

**AUDIT AND GOVERNANCE COMMITTEE**

24<sup>th</sup> June 2013

**Present** – The Chairman (Councillor Place) and Councillors Jaquin, Moorby, Staveley and Whaites.

**Officers** – Chief Executive, Interim Finance Manager, Assets and Projects Manager and Committee Officer. The Internal Audit Manager, Martin Helm was also in attendance. Cameron Waddell, Director, and David Hurworth, Audit Team Leader, with the Council's external auditors Mazars were also in attendance for Minute AC.171 below.

Apologies for absence were received from Councillors Barrett, Beck, Harbron and Turner.

Start: 6.45pm

Finish: 7.44pm

The minutes of the Committee's meeting held on 18<sup>th</sup> March 2013 were confirmed and signed by the Chairman.

**EXCLUSION OF THE PUBLIC**

**Resolved** – That, in accordance with the Council's Access to Information Procedure Rules, the public is excluded from the meeting during consideration of the appendix to the report presented at Minute AC.174 (Risk Management : Skipton Developments) on the grounds that it is not in the public interest to disclose the Category 3 (relates to the financial and business affairs of any particular person) exempt information therein.

**Minutes for Report**

AC.171

**EXTERNAL AUDIT - UPDATE**

Further to Minute AC.166/12-13, the Director from Mazars LLP, Cameron Waddell, submitted a report highlighting progress in delivering Mazars LLP's responsibilities as the Council's external auditors. The paper also drew attention to emerging national issues and developments which could be of interest to Members of this Committee. Work carried out to date in connection with the 2012/13 audit had not identified any significant weaknesses in the Council's material financial systems.

In presenting his report Mr Waddell verbally informed Members of an update to the Audit Strategy Memorandum that had been presented to this Committee in March 2013. This related to revenue and expenditure recognition. Mr Waddell informed the Committee that auditing standards included a rebuttable presumption that there was a significant risk in relation to the timing of income recognition, and in relation to judgements made by management as to when income had been earned. For public sector organisations the same risk also applied to the recognition of expenditure and contractual obligations. Given ongoing pressure on all councils to manage income and expenditure to deliver forecast performance in a challenging economic environment there was clearly an increasing risk of fraudulent financial reporting leading to material misstatement. On consideration of this ongoing issue, and the expected comprehensive spending review announcement on 26<sup>th</sup> June, 2013, Mr Waddell felt that Mazars LLP was now unable to rebut the presumption. He was clear that this did not imply that Mazars LLP suspected actual or intended manipulation, but they approached the audit with due professional scepticism. Mazars LLP would therefore evaluate the design and implementation of any controls which mitigated the risk. In addition they would undertake a range of substantive procedures including:

- testing of income and expenditure including tests to ensure transactions are recognised in the correct year;
- testing year end receivables, payables, accruals and provisions;
- review of management oversight of material accounting estimates and any changes to accounting policies;
- review of judgements about whether the criteria for recognising provisions are satisfied; and
- testing of journals.

Mr Waddell informed the Committee that there would be no impact on the audit fee. Fieldwork on the audit would commence on 1<sup>st</sup> July 2013.

**Resolved** – That Mazars LLP's report is received.

AC.172

### **INTERNAL AUDIT**

#### (a) Recommendations : Monitoring

Further to Minute AC.168(a)/12-13, the Corporate Head of Financial Management submitted a report updating the Committee on the position reached with implementation of internal audit recommendations.

As requested at Minute AC.168, the ICT Shared Services Manager attended the meeting to explain the reasons behind the delays in implementation of recommendations in respect of audits concerning Information Services and, on behalf of the Value for Money and Improvement Manager, the issues associated with implementation of the Council's financial, accounting and reporting software system which had given rise to a number of related audit recommendations being outstanding.

The ICT Shared Services Manager explained that the problem which had delayed implementation of the accounting software system had been resolved and that implementation of outstanding modules within that system would now be able to proceed. All Information Services policies and procedures had been updated and a significant amount of work had been undertaken in the last two years to upgrade and improve the Council's systems. The service was now in a strong position to move forward, however completion of a number of the audit recommendations was linked to publication of policies and procedures on the Council's intranet, unfortunately problems with the intranet was preventing that from taking place. A project to upgrade the intranet would be completed by December 2013, at which point implementation of the related audit recommendations would be completed. The Chief Executive pointed out that some Information Services projects had been held back pending the move from the Granville Street Offices.

In referring to the Corporate Head's report the Interim Finance Manager stated that in the period since the Committee's last meeting 33% of outstanding recommendations had been implemented.

**Resolved** – (1) That outstanding audit recommendations with an agreed original target completion date prior to April 2013 are noted.

(2) That audit recommendations completed in the final quarter of 2012-13 are noted, and that the action taken in completing those recommendations is approved.

(3) That the ICT Shared Services Manager is thanked for his attendance at this meeting, and asked to include within the next Members' Information Bulletin an article advising Members of the proposals for upgrading the intranet including Member access.

(b) Internal Audit Reports

The Internal Auditor presented copies of the audit reports listed below, which had been commissioned as part of the 2012/13 Internal Audit Plan.

- Housing Benefits : Level of Assurance : Significant.
- Payroll System (two reports)
  - Human Resources : Level of Assurance : Partial.
  - Payroll : Level of Assurance : Good.
- Council Tax and Non Domestic Rates : Level of Assurance : Good.
- Sundry Debtors : Level of Assurance : Good.

It was pointed out that implementation of recommendations within the reports now presented would be monitored through the monitoring arrangements approved at Minute AC.138(a)/12-13.

**Resolved** – That the Internal Auditor’s reports are accepted.

(c) Internal Audit Annual Report 2012/13

The Internal Audit Manager submitted the Annual Internal Audit Report highlighting key findings and conclusions from the work undertaken by the Internal Audit Service in the 2012/13 financial year.

The Annual Report summarised the work undertaken by the internal auditors over the course of the year, and the overall opinion drawn from that work was that for the systems and areas reviewed, significant progress was being made. In most of the areas reviewed, fundamentally sound systems of internal control were in place, and in others the Authority was continuing to move in a positive direction.

The fee paid in 2012-13 to Harrogate Borough Council for hosting the shared internal audit service had amounted to approximately £66,000. The approved internal audit plan for the year had provided for 250 days, but as at the end of March 2013, total days had amounted to 278. The increase in number of days had been attributable to completion of audits brought forward from 2011-12, completion of work on a review of fixed assets started in 2011-12, and a need for a greater number of days than originally planned in carrying out the audit at Craven Pool.

An appendix circulated with the Audit Manager’s report presented details of the position in respect of each audit within the 2012-13 plan.

**Resolved** – That the Annual Internal Audit Report for the 2012/13 financial year is noted.

(d) Draft Internal Audit Plan 2013/14

Further to Minute AC.168(c)/12-13, the Internal Audit Manager submitted a report presenting the proposed Internal Audit Plan for the current financial year. The proposed Plan made provision for 250 audit days (at a cost of £225 per day inclusive of expenses), including 21 contingency days to allow for any additional work which may be necessary either on the planned programme as identified, or additional audits during the year.

Members were asked to confirm whether they wished to include an audit of the efficiency and effectiveness of the Council’s counter fraud initiatives in the Plan as indicated at Minute AC.168(c), and it was

**Resolved** – That the proposed Internal Audit Plan for 2013/14 is approved, subject to inclusion of an audit of the efficiency and effectiveness of the Council’s counter fraud initiatives and a corresponding reduction in the number of contingency days to eleven.

(e) Internal Audit Charter : Review

The Internal Audit Manager submitted a report seeking approval of an internal audit charter for the shared internal audit service.

It was pointed out that under the new Public Sector Internal Audit Standards effective from 1<sup>st</sup> April 2013 the purpose, authority and responsibility of internal audit had to be defined in a charter agreed by senior management and, for the purposes of the shared arrangement, the audit committees of both Harrogate Borough Council and this Council. Harrogate's Audit Committee had recently endorsed the proposed charter.

**Resolved** – That the proposed Internal Audit Charter for the shared audit service for this Council and Harrogate Borough Council is approved.

AC.173

**STATEMENT OF ACCOUNTS 2012-13**

The Interim Finance Manager reported that work on the Council's Statement of Accounts for 2012/13 was nearing completion and, as deputy Section 151 Officer, she would be certifying and publishing the accounts by 30<sup>th</sup> June 2013, prior to the external auditors commencing their audit in July 2013. The audited accounts, together with the Annual Governance Statement, would be presented for approval to this Committee on 24<sup>th</sup> September 2013.

\$AC.174

**RISK MANAGEMENT – SKIPTON DEVELOPMENTS**

Further to Minute AC.97/10-11, the Assets and Project Manager submitted a report updating the Committee on changes to the Council's stand alone risk register in respect of the Skipton Developments Project.

The Council's development agreement with Lovell Maple Grove included provision for the submission of an annual financial viability assessment in respect of the proposed development at Horse Close, Skipton. Copies of the most recent assessment dated 24<sup>th</sup> May 2013 had been circulated with the risk register.

**Resolved** – That the updated Risk Register for the Skipton Developments Project is accepted.

AC.175

**MEETINGS – START TIME**

**Resolved** – That for the remainder of the current municipal year, meetings of this Committee continue to start at 6.30pm.

**Minutes for Decision**

- None -

Chairman.