

## AUDIT SUB-COMMITTEE

Meeting - 21 September 2006

Present: Mr Mountford, Mr Oxley, Mr Royston and Dr Scott.

Apologies: Mr Harding.

In attendance: Mick West, Relationship Manager, Audit Commission (External Audit)  
Hassan Rohimun, Audit Commission (External Audit)

### 12. ELECTION OF CHAIRMAN

RESOLVED that Mr Royston be elected Chairman of the Sub-Committee.

### 13. ELECTION OF VICE- CHAIRMAN

RESOLVED that Mr Hollis be elected Vice-Chairman of the Sub-Committee.

### 14. MINUTES

The minutes of the meeting of the Audit Sub-Committee held on 29 June 2006 were confirmed and signed.

### 15. THE EXTERNAL AUDITORS' REPORT ON THE AUDIT OF THE 2005/06 FINAL ACCOUNTS

The Sub-Committee considered a number of reports in relation to the External Auditors' Report on the audit of the 2005/06 final accounts.

#### Annual Governance Report

The first element concerned the External Auditors' Annual Governance Report. This report had three principal purposes:

- To reach a mutual understanding of the scope of the audit and the respective responsibilities of the Auditor and the Council;
- To share information to assist both the Auditor and those charged with Governance to fulfil their respective responsibilities; and
- To provide the Council with recommendations for improvements arising from the Audit process.

Having substantially completed work on the Council's financial statements, subject to satisfactory conclusion of the work outstanding, the Auditors expected to be able to issue an unqualified opinion by 30 September 2006. Further, having completed work on the Council's arrangements to secure the economy, efficiency and effectiveness, the Auditors anticipated being able to issue an unqualified conclusion on the use of resources by 30 September 2006.

The Sub-Committee was pleased to receive these expected outcomes and noted that although an unqualified opinion on the financial statements would be the expected outcome for most local authorities, not all were likely to receive an unqualified opinion on the use of resources.

The External Auditors explained the work done on the financial accounts, drawing attention to a number of matters. These included:-

- An adjusted material misstatement - assets amounting to £730k are now correctly classified as intangible rather than tangible fixed assets.

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- Qualitative aspects of accounting practice - identified cases where expenditure classified as enhancements to fixed assets did not meet the definition - such expenditure should not be capitalised.
- At the year end seven Members had not returned the related party disclosure form confirming no exercise of any undue influence with financial decisions.
- Material weaknesses in internal control - identified that the Council did not have an inventory of fixed assets that agrees with the fixed asset register.

With reference to the value for money conclusion, the Sub-Committee noted that the Auditor's assessment of the Council's arrangements against the twelve key criteria had resulted in all twelve being met. The Sub-Committee also reviewed the appendices to the Annual Governance Report including appendix 5 which was the technical Independent Auditor's Report to the Council and appendix 6, a letter of representation being a draft letter to the Auditors acknowledging the work submitted for audit, the outcome of the Audit Report and the Council's representations as to the report.

**RESOLVED** that:

- (1) The annual Governance Report be noted; and
- (2) A further reminder letter, to be signed by the Chairman of the Sub-Committee, be sent to those Members who had not returned related party disclosures.

### Report on the audit of the final accounts

The Sub-Committee considered the Auditor's Report on the audit on the final accounts together with a covering report of the Director of Resources.

The Director of Resources Report commented on the findings of the Auditor and made proposals on action to be taken. The key issues to note on the External Auditors report on the audit were as follows:

- The financial statements submitted for audit contained some errors; some of these required amendment and others were more minor and would be taken into account in future years.
- Within the amendments that are required, some are presentational and have no impact on the Council's financial position, whilst others include a requirement to re-class expenditure as revenue as opposed to capital which does have an impact.
- The External Auditor is expected to issue an unqualified opinion on the accounts.

As a result the following changes have been made to the accounts:-

#### (a) Reduction in the amount of expenditure charged to capital

External Audit had challenged whether some of the expenditure charged to capital in 2005/06 did actually enhance or add a value to the asset in line with the formal definition. The Finance Team had therefore reviewed a substantial proportion of the expenditure that had been charged to capital to confirm whether or not this met statutory definition. As a result £78,000 of expenditure was found not to meet the statutory definition, primarily because it related to annual repair and maintenance type of expenditure. This expenditure had therefore been re-classified as revenue expenditure in the accounts. The overall effect of the change is to reduce the level of revenue resources as at 31 March 2006 by £78,000 and increase the level of capital resources by £78,000.

(b) Disposal costs to be charged to revenue, as opposed to capital receipts

The External Auditor had challenged the practice of charging the costs of fixed asset disposals against the receipts generated, as this no longer conformed to current guidance. As a result, the authority could no longer offset £52,000 of costs against the capital receipts generated in 2005/06 and these must be charged to revenue instead. The overall effect of this change is to reduce the level of resources as at 31 March 2006 by £52,000 and increase the level of capital resources by £52,000.

(c) Intangible assets to be disclosed as a separate category in the balance sheet

Fixed assets fell into two different categories namely physical assets (e.g. land, building, equipment etc.) and intangible assets (e.g. software licences, computer programmes, trademarks etc). The Council owned/had rights over various computer programmes valued at £730,000 which in previous years had been included as part of IT equipment and systems within the "Vehicles, Fixtures and Fittings, and Equipment" heading in the balance sheet. It was more appropriate for these to be separately disclosed under a new heading for intangible assets together with a new explanatory note added. The effect of this change is presentational only and has no effect on the actual assets owned by the authority.

(d) Wording changes to the statement of Corporate Governance and Internal Control

As a result of suggestions from the External Auditors, a few minor changes to the Statement of Corporate Governance and Internal Control to ensure consistency and accuracy. The changes had been agreed by the Chief Executive and the Leader.

(e) Wording changes to the Foreword

The External Auditor had also suggested a couple of minor wording changes to the Foreword which had also been included.

A further change to the accounts was proposed as a result of new pension regulations coming into effect from 6 April 2006. The regulations gave pension scheme members retiring on or after this date the option to increase the amount of their tax free lump sum. The effect of this was to provide a saving to the pension scheme because the reduced pension plus the additional lump sum tended to be less than the value of standard pension benefits. The value of this saving to the Council was £800,000 but the change was presentational only and had no effect on the value of assets owned by the authority or the level of resources available.

The Sub-Committee also received a full version of the accounts updated to include the amendments referred to above. It was noted the changes made would have an effect in future years. Charging certain expenditure to revenue rather than capital could amount to some £50k a year of expenditure now falling to the revenue account. Furthermore, because the charging of disposal costs against capital receipts was no longer appropriate, the 2006/07 budget containing £41,000 of such costs would now have to be changed with these costs charged to revenue.

**RESOLVED** that:-

- (1) The External Auditors Report on the 2005/06 accounts be noted; and
- (2) The amended Statement of Accounts for the year ended 31 March 2006 be approved for signature by the Chairman of the Sub-Committee.

16. **RESULTS OF YOURBUSINESS@RISK REVIEW BY THE EXTERNAL AUDITORS**

Hassan Rohimun from the External Auditors presented the results of a yourbusiness@risk review carried out. The review used a web based survey hosted by the Audit Commission with questions based upon findings from triennial surveys of IT fraud and abuse. The survey was undertaken in June 2006 with responses from 56 members of staff. The national

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background of an increase in security breaches, with new electronic risks not being managed, the aim was to raise awareness of risks, promote best practice and provide the Council with an update of its own position.

The survey had produced a number of positive conclusions showing that staff took the threat of virus infection seriously, changed passwords on a regular basis as required by systems, were aware of the disciplinary offence of accessing unsuitable material and were informed of the main implications of legislation. The key messages for improvement which came from the survey were:-

- Inform staff of virus protection measures
- Reinforce the importance of password controls
- Inform staff of the impact of the anti-fraud and corruption strategy
- Inform staff of what is acceptable internet, e-mail and software use
- Ensure staff are aware of the impact of legislation and local policies
- Develop an information security policy.

The Sub-Committee noted with interest the findings from the survey and asked a number of questions for clarification. Work was already taking place on the preparation an information security policy but the survey had highlighted a number of other areas where improvements should be sought.

**RESOLVED** that:-

- (1) The report be noted; and
- (2) A further report be presented to a future meeting of the Sub-Committee on the action taken or planned in response to the key messages for improvement.

### 17. NEXT MEETING

The Sub-Committee confirmed that its next meeting would take place on 11 December 2006 commencing at 5 p.m. The Chairman requested that a reminder be e-mailed to all Members about this.

### 18. TERMINATION OF MEETING

The meeting, having commenced at 5 p.m., terminated at 6.30 p.m.