



## **AUDIT COMMITTEE**

**4pm – 6.05pm**

**26 October 2010**

Present: Councillors Little (Chair), Jeraj, MacDonald, Makoff and Wright (J)

Also present: Helen Devlin, Rob Murray and Tony Poynton of the Audit Commission

Apologies: Councillors Bremner and Waters

### **1. WELCOME**

The Chair welcomed Councillors MacDonald and Wright (J) as new members of the Committee.

### **2. MINUTES**

**RESOLVED** to agree the accuracy of the meetings of the meetings held on 22 and 29 June 2010.

#### Annual Certification of Claims

Councillor Makoff said that she had not yet received a written reply from the head of finance on the issues raised concerning the new deal for communities claim.

**RESOLVED** to ask the head of Finance to provide the reply to Councillor Makoff as soon as possible.

#### Annual Governance Statement

Councillor Makoff asked whether the recommendation that the chief financial officer is a member of the Leadership Team with a status at least equivalent to other members as recommended by CIPFA had been referred to the cabinet. The deputy chief executive explained that there were a number of structural changes arising from the council's transformation and efficiency programme which would affect the future membership of the leadership team and recommendations would be submitted to the cabinet following the consultation process. The chief executive officer had also discussed the issue with the chair. Councillor Makoff also asked whether the

members training session on related party transactions and the review of the effectiveness of the audit committee would be organised in the near future. The head of finance explained that it had not been possible to arrange these sessions because of the city council elections in September but it was hoped to consider the issues at a future meeting, provided that an appropriate training provider was available.

**RESOLVED** to note the position concerning the recommendation to the cabinet concerning the role of the chief financial officer and the forthcoming training sessions.

### **3. AUDIT OPINION PLAN 2009/10**

Rob Murray, District Auditor, presented the report and answered questions.

Councillor Wright referred to the identification of specific risks included within the report and asked whether the financial settlement with Morrison resulting from the legal challenge concerning the contracts awarded to Connaught, should have been disclosed to members of the audit committee. The deputy chief executive said that the amount of the settlement was a confidential matter which formed part of the terms of the agreement and had only been disclosed to a very limited number of people within the authority who had been authorised to conduct negotiations with Morrison. Disclosure would break the terms of the settlement agreement and pose a considerable legal risk to the Council.

The chair considered that there was a potential risk of fraud in the handling of such settlements and noted that the chief executive officer had not been aware of the terms of the settlement. The deputy chief executive said that leading counsel's opinion had been given on the appropriate procedure for dealing with the settlement with Morrison and the District Auditor had carried out a review to ensure the appropriate use of public funds in this matter. The head of finance expressed concern at the suggestion that the settlement with Morrison had been dealt with in an improper manner and reiterated the importance of the District Auditor's opinion that the process had been entirely satisfactory. Rob Murray, District Auditor, said that the audit committee would have been informed if the Audit Commission had any concerns regarding the arrangements for the settlement. The chair said that he had not intended to suggest that there had been improper handling of the settlement with Morrison but that in view of the audit committee's role in the oversight and scrutiny of the council's accounts, he considered that appropriate information should be provided to the committee with regard to any future settlements of this type.

**RESOLVED** to note the report setting out the audit work to be undertaken for the city council's financial statements for 2009/10.

### **4. ANNUAL GOVERNANCE REPORT 2009/10**

Rob Murray, District Auditor, presented the report and circulated an addendum providing updated information. Members also received written comment from Councillor Waters, cabinet member for resources, performance and shared services. The District Auditor referred, in particular, to some improvements noted in the internal controls and financial reporting elements of the report, but that there remained further improvement work to do in these areas. He confirmed that he

intended to issue an unqualified opinion on the audit of accounts for 2009/10. He intended to issue a qualified value for money conclusion due to the weaknesses in financial reporting and internal control. In response to a question, the head of finance confirmed that there had been a considerable reduction in the number of adjusted errors in comparison to previous years.

In response to members' questions, the District Auditor explained that the completion of the audit had been delayed due to the time taken to process errors and answer a number of queries which had arisen. He was also able to confirm that he had received a response to the request for evidence about the early adoption of IFRIC/2 for contracts other than the Steria PFI contract.

In response to a question from Councillor Jeraj concerning the NELM New Deal for Communities claims, the head of finance said that there was one further grant claimed to be considered by government departments. A total of £867,000 was currently owed by NELM to the council but appropriate sums had been withheld, and shown within the statement of accounts, to cover this debt.

The chair then referred to comments made within the report on the errors within the financial statements and the need for training of officers to minimise the need for future adjustments. The head of finance explained that there had been a considerable amount of training carried out within the finance team but, in view of the continued unsatisfactory level of technical skills, there was a need for further training to be provided in the forthcoming year. The chief accountant explained that a number of errors had occurred because of inconsistent figures produced within reports. It was hoped that improvements to the financial system would enable consistent figures to be applied across all work areas in the preparation of future accounts. The chair referred to the need for appropriate time lapses to be introduced to provide for a thorough check of accounts before they were submitted to the Audit Commission. The head of finance explained that it would be appropriate to engage the services of an independent consultant to review the statement of accounts prior to submission to the Audit Commission in future years.

The chair also referred to the need for improved resources to be allocated to financial reporting. The head of finance explained that a report would be submitted to the cabinet on 27 October referring to the need for adequate levels of resources to ensure the council's financial accounting function was maintained at a satisfactory level including the provision of adequate training. Helen Devlin, audit manager, Audit Commission referred to the various types of errors which had been encountered within the statement of accounts but reiterated the view that overall quality control issues needed to be addressed in future years.

Members then referred to the adequacy of the internal audit function which was referred to within the report. The head of finance explained that the internal audit section would be subject to a thorough review and a report and recommendations submitted to this committee in January 2011.

Members then considered the unadjusted misstatements in the accounts as detailed in the addendum to the annual governance report. The head of finance explained that the misstatements did not have a material impact on the statement of accounts and referred, principally, to the issues concerning the Steria PFI contract and, in particular, depreciation of assets. Helen Devlin, audit manager, Audit Commission

also confirmed that the unadjusted misstatements did not impact on the general fund balance and were not material overall to the District Auditor's opinion.

Members then considered the action plan in respect of the recommendations within the report which was circulated at the meeting. In response to a question, the audit manager explained the reasons for the delay in presentation of the annual report on the council's internal control environment which was to be considered later in the agenda for this meeting.

With regard to fixed asset accounting, the deputy chief executive said that the council was examining use of an existing system in the council to provide a solution. The recommendations concerning improvements to accounts receivable processes would be dealt with as a medium term priority and the need to reconcile payroll accounts with information on starters, leavers and transfers would be implemented in liaison with the human resources section.

With reference to the key areas of judgement and audit risk, Councillor Makoff questioned why the council's statement of accounts had not been signed prior to consideration by the Audit Commission. The head of finance explained that there had been a considerable history of amendments required to the accounts following approval and it was not considered appropriate to sign the authorisation at that stage. The District Auditor explained that the requirements of the Audit Regulations for Local Government included the need for accounts to be signed, as approved, prior to auditing. The chief accountant said that the International Financial Reporting Standards would change this requirement to the need to authorise issue of the accounts, rather than approval.

With regard to the comment in the value for money section on the accuracy of budget monitoring and forecasting information, the head of finance said that the council had maintained a high standard in financial monitoring which had enabled an appropriate level of reserves to be maintained and a thorough budget preparation process to be implemented.

(Councillor MacDonald left the meeting at this point)

**RESOLVED** to –

- (1) note the annual governance report 2009/10;
- (2) agree to not adjust the misstatements in the accounts as detailed in Appendix 2 to the addendum to the report;
- (3) delegate to the head of finance, in consultation with the chair, the incorporation of further revisions to the statement of accounts recommended by the Audit Commission for submission before 30 October 2010; and
- (4) ask the head of finance to submit quarterly reports updating the committee on progress with the action plans arising from the annual governance report.

## **5. PROGRESS ON THE TRANSITION TO IFRS**

Members considered the briefing paper on the transition to IFRS submitted by the Audit Commission.

The head of finance referred to the council's action plan for transition which included staff training, review of the fixed assets register and a restatement of the accounts by the end of the financial year. In response to a question, the District Auditor confirmed that the council was currently within the list of authorities classified as not on track with regard to the transition.

**RESOLVED** to ask the head of finance to provide a report on the action plan for the transition to IFRS for consideration at the next meeting.

## **6. ANNUAL REPORT ON INTERNAL AUDIT**

The audit manager presented the report and answered questions. He explained that reports had been provided on key systems within the authority but that, in view of continuing resource problems within the internal audit section, there was a possibility of certain audits being outsourced in the current financial year.

During discussion, the chair referred to reference to inadequate segregation of duties within the accounts receivable function and reiterated to the need to ensure that adequate resources were maintained within back office services to meet the audit requirements.

**RESOLVED** to –

- (1) note the annual audit opinion and work of the internal audit section 2009/10; and
- (2) ask the audit manager to provide quarterly reports on internal audit in future.

## **7. UPDATE TO ANNUAL GOVERNANCE STATEMENT 2009/10**

The audit manager presented the report and answered questions.

Helen Devlin, audit manager, Audit Commission confirmed that the Audit Commission were satisfied with the proposed changes to the annual governance statement. The deputy chief executive said that the statement would need to refer to the cabinet and not the executive, in respect of future actions.

**RESOLVED** to approve the changes to the Annual Governance Statement of 2009/10.

## **8. OTHER BUSINESS**

**RESOLVED** to defer consideration of the following reports until the November meeting:

- (1) Counter fraud activity 2009/10;

- (2) Whistleblowing summary 2009/10
- (3) Fraud and corruption survey 2009/10
- (4) Corporate risk management review.

CHAIR