

Audit Committee

Minutes of the meeting held on 27th June 2008

Present:

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

Also Present by invitation:

Councillor Priest, Executive Member for Finance and Human Resources.

AC/08/19 Minutes

Decision

To approve the minutes of the meeting held on 29th May 2008 as a correct record.

AC/08/20 Approval of Annual Accounts 2007/08 and Annual Governance Statement

The Committee considered a report of the City Treasurer presenting the Annual Accounts for 2007/2008 and the first Annual Governance Statement. Updates in relation to individual figures within the accounts were tabled at the meeting and adopted by the Committee.

The Committee also considered a report by Grant Thornton, the Council's Auditors to those charged with governance, which summarised their findings from an interim accounts audit and a proposed action plan in relation to audit work.

The Council's Auditors (Grant Thornton) reported the headline messages from their interim audit of the Final accounts. A report would be presented to the September meeting on the quality and coverage of internal audit work, but there was a shortfall in certain key areas which they as external auditors would need to complete as part of the external audit process, and there would be an associated cost to the authority. More positively the process for producing the annual accounts was much improved and there were positive messages in the area of corporate governance.

Members highlighted the identified underspending of £11M on revenue as part of an overall £107M variance in the budget overall. Officers clarified that half of the variance related to the use of resources and the PFI reserve and was a planned process within the management of the accounts, and the remainder reflected improved cash flow leading to savings in borrowing; the delayed stock transfer to Southway; an unused contingency of £4M provisionally earmarked for equal pay claims, and a rebate from the Waste Disposal Authority.

Welcoming the savings accruing from reduced borrowing a member reiterated concerns about the long term status of government subsidy covering the debt charges on transferred housing stock, and the risk for future exposure in the event that the grant regime changed. The Council's auditors confirmed that were content with the manner in which this had been dealt with in the final accounts.

The Executive Member for Finance and Human Resources highlighted the improved budgetary control evidenced in several areas of the accounts, but most notably in Children's Services where significant MIP savings had been realised. The overall improvements meant that the Council was better equipped to deal with the unexpected.

Members also referred to the budget provision for the protection of assets and enquired what provision existed for the delivery of the Town Hall Strategy. Officers indicated that this found proper expression in the Risk Management Register and in capital financing, and the Council's auditors confirmed that the role of the Audit Committee was that of being satisfied that a strategy existed for dealing with the risks identified.

Other issues of detail in the accounts highlighted by members were explained by the officers.

The Committee then turned to consider in detail the Annual Governance Statement. It was reported that the statement had been considered by the Standards Committee and the Resources and Governance Overview and Scrutiny Committee in relation to the elements relevant to their remits, and that both committees had commended the Statement to the Council for adoption. The Committee had considered the principles underlying the Statement at its previous meeting and now welcomed it as a document that brought together a range of key principles around how the Council conducted its business and related to partners and local communities. The Council's auditors also commended the statement as an important first step in the establishment of governance standards within the Council.

Decision

1. To commend the Annual Governance Statement 2008/2009 to the Council.
2. To approve the Annual Accounts 2007/2008 as amended and to authorise the Chair to sign them to enable them to be submitted by the 30th June deadline.
3. To agree to the exercise of urgency powers under paragraph 1 of the General Terms of reference of Committees in respect of the above decision on the grounds that the legal and financial position of the Council would be prejudiced if approvals were not finalised before 30th June 2008.

Councillor Isherwood declared a personal interest as a Board Member of Southway Housing
Councillor Trotman declared a personal interest as a Board Member of Northwards Housing

AC/08/21 Risk Management

The Committee considered a report of the City Treasurer on the progress and outcomes to date of the Audit and Risk Management Service Improvement project. The report showcased a number of options for the further development of risk management and insurance that had been presented to the Project Board.

A further report of the City Treasurer was also submitted on the outcome of a recent external audit of risk management arrangements within the Council, and an action plan to improve arrangements over the coming year. The Committee also considered the full report of the Council's auditors (Grant Thornton) on this review and their detailed recommendations and action priorities.

In discussing these options the Committee expressed support for Option 4 which embraced the provision of an enhanced corporate resource sufficient to provide active facilitation and support to all services in developing their own risk management programmes in line with the current risk management strategy and policy. This would involve the establishment of four corporate posts. However, members urged that Option 3 which would pull together all related risk management services into one team with shared line management, including health and safety, business continuity, emergency planning and capital programmes should remain the long term goal.

Turning to consider the report on the external audit of risk management the Committee noted the intention of the Strategic Management team to establish a sub group of senior managers to oversee the development of risk management within the Council, and the Chair requested that regular update reports were brought to the Committee on the work of this Sub Group. The Council's auditors outlined the work necessary to meet CAA ratings; identified the progress made against previous poor ratings and flagged up some key priority areas that demonstrated and evidenced how risks are identified and managed, and the need to consider the management of risks in relation to partnerships. They also flagged up the suggestion in their report that there should be a clearly identified member with a brief as 'risk management champion' within the Authority. Members agreed that this clearly fell within the brief of the Executive Member for Finance and Human Resources.

The Chair welcomed the progress that had so far been made to embed risk management culture within the Council but cautioned that much still remained to be done and that at some stage consideration would need to be given to member level training to equip members to better identify key risk areas and to make informed judgements about recommended solutions.

Decision

1. To note the outcomes of the service improvement review.
2. To support the implementation of Option 4 as a pragmatic solution avoiding the potential organisational disruption associated with Option 3 but to urge the officers to retain Option 3 as a long term objective when this can be achieved without detriment to the Council.

3. To note the outcome of the external audit review, to approve the action plan put forward and to request the officers to report back in September on progress made against that plan.
4. To note that risk issues associated with partnership arrangements are to be dealt with through a Partnership Risk Review.

AC/08/22 Internal Audit

The Committee considered –

- a) a report of the City Treasurer detailing progress on work undertaken by Internal Audit during the period April- June 2008.
- b) a report of the City Treasurer presenting the Draft Internal Audit Plan for the period July 2008 to June 2009.
- c) a report of the City Treasurer on progress achieved in the Implementation of recommendations from Internal Audit reports from July 2006 to the present.
- d) a report by Grant Thornton, the Council's Auditors, reviewing the Council's internal audit arrangements and proposing an action plan in relation to the key findings of its review.

The Committee had previously expressed its concerns at strategic management level about the continuing resourcing difficulties within Internal Audit and the impact of this on the delivery of Annual Audit Plans, the report of the City Treasurer now clearly identified those elements of the 2007/08 Plan that could not be completed, and the Committee also noted the report of the Council's Auditors that identified specific audit work in relation to core financial systems that they would have to undertake on behalf of the Council as part of the external audit process. Officers emphasised that not all of the changes made to the 2007/2008 Plan were the consequence of resources issues; the Plan often needed to be adaptable to enable new priorities to be addressed and to reflect the complexity of individual audits that could not be accurately assessed in advance.

The City Treasurer informed the Committee of the basis upon which the 2008/2009 Plan had been drafted; the in-built guarantees that an audit of all of the Council's core financial systems would be fully addressed in 2008/2009, other priority work that was also scheduled; the potential that other elements could be brought forward in the event that the estimated number of audit days earmarked for individual projects was not required in full, and the incorporation of a contingency element to better enable Internal Audit to respond to new demands or emerging priorities. He also outlined to the Committee how the work of external audits and reviews could be interrogated to satisfy the Council's own audit objectives without duplicating work done by others.

Officers outlined proposals in hand to secure recruitment to vacant posts in Internal Audit by the end of October and members noted the achievements made previously by the development of a career grade that had assisted recruitment at lower levels. Members also recognised the influence of competition and market influences in terms of recruiting at more senior levels.

The Council's auditors then presented their review of the Council's internal audit arrangements; rehearsed the key findings that (a) the role and expectations of internal audit are unclear within the Council (b) the Council is unable to recruit and retain adequate internal audit resources, and (c) the internal audit SIP is not yet complete and there is insufficient senior audit resources to complete it by June 2008. The officers had accepted these findings and an action plan was in place to address them.

Motion made and seconded –

To note with dismay the continued failure by senior management to deliver the Audit Plan in full, and the external auditor's recommendation that the Council should ensure that sufficient internal audit work is performed annually on core financial systems.

To express scepticism about the likelihood of securing a full staff complement by September 2008, and, in this event, to urge the Executive Member for Finance and Human Resources to bring forward recommendations to fulfil the Audit Plan to the September meeting of the Committee, including, but not limited to, the level of resources currently available to Internal Audit.

The motion being put there voted –

For the Motion (3)

Against the Motion (1)

(Councillors Clayton, Isherwood, Morrison, Watson and Wheale present at this stage. Councillor Watson not voting)

Decision

1. To note the position in relation to the achievement of the Audit Plan 2007/2008 and that a final outcome report will be submitted in September.
2. To approve the Audit Plan 2008/2009.
3. To note with dismay the continued failure by senior management to deliver the Audit Plan in full, and the external auditor's recommendation that the Council should ensure that sufficient internal audit work is performed annually on core financial systems. To express scepticism about the likelihood of securing a full staff complement by September 2008, and, in this event, to urge the Executive Member for Finance and Human Resources to bring forward recommendations to fulfil the Audit Plan to the September meeting of the Committee, including, but not limited to, the level of resources currently available to Internal Audit.
4. To note the report of the Council's auditors on the findings of their review of the Council's internal audit arrangements; the officers response to those findings, and the action plan in place to address key issues.

AC/08/23 Implementation of External Audit recommendations

A report of the Head of Corporate Performance was submitted outlining progress in delivering recommendations from external audit work by the Audit Commission and Grant Thornton during 2006/7 and 2007/8, and identifying key risks that need to be brought to the attention of the Committee.

Decision

To note the report.

AC/08/24 Anti-fraud and Corruption Policy and Guidance

A report of the City Treasurer was submitted presenting the draft Anti-fraud and Corruption Policy and Guidance.

Decision

To commend the policy to the Council.

AC/08/25 Management of External Funding

The Committee considered a paper by the Council's auditors (Grant Thornton) on their review of the Council's management of external funding.

In presenting the findings of the review emphasis was placed on many areas of good practice around the delivery of capital projects; project management and the revised financial regulations of the Council which clearly expressed issued about accountability and control. There were however areas where improvement was possible and desirable including rolling out the 'gateway' process to revenue based schemes and fully embedding the 'blue file' process.

Decision

To thank Grant Thornton for their work on this important issue, to accept the detailed recommendations and the proposed action plan, and to return to review progress at a future meeting.

AC/08/26 Audit Committee Training Workshop

The Committee noted the arrangements for the training workshop to be facilitated by Grant Thornton on 11th July 2008.