

**PRESENT: COUNCILLOR B YOUNG (CHAIRMAN)**

Councillors W J Aron, Mrs C M H Farquharson, C Farrar, N I Jackson, Mrs P A Mathers and Mrs S Rawlins.

Mr D Finch (Added Independent Person).

Councillor C E H Marfleet also attended the meeting as an observer.

Officers in attendance: Debbie Barnes (Assistant Director, Children's Services), Tony Crawley - Audit Commission (District Auditor), David Forbes (Assistant Director, Finance and Resources), Stephanie Kent (Investigations Manager), Mark Haynes (Head of Customer Operations), Lucy Pledge (Head of Corporate Audit and Risk Management), George Spiteri (Head of Service, Value for Money), Sarah Tennant (Strategic Risk Manager), Salina West (Democratic Services Officer) and Mike Wood – Audit Commission (Audit Manager).

1. APOLOGIES FOR ABSENCE

No apologies for absence were received.

2. DECLARATIONS OF MEMBERS' INTERESTS

Councillor W J Aron declared a personal interest in item 7 – Consultation on the Future of Public Audit (Minute No. 7 refers) as a Trustee of three local charities.

3. MINUTES OF THE MEETING OF THE AUDIT COMMITTEE HELD ON 26 APRIL 2011

RESOLVED

That the minutes of the previous meeting held on 26 April 2011 be confirmed and signed by the Chairman as a correct record.

Reference was made of Minute No. 81 – International Audit Standards – Response to Management Processes Questions, whereby the following was noted:-

- A report regarding the System Application and Products software would be submitted to a future meeting of the Audit Committee
- A briefing paper would be circulated to the Committee prior to the next meeting regarding concessionary fares scheme

An update was also provided in respect of Minute No. 82 – Adult Services Financial Management, whereby it was reported that meetings of the Performance Board had now commenced, with accountability listed as a priority on every agenda. A further progress report would be submitted by Terry Hawkins, Interim Director, Adults Social Care Commissioning, at the next Audit Committee meeting on 11 July 2011.

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Consideration was given to a report submitted by Lucy Pledge, Head of Corporate Audit and Strategic Risk Management, which provided the Committee with an update on progress made against the Audit Plan 2011/12 as agreed at the meeting of the Audit Committee on 21 March 2011.

**RESOLVED**

That the outcomes of the Corporate Audit work be noted.

**5. EXTERNAL AUDIT PROGRESS REPORT**

A report was presented by Mike Wood, Audit Manager for the Audit Commission, which updated the Committee on different aspects of external audit planned work during 2010/2011.

During consideration of the report, members were informed that officers were finding the closure of the accounts a challenge this year due to the introduction of the new International Financial Reporting Standards (IFRS). It was also reported that the strategic risk register would be reviewed in the autumn.

**RESOLVED**

That the report be noted.

**6. INTERNAL AUDIT ANNUAL REPORT - 2011****RESOLVED**

That this item be deferred to the next meeting of the Committee scheduled to be held on 11 July 2011.

**7. CONSULTATION ON THE FUTURE OF PUBLIC AUDIT**

Consideration was given to a report by David Forbes, Assistant Director, Finance and Resources, regarding a consultation exercise that was being undertaken by the Department for Communities and Local Government (CLG) on the future arrangements for the provision of external audit in the public sector, given the Government's intention to abolish the Audit Commission.

A copy of the detailed consultation document was attached at Appendix A to the report presented, however it was noted that the proposals were based upon the following four design principles:-

- Localism and decentralisation – freeing authorities to appoint their own external auditors from a competitive marketplace
- Transparency – ensuring results of audit work are more accessible with local people participating in the process

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- Lower fees
- Higher standards of work

Members were asked to consider the proposals and indicate the issues they would wish to incorporate in a response to the CLG, therefore a list of potential key issues for consideration was given, as detailed below:-

1. Were the four design principles noted at 1.3 above the right ones?
2. Were the proposed transfers of the Commission's roles in maintaining codes of audit practice and as regulator to the National Audit Office and the Financial Reporting Council sensible?
3. Was open market competitive tender the right way to recruit external auditors?
4. Should external auditors be appointed by Council upon receipt of a report from the Audit Committee?
5. Was the proposed dominance of independent members on the Audit Committee the right approach?
6. Was there a real role for the wider public in the appointment process and ongoing monitoring of the external auditor?
7. Was the proposed restriction on the term of office for an appointed external auditor the right one?
8. Was the expanded remit of the auditor sensible and compatible with a cost reduction objective?
9. Was there merit in the proposal to withdraw the right for a member of the public to raise an objection to the financial statements of a local authority?
10. Should the Government be encouraged to allow the District Audit Service to effectively transfer out of the public sector and become a direct player in the market for public sector external audit?
11. Should the County Council have a role in the appointment of external auditors for smaller bodies such as Parish Councils?

The following comments were noted in respect of the above:-

- Issue 3 – Consideration needed with regard to issues of market capacity, the transfer of District Audit Service expertise into that market and the risks of future market concentration feeding through to the price of the service
- Issue 4 – Final approval to be given by the Council, following a recommendation from the Audit Committee
- Issue 5 – This proposal was not supported although limited independent membership would be acceptable. The need for financial skills and expertise risks overemphasised the skill set in the real role of an Audit Committee
- Issue 6 – Existing transparency arrangements already allowed for public involvement
- Issue 8 – Consideration needed regarding discretion or asking for internal audit input which would be more cost effective

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- Issue 9 – Support was given to this proposal as it was felt that the public often used the right as a grievance procedure
- Issue 10 – There would be advantages to allow the District Audit Service to continue, thereby expanding the number of skilled providers and assisting in mitigating the creation of a near monopoly marketplace
- Issue 11 – This proposal was not supported as there would be no benefit to upper tier organisations in undertaking this role

**RESOLVED**

That the Director of Resources and Community Safety, in consultation with the Chairman and Vice-Chairman of the Audit Committee; and the Executive Councillor for Finance and Human Resources, be authorised to respond to the consultation on the future arrangements for the provision of external audit within the public sector.

**8. RISK MANAGEMENT – ANNUAL REPORT 2010/2011**

A report by Sarah Tennant was presented which detailed numerous highlights during 2010/2011 regarding the Council's wider risk management activities; and also provided the Committee with an important insight as to how business would need to continue.

Members were informed that in relation to the ICT outage in November 2010, it was recognised that the incident had been dealt with swiftly and that critical services had continued to function during difficult times, with sound disaster recovery arrangements in place.

The report also reflected on the following:-

- Overview of the Annual Risk Management Performance 2010/2011
- Business Continuity
- Health and Safety
- Insurance
- Moving Forward during Changing Times

It was acknowledged that the Council continued to adequately demonstrate that it had mature systems and processes for managing risk at a strategic level, however its needs and expectations were changing and therefore innovation and opportunities to improve services would require risk taking. Closer working relationships with senior managers would be undertaken to promote formal risk management techniques.

The following comments were noted:-

- Participation was welcomed in a number of activities as highlighted in the report
- How was the risk of finding asbestos in properties determined?
- How robust was the Council's risk register?
- Responsibility for flood deviation works

**RESOLVED**

1. That the positive assurances given on how the Council had managed its corporate risk over the last year be noted.
2. That a summary of the internal audit report for Business Continuity be submitted to the next meeting of the Audit Committee on 11 July 2011.

**9. VERBAL UPDATE ON THE COMPLAINTS PROCESS**

Mark Hayes, Head of Customer Operations gave a verbal update regarding the complaints process and the customer insight function at the Customer Service Centre (CSC).

Details relating to the following were reported:-

- 1127 recorded complaints had been received in 2010/2011
- Value for Money Customer Satisfaction – 2010/2011 Cumulative Summary
- Service area improvements resulting from customer feedback
- Objectives of the Customer Insight Function in the CSC

During discussion it was considered that out of hours contact should be made available for issues relating to road works and flooding. In response it was reported that in respect of dangerous/emergency road works, the out of hours message did re-directed the public to the police. In respect of flooding, the County Council had no such provisions in place and would need to balance the frequency of events in order to implement on a permanent basis. It was suggested that the issue could be taken up separately.

**RESOLVED**

That the report be noted.

**10. COUNTER FRAUD ANNUAL REPORT 2010/2011**

The Committee received a report by Stephanie Kent, Investigations Manager, regarding the delivery of the 2010/2011 Counter Fraud Work Plan; and the provision of information on the overall effectiveness of the County Council's arrangements on counter fraud and corruption.

Details relating to the following were highlighted:-

- Investigations into suspected fraud 2010/2011 which included three successful prosecutions
- Redress – Total recovery for 2010/2011 amounted to £30,160, with further expected recoveries of £877,000 pending from four cases
- Proactive Work for 2010/2011 included:-

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- Fraud proofing contracts, service level agreements and key policies
- Review of imprest accounts
- Reviewing/investigating the 2010/2011 National Fraud Initiative data matches for the County Council

It was acknowledged that the national spot light was now firmly on public sector fraud and that proactive work had illustrated the benefits of a dedicated counter fraud and investigations team. Plans for 2011 would enable the Council to build on existing good practice, more effectively target resources and increase opportunities for savings by reducing fraud, error and waste.

The following comments were noted:-

- It was felt that the tables contained within the report were misleading
- Proofing of contracts were welcomed
- As a result of workforce change, the need to ensure correct handovers were given
- The need for whistle blowing leaflets to be circulated

**RESOLVED**

That the overall effectiveness of the Council's arrangements on counter fraud and corruption, together with the progress made during 2010/2011 to implement policy, be noted.

**11. WORK PLAN**

A report by Lucy Pledge, Head of Corporate Audit and Risk Management, was submitted which provided the Committee with progress on agreed actions, together with its work plan for the period up to September 2011.

**RESOLVED**

1. That the progress of agreed actions as detailed at Appendix A attached to the report be noted.
2. That the work plan as detailed at Appendix B attached to the report be agreed.

**12. PROGRAMME CENTRE UPDATE**

Pursuant to Minute No. 46 of 13 December 2010, consideration was given to a further report presented by George Spiteri, Head of Service, Value for Money, which updated the Committee on the Programme Centre.

Members were informed that in terms of capacity building and good governance, priority was being given to:-

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- Council Business Plan projects
- Other projects with >£0.5 million impact on the 'core offer' budget savings
- Projects operating with Mouchel (including alignment of approaches between the two organisations)

It was noted that in terms of supporting priority projects, the main focus had recently been on managing workforce change, which would deliver up to £30 million of the Council's target of £125 million savings over the next four years. Monthly tracking of budget saving initiatives would be co-ordinated by Programme Centre.

The report concluded that progress was continuing and that over 200 priority projects would be tracked through the Info Hub. Annual updates would be provided to the Audit Committee.

The Committee provided the following comments:-

- It was felt that annual updates were not frequent enough
- Whether there was sufficient reliance available to carry out the work
- Assurance was needed with regard to progress
- Varied timetables were operated by different people

**RESOLVED**

1. That the report be noted.
2. That consideration of the frequency of updates on the Programme Centre and future project governance be discussed and agreed at the workshop due to be held at the end of the Audit Committee later that afternoon (13 June 2011).

**13. SUMMARY OF SCHOOL AUDIT WORK DURING 2010/2011**

A report by Lucy Pledge, Head of Corporate Audit and Risk Management was presented which updated the Committee on outcomes of school audit visits, including details of investigations and conclusions from school related audits in respect of school budget share calculation 2010/2011; and schools financial monitoring.

Individual assurance levels were listed at Appendix A attached to the report, however it was noted that from the 62 audits completed, the majority of schools had full or substantial assurance.

It was highlighted that during the course of audits, a number of common themes were identified with regard to processes and controls which needed to be strengthened. The Committee noted that by working with Children's Services and Schools Finance Team, the importance of these controls was emphasised to schools through training and guidance.

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The report concluded that the outcomes of the audit work had generally been positive and that the issues identified demonstrated the need to maintain the Council's review over schools to ensure they appropriately managed their finances and operated adequate controls.

Debbie Barnes, Assistant Director, Children's Services, was in attendance at the meeting who responded to various comments, in particular to the issue of signing off procedures for accounts; and the challenging times ahead in view of new International Financial Reporting Standards (IFRS).

**RESOLVED**

That the report be noted and that the Assistant Director, Children's Services, investigate procedures for improving the signing off of school accounts.

The meeting closed at 12.20pm