

**ACCOUNTS, AUDIT & GOVERNANCE COMMITTEE
28TH MARCH 2012**

Present: Councillors: David Holmes (Chairman), John Bailey, Roy Cornell, Leonard Crosbie, Jim Rae

Apologies: Councillor: Gordon Lindsay (Vice Chairman), Jonathan Chowen

Also present: Councillor Roger Arthur

AAG/34 **MINUTES**

The minutes of the meeting held on 14th December 2011 were approved as a correct record and signed by the Chairman.

It was noted that the Committee considered that, with regard to Minute No. AAG/29, a summary of the comments made by the member of the public would have been helpful.

The Committee received an update in respect of a number of actions outstanding from previous minutes:

- The Head of Financial & Legal Services and the Chief Internal Auditor were considering any adjustments required to the Committee's terms of reference and would report thereon to the Committee before submitting them to Council as part of an overall update of the Constitution
- The Head of Financial & Legal Services would shortly be contacting members of the Committee with dates for further training on understanding the Council's accounts and treasury management matters
- The Head of Financial & Legal Services would update the next meeting of the Committee on the outstanding areas in respect of the National Fraud Initiative
- The Head of Financial & Legal Services would circulate to Members of the Committee information in respect of the current qualifications of the Council's treasury management team

AAG/35 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

AAG/36 **ANNOUNCEMENTS**

The Chairman of the Committee welcomed Katharine Eberhart, Director of Corporate Resources to her first meeting of the Committee.

The Chairman also welcomed Helen Thompson, District Auditor and Emma Bryant, Audit Manager to the meeting.

AAG/37 **OBJECTION TO THE 2010/11 ACCOUNTS**

The Director of Corporate Resources reported that an objector to the 2010/11 accounts had asked the District Auditor to issue a public interest report under Section 8 of the Audit Commission Act 1988 in relation to a number of matters. The District Auditor had now issued her decision, which was not to issue a public interest report, and the reasons were set out in detail in the decision letter to the objector, which was submitted for information.

The District Auditor had also written to the Council pointing out that, although she had decided not to issue a public interest report, there were some matters identified as a result of her work on the objection where she was critical of the Council's actions and where she believed it needed to take some action in response. The Chief Executive had acknowledged the points made in the District Auditor's letter to the Council and in her decision letter to the objector and he had indicated that the Council would take action to ensure these issues did not arise again. The District Auditor's letter to the Council and the Chief Executive's response were also submitted for information.

Members of the Committee expressed concern that they had not been apprised of the District Auditor's earlier letter, dated 21st December 2010, regarding the withdrawn objection to the 2008/09 accounts until the meeting in December 2011. However, the contents of that letter and the Council's response thereto had been discussed and noted at that meeting.

The Committee was advised of the officers handling the current marketing exercise for the Town Hall and was assured that a clear process was being followed and set evaluation criteria had been agreed. The Chairman of the Committee stated that he had not seen the details of the marketing exercise or the evaluation criteria and asked to be briefed on the progress of the marketing exercise. It was noted that, in accordance with the decision made by the Council on 21st December 2011, the Cabinet Member for Efficiency & Resources had approved the evaluation criteria and the marketing exercise.

With regard to the Committee's consideration of the Annual Governance Statement (AGS), it was noted that in future the Internal Audit Annual Report would be considered before approval of the AGS to ensure there were clear links between the Statement and the sources of assurance used in its compilation. There was also discussion regarding the Constitutional requirements in respect of minutes, in particular that the only requirement regarding the form of minutes was that "*Minutes will contain all motions and amendments in the exact form and order the Chairman put them.*"

AAG/37 Objection to the 2010/11 Accounts (cont.)

The District Auditor provided clarification in respect of her role in connection with the Town Hall marketing and disposal exercise. With regards to her letter of 1st March 2012 to the Council, whilst indicating that her first point regarding the evaluation of tender bids was the most significant issue, noted the Council's response to all her concerns.

RESOLVED

- (i) That the decision of the District Auditor not to issue a public interest report in response to the objection to the 2010/11 accounts be noted.
- (ii) That the comments made in the District Auditor's letter to the Chief Executive and the response to that letter be noted.

AAG/38 AUDIT PLAN 2011/12

Helen Thompson, District Auditor presented the Audit Commission's plan for the 2011/12 audit. The Plan set out the audit work the District Auditor proposed to undertake for the audit of financial statements and the value for money conclusion 2011/12, based on the Audit Commission's risk-based approach to audit planning. It was noted that the audit did not relieve management or this Committee, as those charge with governance, of their responsibilities.

The District Auditor drew attention to two particular significant and specific risks that she had identified as being relevant to the audit of the accounting statements and indicated how she would audit these areas:

- The Council's valuation of property, plant and equipment (PPE) (previously known as fixed assets) by means of a spreadsheet and the lack of a specified End User Policy. It was noted that, in this respect, the possible identification of a suitable software solution was ongoing.
- A new requirement to identify and account for heritage assets (assets with historical, artistic, scientific, technological, geophysical or environmental qualities held for their contribution to knowledge and culture).

With regard to value for money, the District Auditor had identified three specific risks and indicated how she would address these: financial resilience; the National Fraud Initiative; and the Town Hall procurement exercise. Members considered that one of the main issues in addressing

AAG/38 Audit Plan 2011/12 (cont.)

financial resilience and achieving a balanced budget was the uncertainty regarding the New Homes Bonus, where it was still not clear if this would be new or recycled funding. It was noted that the Council was now making progress with the National Fraud Initiative data matching exercise but it was considered that this was an area that needed to be kept under review due to the potential sums of money involved. The inclusion of the Town Hall procurement exercise was considered to be prudent in view of previous issues in this respect.

It was noted that District Auditors were normally appointed for a period of five years. This period could be extended for a further period of two years if both the auditor and the Committee were satisfied that there were no risks relating to long association and it was necessary to safeguard audit quality. 2011/12 would be the auditor's sixth year of appointment at the Council and she was satisfied that there would be no independence risks posed by a two year extension. She also considered that it would be detrimental to audit quality to make a change in District Auditor at this time. The Director of Audit Policy and Regulation at the Audit Commission had approved the auditor's request for an extension and this Committee's approval was now sought. Members agreed that, in view of the changes to local public audit in the near future and queries on the accounts in recent years, it would be prudent to agree to a two year extension.

RESOLVED

- (i) That the Audit Plan 2011/12 be noted.
- (ii) That approval be given to a two year extension to the appointment of Helen Thompson as the Council's auditor.

AAG/39 **CERTIFICATION OF CLAIMS AND RETURNS – ANNUAL REPORT**

Emma Bryant, Audit Manager presented the outcomes of her certification work on the 2010/11 claims and returns. The claims involved were for the Housing and Council Tax Benefit scheme (£34.314m), the National Non-Domestic Rates return (£36.795m) and Disabled Facilities grants (£0.428m).

It was noted that the Auditor had not identified any amendments to the claims and returns for the year ended 31st March 2011; that she had not issued any qualification letters with the certificates on the Council's claims and returns; and no recommendations were required.

The Committee expressed its satisfaction with the outcome of the certification and congratulated officers on their work in producing the claims and returns.

AAG/39 Certification of Claims and Returns – Annual Report (cont.)

RESOLVED

That the report be noted.

AAG/40 AUDIT COMMISSION UPDATE

The Committee received an update on the Government's response to consultation on the future of local public audit and the outsourcing of the Audit Commission's in-house audit practice.

It was noted that the Audit Commission had now awarded contracts for the work currently undertaken by the Audit Practice for the period 2012/13 to 2016/17. Once these contracts came to an end, a new local public audit regime would apply, the key features of which were reported.

As a result of the Audit Commission's procurement exercise for the outsourcing of its in-house audit practice, Ernst & Young LLP had been awarded the five-year contract for the South East, which covered Horsham District. The procurement exercise had secured competitive prices that would be passed on to local public bodies through significant reductions in scale of audit fees. The final scale of audit fees for 2012/13 would be published in April 2012. It was noted that, whilst the change would result in a reduction in costs, there would be no simplification of the accounting and audit process itself.

A series of introductory meetings in each contract area were being arranged to give audited bodies the opportunity to meet the new firm proposed as their senior auditor. The meeting for the South East contract would be held on 2nd May 2012. Appointments would start on 1st September 2012 and the current audit appointment would be extended to allow any audit issues arising between 1st April 2012 and 31st August 2012 to be dealt with. Audit Practice staff in each area would, in the main, transfer to the successful bidders at midnight on 31st October 2012. However, it was noted that there would be a change in the Council's auditor from 2013/14 as the current auditor, Helen Thompson, would have completed the maximum period of appointment allowed.

The District Auditor explained how the changeover would be managed and indicated that she would give further updates at each meeting of the Committee through the changeover period.

AAG/41 WORK PLAN 2012/13

The Committee received a schedule outlining the regular annual work plan of the Committee. As the Annual Governance Statement was required to be

AAG/41 Work Plan 2012/13 (cont.)

approved by this Committee, it would be submitted in draft form to the June meeting to allow any comments to be incorporated before final approval in September. It was noted that other items might be added from time to time, as requested or necessary.

AAG/42 **INTERNAL AUDIT – QUARTERLY UPDATE REPORT**

The Chief Internal Auditor submitted a report summarising the work of the Internal Audit Section from December 2011 and seeking approval of the Internal Audit Strategy and the Annual Audit Plan for 2012/13.

The CIPFA Code of Practice in Local Government required the Head of Internal Audit to produce an internal audit strategy, a high-level statement of how the Internal Audit Service would be delivered in accordance with the terms of reference and how it linked to organisational objectives and priorities. The Internal Audit Strategy was therefore submitted for approval.

The Internal Audit Plan for 2012/13 was also submitted for approval and included an element of flexibility to enable the audit team to respond to current issues. The Chief Internal Auditor explained how the Plan had been formulated, in consultation with the Corporate Management Team. Members discussed the adequacy of resources within the Internal Audit team to cope with the proposed Plan and the Chief Internal Auditor advised the Committee that it had been prepared on the basis of available resources. Therefore, as they were follow ups, only one day each had been allocated for the Asset Management and Contracts audits.

A summary of audit findings in respect of the collection and receipting of cash and banking; budgetary control; planning fees; Council tax; and creditors was submitted.

It was noted that four of the five areas audited had received an overall audit opinion of substantial assurance. In particular, the opinion in respect of budgetary control had increased from moderate assurance in 2010/11 as there had been improvements in the budgetary control process with structured working arrangements between Heads of Service and Accountants on budget issues. However, there was still a need to enhance financial reporting with a clearer focus on known budget pressures and a number of actions to address this had been agreed with the Corporate Management Team.

The opinion in respect of creditors had been downgraded from substantial in 2010/11 to moderate assurance in 2011/12. Of particular concern was the number of non-order invoices that were still being paid. Whilst the

AAG/42 Internal Audit – Quarterly Update Report (cont.)

percentage of such invoices had reduced slightly from 84% in the previous year to 80%, it was still considered that this was unacceptably high and it had been agreed that the number of orders raised would become a key performance indicator, with a target of 60% in 2012/13. Members discussed the need to ensure that the highest possible numbers of invoices were linked to orders and asked the Chief Internal Auditor to give an update to the Committee in six months' time on the progress being made in this respect.

It was noted that, in response to control weaknesses and non-compliance issues identified during a recent special investigation, a number of additional unplanned audit reviews had been undertaken in respect of purchase cards, budgetary control, staff loans and hospitality.

Project support work had continued in respect of the implementation of information security for the authorities within the CenSus partnership and it was noted that the Information Security Manager had now been appointed. The Chief Internal Auditor was also a member of the Project Assurance Core Team, which oversaw key Council projects as identified by Corporate Management Team.

Although Internal Audit resources had been stretched during the current financial year due to the incidence of special investigations and the long-term sick leave of a member of the audit team, resources had been temporarily increased to ensure that all key financial systems were audited during 2011/12. Also, the audit plan had been revised with some additional areas for review brought forward in response to areas of weakness identified and a number of planned audits deferred to 2012/13. The additional resource afforded to the audit team on a temporary basis had enabled the audit plan to be largely achieved, minimising the impact on the strategic four year plan, and the Chief Internal Auditor considered that the audit plan for 2012/13 was achievable with the current level of resource.

The Chief Internal Auditor also reported on the current position regarding the percentage of agreed action items implemented in respect of audits undertaken in 2010/11 and 2009/10. The Director of Corporate Resources indicated that this issue would be drawn to the attention of the Corporate Management Team. It was agreed that future reports would highlight outstanding actions that were high/medium risk. It was also agreed that the Audit Plan should be submitted as part of the quarterly update, indicating how many days had actually been spent on each area as the year progressed.

It was noted that the Chairman of the Committee had discussed with the Chief Internal Auditor whether it would be appropriate for Internal Audit to

AAG/42 Internal Audit – Quarterly Update Report (cont.)

assess the workload of senior officers. The Chief Internal Auditor had indicated that this did not fall within his remit and the Director of Corporate Resources indicated that she would raise the issue with the Corporate Management Team.

RESOLVED

- (i) That the Internal Audit Strategy be approved.
- (ii) That the Internal Audit Plan for 2012/13 be approved.
- (iii) That the summary of audit work undertaken since December 2011 be noted.

REASON

- (i) To comply with the requirements set out in the CIPFA Code of Practice for Internal Audit.
- (ii) The Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

AAG/43 RISK MANAGEMENT – QUARTERLY UPDATE REPORT

The Head of Financial & Legal Services reminded the Committee that it was charged with responsibility for monitoring the effectiveness of the Council's risk management arrangements.

It was noted that the corporate risk register had been fully reviewed by the Corporate Management Team and it was recommended that risks: CRR11 (Project problems due to inadequate project management); CRR23 (Loss of ICT & Telephone Service due to failure in the Data Centre); and CRR25 (Potential lack of compliance with Children Act 2004 (Section 11)) should now be removed as all planned actions had been implemented and the level of risk reduced to an acceptable level. Risks removed from the live register were now reviewed by Corporate Management Team on an annual basis. It was also noted that a new risk had been added (CRR28) following a number of breakdowns of the air conditioning units in the new server room in County Hall North. A bespoke component had been ordered and, once fitted, it was expected that the problem would be resolved. In the meantime, monitoring had been increased and remedial actions planned should further failures occur.

AAG/43 Risk Management – Quarterly Update Report (cont.)

As at 16th March 2012, a total of 17 out of 18 departmental risk register reviews had been undertaken.

A meeting of senior officers had taken place on 31st January 2012 to undertake a detailed review of corporate risk management and its future operation. As a result of this meeting, it had been agreed that the Chief Internal Auditor would write a new risk management strategy and revise the procedure manual. It had also been agreed that the Internal Audit Team should provide refresher training to all departments during 2012/13.

RESOLVED

- (i) That the updated Corporate Risk Register be approved.
- (ii) That risks CRR11, 23 and 25 be removed from the Corporate Risk Register.
- (ii) That the progress made in respect of departmental risk registers be noted.

REASON

To ensure that the Council has adequate risk management arrangements in place.

AAG/44 URGENT MATTERS

There were no urgent matters to be considered.

The meeting finished at 7.35pm having commenced at 5.30pm.

CHAIRMAN