

AUDIT COMMITTEE

6.00 P.M.

23RD JANUARY 2013

PRESENT: Councillors Malcolm Thomas (Chairman), Roger Dennison (substitute for Geoff Knight), Tim Hamilton-Cox (substitute for Jon Barry) (for Minute Nos. 13 to 15 only), Ian Pattison, Sylvia Rogerson (substitute for Peter Williamson) and David Whitaker (substitute for Richard Newman-Thompson)

Also in Attendance:

Richard Lee Manager, KPMG LLP (for Minute Nos. 13 (part) to 15 only)

Apologies for Absence:

Councillors Jon Barry, Geoff Knight, Richard Newman-Thompson, Vikki Price and Peter Williamson

Officers in Attendance:

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

10 MINUTES

The minutes of the meeting held on 19th September 2012 were signed by the Chairman as a correct record.

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.

The Chairman advised that, with the agreement of Members, the following item of business would be brought to the beginning of the meeting.

Councillor Tim Hamilton-Cox arrived at this point.

Richard Lee of KPMG LLP arrived midway through the following item.

13 INTERNAL AUDIT MONITORING REPORT

Committee received the report of the Internal Audit Manager, which advised Members of the latest monitoring position regarding the 2012/13 Internal Audit Plan, sought Members' approval for a change to planned resource allocations and advised of the results of recent audits.

The report was based on the monitoring position up to 17th December 2012, taking into account ongoing and planned work commitments. A detailed report was attached at Appendix A to the report.

Members were advised that additional time had been spent on audits of core financial systems within the main programme of Assurance Work, mainly in the areas of Purchase Ordering and Creditor Payment Processes in Environmental Services and in Income Management.

A variance in this section of the plan could be met by reallocating resources from within other sections of Assurance Work, as set out in the table below, with additional audits being scheduled within Core Management Arrangements and the Risk Based Assurance sections during the final quarter of the year.

Area of work	Resources (audit days)					
	Actuals to 17/12/12	Remaining	Committed	Current Plan	Variance	Proposed Plan
Assurance Work						
Core Financial Systems	101	10	111	60	-51	111
Revenues & Benefits Shared Services	21	43	64	85	21	64
Core Management Arrangements	16	13	29	95	66	40
Risk Based Assurance Audits	117	0	117	125	8	150
Follow-up Reviews	44	11	55	55	0	55
Sub-Total, Assurance	299	77	376	420	44	420
Consultancy Work						
Support Work	63	16	79	60	-19	79
Ad—Hoc Advice	54	11	65	65	0	65
Sub-Total, Consultancy	117	27	144	125	-19	144
Other Work						
Other Duties (Non-Audit)	18	3	21	15	-6	21
Audit Management	34	15	49	55	6	49
Sub-Total, Other Work	52	18	70	70	0	70
Contingencies						
Investigations	12	0	12	30	18	30
General Contingency	0	0	0	40	40	21
Sub-Total, Contingencies	10	0	10	70	60	51
Total	480	120	600	685	85	685

The most significant variance elsewhere in the plan was the time allocated to 'Support Work'. It was proposed to meet the increased budget necessary for this work by allocating part of the 40 days available within the General Contingency. The projected outturn for the year reflected the work associated with the Complaints Officer Working Group, which had resulted in the adoption of the new Customer Complaints policy. Other significant areas had been the review of Financial Regulations and Contract Procedure Rules and the emerging work associated with Information Security and the Public Services Network.

The assurance opinion issued for areas audited since the last meeting was set out in the report, and the key conclusions and action points in relation to those reports where a 'Limited' or 'Minimal' assurance opinion had been given were reported in detail to Members, together with an update on previous assurance opinions.

Committee noted that there were no unmanageable pressures within the audit plan at present, but that some realignment of plan allocations was required to reflect additional time spent on Core Financial Systems and Support Work issues. Members were advised that the programme of audits for the remainder of the year would continue to be developed in consultation with senior management and reported to the Committee.

It was proposed by Councillor Dennison and seconded by Councillor Rogerson:

"That the recommendations set out in 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 changes to the 2012/13 internal audit plan, as set out in the table shown above, be approved.
- (3) That the results of recent audits be noted.

14 ANNUAL AUDIT LETTER

Committee received KPMG's Annual Audit Letter summarising the results of their 2011/12 audit of Lancaster City Council (the Authority), which covered the Authority's 2011/12 financial statements and the 2011/12 Value for Money (VFM) conclusion.

Richard Lee of KPMG LLP advised Members that a number of significant risks had been identified to the Value for Money (VFM) conclusion. Having considered the arrangements the Authority had put in place to mitigate the risks, KPMG were satisfied that the Authority was dealing with the current financial pressures in an effective manner, and had proper arrangements in place for securing financial resilience and challenging how economy, efficiency and effectiveness were secured. An unqualified VFM conclusion for 2011/12 had therefore been issued on 25th September 2012.

Members were advised that three significant audit risks had been identified in relation to the Financial Statements, which KPMG had reported to the Committee in their Audit Plan. Officers had demonstrated that these risks had been mitigated. A number of presentational changes had been made to the notes to the financial statements, which had been agreed with management and changed in the final version of the Financial Statements.

Richard Lee reported that the quality of the accounts and supporting working papers had been maintained at a high standard in 2011/12, and officers had dealt with audit queries efficiently. The audit process had been completed within planned timescales. KPMG believed that the financial statements gave a true and fair view of the financial position of

the Authority and of its expenditure and income for the year, and an unqualified opinion on the Financial Statements had been issued on 25th September 2012.

KPMG had reviewed the Authority's Annual Governance Statement and had concluded that it was consistent with their understanding. The consolidation pack, which the Authority had prepared to support the production of Whole of Government Accounts by HM Treasury, had been reviewed and was consistent with the audited financial statements.

It was reported that no high priority recommendations had been identified. Low priority recommendations had been appropriately detailed in other reports issued by KPMG. A number of recommendations remained outstanding from 2010/11, which would formally be followed up as part of KPMG's 2012/13 work.

Richard Lee informed Members that KPMG's core audit fee for 2011/12 was in line with their planned core audit fee reported in their Audit Plan. Additional fees had been incurred in relation to KPMG's review of the future accounting treatment of Lancaster Market and in relation to responding to electors, who had raised questions about the 2011/12 accounts.

Members were advised that the grants work was ongoing and the fee would be confirmed through KPMG's report on the Certification of Grants and Returns 2011/12, which would be reported to the next meeting of the Committee.

Following the report and questions by Members, the Chairman thanked Richard Lee for his presentation.

Resolved:

That the Annual Audit Letter be noted.

15 CONTRACT PROCEDURE RULES

Committee received the report of the Head of Resources seeking Members' approval for a revised set of corporate Contract Procedure Rules. Appended to the report were the draft Contract Procedure Rules.

It was reported that the Audit Committee's Terms of Reference included considering and approving amendments to the Council's Financial Regulations and Contract Procedure Rules.

Since the introduction of the Council's current Contract Procedure Rules, which had been adopted in February 2005 and updated in May 2010, there had been changes and a fundamental revision of the Rules had become due. A key objective of the review had been to develop a modern set of Contract Procedure Rules, which fitted the Council's procurement activities and needs, and enabled best use of the procurement methods and arrangements available.

Members were advised that the key changes in the proposed Rules were:

- to increase the financial threshold for high value procurements requiring a tendering procedure from £50,000 to £100,000, and for intermediate value

procurements from £10,000 to £100,000 to require three written competitive quotations;

- to widen the procurement selection routes, given the increased emphasis on shared service and other partnership and collaborative arrangements;
- to update the rules relating to new and developing procurement methods and tools, including e-procurement and corporate payment cards;
- to make the Rules more explicit regarding the roles and responsibilities of employees.

It was reported that the Rules would be accompanied by more detailed guidance in specific areas. When adopted, a programme of training and induction was planned via the Intranet.

The Options and Options Analysis (including risk assessment) were set out in the report. The three options identified as available to the Committee were:

- A. To approve the proposed Contract Procedure Rules as presented.
- B. To approve the proposed Rules with changes.
- C. Not to approve the proposed Rules.

The officer preferred option was option A. The new Rules would be implemented by using existing resources within the Procurement function of Resource Services.

Members considered the report and raised questions on the content. A request was made that contracts be sampled to see how Value for Money had been achieved, and the requirement for a clear audit trail was expressed. It was noted that it would be possible for Committee to receive feedback regarding this at a future meeting.

It was proposed by Councillor Whitaker and seconded by Councillor Ian Pattison:

“That the draft Contract Procedure Rules 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:

That the draft Contract Procedure Rules be approved.

Chairman

(The meeting ended at 6.54 p.m.)

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