



AUDIT COMMITTEE

4.30 p.m. – 6.15 p.m.

24 September 2009

Present: Councillors Little (S) (Chair), Jeraj (substitute Makoff), Stephenson and Waters

Also Present: Andy Perrin (District Auditor), Helen Devlin (Audit Manager) and Tony Poynton (Principal Auditor) of the Audit Commission

Apologies Councillors Bremner, Divers, Driver, George and Makoff

1. MINUTES

RESOLVED to agree the accuracy of the minutes of the meetings held on 22 and 25 June 2009.

2. INTERNAL AUDIT 2008/2009 AND 2009/10 – UPDATE

The Audit Manager presented the report, and together with the Head of Finance, answered questions.

Members were advised that a further report on options to deal with the involvement of internal audit staff on the New Deal for Communities (NELM Development Trust Ltd) would be considered at the next meeting of the Committee. Funding would end in March 2010 and it would not be feasible to put the audit work out to consultants because there was only 6 months to go to the end of the project and officers had built up experience and knowledge. Members were advised that as the accountable body, the Council had a service level agreement with the Trust but did not receive direct funding.

The Audit Manager then explained the weaknesses found in the audit of Asset Management (as set out in Annex 1, page 16 of the agenda) and said that in terms of audit assurance, a lack of funding or resources meant that the Council would not achieve its objectives. The Chair commented that the maintenance budget for specified works had been reduced to less than 5% of the budget for 2009/2010 and asked if this reduction would be practical. In response the Head of Finance said that the reduction was part of the context of the significant piece of work looking at savings for the 2010/11 Budget. The Chair raised the issue of the Asset Management database not using Uniform software and using an Excel spreadsheet instead. Members were advised that this would be the subject of a separate report to the committee in the future.

The District Auditor, when asked to comment on Internal Audit Services, reiterated his points made in the Audit Opinion Plan, and pointed out that the quality of the service impacted on the external audit fees.

RESOLVED to note the report.

3. INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Head of Finance gave a powerpoint presentation on the international financial reporting standards (IFRS). (A copy of the presentation is available on the Council's website.)

In response to a question from Councillor Stephenson, the Head of Finance said that a review was being undertaken to ensure that the necessary structures were in place to deliver the IFRS and this would be reported to the next meeting of the Committee.

The District Auditor confirmed following a question from the Chair said that the 6% audit fee subsidy applied to all local government bodies.

In response to a question from Councillor Jeraj, the Head of Finance said that an anomaly of IFRS with 'Right to Buy' was that council houses were considered leasehold, which was not the case.

The Chair asked what the whole point of IFRS was. The Head of Finance said that the real driver was to improve financial responsibility and that it had already been introduced to financial institutions. Ironically the United States of America was not part of the IFRS, despite being the first to experience the type of financial ills which IFRS was designed to address.

RESOLVED note the presentation and that the Head of Finance will report on how the Council can deliver IFRS to the next meeting of the Committee.

4. AUDIT OPINION PLAN 2008/2009 AND ANNUAL GOVERNANCE REPORT 2008/2009

Councillor Waters said that the Annual Governance Report had only been received the day before. In the past there had been an opportunity for the Leader of the Council, Portfolio holder, the Chair of the relevant committee, officers and the Auditor to discuss the report before it was published. The Chair said that he had been advised that another meeting was not necessary but acknowledged that it would have been difficult for all members to go through the report in advance of the meeting. The Chief Executive suggested that the Committee heard the District Auditor's Opinion Plan on the Governance report and considered the Action Plan at a further meeting. The Head of Legal, Regulatory and Democratic Services reminded members of the provisions for taking reports received within 5 working days of a meeting as urgent business.

The District Auditor said that it was an achievement for all concerned that he was in a position to report on the Annual Governance Report before the end of September 2009. He explained that a meeting to discuss the draft report would be a challenge and could be achieved if the draft accounts were received earlier and, whilst not berating the officers as progress and steps had been made to improve the accounts,

were of a better standard. He confirmed that the audit would close within a couple of weeks and was an achievement on last year. A final version of the report would be circulated, hopefully with resolutions to the action plan. The District Auditor said that he expected to give an unqualified opinion on the accounts.

The District Auditor then introduced the report and pointed out that in relation to paragraphs 14 and 15, on page 7 of the report, and his recommendations relating to cash flow and the issue of the value of Council property, the Head of Finance had responded that day and he understood that the issues were not straight forward. Financial reporting on the use of resources was not up to the required standard. Members' attention was also drawn to Appendix 2 which set out the adjusted amendments identified in the course of the audit. He suggested that he presented the report page by page or that members took it away for consideration at a later date.

Councillors Stephenson and Waters supported the District Auditor's proposal to run through the key points of the report and noted that there would be an opportunity for further discussion.

The District Auditor then gave a detailed presentation of the report and, together with the officers, answered members' questions.

The Chair referred to the District Auditor's point regarding the inadequacy of working papers and expressed concern about the sustainability of the Internal Audit Service to improve these without the assistance of temporary staff. The Head of Finance said that there had been reliance on temporary staffing resources this year but was in the process of developing accounting skills within the Council and looking at the issue of internal control.

The Chair then pointed out that some of the recommendations were the same as the previous years. The District Auditor said that it had been disappointing that a number of issues had reoccurred. The Head of Finance said that last year the final report on the accounts had not been completed until March 2009, which meant that there had not been sufficient time to address some of the bad practices. This year there would be a period of time where officers could sit down and address these issues.

The District Auditor drew members' attention to paragraphs 17 to 19 of the report and the recommendations R6 and R7. The Chair noted the importance of internal control. The Head of Finance referred to appendix 3 of the report and said that he would be required to respond to the District Auditor in the representation letter. The District Auditor said that he was now satisfied that the issues in paragraphs 44, Council tax and NNDR, and 48, Related Party Transactions, were resolved and the paragraphs would be removed from the final version of the report. The letter of representation asked the Council to undertake a number of actions. Paragraph 50 suggested a number of areas where the Council could improve financial reporting.

The District Auditor said that he proposed issuing an unqualified audit opinion and that the Council would have an opportunity to request a review of its score. The Council would receive a level 2 which was a step forward. Appendix 5 showed where in the overall scheme the Council met the minimum standard in the use of resources.

Discussion ensued in which the Chair raised the issue of the working papers not being fit for purpose. The District Auditor said that his colleague, the Audit Manager, had come across issues that should have been reconciled by officers and not presented as an audit issue in the accounts. The Head of Finance said that there would be greater focus on the accounts to resolve this.

The Chair referred to paragraph 28 and said that the problem with there being no service manager review of the register to confirm the assets held was the same problem with the garages where the Council could not reconcile the number of garages it owned. The Chief Executive said that this issue had been looked at before and was being addressed.

Councillor Waters asked what had the Council to do to obtain an unqualified opinion on the key elements. The District Auditor referred to the journey that the Council had taken in the last 2 years since it received a qualified disclaimer opinion. At that time there were so many areas that he could not form an opinion. There were no longer 'areas of mystery' in the accounts.

The Chair asked whether there was any capacity for fraud in the areas that the Council was lacking in internal control. The District Auditor in response said that he would hope that the Council was up to speed. Some of the things mentioned in the report were for officers to attend to and as the Council moved up a level there would be less of these details in the report. The Audit Manager (Audit Commission) said that a number of the issues had come to attention when looking at internal control. In future years these issues would not be brought up and would be dealt with by officers. One or two areas could be highlighted to reduce the risk of fraud. It was not possible to eliminate fraud entirely. Measures for payroll controls included budget monitoring and spot checks by Internal Audit. The issues of the purchase ledger were set out on pages 14 and 15 of the report. Cash reconciliation and controls of car parking fees could be improved. Councillor Waters pointed out that the Audit Commission had produced a document on fraud 'Protecting the Public Purse' which could be downloaded.

In response to a question from the Chair, the Audit Manager (Audit Commission) said that the issue of the classification of assets as operational or non-operational and members' input had been raised last year. It would be necessary for the appropriate Committee to provide guidance on how the assets could be classified. The Head of Finance confirmed that this was a function of the Executive. Councillor Waters said that work was going on looking at the assets to provide sustainable investment to generate income. The Head of Finance confirmed that this was the capital programme.

The Chair referred to Appendix 5, Use of Resources, page 38, and referred to the promotion of financial literacy and skills in the Council to ensure staff outside the finance role developed their financial skills and asked what measures were being taken to ensure that this was achieved. The Head of Finance said that this was part of the Improvement and efficiency programme and included: work around risk management; looking at the skills gap within the Finance team itself; and working with managers and to develop a pilot to see what needed to be rolled out. In relation to management skills this included linking into the work of the Transformation team to ensure that there were proper alliances within the authority. The Chief Executive

said that the issue of workforce planning was to bring it into line with resources. This was standard management practice but also need to be appropriate and would be building on the organisational culture. The Chair said that he would be interested in how this developed.

In response to a question from Councillor Jeraj, in relation to Appendix 5, page 39 of the report, relating to community involvement in the accessing of reports and consultation, the Chief Executive confirmed that this was being addressed, and said that work was in hand to consult on the programme of efficiencies and savings for this year.

The Chair pointed out that the costs for waste management, page 38 of the report, would be greater whilst the alternative weekly collections were being rolled out and should be taken into account. The Chief Executive said that once the roll out had settled down costs could be compared with other authorities.

The Chief Executive responded to a question from the Chair regarding electronic performance data systems across the Council and explained that because of the cost and time to get the work done it did not seem appropriate to move this forward until the point that the authority transferred to a unitary authority

The Head of Finance said that there had been a series of workshops for managers on risk management.

The Chair then referred to the 3-year process of improvement framework and said that the Council had come a long way from a low base, but expressed disappointment that the Council had not gone the 'whole way'.

The Chief Executive pointed out the tremendous achievement to catch up over the last 2 years from having Section 11 notice to an unqualified opinion. All the other local district councils had achieved level 2. The Council now had 6 months to put the recommendations on the use of resources into place. She thanked the Audit Commission for helping the Council to improve. The Council could improve on this and the District Auditor's report should be briefer next year.

RESOLVED to receive the District Auditor's Audit Opinion Plan 2008/2009 and the Annual Governance Report 2008/2009.

5. ANTI-FRAUD AND CORRUPTION ARRANGEMENTS

The Audit Manager presented the response to the Audit Commission's questions on anti-fraud and corruptions arrangements. The Head of Legal, Regulatory and Democratic Services said that the whistleblowing and anti-fraud policies provided guidance to employees and managers on their responsibilities. This was in addition to regular management training and the Code of Conduct for Local Government Employees.

RESOLVED to note the response to the Audit Commission.

6. WHISTLEBLOWING SUMMARY 2008/2009

The Head of Legal, Regulatory and Democratic Services and the Audit Manager presented the report and answered questions. The whistleblowing policy was available on the Council's website under the A-Z and records were kept. It was also available on e-grapevine (for employees) and e-councillor (for members).

In response to question from Councillor Jeraj, the Head of Legal, Regulatory and Democratic Services said that whistleblowing could be added to the members' training programme. The Audit Manager said that the policy was clear and had been considered at a previous meeting of the Committee.

RESOLVED to:-

- (1) note the report;
- (2) ask the Head of Legal, Regulatory and Democratic Services to add whistleblowing to the members' training programme.

7. DATE OF NEXT MEETING

RESOLVED to postpone the meeting scheduled for 17 December 2009 and hold the next meeting in January 2010.

CHAIR

