

## **AUDIT AND RISK COMMITTEE**

**Tuesday 24 July 2012**

**Present:-** Councillor P Waring – in the Chair

Councillors Jones, Mrs Peers and Turner

Also in attendance: David Jenkins – District Auditor

### **1. APOLOGIES**

Apologies were received from Councillors Miss Baker and Loades.

### **2. DECLARATIONS OF INTEREST**

There were none.

### **3. MINUTES OF PREVIOUS MEETING**

**Resolved:-** That the minutes of the meeting of this Committee held on 16 April 2012 be approved as a correct record.

### **4. HEALTH AND SAFETY ANNUAL REPORT**

Consideration was given to a report outlining issues and trends regarding health and safety at the Council. It also gave an outline of changing legislation and HSE Guidance.

The Committee was reminded of the requirement for the Council to comply with all relevant Health and Safety legislation and that the failure to adopt best practice health and safety standards could result in wastage of Council resources and the provision of an inefficient service.

It was indicated that the majority of health and safety training courses for staff were carried out in-house by the Corporate Health and Safety Officer with the cost being met from the Corporate Training Budget.

Members agreed that staff had an important part to play in ensuring that the Council complied with the relevant legislation and should be reminded of this at every opportunity.

**Resolved:-** That the Health and Safety Annual Report for the previous April 2011 to March 2012 be noted.

### **5. CORPORATE RISK MANAGEMENT**

A report was submitted seeking approval of the Council's updated Risk Management Policy and Strategy. The Committee had previously resolved in 2011 to allow for changes in the way that the Council recognised and rated risks and it was indicated that the review was in line with recommendations made by the Association of Local Authority Risk Management and the Council's governance arrangements.

**Resolved:-** (a) That the updated Risk Management Policy Statement and Strategy as submitted be approved together with the minor changes made in such documents.

(b) That the officers submit a report to a subsequent meeting outlining progress made on embedding risk management into the Council's procedures.

**6. AUDIT AND RISK COMMITTEE - REVISED TERMS OF REFERENCE**

The Committee considered a report recommending adoption of revised terms of reference that were considered to strengthen governance of the Council's committees.

**Resolved:-** That the revised Terms of Reference for the Audit and Risk Committee be approved.

**7. AUDIT AND RISK COMMITTEE - WORK PLAN 2012/13**

The Committee was asked to approve a Work Plan for the 2012/13 municipal year as set out in the appendix to the officer's report. The Work Plan had been prepared to be flexible in order that previously unforeseen issues could be slotted in if necessary.

Concern was expressed that the date of the meeting of the committee scheduled for 17 December may need to be brought forward and it was agreed that the officers should investigate this.

**Resolved:-** (a) That the Committee Work Plan for 2012/13 be approved taking into account that it may be necessary to bring forward the date of the December meeting.

(b) That any change of date to the December meeting be agreed with the chairman of this committee and notified to Members.

**8. QUARTERLY REPORT - ADOPTION OF INTERNAL AUDIT FUNDAMENTAL RECOMMENDATIONS AND SUMMARY OF ASSURANCE 1 JANUARY TO 31 MARCH 2012**

Consideration was given to a report on outstanding high risk fundamental recommendations and providing Members with assurance opinion on internal contracts over Council Services.

High risk recommendations were explained as those where action was considered imperative to ensure that the authority was not exposed to high risks with such action being needed within 1 month of the recommendation being agreed with the Managers.

It was indicated that in the fourth quarter there were seven high risk recommendations due for review, five of which had previously had one target date change and, as such, been reported separately to the Chair and Vice Chair of the Committee. Two recommendations were at their first review date with no further action being required at this time.

A copy of the Assurance Summary for March 2012 was appended to the officer's report.

**Resolved:-** That the actions taken by the officers be noted and that the levels of assurance be noted.

**9. INTERNAL AUDIT SECTION ANNUAL REPORT 2011/12**

Consideration was given to the Annual Report of the Internal Audit Section for the 2011/12 financial year. The report provided information about the programme of work undertaken by Internal Audit during the above year, which had been extracted from the Internal Audit time monitoring system.

The Audit Plan for the year had been approved on 31 January 2011 and accounted for 491 audit days.

A good level of productivity had been maintained at 83% against a target of 74% and completed 92% of the Audit Plan.

The percentage of Internal Audit recommendations implemented by the officers had increased to 88% against a target of 95%.

The work of Internal Audit showed the Council to have an adequate, effective and reliable framework of internal control which provided reasonable assurance regarding the effective and efficient achievement of the Council's objectives.

**Resolved:-** That the Internal Audit Section Annual Report 2011/12 be received.

**10. REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT**

The Committee considered a report that summarised assessment carried out by the Audit Manager on the effectiveness of the system of Internal Audit for 2011/12.

The review had involved updating the previous years self assessment (2010/11) and the formulation of a revised action plan for work to be completed during the forthcoming financial year.

The results of the self assessment review, a summary of the evidence and details of progress made against the action plan for 2011/12 were appended to the officer's report.

The review showed that the system of internal audit was operating effectively and could be relied on when considering the Annual Governance Statement for 2011/12.

It was indicated that the CIPFA Code of Practice for Internal Audit was currently in the process of being reviewed and updated by that organisation and that the new guidance, which had also been aligned with the Institute of Internal Auditors Code of Practice, would be issued for consultation during July 2012 with a view to the document being published in December 2012. Requirement to comply with the new code would be in place from April 2013.

**Resolved:-** That the report outlining the findings from the review of the effectiveness of the system of Internal Audit for 2011/12 and the action plan be agreed.

**11. REVIEW OF THE EFFECTIVENESS OF THE AUDIT COMMITTEE**

Consideration was given to a report summarising the results of an assessment carried out on the effectiveness of the Audit Committee during 2011/12.

The self assessment showed the Audit Committee to be effective and could be relied upon when considering the Annual Governance Statement for 2011/12.

**Resolved:-** That the report outlining the findings from the review of the effectiveness of the Audit Committee for 2011/12 be noted.

**12. CHANGES TO EXTERNAL AUDIT ARRANGEMENTS**

Consideration was given to a report advising on changes to external audit arrangements that were expected to commence on 1 September 2012.

It was explained that subject to the enactment of the new legislation audit of the Council would transfer from the Audit Commission to a private sector auditor, Grant Thornton (UK) LLP, the successful bidder for the West Midlands area, including the Borough Council.

The Audit Commission would remain in place until April 2015 to oversee the contracts and other statutory functions but would be significantly smaller after the outsourcing, most of its audit staff having been transferred to their new employers by October 2012. A new body, as yet unspecified would take over from April 2015 to manage the final two years of the outsourced local audit contracts.

The audit of the 2011/12 accounts, which was currently taking place, would be carried out under the present arrangements by the Audit Commission practice. This would include preparing and presenting the Annual Governance Statement attendance at the Audit and Risk Committee when it, and the Statement of Accounts, were considered and certification of the 2011/12 accounts. The intention was that the work in relation to the 2011/12 accounts would all be completed by the Audit Commission practice, enabling a 'clean' handover to the new firm, would then be responsible for 2012/13 audit work. Clearly, however, if any issues arose in relation to 2012/13 in the period before 1 September, these would have to be dealt with under the present arrangements since Grant Thornton would complete the certification of the housing and Council Tax benefit subsidy claim relating to 2011/12 because this had a submission deadline of 30 November 2012.

Audit Commission staff currently employed by the Commission would transfer to the new audit firms on 31 October 2012. The current District Auditors within the area had been appointed as 'Engagement Leads' for Grant Thornton's Midlands Audit Practice. It was likely that, in the beginning at least, the Council would be dealing with largely the same audit teams as now exist, although this may change over time. This should assist with continuity, hopefully avoiding the need for a completely new set of auditors to have to become familiar with Newcastle's financial situation, processes and accounting system, which would take up some of your officer's time as well. It should also be noted that Grant Thornton have substantial experience of public authority auditing, including local authorities, through their absorption in 2008, of accountancy firm Robson Rhodes, who specialised in this area of work. The general approach to the audit process is as yet an unknown quantity but the above factors perhaps indicate that there may not be a radical change from present practices. Other local authorities, including in Staffordshire, have reported positively

on their experience of private sector auditors. Hopefully, Grant Thornton will make contact with your finance officers before they become officially responsible in order to discuss their approach to the audit.

Having one firm responsible for the audits of all authorities in a region may also assist in achieving a consistent approach across those bodies. Overall, the principle of the change did not, therefore, give rise to any particular concerns.

The Midlands Audit Practice was based in Birmingham. It was not clear whether there would be a more locally based office but the firm has said that they intend to have an on-site presence, which presumably means audit staff visiting the Council and using the dedicated external audit room on an ad hoc basis in order to keep in touch with audit issues affecting Newcastle and with relevant Council officers. They have said that, as now, they will attend all of the meetings of the Audit and Risk Committee and will liaise with Internal Audit, with whom they would expect to work closely.

The Audit Commission will continue to update its VFM comparator tool and make it available on its website. This is a useful means of comparing the cost of services over a range of local authorities (which can be selected by the user) and it is pleasing that this is being maintained. There will be no more research studies carried out and published by the Commission. However, the Local Audit Bill gives powers to the National Audit Office (NAO) to undertake studies of thematic value for money issues related to local government and it remains to be seen whether the private sector firms will carry out similar work. The NAO will also be responsible for setting the code of audit practice for local government.

The National Fraud Initiative was to be retained, although Ministers had yet to decide which body its work will transfer to.

These arrangements were an interim measure. The new contracts would last for five years, although there may be provisions for the successor body to the Audit Commission to extend them for a further period, particularly to spread bids over a year or two to give better opportunity for a wide range of firms to bid. The exact process will not be known until the Bill relating to the future arrangements for local public audit has been enacted. It is intended that once the new contracts expire, local authorities would appoint their auditors themselves, following a procurement process, including an independent audit panel to advise on the appointment.

**Resolved:-** That the information be noted.

**13. DRAFT STATEMENT OF ACCOUNTS 2011/12**

The Committee received a report regarding the submission of the draft Statement of Accounts 2011/12 for scrutiny and approval by the Audit and Risk Committee and the approval of the financing of capital expenditure incurred during 2011/12.

The report highlighted the key issues that were contained in the accounts including a commentary on the General Fund outturn, the Collection Fund and the Balance Sheet and noted the position regarding the Council's reserves.

The Statement of Accounts was still in draft form and subject to external audit. Upon completion of the audit any comments would be incorporated and the statement reinstated to the committee for approval.

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The budget for the General Fund for 2011/12, originally set in February 2011, amounted to a net total of £15,428,700. The eventual outturn for the year was an adverse variance against this figure of £162,808, worse than the original estimate. This sum had been transferred from the Budget Support Fund to cover the adverse variance.

Members were also advised that of the £2.5 million plus £9192 interest occurred from the money invested with the Heritable Bank some £1,702,904 had been repaid to the Council up to 31 March 2012 plus a further payment of £95,809 in April and £71,500 in July 2012.

**Resolved:-** (a) That the contents of the draft Statement of Accounts for 2011/12 be noted.

(b) That the financing of capital expenditure incurred during 2011/12, as set out in Appendix B to the officer's report, be approved.

**P WARING**  
**Chair**