

## **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: Keith Parker, Acting Corporate Director (Quality of Life)

This report is the final quarterly report for 2009/10 (for the Committee year ended April 2010) summarising the work of the Audit Committee during this period, in response to a previous request from Council.

There have been three meetings of the Audit Committee in the final quarter of the Committee year. These were held on 3rd February, 17<sup>th</sup> March and 21<sup>st</sup> April. The Audit Committee has met ten times since the beginning of the 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 throughout the Committee year, at the Audit Committee meetings of the 23<sup>rd</sup> September, 22nd December, 3<sup>rd</sup> February and 17<sup>th</sup> March.

The main subjects considered at the three Audit Committee meetings in the final quarter were the Audit Commission Annual Audit Letter, Progress on Implementation of the Annual Governance and Use of Resources Action Plans in 2009/10, Progress on the Business Case for a Shared Internal Audit Service, an Audit Commission report on the Certification of Claims and Returns, a national Audit Commission report on Protecting the Public Purse, the CIPFA Statement on the Role of the Chief Finance Officer, Updates on the Closure of Accounts for 2009/10, Quarterly Monitoring Reports on the work of the Fraud Team and of the Internal Audit Service and the proposed Internal Audit Plan for 2010/11.

These are set out in more detail below.

### **1. Audit Commission Annual Audit Letter / Implementation of Action Plans**

The Audit Committee is charged with receiving reports from the external auditor and in ensuring that there is a satisfactory management response to addressing any issues raised. The Annual Audit Letter indicated improvements in many areas of the Council's activities, reflected in improved scores in relation to the Use of Resources and in the overall Organisational Assessment. However, there were areas for further development and the Audit Commission's recommendations would assist the Council in ensuring that proper arrangements were in place for the conduct of its business and that it could demonstrate value for money in the use of public money.

Management had addressed these issues in the Annual Governance Action Plan and the Use of Resources Action Plan, both of which were agreed respectively in September and December 2009. The Audit Committee noted, at the meeting on 3<sup>rd</sup> February, that progress had already been made on the high priority actions. Progress continued to be monitored as part of the Internal Audit Quarterly Monitoring Reports and would be monitored as part of the annual Corporate Governance audit to be reported in the first quarter of 2010/11. The Choosing to Change programme would support the process of sustaining the current improvement trend.

## **2. Progress on the Business Case for a Shared Internal Audit Service**

This report, at the February meeting, presented a revised business case following the withdrawal of Allerdale Borough Council. Audit Committee Members noted the governance arrangements being developed for the shared service, which would include regular reporting on the delivery of the audit plan, and recommended the business case for approval to the Executive. At the March meeting, Members considered the proposed timetable for implementation. It was noted that the Shared Service would not be established until June 2010, when the legal arrangement should be in place.

It was reported, to the 21st April meeting, that Executive had approved the business case at their meeting on 23<sup>rd</sup> March and agreed that formal consultation with employees and the unions should begin in April and preparations should be made to transfer internal audit staff to the host organization, Cumbria County Council.

The Audit Committee will receive progress reports on the implementation phase at future meetings.

## **3. Audit Commission report on the Certification of Claims and Returns**

Funding from government grant-paying departments is an important income stream for the Council. In 2008/09, this amounted to £21.7 million. The Council needs to manage claiming this income carefully and to prove to the external auditors that it has met the conditions attached to these grants. This Audit Commission report summarised the external auditors' finding from certification of the 2008/09 claims.

The Audit Committee noted that the key areas for improvement related to the National Non-Domestic Rates claim [business rates] and Single Programme claims, such as the Market Towns Initiative. Management had agreed an action plan for improvement and progress is monitored, as part of the Internal Audit Quarterly Monitoring Reports. The Head of Finance & Management Information Systems also reported that problems with the National Non-Domestic Rates claim were due to the closing down of the old computer

system and that the Head of Customer Services was confident that the issues would be resolved with the new software system. In regard to the Single Programme claims, quality assurance checks were being developed following the appointment of a dedicated Capital Accountant.

#### **4. Audit Commission report on Protecting the Public Purse**

Fraud is bad news for the economy, Councils and taxpayers because:-

- the honest majority pay for it; and
- it can adversely affect the provision of public services.

The Audit Committee is charged with ensuring appropriate arrangements are put in place to safeguard the Council against fraud.

This national report, published by the Audit Commission, considered the key fraud risks facing Councils. It also included a checklist of good practice to enable Councils to obtain assurance that their organization has governance and counter-fraud arrangements that are fit for purpose and working as intended.

The Audit Committee considered the checklist and noted the arrangements in place at this Council to meet the best practice requirements. 14 of the 18 relevant arrangements were fully in place and the remaining 4 were mostly in place. There were 4 actions for improvement. Two of these have already been completed –

- an end of year report and a plan for the coming year, detailing Counter-Fraud activities; and
- Refresher presentations on the Anti-Fraud and Corruption Strategy.

Two actions are still within target date – reviewing compliance with the latest CIPFA Fraud Manual and reviewing procurement arrangements to see if good practice guidance from the Office of Fair Trading has been adopted.

#### **5. CIPFA Statement on the Role of the Chief Finance Officer**

The Audit Committee's role includes gaining assurance on the Council's governance arrangements. A key element of governance is the role of the Chief Financial Officer. The CIPFA Statement sets out the 5 principles that define the core activities and behaviours that constitute the role of the Chief Finance Officer in public service organisations.

The Statement takes effect from 1<sup>st</sup> April 2010 (for the financial year 2010/11). However, the Audit Committee considered the report to comply with the recommendation of the Statement that public sector organisations should

report publicly on the arrangements and to confirm that this Council has conformed with the 5 principles set out in the Statement during 2009/10.

The report invited member discussion and comment on the degree of compliance.

It was concluded that the CIPFA principles had been complied with in 2009/10 but that these needed to be considered in the organisational restructure planned for 2010/11.

## **6. Updates on the Closure of Accounts for 2009/10**

The Audit Committee is charged with receiving the Annual Statement of Accounts and with gaining assurance that appropriate arrangements are in place to produce these Accounts. Following the previous presentations on the implications of introducing the International Financial Reporting Standards, the Head of Finance and Management Information Systems continued to provide reports updating the Committee on the arrangements for closure of the 2009/10 Accounts.

The Closure of Accounts Plan had been agreed and key deadlines were outlined to the Committee on 17<sup>th</sup> March, together with details of training provided for Accountancy staff and for managers who would need to supply information for compilation of the accounts and the evidence for these transactions. Members were reassured that time had been allocated for reviewing progress and for “reality checking” of the information provided. Processes had been improved throughout 2009/10 to ensure better quality data captured in the underlying accounting records.

A schedule of meetings had also been agreed with the external auditors, in order for them to carry out preliminary checks of systems. The full audit of the Accounts would start at the end of June.

The resignation of the Head of Finance and Management Information Systems had been considered, in terms of potential impacts on the closure of accounts and additional (temporary) qualified Accountant support was in place and would continue until 30<sup>th</sup> June, to support the Accountancy Services Manager. It had also been agreed with the County Council that the then Head of Finance and Management Information Systems would continue to provide on-going support during the closure period, following her departure from this Council. There is also professional support available through the Cumbria Finance Officers Group. Although it would be challenging, the improvements put in place meant that the closure process was achievable.

At their meeting on 21<sup>st</sup> April, the Audit Committee received a further update on progress and agreed the Accounting Policies presented for review.

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

The Audit Committee receives quarterly monitoring reports on anti-fraud activity. The Fraud Team have again performed exceptionally well in 2009/10 and have exceeded their targets, contributing to the reduction of fraud in the Benefits system. Targets were exceeded for both the number of investigations undertaken and the number of sanctions applied in the year, where there was evidence of fraud. In 2009/10, 319 investigations were undertaken and closed, compared to the target of 284 investigations. 41 sanctions were applied, compared to the target of 28. This included 10 successful prosecutions. Sanctions also include Administrative Penalties (fines) and formal Cautions. As a result of investigations in 2009/10, Benefit overpayments of £140,495 had been identified and would be subsequently recovered.

Work was also undertaken as part of the National Fraud Initiative, where data held in the Council's systems is matched with those of other external organizations, such as the Department of Work and Pensions. Cases for investigation have largely related to Benefits, Concessionary Travel and Single Person Discounts on Council Tax. Work continues to clear all the cases identified and to ensure action is taken where there is evidence of fraud.

## **8. Audit Services Quarterly Monitoring Reports**

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 largely found to be good or satisfactory and good progress was being made in implementing outstanding audit recommendations. 83% of the Audit Plan had been completed, compared to a target of 90%. The level of audit coverage was reasonable, given the level of responsive work undertaken and the need to cover a vacancy with a temporary employee. 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 area for audit had not yet been fully implemented by the relevant department. Work on outstanding audits would continue in the first quarter of 2010/11.

## **9. Internal Audit Plan 2010/11**

The Audit Committee is responsible for approving the Annual Audit Plan. Although 2010/11 is expected to see the establishment of a shared internal audit service with Cumbria County Council and Carlisle City Council, each Council has prepared a separate audit plan, approved by its own Audit Committee. This Audit Plan focuses on the provision of internal audit for Copeland Borough Council. Based on the staffing resources available, the

Audit Plan is expected to cover 72% of the auditable risk areas, by risk score, and this is in keeping with acceptable practice. All the main financial systems are included in the Audit Plan and this complies with Audit Commission expectations. Other areas will be covered on a cyclical basis.

Whilst management is focused on managing the key strategic and operational risks to achieving objectives, Internal Audit seeks to give assurance to Members on other risks arising over:-

- the reliability and integrity of operational and financial information;
- the safe-keeping of financial and non-financial assets;
- projects, systems development and change; and
- compliance with relevant legislation.

Proactive counter-fraud work is included in the Plan. All systems work will include a review of controls relating to the prevention and detection of fraud and corruption. Investigations will be undertaken as the need arises, in line with the revised Anti-Fraud and Corruption Strategy, approved by the Executive in November 2009.

The Audit Plan will provide one means for the Audit Committee to measure the delivery of the Internal Audit Service through the Shared Service.

2010/11 will be a challenging year for the Council, as it revises its Corporate Plan to reflect (expected) reduced government grant support. The Audit Plan will be reviewed in the light of any changes to service delivery and the organizational structure of the Council.