

## **Audit Committee**

### **Minutes of the meeting held on 25<sup>th</sup> September 2008**

#### **Present:**

Councillor Watson – In the Chair  
Councillors Clayton, Morrison, Trotman and Wheale.

#### **Also Present by invitation:**

Councillor Priest, Executive Member for Finance and Human Resources.

Unable to be present: Councillors Isherwood, P. Murphy and Smith

#### **AC/08/27 Minutes**

##### **Decision**

To approve the minutes of the meeting held on 27<sup>th</sup> June 2008 as a correct record.

#### **AC/08/28 Independent Members**

##### **Decision**

That the officers be requested to urgently secure appointments to the vacant positions of independent members of the Committee, with a view to nominations being reported to the Constitutional and Nomination Committee on 3<sup>rd</sup> December 2008.

#### **AC/08/29 Internal Audit update**

The Executive Member for Finance and Human Resources outlined the arrangements put in place following the resolution adopted at the previous meeting of the Committee in terms of the capacity of Internal Audit to complete the Internal Audit Plan. He informed the Committee that the Personnel Committee had approved the establishment of the new post of Head of Audit and Risk and had agreed to a review of senior management arrangements and functional groupings to be located within the internal audit service, including establishment of new senior posts and appropriate remuneration levels.

A report of the City Treasurer was submitted updating the Committee on developments affecting the Internal Audit Service since the last meeting. An Interim Head of Internal Audit had been appointed by way of a 6-9 month secondment, to enable service improvement progress to be made pending an appointment being secured to the new post and he outlined key actions being taken by the Interim Head of Internal Audit to ensure that issues of concern are fully addressed during 2008/2009.

The Interim Head of Internal Audit then addressed the Committee about the project plan covering the period of his secondment, short term actions taken to deliver the Audit Plan, including proposals to make the Plan co-terminous with other annual plans and a longer term vision for the internal audit service and its positioning within the Authority

The report also defined the role of internal audit within the organisation and a draft vision for the service and its positioning within the Council's broader assurance framework.

### **Decision**

1. To welcome the actions taken and to support the proposals for further development that will deliver an internal audit function that properly reflects the ambitious nature of the Council's work.
2. To support the decision to move to an annual Internal Audit Plan ending on 31<sup>st</sup> March in line with other key plans, and to request the officers to re-align the current plan to cover the period July 2008 to 31 March 2009, and to report this to the next meeting.

### **AC/08/30 Internal Outturn report – July 2007-June 2008**

Consideration was given to a report of the City Treasurer providing the annual outturn report on the work of Internal Audit from July 2007 to June 2008.

This report provided a summary outturn report of the work of the Internal Audit Section between July 2007 and June 2008 following the progress report to Committee in June 2008 and contains information about resourcing and the activities of the Section against the Annual Audit Plan.

The Committee noted the arrangements for the monitoring and management of recommendation implementation during 2008/09 and that consideration of how implementation timescales can be improved in the future was one of the areas of focus for the Interim Head of Internal Audit.

Members continued to be concerned about the deferral of key audit work and the Interim Head of Internal Audit acknowledged these concerns but assured the Committee (a) that work in relation to core financial systems was on target to be completed this year which would be a significant source of reassurance for the Council, and (b) that the Internal Audit Service contributed to a range of corporate work that benefited the Council outside the scope of the Internal Audit Plan.

### **Decision**

To note the report and to look forward to continued improvements in the next year-end report.

## **AC/08/31 Annual Accounts 2007/08 and letter of Representation**

The Committee considered a report of the City Treasurer on adjustments to the annual accounts for 2007/2008 and the letter of representation from the Council's auditors. The net effect of these amendments is to decrease general fund reserves by £1,420,000 (reduction in income from property rents £2,362,000 partly offset by reduction in property rent expenditure £663,000 and increase in interest charges charged to the HRA £279,000) and increase HRA reserves by £1,020,000 (increase in housing subsidy due of £1,299,000 partly offset by increased allocation of interest from the general fund of £279,000). A schedule of amendments to the Annual Accounts was circulated at the meeting.

Members challenged the City Treasurer concerning the management of the Council's debt Portfolio. The City Treasurer recognised the concerns of members in the context of the current volatility of international financial markets but he assured the Committee that the debt portfolio was actively managed. Some debt had been paid outright where it was financially attractive to do so, and debt amounting to £70M had been restructured and re-financed at cheaper rates with a saving of £900k being achieved.

### **Decision**

1. To agree the amendments made to the annual accounts and to approve and acknowledge the letter of representation.
2. To congratulate the staff concerned in the finalisation of the Council's accounts and the huge improvement made in the reduced scale of adjustments made this year compared to previous years; to congratulate them also upon their award of the Team of the Year Award, and to record also the tremendous progress made in this field during John Guest's service with the Council.

## **AC/08/32 Annual Report to those charged with governance**

The Committee considered a report from Grant Thornton, the Council's auditors, on its audit of the Council's accounts for 2007/2008 and highlighting the principal matters that had already been the subject of discussions with the City Treasurer and his staff. The auditors advised the Committee that they expected to be able to give an unqualified opinion on the Council's accounts by the deadline of 30<sup>th</sup> September.

In introducing this, their first annual report as auditors for the Council, the auditors expressed appreciation for the supportive way that the officers had responded to all the issues that they had raised. They expressed their belief that the Council was well placed to meet the demands that will be made upon it in the future. The scale of some of the budget adjustments reflected some prior year issues but in their view the overall level of adjustment was compatible with the change to new accounting arrangements.

Discussion then ensued about the change to international financial reporting standards, the benefits that this will bring to the Council and the challenges that it will present

## **Decision**

To welcome the report and the assurance that the audit of the 2007/2008 accounts demonstrates a sound accounting baseline

### **AC/08/33 Risk management**

A report of the City Treasurer was submitted informing the Committee of progress in the further development of risk management, most specifically in implementing the recommendations of the External Audit review of risk management completed in June 2008. The report indicated that since the last meeting significant progress had been made in implementing the recommendations made in the External Audit report. Target dates had been set for the implementation of all recommendations and the Committee heard that in all cases work was progressing in line with those target dates

The report also presented to Committee the Risk Management Strategy and Policy that had been refreshed and updated during August 2008, in line with agreed annual milestones. This policy and strategy laid out the Council's intent in developing risk management, identified the component parts of the risk management system, clarified responsibilities placed on managers at all levels and identified the next steps in ensuring further development of risk management as an effective tool to support corporate, service, partnership and project management. The Committee recognised that success in delivering an effective and robust risk management structure that supported both decision making and service delivery was dependent on managers within the Council, actively participating in the programme and recognising that risk management is not an "add on" function to be considered retrospectively in delivering their work priorities, but a mainstream core management function and should be understood and used by all managers on a day to day basis. It is the responsibility of all managers to ensure that they integrate risk management principles and practices into their working role.

A member highlighted the increasing importance of external and sovereign risk in the changed financial climate and questioned the City Treasurer about the Council's lending and borrowing policies. The City Treasurer confirmed that lending was confined to UK banks at the present time as the government had demonstrated a clear commitment to support UK banks and financial institutions during the current period of transition, and that the Council had been able to minimise borrowing in recent times due to improved cash flows.

## **Decision**

1. To note progress in implementing the recommendations of the External Audit review
2. To formally endorse the updated and refreshed Risk Management Strategy and Policy.
3. To refer the issue of Risk Management to the Governance Sub-Group of the Resources and Governance Overview and Scrutiny Committee for more detailed scrutiny.

### **AC/08/34 External Audit progress report**

The Committee noted a progress report submitted by Grant Thornton on issues previously identified in their work programme.

### **AC/08/35 External Audit recommendations – quarterly monitoring**

The Committee considered a report of the Head of Corporate Performance providing a quarterly progress report on the implementation of outstanding recommendations from external audit work across the Authority by the Audit Commission and Grant Thornton during 2006/07 and 2007/08 audit years.

### **Decision**

To note the report and welcome the progress made.