

ACCOUNTS, AUDIT & GOVERNANCE COMMITTEE
27TH JUNE 2013

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

Apologies: Councillor: Gordon Lindsay

Also present: Councillors: Andrew Baldwin, Duncan England
Helen Thompson, Audit Director, Ernst & Young

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 27th March 2013 were approved as a correct record and signed by the Chairman, subject to the amendment of the date in the second line of the second paragraph of minute AAG/40 to read "31st March 2012".

AAG/5 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

AAG/6 **ANNOUNCEMENTS**

The Committee was advised that, as the External Auditor was unable to attend on the scheduled date, it was likely that the next meeting of the Committee would be rescheduled from 26th to 25th September 2013. Members would be advised of the revised date as soon as possible.

AAG/7 **PROGRESS MADE IN RESPECT OF THE INTERNAL AUDIT FINDINGS REGARDING REFUSE COLLECTION, THE FUEL RECONCILIATION PROCESS AND FUEL THEFT AT HOP OAST DEPOT**

The Chairman of the Committee invited the Director of Community Services to update the Committee on progress made in respect of the internal audit findings regarding refuse collection, the fuel reconciliation process and fuel theft at Hop Oast Depot.

The Director of Community Services outlined action that had already been taken and the new systems and procedures that would be implemented when a new fuel tank had been installed. It was noted that staff absence during the last year had impacted on the running of the service.

Members raised a number of issues of concern that had been highlighted by the internal audit report and emphasised that it was important that these were all addressed without delay. The Director of Community Services would advise Members by email how many of the actions recommended in the internal audit report had already been implemented and the current position in respect of any outstanding actions.

The Director of Community Services confirmed that the theft had been reported to the police. It was suggested that it might be of value to contact the police and ascertain if they had any data analysis relating to similar incidents.

The Director of Community Services would report back to the Committee in six months' time with a further update on the implementation of new procedures and processes.

AAG/8 **CHAIRMAN'S RESPONSE TO THE LETTER FROM THE AUDITORS ON UNDERSTANDING HOW THE AUDIT COMMITTEE GAINS ASSURANCE FROM MANAGEMENT**

The response from the Chairman of the Committee to the letter from the Auditors on understanding how the audit committee gains assurance from management had been circulated for the Committee's information.

In response to a query from Helen Thompson, Audit Director, Ernst & Young, the Chairman confirmed that he was not aware of any undue pressure on the organisation or management to meet particular financial targets. Helen Thompson advised that, in the light of this clarification, she was satisfied with the Chairman's response to the letter.

AAG/9 **AUDIT PROGRESS REPORT**

Helen Thompson, Audit Director, Ernst & Young, gave an update on progress made by the External Auditors in respect of the 2012/13 audit. In particular, she drew attention to two additional audit risks they would be addressing, in respect of accounting for the CenSus partnership and ICT resilience, which had been identified since the Audit Plan had been presented to the Committee.

AAG/10 **AUDIT COMMITTEE BRIEFING**

Helen Thompson, Audit Director, Ernst & Young, advised the Committee that this briefing was produced by Ernst & Young as a means of keeping local government audit committees informed and updated on relevant issues and had been circulated to the Committee for information.

AAG/11 **HORSHAM'S FINANCIAL ACCOUNTS – OUTTURN FOR 2012/13 – REVENUE, CAPITAL AND REPAIR & RENEWALS BUDGETS**

The Chairman of the Committee reminded Members that the financial accounts had been presented to an informal meeting of the Scrutiny & Overview Committee's Finance & Performance Working Group and to the meeting of the Council on 26th June 2013.

Some concern was expressed regarding the average length of time taken to fill vacant posts. With regard to the fall in income received from Swan Walk rents, it was acknowledged that improvement and promotion of the town centre was an important tool in maintaining and possibly increasing this income stream. In response to comments regarding underspends on repairs & renewals and capital projects, the Director of Corporate Resources gave a brief update on the current position and advised that the budgeting process for repairs & renewals was being reviewed.

AAG/12 **DRAFT STATEMENT OF ACCOUNTS 2012/13**

The Chairman of the Committee indicated that the draft Statement of Accounts 2012/13 had been circulated for Members' information and that the final version would be submitted to the next meeting of the Committee for approval.

Members were asked to raise any queries they had with the Director of Corporate Resources or the Head of Financial & Legal Services before the next meeting of the Committee, and that such queries and responses should be shared with all Members of the Committee. It was also agreed that an informal meeting would be arranged to enable Members of the Committee to gain a greater understanding prior to the next meeting of the Committee.

AAG/13 **INTERNAL AUDIT – QUARTERLY UPDATE REPORT**

The Chief Internal Auditor submitted a report summarising the work of the Internal Audit Section since March 2013.

A summary of audit findings in respect of Creditors (moderate assurance), Business Rates (NNDR), Debtors, Payroll, Treasury Management, Voluntary Sector Grants and Hackney Carriages (all substantial assurance) was submitted.

The Committee noted that the results of the Creditors audit had improved when compared to the previous review in 2011/12 but that the overall audit opinion was still one of moderate assurance. One of the main reasons for this was the relatively low percentage of orders currently processed through the “purchase to pay” system. A number of measures had therefore been agreed as part of the action plan, which would help to increase the percentage in 2013/14.

With regard to the Audit Plan and the setting of a completion target of 85% rather than 100%, the Chief Internal Auditor explained that within any audit plan there needed to be a degree of flexibility to be able to undertake special/unplanned investigations and that the current target of 85% was considered to be appropriate. In the last year 27 out of 31 planned audits had been completed and three special investigations had been undertaken. It was noted that the aim was always to complete the key financial audits each year. The Chief Internal Auditor would advise Members of the planned audits that had been slipped to the current year.

It was noted that the current part-time auditor would be leaving at the end of July and that an appointment had been made to fill this post on a temporary six month contract basis. This would maintain the staffing level at 3.5 full-time equivalents, whilst the required level was reviewed.

The Chief Internal Auditor 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

That the summary of audit work undertaken since March 2013 be noted.

AAG/13 Internal Audit – Quarterly Update Report (cont.)

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/14 **ANNUAL INTERNAL AUDIT REPORT 2012/13**

The Chief Internal Auditor advised that the annual report had been compiled to:

- Summarise the work undertaken by Internal Audit during 2012/13 and provide an overall opinion on the adequacy of the Council's governance arrangements, risk management systems and control environment;
- Summarise the effectiveness of audit work; and
- Provide a statement on conformance with the Public Sector Internal Audit Standards.

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.

The Council's Internal Audit Service is operated in accordance with the new Public Sector Internal Audit Standards, which had come into effect from 1st April 2013. The new standards required the Chief Internal Auditor to undertake a self-assessment of the internal audit service against a Quality Assurance and Improvement Plan checklist and the results were outlined as part of the Annual Audit Report. It was noted that the Internal Audit Team had maintained its independence throughout 2012/13 in accordance with the Audit Charter.

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. Details of progress against the annual plan for 2012/13, the implementation of agreed actions, reporting and management feedback was reported.

AAG/14 Annual Internal Audit Report 2012/13 (cont.)

The Chief Internal Auditor was of the overall opinion that substantial 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 were highlighted.

The submitted table of internal audit assurance opinions showed the following balance of substantial and moderate audit opinions on individual audit reports:

Internal Audit Opinion	Definition of Opinion	Number in 2011/12	Number in 2012/13
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	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	19
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	8
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	0

The Chairman of the Committee asked the Chief Internal Auditor to review the moderate assurance ratings to determine whether there were any additional areas that should be mentioned in the Annual Governance Statement.

AAG/14 Annual Internal Audit Report 2012/13 (cont.)

RESOLVED

- (i) 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.
- (ii) That the performance of internal audit against performance targets be noted.
- (iii) That the statement of compliance with the Public Sector Internal Audit Standards be noted.

REASONS

- (i) To comply with the requirements set out in the new Public Sector Internal Auditing Standards 2013.
- (ii) The Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

AAG/15 DRAFT ANNUAL GOVERNANCE STATEMENT

The Director of Corporate Resources submitted the Annual Governance Statement (AGS) in draft form for Members' information. 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.

The AGS would be submitted for final approval by the Committee at its next meeting in September and Members were asked pass any comments to the Director of Corporate Resources and the Chairman of the Committee.

In response to the Chairman's suggestion that the planned management restructure and future commissioning should be referred to in the AGS, the Committee was advised that this would not be appropriate as the AGS related to the Council's control framework/environment for 2012/13. A more appropriate course of action would be to include these issues in the Corporate Risk Register at the appropriate time.

AAG/16 **INTERNAL AUDIT – PUBLIC SECTOR INTERNAL AUDIT STANDARDS**

The Chief Internal Auditor provided the Committee with details of the new Public Sector Internal Audit Standards, which had come into effect on 1st April 2013 and replaced the CIPFA Code of Practice for Internal Audit.

The new Public Sector Internal Audit Standards clearly set out the governance responsibilities in relation to Internal Audit, with the main responsibilities of the Accounts, Audit & Governance Committee being to:

- Review and approve the Internal Audit Charter.
- Review and approve the Internal Audit Strategy.
- Review and approve the Annual Internal Audit Plan.
- Receive communications from the Chief Internal Auditor on Internal Audit activity's performance relative to its plan and other matters.
- Make appropriate inquiries of management and the Chief Internal Auditor to determine whether there was any scope or budgetary limitation that impeded the ability of the internal audit activity to execute its responsibilities.

The Internal Audit Charter, which detailed Internal Audit's terms of reference, had last been approved by the Committee in March 2011. The Charter had now been re-written to incorporate the requirements of the new Public Sector Internal Audit Standards and was submitted for approval.

A Quality Assurance and Improvement Programme review (internal assessment) had also been completed, which indicated no significant issues with the operation of the internal audit service, although a few areas of potential non-compliance had been identified and were being addressed.

RESOLVED

- (i) That the responsibilities of the Accounts, Audit & Governance Committee as detailed in the standards be noted.
- (ii) That the key issues relating to the new Public Sector Internal Audit Standards be noted.
- (iii) That the revised Internal Audit Charter be approved.
- (iv) That the outcome of the Quality Assurance & Improvement Programme Self Assessment be noted and an update be submitted to the December meeting of the Committee.

AAG/17 **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 risks 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) had been removed, as agreed at the last meeting of the Committee, as risk exposure was currently assessed as low. Corporate Management Team had also agreed that CRR30 should be removed, as the financial risk had now been quantified as 7.5% and would be limited to a figure of £135,000. Risks CRR40 (relating to the possible loss of planning appeals due to a shortfall in the five year land supply) and CRR41 (relating to increased risk of loss of IT services through unforeseen circumstances due to the lack of a tested Disaster Recovery Plan) had been added as new risks.

Members expressed continued concern regarding the lack of progress in respect of CRR05 (Information security) and there was some criticism of the awareness training recently provided for elected Members. The Director of Corporate Resources indicated that the training was intended to be an initial introduction to the concept of information security and any subsequent messages or training would be more hard-hitting.

The Director of Corporate Resources also indicated that Business Continuity and Disaster Recovery would be addressed in the autumn.

A summary of the matters discussed at the latest meeting of the Operational Risk Management Group was submitted.

RESOLVED

- (i) That the updated Corporate Risk Register be approved.
- (ii) That the main points of discussion at the recent Operational Risk Management Group meeting be noted.
- (iii) 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/18 **URGENT MATTERS**

There were no urgent matters to be considered.

AAG/19 **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/20 **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.

It was suggested that, in future, there should be a covering report that highlighted the more critical issues within the overall schedule.

The meeting finished at 7.55pm having commenced at 5.30pm.

CHAIRMAN