

## **QUARTERLY REPORT FROM THE AUDIT COMMITTEE**

Independent Chair: Mr M Bonner

Lead Members: Councillors J G Sunderland (Deputy Chair), P Connolly,  
Mrs J I Hully, T Knowles, R Pitt, G Scurrah, D Wilson

Lead Officer: Julie Crellin, Head of Finance & MIS

This report is the third quarterly report for 2009/10 (for the period ended 31st December) summarising the work of the Audit Committee during this period, in response to a previous request from Council.

There have been two meetings of the Audit Committee in the third quarter of the new Committee year. These were held on 4<sup>th</sup> November and 22<sup>nd</sup> December. The Audit Committee has met seven times since the beginning of the new Committee year. The meetings were also attended by a representative of the Audit Commission, the Council's External Auditor. Reports from the External Auditor were received at the meeting of the 22<sup>nd</sup> December.

Members will be aware that the findings of the Use of Resources Assessment and the Comprehensive Area Assessment were reflected in the Annual Audit Letter published by the Audit Commission in late December and circulated to all Members before 31<sup>st</sup> December.

The main subjects considered at the two Audit Committee meetings were the Impact of Implementing the International Financial Reporting Standards, Progress on the Corporate Governance Action Plan, the Internal Audit and Fraud teams quarterly progress monitoring reports, the revised Anti-Fraud and Corruption Strategy, the Audit Commission's reports on Use of Resources and the Comprehensive Area Assessment and the initial draft Business Case for a Shared Internal Audit Service.

These are set out in more detail below.

### **1. The Audit Commission's report on Use of Resources**

The report informed Members that the Use of Resources assessment for 2008/09 had been more demanding and more broadly based than in previous years. Notwithstanding, the Council had improved its score to a level 2 for Managing Finances. The score was also 2 for Governing the Business. The level 2 score meant that the Council was performing adequately. The Council

had made significant improvements but there was room for further improvement – particularly in the area of Managing its Human Resources, which had scored 1 (performs poorly).

The Audit Commission's recommendations would assist the Council in delivering these improvements. Members noted the action plan and instructed that a regular progress report on the action plan be brought to future meetings of the Audit Committee, together with progress on the Audit Commission's Annual Governance report action plan which links to the Use of Resources assessment.

## **2. Audit Commission's report on the Comprehensive Area Assessment**

Members received the Audit Commission's report on the Comprehensive Area Assessment – an assessment that looks at how well local public services are delivering better results for local people in Cumbria and, specifically, how this Council is managing performance and using its resources. The Audit Committee was advised that the overall score was again level 2 – performing adequately. The report recognised that a great deal of work had been undertaken by the Council over the last 18 months to secure improvements. The Choosing to Change programme would support the process of sustaining the current improvement trend.

## **3. Impact of implementing the International Financial Reporting Standards**

The Audit Committee is charged with the statutory responsibility of approving the Annual Statement of Accounts and with gaining assurance that appropriate arrangements are in place to produce these Accounts.

Members received a presentation, at the November meeting, on the fundamentals of the International Financial Reporting Standards, to give them an appreciation of the changes required to the production of the Statement of Accounts. The new Standards are designed to align public sector Accounts with those of the private sector and to allow ease of comparability. The Head of Finance and Management Information Systems reported on the implications of the introduction of the International Financial Reporting Standards and presented Members with an implementation plan, designed to ensure that the first requirement, to restate the 2008/09 Balance Sheet by late December, would be met.

At the December meeting, Members were updated with progress made and informed of outstanding actions. The first requirement, of restating the 2008/09 Balance Sheet, had been achieved. The final Code of Practice had not yet been issued by CIPFA, but the Council had undertaken the necessary work to prepare for the requirements, as set out in the draft revised Code. Members were advised that, based on the guidance available to date, there

would be no financial impact upon the Council, or upon Council Tax payers, of adopting the International Financial Reporting Standards.

Members agreed the restated Balance Sheet and noted the revised impact assessment and implementation plan for further actions awaiting the final CIPFA guidance.

#### **4. Progress on the Corporate Governance Action Plan**

The Audit Committee had considered the annual report on Corporate Governance at their May meeting. At their November meeting, Members were updated with progress on the action plan. Substantial progress had been made, with 10 actions being fully implemented and 5 being part implemented. 5 of the 6 Priority 1 recommendations had already been implemented at that time. The remaining Priority 1 recommendation related to implementation of the Job Evaluation Scheme, which was fully implemented by December. The outstanding action remaining had a target date of July 2010 but initial work had already been undertaken. Progress on all outstanding audit recommendations continues to be monitored quarterly.

#### **5. Initial Draft Business Case for a Shared Internal Audit Service**

This report, at the December meeting, followed an initial Part II briefing report considered by the Audit Committee in September. The shared service (officer) working group, involving the Heads of Finance and Audit Managers of Copeland, Allerdale, Carlisle and Cumbria County Councils has been working since June to develop the proposal, drawing on the RBS shared service and IT shared service experience, working to Office for Government Commerce guidance. The Portfolio Holder and the Chair of the Audit Committee had attended a meeting with the other partners to discuss the issues and contribute to the preparation of the business case for a Shared Internal Audit Service in October. The outcome of this meeting was reflected in the shared service business case presented to the Audit Committee. At the meeting, Members heard that the key drivers and proposed benefits were to:

- establish a more robust audit service (overcoming recruitment and retention problems), through creating a larger audit unit;
- to provide more efficient audits (through economies of scale); and
- to increase the range of audit services (through access to specialist skills e.g. computer audit).

Of secondary importance, was the opportunity to realise and release cash savings, and there were opportunities in the longer term for this.

The day before the December meeting, the Head of Finance and MIS had been informed that Allerdale Borough Council were unable to continue with the Shared Service proposals at this time as they felt the initial cashable savings were not significant to continue. Whilst this was disappointing, Members were advised that a Shared Service with the remaining partners was still viable.

Members approved the proposal, in principle, with the proviso that the impact of Allerdale's withdrawal should be formally evaluated and reflected in a revised report to the next meeting and that appropriate agreements are in place when the agreement is formalized to ensure all remaining partners contribute effectively to the shared service. Members were informed that in terms of an exit strategy, each Council would maintain an audit presence on site. Members noted the intention to work as a shared service fourth quarter of 2009/10 in preparing the delivery plan for the each Council's internal audit programme, for 2010/11 and the HR and legal contractual arrangements would follow this. A revised business case will be presented to the Audit Committee on 3<sup>rd</sup> February, before it is considered by the Executive on 10<sup>th</sup> February.

## **6. Audit Services Quarterly Monitoring Report**

The Audit Committee is charged with monitoring progress against the audit plan, with considering the main internal audit findings and with monitoring the implementation of key audit recommendations. Systems, testing 2009/10 transactions, were found to be good or satisfactory and progress was being made in implementing outstanding audit recommendations. 70% of planned work had been completed, compared to a target of 90%. The level of audit coverage was reasonable, given the level of responsive work undertaken. Members considered the audits which had been postponed and were advised that the risk in all cases was low, as some work on these systems had been recently undertaken or the proposed new systems had not yet gone live.

## **7. Fraud Team's Quarterly Monitoring Report**

The Audit Committee receives quarterly monitoring reports on anti-fraud activity. Targets were exceeded for both the number of investigations undertaken and the number of sanctions applied, where there was evidence of fraud. Sanctions include Administrative Penalties (fines), formal Cautions and Prosecutions. As a result of investigations in the quarter, Benefit overpayments of almost £31,000 had been identified and would be subsequently recovered. As at 30<sup>th</sup> September, the Fraud team had a caseload of 85 live investigations. In addition to these 85 investigations, the Fraud team had 97 live investigations arising from the data matching undertaken as part of the National Fraud Initiative. Work continues to clear all the cases identified and to ensure action is taken where there is evidence of fraud.

## **8. Revised Anti-Fraud and Corruption Strategy**

Members considered the revised Anti-Fraud and Corruption Strategy prior to its approval by the Executive. It represents good practice to periodically review and revise if necessary. Members noted that the Council had clear guidelines in place for the detection, prevention and reporting of fraud. The Council would follow up any allegations of fraud or corruption and ensure that appropriate action would be taken. Executive, at its December meeting approved the revised strategy. Summary guidance is to be prepared and issued in the New Year to raise awareness amongst all Members and employees.