

AUDIT COMMITTEE

6.00 P.M.

18TH APRIL 2012

PRESENT: Councillors Malcolm Thomas (Chairman), Peter Williamson (Vice-Chairman), Jon Barry, Geoff Knight, Richard Newman-Thompson (for Minute Nos. 33 to 36 only) and Ian Pattison

Also in Attendance:

Councillor Susan Sykes (for Minute Nos. 33 (part) to 36 only)
Steve Clark KPMG LLP (UK)
Richard Lee KPMG LLP (UK)

Officers in Attendance:

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

29 MINUTES

The minutes of the meeting held on 15th February 2012 were signed as a correct record by the Chairman.

30 ITEMS OF URGENT BUSINESS AUTHORISED BY THE CHAIRMAN

There were no items of urgent business.

31 DECLARATIONS OF INTEREST

There were no declarations of interest.

32 EXTERNAL AUDIT PLAN 2011/12 AND CERTIFICATION OF GRANT CLAIMS AND RETURNS 2010/11

Committee received the report of the Head of Financial Services to inform and seek the Committee's comments on the External Auditor's Plan for the Audit of the 2011/12 Accounts and to advise the Committee of the Auditor's Certification of Grant Claims and Returns Report 2010/11.

Richard Lee of KPMG LLP, the Council's External Auditors, told Members that the Certification of Grant Claims and Returns Report had been produced during the 2010/11 audit and was a statutory document that summarised the results of work on the certification of the Council's 2010/11 grant claims and returns.

Referring to the External Audit Plan 2011/12, Members were advised that there were four key stages in the financial statements audit process. Planning was the most important stage, where key audit risks were drawn out. Three significant risks had been identified.

Firstly, it would be more difficult for many Authorities to deliver savings in a way that

secured longer term financial and operational sustainability.

Secondly, the 2011/12 *Local Government Accounting Code of Practice* included a number of accounting changes, which the Authority needed to review and appropriately address in its 2011/12 financial statement, including a new requirement to carry heritage assets at valuation.

Thirdly, Members had taken the decision to review the current lease arrangements for Lancaster Market, with a view to negotiating a surrender of the long term lease from Allied (Lancaster) Limited. The Council needed to understand the implications of surrendering the lease from a financial statements and financing perspective and regarding the demonstration of value for money.

Richard Lee reported that to meet the statutory responsibilities relating to economy, efficiency and effectiveness, auditors were required to plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk) and to carry out sufficient work to give a sound Value for Money (VfM) conclusion. The specified criteria were that the Council had proper arrangements in place for securing financial resilience and for challenging how it secured economy, efficiency and effectiveness.

Members then asked some questions in connection with Lancaster Market.

Steve Clark, Engagement Lead, advised it was KPMG's role to review the Council's proposals for the Market to see whether they demonstrated an appropriate use of the Council's resources to inform the VfM conclusion, and to review the proposed accounting treatment to ensure it was in line with the relevant accounting standards and the Code of Practice. The three distinct issues for KPMG in relation to Lancaster Market were the above mentioned accounting treatment, which may impact on affordability, the level of compensation to market traders, and advice gained on the reasonableness of any head lease surrender premium. He also offered to attend any wider Council meeting when further information was known, to share his views with Members to inform their decision-making.

The Chairman thanked Richard Lee for presenting the reports and Steve Clark for his advice.

Resolved unanimously:

That the External Auditor's Audit Plan for 2011/12 and the Certification of Grant Claims and Returns 2010/11 report be noted.

Councillor Newman-Thompson arrived at this point.

Councillor Sykes arrived midway through the following item.

33 INTERNAL AUDIT STRATEGIC AND ANNUAL PLANS 2012/13

Committee received the report of the Internal Audit Manager to seek Members' approval for a proposed three-year Internal Audit Strategic Plan and Internal Audit Annual Plan for 2012/13.

Members noted that Internal Audit had supported the Council's change programme for

the past two financial years, and the ongoing structural and cultural change within the organisation meant that this element had been retained in the proposed Internal Audit Strategic Plan, a copy of which was attached at Appendix A to the report.

The draft Internal Audit Annual Plan for 2012/13, a copy of which was attached at Appendix B to the report, had been designed to implement the Internal Audit Strategy, as required by the CIPFA Code of Practice for Internal Audit.

The plan had been developed along similar lines to recent years and was explicit about which elements of work would provide assurance to support the overall annual opinion on the internal control environment and the resources to be devoted to other support work to help the Council's ongoing improvement programme.

The plan would provide for a rolling programme of audit work to be operated to give greater flexibility and responsiveness to changes in the risk environment and any emerging demands for internal audit assurance work.

The Internal Audit Manager advised that, following finalisation of the Corporate Plan and Service Business Plans, he would consult with Service Heads, statutory officers and Management Team to develop the detailed programme of audit assignments. It was anticipated that financial pressures would influence the scope and objectives of the audit work, and the plan would be managed as flexibly and effectively as possible in the light of this. It was proposed that the plan be updated on a quarterly basis, and that developments in the programme would be reported to Management Team, then Audit Committee.

Members considered the plans in detail, and asked that the Internal Audit Manager include two specific points in the consultation process, these being the management of septic tanks in ex-council houses, which the Council was continuing to manage, and enforcement arrangements surrounding dog control and fouling and how efficiently these were operating.

Resolved unanimously:

- (1) That the Internal Audit Strategic Plan for 2012/13 to 2014/15 be approved.
- (2) That the Internal Audit Annual Operational Plan for 2012/13 be approved.

34 REGULATION OF INVESTIGATORY POWERS ACT (RIPA)

Committee received the report of the Internal Audit Manager, which advised Members of the Council's current position regarding the use of surveillance and of the outcome of a recent inspection by the Office of the Surveillance Commissioner, and sought Members' endorsement of the current RIPA Policy and approval of the arrangements for future monitoring of activity. The Council's current policy was attached at Appendix A to the report.

It was reported that the Home Office's recent guidance recommended that, to attain best practice, elected members of a local authority should review the Authority's use of the Regulation of Investigatory Powers Act 2000 (RIPA) and set the policy at least once a year. The Authority should also consider internal reports on the use of the 2000 Act on at least a quarterly basis to ensure that it was being used consistently with the

Authority's policy and that the policy remained fit for purpose.

Members noted that the Council's policy had been established in 2000 and had undergone minor updates since, the latest being made on 1st February 2012. It was noted that the Head of Governance was the Council's designated 'Senior Responsible Officer' for RIPA, assisted by the Senior Solicitor. Service Heads and above were responsible for approving RIPA authorisations and there was no downward delegation available. The Internal Audit Manager was the RIPA Co-ordinator.

It was reported that the Council had never authorised the use of covert human intelligence sources (CHIS). Details of the Council's recent use of RIPA to authorise directed surveillance were summarised within the report. Members noted that the Office of the Surveillance Commissioner (OSC) had advised the Council to cease the practice of taking out RIPA authorisations when investigating alleged noise nuisances, as this was unnecessary when subjects were informed of the allegation and of the Council's intention to use recording equipment. As well as managing its own authorisations, the Council could also facilitate Police investigations through the targeted use of the CCTV installation, when the CCTV Supervisor would ensure that the valid authorisation was in place.

The Assistant Surveillance Commissioner had visited the Council on four occasions since the legislation had been introduced. The latest inspection report was attached at Appendix B to the report and it was noted that the Council had received a positive report on its arrangements apart from two minor points raised by the Assistant Commissioner concerning paperwork and the policy, which were immediately attended to.

Resolved unanimously:

- (1) That the Council's current RIPA Policy be endorsed.
- (2) That details of any future use made of RIPA be included in the Internal Audit Manager's regular monitoring reports to the Audit Committee.

35 INTERNAL AUDIT MONITORING

Committee received the report of the Internal Audit Manager to advise Members of the outturn position regarding the 2011/12 Internal Audit Plan. A detailed outturn report as at 31st March 2012 was attached at Appendix A to the report.

Members were advised that the outturn position for the 2011/12 Internal Audit plan showed an increase in the number of audit days delivered and a significant increase in the level of assurance work. This had been made possible through reductions elsewhere in the plan, including a comparatively low demand for investigative work.

A total of 707 days had been delivered overall, compared with the approved plan of 695 days and the original plan of 685 days, made possible largely through a continuing good sickness record within the section and ongoing procedures to ensure that non-chargeable time was minimised.

The audits of core financial systems and the Revenues and Benefits shared service had exceeded the original plan by a total of 97 days. There was significant re-focusing of resources (98 days) in the Risk Based Assurance audit section of the plan arising mainly

from the audits of the RMS Partnering Contract and the work concerning the Hala Flats pebbledashing job and from the audit into Consultancy Commissioning and Procurement. Overall, 99 days more than originally planned had been spent on assurance audit work. These demands had been managed through reductions and shifts in resources.

Members were informed that a full report on the delivery of the Audit Plan and the outcomes from audit work would be included in the Internal Audit Manager's 'Annual Report and Assurance Statement' to the June meeting of the Audit Committee.

Resolved unanimously:

That the outturn position for 2011/12 be noted.

36 RESULTS OF INTERNAL AUDIT WORK

Committee received the report of the Internal Audit Manager to inform Members of the results of Internal Audit work for the period.

Areas audited since the last Audit Committee meeting had received a positive assurance opinion and details were set out in the report.

The updated position and recommendations for further action for all previously reported audits where the level of assurance had not yet reached 'substantial' were provided at Appendix A to the report. These related to 07/0708 Income Management (Housing Rents Direct Debit Payments and 07/0709 Payroll. Audit Committee had requested Internal Audit to track progress on the audits.

It was reported that Anite had been contracted to implement the new release version 48 software by 7th/8th May for Housing Rents Direct Debit Payments, and it was anticipated that the Direct Debit module would be implemented by July 2012.

With regard to the Payroll system replacement, a tender had been selected. Under EU procurement rules, the contract award was subject to a mandatory standstill period of 10 days following the award decision before the contract could be signed with the supplier. This gave other bidders the opportunity to challenge the decision before the contract was signed.

Resolved unanimously:

- (1) That the report be noted.
- (2) That, regarding audit ref 07/0708 – Income Management (Housing Rents Direct Debit Payments), the Internal Audit Manager continue to track and report on progress to the Committee.
- (3) That, regarding audit ref 07/0709 – Payroll, no further update reports be made to the Committee until the system is subject to a formal internal audit.

Chairman

(The meeting ended at 7.00 p.m.)

**Any queries regarding these Minutes, please contact
Jane Glenton, Democratic Services - telephone (01524) 582068, or email
jglenton@lancaster.gov.uk**