

# Audit Committee

**Thursday, 27 September 2007**

**Present:** Councillor Anthony Gee (Chair), Councillor (Vice-Chair) and Councillors Alan Cain and Mike Devaney

**Officers Present:** Gary Hall (Assistant Chief Executive (Business Transformation and Improvement)), Andrew Docherty (Corporate Director of Governance), Garry Barclay (Audit and Risk Manager), Andy Armstrong (Assistant Audit Manager) and Dianne Scambler (Trainee Democratic Services Officer)

**Also in attendance:** Mike Thomas (Audit Commission), Tony Hough (Audit Commission) and Allen Graves (Audit Commission)

## **07.AU.12 APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors Keith Iddon, Shaun Smith and Mary Wilson

## **07.AU.13 DECLARATIONS OF ANY INTERESTS**

No declarations of interest were declared.

## **07.AU.14 MINUTES**

**RESOLVED – That the minutes of the meetings of the Audit Committee held on 21 June 2007 and 28 June 2007 be confirmed as a true record.**

## **07.AU.15 FINANCIAL STATEMENTS 2006/2007**

The Audit Committee at its last meeting on 28 June 2007 had endorsed the Councils un-audited Financial Statement of Accounts for 2006/2007, which had subsequently been passed to the District Auditor for external audit.

The Audit Commission had audited the accounts and although there were no changes to the Councils financial position, a number of technical changes had been made to reflect the Council's activity more accurately.

The main change centred on the Income and Expenditure Account for the year ended 31 March 2007. The general fund showed a deficit that does not actually exist. The Statement Of Recommended Practice (SORP) had dictated the figures be recorded this way to reflect the activity concerning the Large Scale Voluntary Transfer process.

The Assistant Chief Executive (Business, Transformation and Improvement) explained that the new SORP had lacked definite guidance on how to record the (LSVT) and it had been mainly down to this that the production of the completed accounts had been unavailable when the agenda was published and he apologised to Members.

**RESOLVED – That the Financial Statement of Accounts for 2006/2007 be approved.**

## **07.AU.16 ANNUAL GOVERNANCE REPORT**

The Audit Commission submitted their Annual Governance Report providing a summary of the work that they had carried out during the 2006/2007 audit of accounts.

At the time the report had been issued, work on the financial statements had been substantially complete, a few outstanding issues still needed to be resolved but they were now confident of issuing an unqualified audit opinion on 28 September 2007 and a draft report was attached in an appendix to the report.

The Audit Commission were satisfied that the Council's Governance Assurance Statement had been prepared in accordance with proper practice and was consistent with the findings from their audit.

The work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources had also been completed and they were also proposing to issue an unqualified conclusion on the Value for Money on 28 September 2007.

The Audit Commission commented that it had been extremely tight to turn the accounts around and they intended to meet with the Authority to address the issues within the timetable for the closure of the accounts.

The Assistant Chief Executive commented that the Council had intended to use more resources for the closure of the accounts, but the Authority has had difficulty in employing staff in some of the senior posts. An ongoing piece of work in the development of shared financial services with our neighbours South Ribble Borough Council was well advanced, this would improve the situation.

The Chair commented on the importance of the potential consequences of the Council missing the 30 September 2007 deadline. If this date were to be missed it would impact on the Authority's Value For Money (VFM) score, our creditability would be affected and we would incur even higher Audit Commission fees.

**RESOLVED – 1. That the report be noted.**

## **07.AU.17 ANNUAL AUDIT & INSPECTION LETTER PROGRESS REPORT**

The Assistant Chief Executive (Business, Transformation and Improvement) submitted a report to keep Members of the Audit Committee informed of the progress made by the Council against the actions recommended by the External Audit in the annual inspection report for 2006.

Progress against all the actions were going as planned, although further works were needed in relation to the Corporate Strategy targets that were currently not being met, in the main progress against most of the targets was good.

The Committee Members felt reassured that the Council had put in place robust performance management arrangements that would identify when targets would not be met and what action was to be taken to rectify the situation.

Appendix B of the report showed details of the progress that had been made on the Corporate Strategy Targets.

The Corporate Strategy 2006/2007 – 2008/2009 contained 36 measures and targets that fell into one of three categories. The information on the delivery of those targets would be used to refocus activity or resources to deliver changes and improvements as part of an annual refresh or the Council's Corporate Strategy.

The Chair of the Committee commented that there were a number of targets that had not been met and that the Council were looking at ways of re-profiling the targets to make them more realistic. There was concern that the Authority was simply lowering

the threshold to make reaching the target more easy and asked if the Executive Cabinet could provide a more detailed explanation of their reasoning for doing this.

- RESOLVED**
- 1. That the report be noted.**
  - 2. That the Executive Cabinet be asked to provide a comprehensive report on the re-profiling of the four targets that had not been met.**

#### **07.AU.18 LOCAL CODE OF GOVERNANCE**

The Assistant Chief Executive (Business Transformation and Improvement) submitted a report explaining the new requirement upon councils to deliver and maintain a Local Code of Corporate Governance and presented a draft version of the Code that had been prepared in accordance with the prevailing guidance for Members to note and approve it for further consultation.

The new CIPFA SOLACE Framework identified the following 6 core principles that underpin a council's system of governance:

- Focussing on the purpose of the authority and on outcomes for the community including citizens and service users and creating and implementing a vision for the local area
- Members and Officers working together to achieve a common purpose with clearly defined functions and roles
- Promoting the value of the authority and demonstrating the values of good governance through behaviour
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
- Developing the capacity and capability of Members to be effective and ensuring that officers – including the statutory officers – also have the capability and capacity to deliver effectively
- Engaging with local people and other stakeholders to ensure robust local public accountability

A series of sub-principles have been identified under each of the core principles, which in total provided a 63-point checklist and a working group of officers, had conducted detailed annual self-assessment against this checklist.

Where ever possible references would be made to independent sources of assurance such as external or internal audit reports that would confirm the effectiveness of special arrangements.

The results of the self-assessment had been published in the Annual Governance Statement alongside the annual accounts and the Strategy Group would review the draft statement prior to signature by the Leader of the Council and the Chief Executive.

This Committee would review and approve the draft Statement prior to publication but more importantly would have the responsibility for reviewing the adequacy and effectiveness of the Council's overall Governance arrangements.

The Committee noted that the Governance Statement highlighted the need for the production of an Internal Audit Strategy and this is dealt with further down the agenda.

**RESOLVED – That the new Local Code of Governance be approved for further consultation.**

#### **07.AU.19 RISK MANAGEMENT FRAMEWORK**

The Assistant Chief Executive (Business Transformation and Improvement) submitted a report seeking the Audit Committee's approval of a revised Risk Management Framework, which set out the current approach for managing business risk within the Council.

The Council's arrangements for managing business had developed over time to reflect changes in "best practice" or to comply with new regulatory requirements and it was now expected that the authority's risk management arrangements would be recorded in a formal framework or strategy document that would be approved by Members of this Committee.

The draft Risk Management Framework document describes the Council's current arrangements with particular reference to:

- Risk Management in Business Improvement Planning
- The Strategic Risk Register
- Operational/Directorate Risk Registers
- Responsibilities for Risk Management
- Risk Management in Procurement and Partnership Working
- Insurance and Health and Safety
- Risk Management Networking

Members asked if other plans, for example the Business Continuity Plan were contained within the Risk Management Framework, The Assistant Chief Executive (Business Technology and Improvement) commented that other aspects of Risk Management within the Authority were listed separately but thought that it would be a good idea to amend the framework to show the links to other documents.

**RESOLVED – That the amended Risk Management Framework be approved**

#### **07.AU.20 STRATEGIC RISK REGISTER UPDATE**

The Assistant Chief Executive (Business Transformation and Improvement) submitted a report explaining the recently updated Strategic Risk Register and to provide assurance to Members that the Council's arrangements for managing strategic risks reflected best practice and were effective.

The Strategic Risk Register is the most important element of the Council's Risk Management Framework and is the vehicle by which the Council aims to identify and address any potential risks to achieve its strategic objectives and goals.

The Members of the Audit Committee were satisfied that the register demonstrated that the processes in place are robust and working in practice, by the delivery of the stated targets, and felt confident that the Authority is managing risk effectively.

Members commented that it would be helpful to include timed delivery points in the register so that the Authority could measure its success.

**RESOLVED – That the report be noted.**

#### **07.AU.21 INTERNAL AUDIT STRATEGY**

The Assistant Chief Executive (Business Transformation and Improvement) submitted a report seeking Members approval of the new Internal Audit Strategy that had been a requirement of the latest CIPFA Code of Practice for Internal Audit.

There is a requirement by the Council to conduct a review of the effectiveness of its system of internal audit, and on that basis a self-assessment had been undertaken for

2006/07. The Review had identified no substantive compliance issues, except for the need for the Authority to produce a formal Internal Audit Strategy.

The Strategy included:

- Internal Audit objectives and outcomes
- How the Head of Internal Audit would form an evidence opinions on the control environment
- How Internal Audit's work would identify and address local and national issues and risks
- How the service would be provided; and
- The resources and skills required to deliver the Strategy

Members sought clarification, to ensure that all audit personnel would be free from conflicts of interest and would not undertake any non-audit duties to preserve objectivity.

The Assistance Chief Executive (Business, Transformation and Improvement) commented that at times there could be minimal conflict but that he had the confidence to rely on the professionalism of his officers on these occasions.

**RESOLVED – That the Internal Audit Strategy be approved.**

#### **07.AU.22 INTERIM REPORT ON INTERNAL AUDIT ACTIVITIES AS AT 14TH SEPTEMBER 2007**

The Assistant Chief Executive (Business Transformation and Improvement) submitted an interim report of the work undertaken in respect of the Annual Internal Audit Plan during the first and second quarters of 2007/08 and provided details on further reviews, investigations and other Internal Audit activities during the period.

An appendix to the report gave an assessment and rating on the adequacy of the controls for each of the systems examined by the Internal Audit section during the period.

The core purpose of Internal Audit continued to be one of independently reviewing the effectiveness of the Council's internal control system and core business processes. However, a key feature of their role this year was a continuing shift towards providing more proactive advice and assistance in developing the Council's corporate governance framework.

The report highlighted a number of items of work that were being undertaken by the Internal Audit Service in a wide range of areas across the Authority that fell under the following headings:

- Corporate Governance
- Risk Management
- Anti-Fraud and Corruption
- Review of Key Business Systems
- Review of Financial Systems
- Review of Key Operations

The Assistant Chief Executive (Business, Transformation and Technology) reported on an important piece of work that was currently being undertaken on Charging Policies to ascertain whether the Council is utilising all its income generating opportunities to its optimum level from established income generating areas.

**RESOLVED – That the report be noted**

Chair