

ACCOUNTS, AUDIT & GOVERNANCE COMMITTEE
27TH MARCH 2013

Present: Councillors: David Holmes (Chairman), Gordon Lindsay (Vice-Chairman), John Bailey, Roy Cornell, Leonard Crosbie, Jim Rae, Stuart Ritchie

Also present: Helen Thompson, Audit Director, Ernst & Young
Kevin Suter, Senior Audit Manager, Ernst & Young

AAG/37 MINUTES

The minutes of the meeting held on 12th December 2012 were approved as a correct record and signed by the Chairman.

With reference to Minute AAG/34, the Head of Financial & Legal Services indicated that she would send details of the one identified case where monies secured under a Section 106 agreement, in the sum of £20,000, had had to be returned to the developer.

AAG/38 DECLARATIONS OF INTEREST

There were no declarations of interest.

AAG/39 ANNOUNCEMENTS

There were no announcements.

AAG/40 ANNUAL CERTIFICATION REPORT 2011/12

Kevin Suter, Senior Audit Manager, Ernst & Young, presented the outcomes of the certification work on the 2011/12 claims and returns. The claims involved were for the Housing and Council Tax Benefit scheme (£35.5m) and National Non-Domestic Rates return (£37.6m).

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

In response to the chairman the Senior Auditor confirmed that the Council's performance had been good.

RESOLVED

That the report be noted.

AAG/41 **AUDIT PLAN 2012/13**

Helen Thompson, Audit Director, Ernst & Young, presented the External Auditor's plan for the 2012/13 audit. The Plan set out the audit work the Auditor proposed to undertake for the audit of financial statements and the statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in 2012/13.

The Audit Director drew attention to two key strategic or operational risks that she had identified as being relevant to the audit of the accounting statements and indicated how she would audit these areas:

- Accounting for property, plant and equipment (PPE) by means of a spreadsheet.
- The risk of misstatement due to fraud and error. This risk had always been addressed in previous audits and it was not a case that this was now a greater risk than in previous years but it was Ernst & Young's policy to identify it as specific risk.

With regard to Economy, Efficiency and Effectiveness, the Audit Director had identified two specific risks - financial standing due to funding challenges from national policies and the National Fraud Initiative - and indicated how she would address these.

The outcome of the 2012/13 audit would be reported to the meeting of the Committee in September 2013.

RESOLVED

That the Audit Plan 2012/13 be noted.

AAG/42 **UNDERSTANDING HOW THE AUDIT COMMITTEE GAINS ASSURANCE FROM MANAGEMENT**

Kevin Suter, Senior Audit Manager, Ernst & Young, reported that auditing standards required them to update their understanding of the management processes and arrangements on an annual basis and, in previous years, this had been achieved by means of a letter to and response from the Chairman of the Committee. A copy of the Auditor's letter containing the questions to which responses were sought was submitted.

The Chairman of the Committee suggested that he should draft a proposed response in consultation with the Director of Corporate Resources and the Head of Financial & Legal Services and circulate it to all Members of the Committee for comment before submission to the Auditor.

Members discussed the level and depth of knowledge required of them in

AAG/42 Understanding How the Audit Committee Gains Assurance from Management (cont.)

responding to the questions and it was acknowledged that the letter served to remind the Committee of its responsibilities.

It was important that the Committee sought assurance regarding management processes and arrangements from more than one source such as Internal and External Auditors, reports to Committee and by direct questioning of responsible officers and/or Cabinet Members, if considered necessary. The Audit Director advised Members that it was open to them to seek their own independent assurance in private from either the Internal or External Auditors (as appropriate) regarding information provided to them.

In response to a question from the Chairman, the external auditor indicated that Horsham's Accounts, Audit & Governance Committee received more information than many comparable committees at other local authorities.

The Chairman asked Members of the Committee to advise him if they considered there was anything additional that the Committee should be doing to fulfil its terms of reference.

RESOLVED

That a proposed response to the letter be drafted by the Chairman of the Committee, in consultation with the Director of Corporate Resources and the Head of Financial & Legal Services, and circulated to all Members of the Committee for comment before submission to the Auditor.

REASON

To discharge the Committee's responsibility to respond to the questions posed by the External Auditor.

AAG/43 **INTERNAL AUDIT – QUARTERLY UPDATE REPORT**

The Chief Internal Auditor submitted a report summarising the work of the Internal Audit Section since December 2012 and seeking approval of the Internal Audit Strategy and the Annual Audit Plan for 2013/14.

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.

AAG/43 Internal Audit – Quarterly Update Report (cont.)

The Committee agreed that performance indicator A01 in the Internal Audit Strategy should be amended to read “Percentage of agreed action items implemented within the agreed timescale.” In addition, the Chief Internal Auditor and the Director of Corporate Resources would review the target for this indicator, which was currently set at 100%.

The Internal Audit Plan for 2013/14 was also submitted for approval and included an element of flexibility to enable the audit team to respond to current issues. The Plan had been reviewed and challenged by Members of the Committee at an informal meeting in February 2013. It had been intended that the new Public Sector Internal Auditing Standards would be presented to this meeting. However, the work involved had been underestimated and, therefore, a time allocation to address this work had been added to the audit plan for 2013/14, with a compensatory reduction in time allocation for audit advice and special investigations being made.

In response to Member queries regarding staff resources, the Chief Internal Auditor indicated that, provided an experienced candidate was found to replace the impending vacancy in his team, the current staffing level of 3.5 full-time equivalents was adequate. However, if a less experienced replacement were recruited, he considered that more resources might be required.

A summary of audit findings in respect of Refuse Collection (moderate assurance), Cash & Bank, Commercial Rents, Server Room (County Hall North), Horsham Museum and Housing allocations (all substantial assurance) was submitted. Special investigations had also been undertaken and recommendations made in respect of the fuel reconciliation process and a fuel theft, both in relation to Hop Oast Depot.

The Committee noted that an overall audit opinion of moderate assurance had been reached in respect of Refuse Collection but expressed concern regarding the control weaknesses identified and indicated that they required assurance at the next meeting that all these issues had been addressed. In this respect, the Committee agreed that the Head of Service should be required to attend the next meeting to answer Members’ questions and address progress made.

It was also agreed that the Head of Service should attend the next meeting of the Committee to answer Members’ questions regarding the fuel reconciliation process and fuel theft at Hop Oast Depot. The Committee also requested further information in this respect.

An update was given on the current position in respect of the Project Assurance Core Team, which held regular monthly meetings with project

AAG/43 Internal Audit – Quarterly Update Report (cont.)

managers to identify current risks and issues and tracked progress to ensure that projects were being delivered within budget and in accordance with agreed timescales. It was noted that the team had tested new project management software (VERTO), which had now replaced the previous software.

Due to the two special investigations and the need to become involved in new risk areas, it was anticipated that some audits might not be completed within the current year and would therefore be slipped to 2013/14. However, it was still estimated that 87% of the original audit plan would be completed, which was within the agreed target of 85%.

The Chief Internal Auditor also reported on the current position regarding the percentage of agreed action items implemented in respect of audits undertaken in 2012/13, 2011/12, 2010/11 and 2009/10, together with details of agreed actions not yet implemented, an update for each item (including an assessment of priority) and a revised implementation date. It was noted that there had been a marked improvement in the number of outstanding actions that had now been implemented.

RESOLVED

- (i) That the Internal Audit Strategy be approved.
- (ii) That the Internal Audit Plan for 2013/14 be approved.
- (iii) That the summary of audit work undertaken since December 2012 be noted.
- (iv) That the Head of Operational Services be required to attend the next meeting of the Committee to answer Members' questions and address progress made in respect of the internal audit findings regarding refuse collection and the fuel reconciliation process and fuel theft at Hop Oast Depot.

REASONS

- (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/44 **RISK MANAGEMENT – QUARTERLY UPDATE REPORT**

The Chief Internal Auditor presented the latest quarterly update in respect of the Corporate Risk Register.

It was noted that the corporate risk register had been fully reviewed by the Corporate Management Team and that risk CRR27 (Health & Safety (Failure to comply with Council policy & procedures and legislative requirements)) had been removed, as agreed at the last meeting of the Committee, as all planned actions had been implemented and the level of risk reduced to an acceptable level. Risk CRR39 (relating to the review of Staff Terms and Conditions) had been added as a new risk.

Members expressed concern regarding the lack of progress in respect of CRR05 (Information security), particularly in relation to Member awareness and training.

The Chairman suggested that CRR29 (Pressure on the Council's finances due to the localisation of Council Tax Benefit) and CRR36 (relating to the implementation of the Localism Act) no longer needed to appear on the Corporate Risk Register as they had been assessed as low impact and moderate likelihood.

Members were also concerned regarding the lack of progress in respect of CRR38, which related to failure to implement the Community Infrastructure Levy (CIL) Scheme by April 2014 due to the delay in preparing the District Planning Framework.

It was noted that all departmental risk register reviews had been completed in respect of the last quarter.

The Operational Risk Management Group had held its second meeting in December 2012 and a peer review had been undertaken of two departmental risk registers.

In January 2013, Internal Audit had met with the Head of Planning & Environmental Services and a number of risk champions to identify ways of improving the risk management process. It had been agreed that the Risk Management procedure document required very little change, although a number of good suggestions had been made which would be taken on board.

RESOLVED

- (i) That the updated Corporate Risk Register be approved.

AAG/44 Risk Management – Quarterly Update Report (cont.)

- (ii) That the progress made in respect of departmental risk registers be noted.
- (iii) That the progress made in implementing the Risk Management Strategy action plan be noted.

REASON

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

AAG/45 URGENT MATTERS

There were no urgent matters to be considered.

AAG/46 EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED

That, under Section 100A(2) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information, as defined in Part I of Schedule 12A of the Act, by virtue of the paragraph specified against each item, and in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

AAG/47 INTERNAL AUDIT – QUARTERLY UPDATE REPORT (PARAGRAPH 3)

The Committee considered the detailed information submitted concerning the implementation of agreed actions arising from internal audit reports.

The meeting finished at 7.43pm having commenced at 5.30pm.

CHAIRMAN