

**ACCOUNTS, AUDIT & GOVERNANCE COMMITTEE**  
**26<sup>TH</sup> JUNE 2012**

Present: Councillors: John Bailey, Roy Cornell, Leonard Crosbie, David Holmes, Gordon Lindsay, Jim Rae, Stuart Ritchie

Also present: Councillor Christian Mitchell  
Helen Thompson, District Auditor  
Emma Bryant, Audit Manager

AAG/1 **ELECTION OF CHAIRMAN**

RESOLVED

That Councillor David Holmes be elected Chairman of the Committee for the current Council year.

AAG/2 **APPOINTMENT OF VICE-CHAIRMAN**

RESOLVED

That Councillor Gordon Lindsay be appointed Vice-Chairman of the Committee for the current Council year.

AAG/3 **TIME OF MEETINGS**

RESOLVED

That meetings of the Committee be held at 5.30pm for the ensuing Council year.

AAG/4 **MINUTES**

The minutes of the meeting held on 28<sup>th</sup> March 2012 were approved as a correct record and signed by the Chairman.

The Chairman referred to Minute AAG/37 regarding an objection to the 201/11 Accounts, in respect of a statement he had made indicating that he had not seen the details of the marketing exercise and evaluation criteria regarding the Town Hall, which he had subsequently acknowledged was incorrect as all Members of the Council had been supplied with the information in February 2012.

AAG/5 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

AAG/6 **ANNOUNCEMENTS**

There were no announcements.

AAG/7 **HORSHAM'S FINANCIAL ACCOUNTS – OUTTURN FOR 2011/12 –  
REVENUE, CAPITAL AND REPAIR & RENEWALS BUDGETS**

The Director of Corporate Resources reported on the 2011/12 outturn on revenue, capital and repair & renewals funds, compared with the revised budget for the year. It was noted that, in general, expenditure had been kept within budget and an underspend had been achieved.

The underspend on revenue against the approved budget amounted to £1,235,000, and included budgets which were proposed for slippage and an exceptional item (a one-off VAT refund of £603,000). The salaries budget was underspent by £9,000, achieving the budgeted vacancy saving of £250,000. Grants and contributions received in 2011/12 but not fully spent in the year totalled £176,000. Redundancy costs agreed by the Council to be funded from reserves totalled £371,000.

The approved budget carry forwards from 11/12 had been added to the relevant budgets for 2012/13. Members were reassured that all requests to carry forward budgets were carefully scrutinised before being agreed.

Most of the savings/underspends that had occurred in 2011/12 had already been factored into the 2012/13 budget, where it was anticipated that the saving would be achievable in future years. Also, the 2011/12 outturn figures would be used as part of the budget challenge process for the preparation of the 2013/14 budget, to ensure budgets were not overstated.

Capital outturn for 2010/11 was £7,865,000, £1,967,000 below the budget. Expenditure from the Repairs and Renewals Fund totalled £237,000 against a budget of £427,000, and the unspent budgets would be rolled into 2012/13.

It was noted that the issue of continued underspends on the Repair & Renewals Fund was being addressed.

**RESOLVED**

- (i) That the report be noted.
- (ii) That the slippage approved by the Director of Corporate Resources be noted.

**REASON**

There is a statutory requirement to report on the Council's financial position at the end of each year.

AAG/8 **DRAFT STATEMENT OF ACCOUNTS 2011/12**

The Head of Financial & Legal Services indicated that the draft Statement of Accounts 2011/12 had been circulated for Members' information and that the final version would be submitted to the next meeting of the Committee for approval.

It was noted that the figure stated for Warnham Mill Pond Reservoir was what had currently been included in the budget, based on earlier estimates. The entries in respect of the swimming pools at the Pavilions in the Park, Steyning and Billingshurst related both to works required before the new Leisure Management Contract was entered into and some defects from the original build.

Members discussed the presentation of the accounts. Whilst it was accepted that the accounts had to be in the prescribed format, it was suggested that the explanatory foreword could be presented in a way, so as to be more easily understood. The auditor clarified that additional guidance would be given on the format of the explanatory forward.

AAG/9 **INTERNAL AUDIT ANNUAL REPORT 2011/12**

The Chief Internal Auditor advised that the annual report had been compiled to document and communicate an overall opinion based on the work undertaken by Internal Audit during 2011/12.

The internal audit team worked to a four-year strategic audit plan, prepared by the Chief Internal Auditor, and aimed to review the Council's major areas of operation and systems on a rolling cycle. The strategic plan had been developed using a risk-based assessment which determined priorities and time allocations for each audit. Areas and systems which were considered fundamental to the Council's operations, or which were considered to be high risk, were normally reviewed on an annual basis.

In order to respond to a number of risk areas identified during the year, the audit plan was sufficiently flexible to allow for additional audits to be undertaken. The areas added were budgetary control, purchase cards, hospitality and staff loans. In addition, a special "lessons learnt" report was produced following a lengthy special investigation. The need to review these additional areas had impacted on the original audit plan and resulted in seven audits being deferred to 2012/13, as reported to the last meeting of the Committee. During 2011/12, 90% of the planned work had been completed or was at draft report stage, including a review of all key financial systems. A summary of progress against the 28 discrete projects as at 8<sup>th</sup> June 2012 was submitted.

The Internal Audit service was operated in accordance with the CIPFA Code of Practice for Internal Auditing 2006.

AAG/9 Internal Audit Annual Report 2011/12 (cont.)

The percentage of agreed action items implemented was one of the key measures used to demonstrate the effectiveness of the section, although the actual implementation of agreed actions was a management responsibility. From a review of 155 agreed actions for 2010/11, 121 had now been implemented. Performance was now being closely monitored and agreed actions which had not been implemented were now being reported to the Committee on a quarterly basis.

The Chief Internal Auditor was of the overall opinion that moderate assurance could be given that there was generally a sound system of internal control, designed to meet the Council's objectives, and that the controls were generally being applied consistently. Areas of particular comment included:

- Risk Management - During 2010/11, the Council had made further progress in embedding risk management. The majority of risk registers were formally reviewed on a quarterly basis, and the Council's revised Risk Management Strategy set out the actions needed to further embed risk management into the culture of the organisation. A new Risk Management Strategy has now been written for 2012/15 which contains a new action plan which will help to secure further improvement.
- Governance - The Council was committed to the principles of good corporate governance, which were already demonstrated through many aspects of good practice. However, although some progress had been made in reviewing the Council's Constitution, further revisions were needed. In particular, the Council's Financial Regulations and Contract Standing Orders are in need of review.
- Internal Control - Internal controls were basically sound in most areas but there were some significant weaknesses in respect of:
  - Information Security, where policies, data classification and business continuity needed to be addressed. An officer had now been tasked with improving this area as a priority, and it was anticipated that significant progress would be made during 2012/13; and
  - Health & Safety, where a comprehensive review of Health & Safety had been undertaken by an outside consultant and a report issued, which contained a number of recommendations for improvement. A prioritised action plan had been developed which would help the Council to work towards an efficient and compliant corporate Health & Safety Management system by the end of December 2013.

The submitted table of internal audit assurance opinions showed the following balance of substantial and moderate audit opinions on individual audit reports, which indicated that controls needed to be strengthened in a number of areas of the Council's operations:

AAG/9 Internal Audit Annual Report 2011/12 (cont.)

<b>Internal Audit Opinion</b>	<b>Definition of Opinion</b>	<b>Number in 2011/12</b>
Full Assurance	There is a sound system of control in place which minimises risk to the Council; and audit testing identified that all expected controls are being consistently applied	0
Substantial Assurance	Whilst there is basically a sound system of control (i.e. key controls are in place), there are some weaknesses which may place the Council at risk in a few areas; and/or audit testing identified a lack of compliance with controls in a few areas	11
Moderate Assurance	There are some weaknesses in the system of control (i.e. the absence of two or more key controls) which is placing the Council at risk in a number of areas; and/or audit testing identified a lack of compliance with two or more key controls	14
No Assurance	The system of control is very weak or non-existent, which is placing the Council open to significant risk: and/or audit testing identified a high number of key controls which are not being complied with	0

The Director of Corporate Resources advised that the aim was to have more substantial assurances than moderate and that the number of outstanding actions needed to be reduced.

The Committee indicated that it hoped to see improvement in the future in the level of assurance recorded in respect of vital financial areas, such as Asset Management, Creditors, Debtors and Treasury Management whilst maintaining the level of substantial assurance in those areas currently rated as such.

**RESOLVED**

That the opinion of the Chief Internal Auditor on the overall adequacy and effectiveness of the Council's internal control environment, governance and risk management systems be noted.

**REASON**

To comply with the CIPFA Code of Practice for Internal Auditing in Local Government 2006.

AAG/10 **INTERNAL AUDIT – QUARTERLY UPDATE REPORT**

The Chief Internal Auditor submitted a report summarising the work of the Internal Audit Section since March 2012.

A summary of audit findings in respect of payroll, staff recruitment, public health (premises inspections), asset management, treasury management, debtors, contracts and casual workers was submitted.

Members expressed concern regarding the control weaknesses that had been identified in respect of asset management and noted that it had been agreed that the Asset Management Plan would be updated and the terms of reference for the various property groups would be reviewed.

With regard to treasury management, it was noted that the wording of the Treasury Management Policy in respect of building society investments had now been amended to remove any ambiguity.

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 a member of the Business Services team had been seconded to the role of Information Management Officer, which ensured that the Council now had an appropriate person to carry out the Information Security Manager's role on the CenSus project team, allowing Internal Audit to focus on the provision of assurance to the project. The Information Security Manager had introduced an awareness session for Information Security which was being rolled out across the Council for officers and Members.

Whilst concerns had been raised by the Committee at its last meeting regarding the adequacy of internal audit resources, it was noted that, as at 31st May 2012, the audit plan for 2012/13 was on track. A further update would be provided as part of the next quarterly report.

The Chief Internal Auditor also reported on the current position regarding the percentage of agreed action items implemented in respect of audits undertaken in 2011/12, 2010/11 and 2009/10, together with details of agreed actions not yet implemented, an update for each item and a revised implementation date.

The Committee expressed its gratitude to the Chief Internal Auditor for highlighting areas of concern and noted that they were to be addressed.

**RESOLVED**

That the summary of audit and project work undertaken since March 2012 be noted.

AAG/10 Internal Audit – Quarterly Update Report (cont.)

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/11 DRAFT ANNUAL GOVERNANCE STATEMENT

The Chief Internal Auditor submitted the Annual Governance Statement in draft form for Members' comments and questions. The Statement was designed to demonstrate how the Council delivered good governance and to meet the requirements of the Accounts and Audit (England) Regulations 2011.

Members and the District Auditor commented on the draft Statement with particular reference to:

- the need to reflect the overall assurance opinion of Internal Audit in respect of internal control within the section on the Council's Governance Framework
- the deletion of the word "new" in relation to the Sustainable Community Strategy in Core Principle (1) and the need to check the statement regarding the Strategy in Core Principle (6)
- suggested amendments to the wording of actions 3 and 4 in the Action Plan for 2011/12

The Annual Governance Statement would be submitted for final approval by the Committee at its next meeting in September.

AAG/12 RISK MANAGEMENT – QUARTERLY UPDATE REPORT

The Chief Internal Auditor 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 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)) had been removed as previously agreed, as all planned actions had been implemented and the

AAG/12 Risk Management – Quarterly Update Report (cont.)

level of risk reduced to an acceptable level. Risks removed from the live register were reviewed by Corporate Management Team on an annual basis. It was also noted that a number of new risks had been added to the corporate risk register.

The Council's first formal Risk Management Strategy (2008 to 2011) had now expired and good progress had been made in embedding risk management into the culture of the organisation. A new Risk Management Strategy had therefore been developed covering the period 2012 to 2015 to further develop the Council's approach to managing risk. The Strategy outlined the Council's approach to risk management and incorporated responsibilities and an action plan for improvement.

As at 21<sup>st</sup> May 2012, a total of 14 out of 18 departmental risk register reviews had been completed.

RESOLVED

- (i) That the updated Corporate Risk Register be approved.
- (ii) That the revised Risk Management Strategy be noted.
- (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/13 FEEDBACK ON TRAINING

Members indicated that they were satisfied with the training that they had recently received and that the provider was excellent. They expressed a desire to attend further training sessions in due course in order to keep their knowledge up to date.

AAG/14 URGENT MATTERS

There were no urgent matters to be considered.

The meeting finished at 7.27pm having commenced at 5.30pm.

CHAIRMAN