

## **Audit Committee – Meeting held on Tuesday, 25th January, 2011.**

**Present:-** Mr Kwatra (Chair), Councillors Haines (until 8.05 pm) and Small

**Apologies for Absence:-** Councillor Chohan

### **PART I**

#### **30. Declarations of Interest**

None.

#### **31. Minutes of the last meeting held on 19th October 2010**

The Minutes of the last meeting held on 19<sup>th</sup> October 2010 were agreed as a correct record.

#### **32. Order of Agenda**

With the agreement of the Committee the Order of Agenda was varied so that item 9, 'The Role of the Audit Committee' was taken first.

#### **33. The Role of the Audit Committee - Presentation**

Mr Mike Clarkson, Deloitte and Touche, outlined a presentation on the role of the Audit Committee.

The Committee was reminded that the purpose of the Audit Committee was to provide independent assurance of the adequacy of the risk management framework and the associated control environment, together with independent scrutiny of the organisation's financial and non-financial performance, and to oversee the financial reporting process. Mr Clarkson discussed the benefits of an effective Audit Committee which included increased public confidence in the objectivity and fairness of financial and other reporting. He also discussed the provision of independent assurance and the core functions of the Committee which included the receipt of the annual report of the Head of Internal Audit and the obligation to ensure effective relationships between external and internal audit. The Committee was obliged to take a view on whether control strategies had been properly formulated and remained effective including areas such as risk management, arrangements for delivering value for money, and anti-fraud arrangements.

It was highlighted that a good Audit Committee would be characterised by a strong chair, who displayed a depth of skills and interest and the ability to present an unbiased attitude where auditors, the executive and management were treated equally. It was also important that senior management were challenged when required and to provide a Committee Membership that was balanced, objective, independent and knowledgeable.

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Mr Clarkson advised that in order to be effective, an Audit Committee should be independent of the Executive and scrutiny functions, and have clear reporting lines and rights of access to other committees and functions. The Audit Committee should meet regularly approximately four times each year and also meet privately and separately with the External Auditor and Head of Internal Audit. It was suggested that the Chief Finance Officer or Deputy, Head of Internal Audit and the appointed External Auditor attend the Committee regularly. It was also suggested that the Monitoring Officer (for Standards issues), the Chief Executive and the Head of Resources should be able to access the Committee whenever required. It was also essential that Committee Members were properly trained to fulfil their role.

In response to a Member question regarding the difference between Scrutiny and Audit, Mr Clarkson advised that the Audit Committee had an overseeing role, to ensure that the organisation was subject to appropriate risk management and control, whereas the Overview and Scrutiny Committee would, for example, look at the detail of a review. In response to a further question regarding the results of fraud investigations, Sarah Sarll advised that she hoped to bring a progress report on this subject to the next meeting.

The Committee was advised that Member Training would be carried out and the relevant dates would be discussed.

A Member commented that there should be no areas where the Audit Committee could not ask questions and query mistakes. Alistair Rankin, Audit Commission explained that there were distinguishing features between internal and external audit and the latter was obliged to apply materiality levels. This was important to achieve the correct balance and in the Commission's Annual Governance Report items such as non-trivial figures were listed whereas the internal audit report would go into some detail. Mr Clarkson explained that where for example there were 90 reports, summaries would be provided on the key issues because it would not be possible to bring all of the reports.

Mr Clarkson was thanked for his presentation.

**Resolved** – That the presentation be noted.

### **34. Annual Audit Letter 2009/2010**

Mr Alastair Rankin, Audit Commission, referred the Committee to the Annual Audit Letter which had been circulated to the Committee in advance of the meeting. It was noted that the document had been presented by the District Auditor at Cabinet on 24<sup>th</sup> January. It was highlighted that the substance of the Audit Commission's work was reported in the Annual Governance Report in October and that the Audit Letter covered the accounts and areas such as value for money. The Committee's attention was drawn to the area of the Audit Letter which dealt with matters of internal control and these were discussed in detail. It was highlighted that the Council had now carried out a review of its financial management arrangements and had introduced

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improvements that would realign responsibilities and increase accountability for the operation of systems controls. The Auditor was satisfied that the newly acquired rent system had now stabilised and that reconciliations had been addressed and rectified. It was emphasised that the Council needed to be satisfied that future significant system transfers and upgrades were planned and managed to secure internal control through the implementation life cycle. The Committee was referred to the assessment of arrangements within the Audit Letter which set out a number of achievements and improvements in the relevant year. The Committee was also referred to a number of suggested further improvements which would secure value for money in the use of resources.

The Committee was assured that it could take comfort from the messages within the Annual Audit Letter and that any necessary actions for improvement were in hand. It was the responsibility of the Audit Committee to ensure that the suggested recommendations had been realised.

In the ensuing debate a Member asked whether any money had been lost through any failings of the newly acquired rent system. He was advised that the detail referred to the Capita Housing Rents system and Audit was satisfied that all the required actions had been implemented and the system was satisfactory. The Member was concerned that there was no adequate audit provision when the system had been transferred and records went missing. Mr Rankin conceded that the system was poorly managed but this was during the period when People 1<sup>st</sup> were in control and they did not report directly to Audit. Mr Rankin confirmed that there had been no financial loss incurred due to the loss of some records. The Member considered that paragraphs 14 and 15 of the report which considered the acquired rent system was vague in its content. Mr Rankin suggested that it may be helpful in future if the Audit Committee was made aware of any new systems in place. The Member was concerned that with the possibility of future outsourcing to providers that internal controls would not be followed correctly. The Member questioned how much had been lost when the data was transferred to the new system and it was agreed that report on the associated costs would be submitted to the next meeting and that Ms Foy would also send a response to the Member directly.

During the debate Cllr Haines questioned the membership of the Audit Committee in terms of its requirement to be independent of the Executive. He advised that some years previously a Member stood down from the Committee because of his position on the Executive. Mr Clarkson advised that CIPFA guidance indicated that there was nothing to prevent a member of the Executive being appointed to the Audit Committee.

Councillor Haines indicated that he felt his questions were not being fully responded to and despite assurances that Officers were happy to respond and clarify any further points, stated that he was unable to remain in the meeting.

(Councillor Haines left the meeting at 8.05 pm).

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With only two Committee Members remaining, the meeting was not quorate and ended. (Members remained and informally discussed the content of the remaining agenda items).

Chair

(Note: The Meeting opened at 6.30 pm and closed at 8.05 pm)