

AUDIT COMMITTEE

28 April 2011 at 7.00 pm

MEMBERS: Councillor Tim Crowley (Chair), and Councillors Richard Clifton, Alan Salter and Roger Thistle

ABSENT: Councillor John Leach

ALSO ATTENDING Lindsey Mallors and Patsy Sanwo from the Audit Commission

375. APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTES

Apologies were received from Councillors John Leach and Sunita Gordon.

It was noted that whilst discussions had taken place regarding a vice chair for this committee that it had not been officially agreed. Therefore the committee proposed and agreed Councillor Alan Salter as Vice Chair.

376. MINUTES

The Minutes of the Meeting held on 16 December 2010 were approved as a correct record subject to the following amendments:

That under Minutes 1005 and 1006 'District Auditor' be replaced with '*Engagement Lead*'.
That under Minute 1006 the 'District Audit Service' should read '*District Audit Commission*'.

377. EXTERNAL AUDIT PAPERS

Patsy Sanwo was welcomed to her first meeting of the Audit Committee.

Lindsey Mallors and Patsy Sanwo from the Audit Commission presented (a) the Progress Report – April 2011, (b) the Audit Opinion Plan 2010/11, (c) the Pension Fund Audit Opinion Plan 2010/11, (d) the Certification of Claims and Returns – Annual Report 2009/10; and (e) the Annual Audit Fee Letter 2011/12

(a) Progress Report – April 2011

Lindsey Mallors reported that since the December 2010 meeting of the Audit Committee, her team has completed work on the certification of the 2009/10 grant claims and has begun work on the pre-statements audit of the 2010/11 financial statements. They had also completed work to document the main financial information systems and identify the controls on which they will seek to place reliance. Further to the changes to the audit approach arising from the new International Standards on Auditing from the Auditing Practices Board's "Clarity Project" the next step would be to carry out a review of the Councils re-statement of the opening balances under International Financial Reporting Standards.

There were no risks to report.

Resolved: (i) To note the progress report.

(b) Audit Opinion Plan 2010/11

Lindsey Mallors reported that the fee for the audit for 2010/11 would be £228,000 (excluding VAT). The one specific risk set out in the Plan was explained to the Committee. She had no concerns at the present time.

Resolved: To note the Audit Opinion Plan 2009/10.

(c) Pension Fund Audit Opinion 2010/11

Lindsey Mallors reported that the fee for the audit would be £35,000. The four risks, highlighted in the Plan, and the audit response to each were explained.

It was noted that the Pension Fund Group would be a full committee and that the level of fees should be taken up by this committee.

Resolved: To note the Pension Fund Audit Opinion 2009/10.

(d) Certification of Claims and Returns – Annual Report 2009/10

Patsy Sanwo explained to the Committee the key features of the current arrangements for claims and returns for grants or subsidies paid by the government departments and public bodies to the Council.

The audit team had certified nine claims with a total value of £160 million with a full review on eight claims and one limited review. Six claims were certified without amendments or qualifications and the remaining three claims were amended for minor errors. It was explained that if a claim was certified this didn't necessarily mean this was a big problem but if sums were out by just £1 they had to be qualified. There were two recommendations made within the report.

Phil Butlin responded that it was not satisfactory that deadlines were missed, sometimes due to unforeseen difficulties, but that officers were working to improve on this. Gerald Almeroth stated that this year's deadline was missed as he was not happy that all the detail had been got to enable sign off. Part of the problem was trying to get information from external providers.

Resolved: (i) To note the report and that officers have accepted the two recommendations in the Action Plan.

(ii) To thank Patsy Sanwo for the report.

(e) Annual Audit Fee Letter 2011/12

It was reported that the scale fee for Sutton Council was £205,200, a reduction of 10 per cent compared to the 2010/11 fee. Variations from the scale fee will only occur where assessments of audit risk and complexity are significantly different from those identified and reflected in the 2010/11 fee. An audit plan would be issued in February 2012 which would detail the risks identified to both the financial statements audit and the value for money conclusion. The audit plan will set out the audit procedures and any changes in fee. If any significant amendments needed to be made to the audit fee this would be discussed with the Strategic Director, Resources and then a report prepared for discussion with the Audit Committee.

Resolved: (i) To note the Annual Audit Fee Letter 2011/12.

(ii) To thank Lindsey Mallors for the report.

378. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Committee considered the report of the Executive Head of Group Finance that set out the work completed for the adoption of International Financial Reporting Standards (IFRS).

The report detailed adjustments made to restate the 2009/10 accounts on an IFRS basis. The notes of the accounts would also be restated to that comparative figures were available for the 2010/11 statement of accounts.

IFRS had raised five points that needed further work:

Leases – All records had been looked at and tested. Papers had been sent to the auditors and further to their comments further adjustments were made.

Employee Benefits - Managers had been asked to list all leave outstanding as at 31 March 2011 as under IFRS a liability was created for outstanding leave. This liability amounted to £900K for staff and £4M for teachers.

Valuation of Fixed Assets – Discussions had taken place with various councils to come up with a consistent approach and papers were sent to the auditors.

Investment Properties - fixed assets were to be re-valued on an annual basis at current value with any gains or losses taken to the Capital Adjustment Account.

Government Grants and Non-Government Grants – Under IFRS a grant has to be recognised upon receipt. A report will be sent to the auditors with a statement of reasonableness.

Resolved: (i) To note the progress made to date on the implementation of International Financial Reporting Standards.

(ii) To note the adjustments to the 2009/10 Accounts and that these were not expected to have any impact on Council Tax payers.

(iii) To thank Michael Mackie for his report.

379. INTERNAL AUDIT PLAN 2011/12

The Committee considered the report of the Chief Internal Auditor that set out the Internal Audit Plan for 2011/12 and the updated Internal Audit Terms of Reference.

The Plan had been prepared using the same risk based methodology as in previous years. Key points highlighted included a reduced number of audit days as well as a reduction of audit manager posts by two. Internal audit had refined its approach to reduce duplication and aligning work with the Smarter Services Sutton Review. It was explained that as there had been many positive audit reports issued in the past and this number could be cut down without affecting the work. Sutton's audit days were down from 1800 to 1100 but this was a reflection of a London-wide reduction in audit resources.

The Plan was an operational document and would be kept under review by the Chief Internal Auditor to ensure that satisfactory progress was being made in its delivery and that resourcing remained adequate. Progress reports would be made to the Committee at the half and full year milestones.

Resolved: (i) That the Annual Internal Audit Plan for 2011/12 and the updated Internal Audit Terms of Reference be agreed.

380. INTERNAL AUDIT REVIEW - SUTTON TOWN CENTRE REDEVELOPMENT

The Committee considered a report which detailed the results of the internal audit's review of the Sutton Town Centre Redevelopment and the Lessons Learned Exercise. David Dobbs detailed many of the shortcomings of the project as detailed within the report,

Management actions had been developed to address specific issues highlighted in the Town Centre Report and a number of wider issues related to improving the Council's overall processes and systems for management of capital projects. Recommendations and responses were given as:

RECOMMENDATION	MANAGEMENT RESPONSE
<p>1. The Council should improve the standard framework for the management of Capital Projects, ensuring that it is properly reflected in the Constitution and clearly setting</p> <p>a) The key points at which Capital Projects require formal approval by the Executive (e.g. outline bid, proposed and final design, estimated and revised costings) to improve project initiation.</p> <p>b) The role of Scrutiny Committees in reviewing Capital Projects.</p> <p>c) The mechanisms for management monitoring of key project risks (financial and non-financial), approval of variations and the reporting mechanisms including to the Executive.</p> <p>d) The expected standard of records management for project documentation.</p> <p>e) A proactive role for the communications team.</p>	<p>Agreed. A review of the existing project management framework will be carried out and improvements implemented.</p>
<p>2. The Council should seek to strengthen its in-house arrangements for capital project management and where external consultants are utilised there should be a consistent and clear approach to responsibility and accountability.</p>	<p>Agreed. This will be incorporated in the review of the existing project management framework and guidance noted above.</p>
<p>3. The Council should ensure that client side project management arrangements are vested in suitably, skilled, qualified officers and that where this is provided with external arrangements there is a framework in place to ensure clarity of roles and consistency of approach to their appointment.</p>	<p>Agreed. As above.</p>
<p>4. The Council should ensure that there is compliance with its costing and budgetary control arrangements for Capital Projects including:</p> <p>a) Initial project costings are accurate and properly aligned/consistent with capital budgets.</p> <p>b) All significant amendments to estimated project variations that have impact on costs are reported to/and approved by the relevant Officers/Members.</p> <p>c) Ongoing project deliverables and costs are accurately monitored and reported in a timely fashion, incorporating the value of variation orders and other non-budgeted slippage.</p>	<p>Agreed. As above.</p>

In addition to these, the Chief Executive would review the commissioning and delivery arrangements for major projects across the Council. A detailed report on the recommendations would go to The Executive in June 2011. It was also explained that, subject to further review, the establishment of a new Major Projects Board might replace the existing Corporate Projects Board and the existing Capital Programme Monitoring Board to give a wider view on such projects.

Members sought assurance that this could not happen again. There were several detailed questions raised by members which included:

- Details of delegation to Roseveare Projects and detailed invoices from Roseveare Projects

- How were the Council in breach with the Health and Safety Executive and others with issues such as data protection?
- Questions regarding missing paperwork and storage of paperwork such as risk assessments and tendering papers.

These questions were unable to be answered fully by officers due the absence of paperwork as stated in the report.

Concerns were raised about a blanket approach being adopted, in future, for all projects and that account should be taken of higher or lesser profile projects. Members were also interested to learn about any future proposed role for scrutiny committees.

Councillor Jayne McCoy was invited to speak as the Lead Member for Planning, Economic Development and Housing. She stated that she had requested that officers carry out the review of the Sutton Town Centre Redevelopment as it was clear to her that all was not as it should be. She thanked David Dobbs for a clear and frank report. Despite the various problems encountered with the project she stood by the decision to commission the project and agreed with the recommendations contained within the report. She suggested that the action plan could be taken to Scrutiny Overview Committee, or this committee, to ensure it was robust and she recommended that Audit Committee have an early input to the Chief Executive report in June. The Chair pointed out that it was the Audit Committee that has initially raised concerns with Councillor McCoy and had requested a review of the project.

Lindsey Mallors explained her role as the Council's appointed auditor. She has a number of specific responsibilities to consider in relation to the Council's activities. First, she has to give an annual opinion on the Council's arrangements to secure value for money. In reaching her opinion she would need to take account of not only the findings from this report but the management arrangements across the whole Council.

Secondly, one of the statutory duties of the appointed auditor is to consider whether there may be issues of such significance that a report should be published in the public interest. Lindsey Mallors reserved the right to form a more considered view on this course of action but noted that currently the issue was already in the public domain through the Council's publishing of the paper and the media coverage.

Whilst there were clearly failures in this case, initial discussions with the CEO and Strategic Director, Resources, had indicated that all the recommendations made by Internal Audit were accepted and swift action was being taken to address the individual issues. She would be writing formally to the CEO to seek assurance on progress and would continue to discuss the issue at her regular meetings with the CEO and Strategic Director, Resources.

Lindsey Mallors also noted that an additional responsibility is to consider information and requests made to her by local electors. Should she receive such correspondence, then she would need to consider whether any audit action was required at that time. Any such action would be discussed with the Council in advance.

Resolved: (i) To endorse numbers 2 to 4 of the proposed management responses and actions, as tabled above from the report.

(ii) To request that further detail on the first recommendation be brought back to this committee for consideration in the form of the Chief Executive report intended for The Executive in June 2011.

(iii) To request that detailed information on recommendation 1b be brought back to the next meeting of this committee and if that was not possible for an addition meeting of the Audit Committee to be arranged to take this report.

(iv) To thank Councillor Jayne McCoy and Lindsey Mallors for their input.

381. TREASURY MANAGEMENT – QUARTER THREE UPDATE

The Committee considered a report which summarised the Council's Treasury Management operations during the first nine months of 2010/11. It was presented for the purpose of monitoring and review and met best practice as suggested by the Treasury Management Code of Practice.

No new long term borrowing was undertaken during the period. The Council's original intention was to undertake a first tranche of external borrowing before the end of 2010/11. However this has not been undertaken as balances have not reduced as quickly as expected and options for the preferred borrowing option, market loans, had not been available.

Over the last nine months the Council had continued to invest surplus funds when available and complied with the requirements of the Prudential Code.

The report highlighted changes to the Council's counterparty list following the implementation of the Council's new treasury strategy from 1 April 2011 and how this was impacting on current treasury operations. Whilst there was a long counterparty list it was felt that they should not be used yet.

The Council had received another payment from the Icelandic Bank and were therefore working towards an 85% return.

Resolved: (i) To note the treasury management activity undertaken during the first nine months of 2010/11.

(ii) To note the changes to treasury operation under the new strategy implemented from 1 April 2011.

382. INSURANCE REVIEW 2011

The Committee considered the report of the Head of Exchequer Services regarding the strategy behind self insurance and the performance of the Council's Insurance Section.

A copy of the Insurance Review 2011 was submitted to the Committee that:-

- Sutton's liability claims performance remains ranked at number 1 over an average of the CIPFA benchmarking matrices. The significance being that this remains the case after nearly 2 years of in house liability claims handling, which the reports confirms has exceeded the projected net efficiency target of £75,000 per annum;
- provided an update on both the financial performance and customer service delivery of the insurance section over 2010/11. 95% of school responders rated the insurance guide useful and easy to understand.
- efficiency savings of £2.3 million had been realised over the period 2006 – 2011 with inflation adjusted projections estimating that medium term savings exceed £3 million;
- reflected on an internal audit report concluding there was substantial assurance in the service operation, and
- proposed that the insurance service joins the Insurance London Consortium (ILC) to realise procurement process benefits and mutual focus on operational risk management. The consortium includes the neighbouring boroughs of RB Kingston and LB Croydon supporting the strategic direction of travel for closer working with neighbouring boroughs.

The five year insurance tender exercise was due to commence in summer 2011 for 1 April 2012. In response to members queries regarding joining the ILC it was explained that:

- Each borough would retain its own individual rating;
- Zurich Municipal was the insurer for ILC and Sutton therefore if competitive Sutton could make further savings within the group,
- By joining the ILC there would be small savings initially greater savings on long term efficiencies, and
- the ILC tender process would come to Audit for noting.

Resolved: (i) To endorse the report.

(ii) To thank Ray Chitty and his team for a good job.

383. INTERNAL AUDIT – ANTI-FRAUD & INVESTIGATIONS UPDATE

The Committee considered a report from the Chief Internal Auditor on recent investigation work that his team had undertaken.

To the end of March 2011, Internal Audit had initiated 18 investigations, 3 of which were ongoing. Details of investigations closed since the last meeting were reported.

Internal Audit had spent 330 days on anti-fraud and investigatory work as opposed to the 235 days provided for in the 2010/11 audit plan. This increase was due to the higher number of investigations and additional time spent in developing fraud awareness training.

Resolved: That the report be noted.

384. WORKPLAN 2011/12

Resolved: That in addition to the items already listed the following items be included for the next meeting in June 2011:

- Town Centre Recommendations
- Future of Audit, and
- Report of RIPA (Regulatory Investigation Powers Act).

385. ANY URGENT BUSINESS, INCLUDING THAT OF COUNCILLORS, BROUGHT FORWARD AT THE DIRECTION OF THE CHAIR, WHO HAS APPROVED THE REASON FOR URGENCY

There was no urgent business.

The meeting ended at 9.16 pm

Chair:

Date:

Audit Committee
28 April 2011