

## AUDIT COMMITTEE

Meeting - 25 June 2009

Present: Mr Hollis (Chairman), Mr Chapman (Vice-Chairman)  
Mr Bullock, Mr Thomson and Mrs Wallis.

Apologies: Mr Binns

In attendance: Mr Doug Freeman, Bentley Jennison (Internal Audit)  
Mr Mick West, Audit Commission (External Audit)  
Mr Jon Barlow, Audit Commission (External Audit)  
Mr Adam Milward, Audit Commission (External Audit)

### 1. MINUTES

The minutes of the meeting of the Audit Committee held on 1 April 2009 were confirmed and signed by the Chairman.

With reference to minute 16 [Internal Audit Progress Report - IT Disaster Recovery] the latest position was reported, as set out elsewhere in these minutes.

### 2. RISK MANAGEMENT

The Committee considered a report of the Director of Resources with an update on a range of issues covered by the overall heading of risk management. Risk management was a key area of Corporate Governance which required a pro-active approach.

The report covered the activities of the Risk Management Group, which had continued to meet quarterly, making appropriate recommendations for action. Bentley Jennison, the Internal Auditors were working with staff and managers with a view to further embedding risk management in the organisation. One of the issues arising from workshops undertaken to look at the authority's strategic risks was the need to provide more feedback to operational managers on the risks they have identified and whether their assessment of risk level is shared by senior management. The report set out the main operational risk areas and attention was drawn to two in particular which had received increased attention:-

- Data handling and security
- Managing demand on Housing and Housing Benefit services during the recession

With regard to fraud and corruption, the Committee noted that 120 investigations had been carried out in 2008/09 resulting in six successful prosecutions, six administrative penalties (locally agreed fines), and eleven formal cautions being issued.

The Committee noted in respect of business continuity that the Overall Business Continuity Plan had been adopted which would result in further work over the summer period to increase the resilience of the hosting arrangement for the Council's website and improving the power back-up for the Capswood site. Work had also commenced with service managers to revise service impact assessments.

During the year there were just four insurance claims which had arisen, three of which were dealt with through the Council's Insurers while the other had been met by the insurance fund in the sum of £2,903.

The Committee also received the latest Strategic Risks Register together with the Council's Risk Management Strategy, attached as appendices to the report for information.

**RESOLVED** that the information in the report be noted.

### 3. INTERNAL AUDIT PROGRESS REPORT

The Committee received the Internal Audit Progress Report from Bentley Jennison, which was introduced by Doug Freeman. The report was in the standard format and outlined the four reports finalised since the last meeting of the Committee, completing the audits for 2008/09.

The Committee noted the following position on the finalised reports:-

Car Park Income - substantial assurance provided. The Committee was pleased to note that the audit had concluded that high standards in the operation of the Car Park system had been maintained, aided by the implementation of new software. No recommendations had been issued.

Civil Contingencies Act (Business Continuity) - substantial assurance provided. There was one significant recommendation and two “merits attention” recommendations, all of which had been accepted by management.

Follow-Up - as part of the approved Internal Audit Periodic Plan for 2008/09. The Auditors had undertaken a review to follow up progress made on implementation of previous Internal Audit recommendations. The Auditors had concluded that the Council had demonstrated reasonable progress in implementing agreed actions, although there were a number of cases where the implementation was still ongoing and/or the due date for implementation had not been reached.

New Partnership Agreements - substantial assurance provided. There were four “merits attention” recommendations which had been accepted by management.

**RESOLVED** that the Internal Audit Progress Report be accepted.

### 4. INTERNAL AUDIT ANNUAL REPORT

The Committee considered the annual report of the Internal Audit Service from Bentley Jennison. The report began by setting out the role of the Internal Audit Service and defining the Internal Audit remit.

Internal Audit was required to provide the Council with an opinion on the adequacy and effectiveness of the organisation’s governance, risk management and control arrangements. The Auditors were satisfied that sufficient Internal Audit work had been undertaken to allow them to draw a reasonable conclusion. For the twelve months ended 31 March 2009 the Auditor’s opinion regarding the adequacy and effectiveness of the arrangements was as follows:-

- Governance - Green
- Risk Management - Amber
- Control - Amber

The report summarised the opinions given on the individual assignments carried out during the year, together with a level of assurance provided. It also contained an analysis of the recommendations arising from the reviews carried out.

The Committee noted that the “amber” assessments were due in part to the position on IT disaster recovery, where the audit had provided only limited assurance. Since that report had been made, the Committee noted the approval of the overall Business Continuity Plan, works due to provide more resilience in the Council’s server room and also off site, and the work on preparation of the IT road map on which it was hoped to report later in the year.

**RESOLVED** that the Internal Audit annual report be accepted and noted.

5. ANNUAL GOVERNANCE STATEMENT 2008/09

The Committee considered a report of the Management Team containing information/evidence to enable Members to:-

- Conduct the statutory review of the effectiveness of Internal Audit
- Conduct the statutory review of the effectiveness of the Authority's Governance Framework/System of Internal Control; and
- Comment on the draft Statutory Annual Governance Statement for 2008/09.

The report summarised the SBDC Corporate Governance Assurance Framework. For good corporate governance, there needed to be clear corporate objectives supported by four effective frameworks covering governance, performance management, risk management and policies and procedures.

Internal Audit was a key source of assurance where it was appropriate to review quality. The work of Internal Audit had been assessed against five key questions and, given the positive evaluation in response to these issues, the Committee concluded that the system of Internal Audit had been generally effective during 2008/09.

CIPFA guidance recommended following eight steps in order to carry out a review of governance and the report set out progress in relation to the eight steps.

The Committee accepted that for 2008/09, there were three main areas of concern in relation to gaps in control and governance assurance. These were:-

- Business continuity planning - the overall Business Continuity Plan was not adopted until May 2009, slightly after the 2008/09 year had ended. Further work was ongoing to ensure that there were robust service recovery plans for all areas.
- Partnership arrangements - the Authority had a Partnership Strategy and had started to undertake an annual review of each partnership. However, there was a need to continue to enhance the partnership review arrangements.
- Capacity - as a small authority SBDC was reliant on key staff (e.g. ICT staff) and although to some extent this is unavoidable, it represents a risk. The authority mitigates the risk by utilising joint working arrangements where appropriate and having documented policies and procedures.

Following answers to questions, the Committee reviewed the evidence provided to support the requirements of the eight steps. A number of detailed comments were made which could be added:-

- Step 1b - add to principle 2 a reference to job descriptions of senior officers
- Step 1b - add to principle 4 a reference to attendance of Members at courses
- Step 2 - add a reference to embedding risk management through inclusion in Officer induction process
- Step 2 - add an additional point regarding the work of and reporting by Internal Audit.

After consideration it was

**RESOLVED** that, subject to inclusion of the points referred to above in the evidence:-

- (1) There were no other significant gaps in control/assurance to add to the three areas identified which were in the process of being addressed;

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- (2) The wording of the Annual Governance Statement for 2008/09 be approved for signing off by the Chief Executive and the Leader.

### 6. STATEMENT OF ACCOUNTS/OUTTURN REPORT 2008/09

The Committee considered a report of the Resources Portfolio Holder/Director of Resources presenting the 2008/09 Statement of Accounts. Formal approval of the accounts in accordance with the Accounts and Audit Regulations 2003 was required by 30 June 2009, responsibility for which had been delegated to the Committee.

The Committee noted that the Cabinet had considered the same report and had taken particular note of the sections on outturn, including information on the revenue and capital expenditure incurred and income received during 2008/09 and the level of available reserves at the year end.

The Committee noted particularly the report commentary on the following sections of the accounts:-

- Income and Expenditure account
- Statement of total recognised gains and losses
- Balance Sheet
- Cashflow statement
- Notes to the financial statement
- Collection Fund
- Annual Governance Statement
- Auditors Report

The Committee also noted that as a result of lengthy consideration with the Charity Commission and External Audit, all transactions relating to the Farnham Park Charity Assets had been excluded from the accounts and relevant disclosure notes added. The Charitable Trust will produce completely separate accounts covering only its activities and these would be presented to the Audit Committee in September for approval.

**RESOLVED** that:

- (1) The 2008/09 accounts be approved;
- (2) The accounts be signed by the Chairman of the Committee to signify completion of the authority's approval process; and
- (3) The 2007/08 accounts be amended to also remove reference to the Farnham Park Charity assets and brought back to the next meeting of the Committee for approval as amended.

### 7. ANNUAL INSPECTION FEE 2009/10 ANNUAL AUDIT FEE 2009/10

Mick West presented the Audit Commission letters notifying the fees proposed for audit work for 2009/10.

This year the fees had been divided into two elements for the different areas of work carried out. The annual Inspection Fee covering the managing performance theme of organisational assessment would be £9,152. This had been set in accordance with the Audit Commission's work programme and scales of fees.

The separate fee for the annual Audit work totalled £93,500 (exclusive of VAT) compared to the fee of £91,732 for 2008/09. This fee covered the statutory audit of accounts, the value for money conclusion for the use of resources assessment, and was in line with overall inflation as envisaged by the Audit Commission's scale of fees.

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In answer to a question, it was reported that the audit of the Farnham Park Charity accounts need to be carried out separately. It was likely that an auditor would be appointed following consideration of a fee quoted by the Audit Commission along with other quotations received.

**RESOLVED** that the Audit Commission Annual Inspection Fee and Annual Audit Fee for 2009/10 be noted.

### **8. AUDIT COMMITTEE WORK PROGRAMME**

The Committee received a Work Programme for future meetings in 2009/10.

### **9. TERMINATION OF MEETING**

The meeting terminated at 7.05 p.m.