planning applications and 2 to planning advice. The others related to forward planning, drainage, environmental health, housing allocation, housing benefit, local taxation, contractual and business matters, land, parking, licensing and anti-social behaviour.

It was reported that there had been an improvement in the average number of days taken to respond from 35.0 days in 2009/10 to 29.7 days in 2010/11. However, this still remained above the 28 days limit set by the Ombudsman, and it was hoped that the 2011/12 response times would show further improvement.

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

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

- (1) That the Ombudsman's Annual Review letter and report for 2010/11 be noted.
- (2) That the Ombudsman or a senior manager be requested to meet with the Committee and explain their work in greater detail."

Resolved:

- (1) That the Ombudsman's Annual Review letter and report for 2010/11 be noted.
- (2) That the Ombudsman or a senior manager be requested to meet with the Committee and explain their work in greater detail.

16 INTERNAL AUDIT MONITORING

Committee received the report of the Internal Audit Manager to advise Members of the latest position regarding the 2010/11 Internal Audit Plan and to seek Members' approval for a change to the Plan and endorsement of a future schedule of audit work.

It was reported that the 2011/12 Internal Audit Plan had been approved by Audit Committee on 29th June 2011. The report was based on the monitoring position up to 31st August 2011. A detailed monitoring report was attached at Appendix A to the report. The position at that date was shown in the table below.

Area of work	Resources (audit days)					
	Actuals to 31/08/11	Remain-ing	Comm-itted	Original Plan	Varianc-e	Propose-d Plan
Assurance Work						
Core Financial Systems	65	17	82	50	-32	82
Revenues & Benefits Shared Services	44	48	92	85	-7	92
Core Management Arrangements	8	1	9	110	101	81
Risk Based Assurance Audits	75	15	90	105	15	105
Follow-Up Reviews	15	55	70	70	0	70
Sub-Total, Assurance	207	136	343	420	77	430
Consultancy Work						
Support Work	14	10	24	30	6	30
Efficiency & VfM	0	30	30	30	0	30
Ad-Hoc Advice	15	40	55	65	10	65
Sub-Total, Consultancy	29	80	109	125	16	125
Other Work						
Other Duties (Non-Audit)	4	8	12	15	3	15
Audit Management	23	32	55	55	0	55
Sub-Total, Other Work	27	40	67	70	3	70
Contingencies						

Investigations	9	0	9	30	21	30
General Contingency	0	0	0	40	40	40
Sub-Total, Contingencies	9	0	9	70	61	70
Total	272	256	528	685	157	695

Members were advised that the monitoring position took into account ongoing and planned work commitments. Overall, current commitments totalled 538 days, compared with the original plan of 685 days. It was now estimated that 695 days could be delivered, giving an uncommitted resource of 167 days, including the general contingency of 40 days and a balance of 21 days set as contingency for investigation work.

Committee noted that paragraph 2.3 of the report reported that within the main programme of assurance work, the audits of core financial systems and, to a lesser extent, the Revenues and Benefits Shared Service, had exceeded the original plan. This reflected the additional work required in a new approach to these audits and a wider than normal programme, covering all significant systems in this year. It was proposed to meet the shortfall in these areas from the additional 10 days deliverable with the balance (29 days) by re-directing resources from the 'Core Management Arrangements' section of the assurance programme. This was reflected under the 'Proposed Plan' column of the table above and Members were asked to approve the change.

It was reported that audits of the Revenues and Benefits Shared Services' systems, as operated by Preston City Council, would form the section's major work programme in the near future, which would result in reports to Preston City Council's management and Audit Committee. The work was currently estimated to take 40 days, and efficiencies were anticipated in auditing the shared service arrangements resulting in a reduced number of audit days.

Members noted paragraph 2.6 of the report, which advised that a schedule of further audits for the remainder of the year was currently being drawn up in consultation with Management Team and an update would be provided at the meeting. Potential topics identified at the time of writing were:

- Shared Services arrangements with Lancashire County Council;
- Environmental Services' enforcement;
- Changes in the Housing Revenue Account;
- Winter maintenance arrangements;
- Complaints policy and procedures.

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

- "(1) That the current monitoring position be noted.
- (2) That the proposed change to the 2011/12 Internal Audit Plan, as set out in paragraph 2.3 of the report, be approved.
- (3) That the schedule of potential audits for the remainder of 2011/12, as set out in paragraph 2.6 of the report, 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 current monitoring position be noted.
- (2) That the proposed change to the 2011/12 Internal Audit Plan, as set out in paragraph 2.3 of the report, be approved.
- (3) That the schedule of potential audits for the remainder of 2011/12, as set out in paragraph 2.6 of the report, be approved.

17 RESULTS OF INTERNAL AUDIT WORK

Committee received the report of the Internal Audit Manager to inform Members of the results of internal audit work since the last report to Committee on 11th January 2011.

Members were advised that the report covered audit work and reports issued since the last meeting and noted that summary reports were issued to Members for their consideration and posted on the Council's Intranet.

Set out in the report was a list giving the assurance opinion issued for areas audited since the last Audit Committee. The audits where a 'reasonable' level of assurance had not been achieved were also set out in the report, as follows, together with the conclusions reached and details of the follow-up reviews.

10/0791 – Corporate Learning and Development Limited – follow-up review in November 2011.

10/0795 – Capital Contract Management (Limited) – a follow-up review of progress, with action plan, scheduled for October 2011.

10/0819 – Purchasing Cards (Minimal) – a follow-up review of progress, with the action plan, scheduled for September 2011.

09/0776 – Payroll 2009/10 Follow-Up Review (Limited) – options being evaluated by officers.

08/0753 – Williamson Park Financial Procedures Follow Up Review (Limited) – a new and more in-depth audit review, including progress to be undertaken in the second half of the year, was to be undertaken in the second half of the year.

09/0759 – Housing Standards Follow Up Review (Limited) – officers were satisfied that a 'substantial' level of assurance would be achieved once the comprehensive housing strategy, currently due by December 2011, was in place.

Members noted that Appendix A to the report provided the updated position and recommendations for further action for all previously reported audits where the level of assurance had not yet reached 'substantial' and updates were provided at the meeting. These were as follows:

08/0708 – Income Management (Housing Rents Direct Debit Payments) – it was recommended that the Internal Audit Manager continue to track and report on progress to the Committee.

07/0709 – Payroll – officers had been evaluating options for procuring a payroll and HR solution through the strategic partnership being implemented by Lancashire County Council, with implementation scheduled for April 2012. It was recommended that the Internal Audit Manager continue to track and report on progress to the Committee.

07/0679 – Markets – the invoicing and payment collection arrangements introduced from 1st June 2011 had gone a long way to meeting the Committee's resolution at its meeting on 20th January 2010 *that Audit Committee wishes to increase the amount of non cash payments in the Charter Market, the Festival Market and the Assembly Rooms and that a report be presented to the next Audit Committee as to the progress on this policy and the areas in which it can be applied.* The current position was set out in the report. Internal audit's opinion was that the invoicing and payment collection arrangements introduced from 1st June 2011 had gone a long way to meeting the Committee's resolution and the Council's income collection policy expectations. Continued effort was needed if the Council was to increase the proportion of rents collected by card from the Charter Market. It was internal audit's view that these developments were sufficient to raise the assurance level to 'substantial', and it was recommended that the progress be noted and that no further updates to Committee were required.

09/0750 – Academy/Civica Interfaces – it was recommended that the Internal Audit Manager continue to monitor and report on progress with resolving the system issues identified.

07/0764 – Council Housing Repair & Maintenance Section – the results of the further follow-up review would be reported to Audit Committee in the normal way.

Members considered the report and raised questions thereon.

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

- "(1) That the report be noted.
- (2) That, regarding audits ref 07/0708 – Income Management (Housing Rents Direct Debit Payments), 07/0709 – Payroll and 09/0750 – Academy/Civica Interfaces, the Internal Audit Manager continues to track and report on progress to the Committee.
- (3) That, regarding audit ref 07/0679 – Markets, progress be noted and no further updates to Committee be required."

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, regarding audits ref 07/0708 – Income Management (Housing Rents Direct Debit Payments), 07/0709 – Payroll and 09/0750 – Academy/Civica Interfaces, the Internal Audit Manager continues to track and report on progress to the Committee.
- (3) That, regarding audit ref 07/0679 – Markets, progress be noted and no further updates to Committee be required.

Chairman

(The meeting ended at 7.12 p.m.)

**Any queries regarding these Minutes, please contact
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