

AUDIT COMMITTEE
25th April, 2012

Present:- Councillor Sangster (in the Chair); Councillors Kaye and Sims.

Also in attendance were Rashpal Khangura and Amy Warner, KPMG.

Apologies for absence had been received from Councillors Gilding and License, and Angela Bingham.

P46. MINUTES OF THE PREVIOUS MEETING HELD ON 14TH MARCH, 2012.

Resolved: - That the minutes of the previous meeting held on 14th March, 2012, be agreed as a correct record.

P47. KPMG INTERIM EXTERNAL AUDIT REPORT.

Consideration was given to the report presented by Stuart Booth, Director of Financial Services, Resources Directorate, which introduced the KPMG Interim External Audit Report for 2011/12.

The scope of the Audit Report included: -

- Review of the Council's general Control Environment, including ICT systems;
- Testing key controls over the Council's key financial systems;
- Assessment of the Council's Internal Audit function;
- Review of the progress made in addressing changes in the 2011/12 Code of Practice for Local Authority Accounting;
- Assessment of the Council's financial resilience; and
- Identification of audit issues to be considered.

Rashpal Khangura, Senior Manager, KPMG, provided further detail on the aspects that had formed part of the report, and the assessment rating they achieved.

Overall, the outcome of the interim audit was very positive. It found that the Council's organisational controls were effective, and that the Authority was always proactive in the management of any accounting or financial issues.

The headlines with the KPMG interim audit were: -

- The Council had good controls at an organisational level, across its IT control environment and key financial systems;
- Internal Audit functions were compliant with the Code of Practice for Internal Audit in Local Government.

A small number of recommendations had been suggested to meet best practice standards. These included improving ICT access and password security control. It was noted that these matters were already being reviewed as part of the Council's financial systems.

KPMG would finalise work into the Council's 2011/12 Accounts with the audit of the Council's 2011/12 Financial Statements. KPMG was also continuing to monitor the financial resilience of the Council through the achievement of significant savings proposals as part of the Medium Term Financial Strategy, in support of the Council's Corporate Plan priorities.

Discussion ensued and the following issues were raised: -

- Strengthening the personal assurance system.
- Recognition of the changing risk climate within local government in terms of reducing resources and demographic changes.
- Looking towards best practice within the private sector.

Resolved: - [1] That the findings and recommendations within the KPMG Interim External Audit Report be noted.

[2] That the positive outcome of the Interim External Audit Report be noted and those Officers who had contributed thanked.

P48. "FIGHTING FRAUD LOCALLY" STRATEGY.

Colin Earl, Director of Internal Audit and Asset Management, Resources Directorate, provided an overview of the Government's newly created Task Force and Strategy called 'Fighting Fraud Together' that aimed to reduce fraud and the effects it had on the country and economy. The Strategy had been published on 12th October, 2011, and 37 organisations from all sectors had signed up to it.

In response to the requirements of the 'Fighting Fraud Together Strategy', the National Fraud Authority (NFA) had developed the Strategy 'Fighting Fraud Locally' to tackle fraud in local government. This required local governments to review their anti-fraud arrangements and made recommendations for current and future safeguards.

These included: -

- Acknowledge and understand fraud risks.
- Prevention was the most efficient way to reduce fraud loss.
- Enforcement of a strengthened response to punish fraudsters and recover losses.

At their meeting on 18th January, 2012, the Audit Committee had considered the Council's anti-fraud arrangements in light of the Audit Commission's 'Protecting the Public Purse', and Bribery Act, 2010 requirements (Minute Nos. P34 [Anti-Fraud Arrangements] and P35 [Bribery Act, 2010] refers).

The Council's arrangements were consistent with the 'Fighting Fraud Locally Strategy'.

It was noted that the 'Fighting Fraud Locally Strategy' acknowledged that local authorities were constrained in their response to fraud, and urged Central Government to resolve key barriers: -

- Information sharing barriers and ability to use information in a way that countered fraud;
- Incentives to encourage local authorities to counter fraud;
- Powers required for local authority officers to investigate non-benefit fraud;
- To enable the National Fraud Initiative to support local authorities to counter fraud infrastructure.

Discussion ensued and the following issues were raised: -

- Membership of the pilots and consultation groups in relation to the Task Force.

Resolved: - That the publication of the 'Fighting Fraud Locally' Strategy, and the consistency of the Council's arrangements with the requirements and recommendations, be noted.

P49. INTERNAL AUDIT STRATEGY AND AUDIT PLAN.

Consideration was given to the report presented by Marc Bicknell, Chief Auditor, Resources Directorate, which outlined the Council's Internal Audit Strategy and Internal Audit Plan for 2012/13.

The Internal Audit Strategy was a requirement within the CIPFA Code of Practice for Internal Audit in Local Government. The Council's strategy drew together details of how Internal Audit operated and delivered the terms of reference. The Audit Committee had previously agreed the Internal Audit Strategy at their meeting on 1st June, 2011, (Minute No. P5 (Internal Audit Strategy and Audit Plan) refers). No changes had been made to the Strategy since then.

The CIPFA Code of Practice also required that an Internal Audit Plan be written detailing how and why the Plan was produced, the proposed work programme, and resources available to the audit function. The Plan followed a risk-based approach, and was derived from a range of sources, including: -

- The Council's risk registers;
- Revenue and capital budgets;
- Cumulative audit knowledge and experience;
- Review of key plans, reports and press coverage;
- Priorities identified by the Council's Strategic Directors and Service Directors;
- Knowledge of existing management and control environments, including information system changes;
- Professional judgement on the risk of fraud or error.

The Plan covered five types of work: -

- Mandatory work;
- Must-do work;
- Follow-up work allowance (where areas of significant weaknesses had been identified in the previous audit);

- Emerging risks / responsive work allocation (in response to requests from managers for advice and investigation work);
- Risk related work.

An overview was provided that demonstrated the planned days that Internal Audit intended to spend on each category during 2012/13. A comparison with 2011/12 was also shared.

It was noted that there was an overall planned reduction in Internal Audit Activity. However, due to a careful approach to risk-based planning, and robust performance management of resources, this could be achieved without compromising the Service's capacity to provide an adequate level of assurance to the Audit Committee and Strategic Director of Resources.

The submitted report outlined the activities that would take place during the planned days in 2012/13, along with risks and uncertainties.

Resolved: - (1) That the Internal Audit Strategy be approved.

(2) That the Internal Audit Plan for 2012/13 be supported.

P50. AUDIT COMMITTEE ANNUAL AUDIT REPORT.

Consideration was given to the report presented by Colin Earl, Director of Internal Audit and Asset Management, Resources Directorate, regarding the Audit Committee's annual report that demonstrated how well the Audit Committee had fulfilled its terms of reference and helped to improve the Council's governance and overall control environment.

It was a CIPFA requirement within the IPF document 'A Toolkit for Local Authority Audit Committees', and within the Audit Committee's own Terms of Reference, that an annual report be produced.

The draft annual report for 2011/12 was attached at appendix A. Specifically, the report noted: -

- The activities and outcomes of the Audit Committee, including: -
 - Internal audit;
 - External audit;
 - Risk management,
 - Internal control and Governance;
 - Accounts; and,
 - Specific issues.
- The co-operation with partner organisation's audit committees, including Health, Police, Fire and Probation Services;
- Comparison against best practice illustrated the Audit Committee's strengths. Best practice factors included: independence, number of Members, number of meetings, co-option, terms of reference, and, skills and training. On each category, the Audit Committee was performing at or above the expected level.

The Audit Committee's annual report for 2011/12 demonstrated that it was an effective organisation that successfully fulfilled its terms of reference and

helped to improve the Council's governance arrangements and overall control environment.

Resolved:- (1) That the Annual Report for 2010/11, as now submitted, be approved.

(2) That the Chair present the report to the next appropriate meetings of the Cabinet and Council.