

## AUDIT COMMITTEE

16<sup>th</sup> September, 2008

**PRESENT:-** Councillor N Blake (Chairman); Councillors Chilver, Isham (Vice Chairman), Kennell, Ralph and Mrs Rowlands.

**APOLOGIES:** Councillor Cadd, Cartwright, Lambert, Mills and Mrs Morgan-Owen.

### 1. MINUTES

RESOLVED –

That the Minutes of the meetings held on 24<sup>th</sup> June, 2008 be approved as a correct record.

### 2. AYLESBURY THEATRE

The Committee received a report detailing information on the costs associated with the new Aylesbury Theatre to allow Members to discuss and consider the rise in estimated costs. Members were informed that the main contract to build the new theatre had now been signed with Wilmott Dixon. The final build cost had been achieved at £35m, which was £7.395m above the estimated likely building cost reported on 11 June, 2007. However, this was within the £35m that Council had approved for building the new theatre.

A briefing note explaining the most significant items which had contributed to increased costs had been circulated to all Members in June 2008 and was referred to whilst considering the report. Mr Gordon Glen a partner in Rider Levett Bucknall UK Limited (cost consultants to the theatre project) also attended the meeting to assist Members in understanding the theatre costs.

The Committee sought and were provided with additional information on the following:-

- (a) Briefing Note item 1 – further information was provided on the value engineering savings that had not been able to be achieved.
- (b) Briefing Note 5b and 5c – it was confirmed that the extended construction programme due to additional information received during the second stage and the additional staff costs mentioned were included within the agreed £35m building costs.
- (c) Briefing Note item 8 – clarification was sought on the risk allowance included by Wilmott Dixon for managing interfaces of contractor designed elements.
- (d) Briefing Note item 10 – further information was sought and provided on the particular complexities experienced with the concrete package.
- (e) Briefing Note item 11 and 12 – clarification was sought and provided on the reasons for the choice of the timber for the theatre façade and the expected increased costs due to paying for the timber in Euros.

- (f) Briefing Note item 16 – clarification was sought and provided on the beacon allowance, which related to work to ‘mask’ the new theatre’s tower.
- (g) Briefing Note items 20 and 22 – an update was sought and provided on the electrical re-design not factored into the original budget and the quotations received from utility companies that had been significantly higher than original advice. This had now been incorporated into the contract sum and was within the £35m build cost.
- (h) Theatre Risk Register number 1 (risk of construction costs exceeding budget due to increases in cost rather than funding shortfall) – Members were advised that following value engineering the construction costs for the new theatre had been agreed within the £35m that Council had approved for building the new theatre.
- (i) on why information on the increased costs experienced during tenders had not been reported back to Council, and it was explained that these construction costs had increased at a time when AVDC had been only committed to expenditure against the enabling works, sub-structure works and pre-construction services fee. By definition this cost increase was not an “overspend” and had then been contained with the £35m building cost.
- (j) the Committee was advised that it was not anticipated that the current credit crunch would have any impact on the ability of Wilmott Dixon to deliver the new theatre.
- (k) clarification was sought and provided on the reasons why the tender for the main contract had been split into 49 packages.
- (l) further information was sought and provided on the arrangements that had been put in place for the maintenance of the large amounts of wood and glass that were part of the new theatre building. Members were advised that the maintenance arrangements had been informed by the problems AVDC had experienced with the Aqua Vale pool and from other advice.
- (m) clarification was sought on the difference between the cost of the theatre final build costs and the cost of the theatre project. The theatre build costs were £35m. The theatre project included fees for architects and contractors, and the costs of the land (owned by AVDC) and other costs and totalled £44m.
- (n) an undertaking was given to provide Members with a chronological list of all costs related to the theatre project.
- (o) further information was sought and provided on:-
- how frequently contract monitoring would be reported to AVDC.
  - the agreed payment schedules.
  - the final retention amount.
  - whether the contractors would consult AVDC on changes to the theatre building.
  - whether all 49 contracts had been signed and seen by Council.
  - whether the contract with Wilmott Dixon included for all furniture and fittings.

Members were advised that detailed monthly reports on the theatre would be provided to the Corporate Director (Development). RHWL were the supervising architects for the project and would certify payments. Gardiner and Theobald would also be monitoring the overall delivery of the theatre project and would report regularly to the Corporate Director (Development) and the Waterside Steering Group. In addition, an AVDC engineer was visiting the theatre site daily to monitor the project. Minor variations to the theatre could be agreed within the contingency budget by RHWL, although variations greater than £5,000 required approved by the Corporate Director (Development). The final retention amount was 3% during construction. 50% (of this 3%) would be released at the end of the contract and the rest retained during the defects period (12 months). The 49 contracts were part of the main contract that had been signed with Wilmott Dixon. As such, they had not been reported back to full Council. The contract included nearly all furniture and fittings, although the catering company would be required to provide catering equipment.

- (p) further information was provided on penalty clauses contained within the main contract.
- (q) further information was sought and provided on the warranty and maintenance arrangements regarding the new theatre.
- (r) additional information was provided on the re-testing that AVDC had required Cheetham Hill to do on the geothermal pipes that formed part of the theatre's cooling system.

Having considered and discussed the information previously provided to Members on the rise in estimated costs, it was

**RESOLVED –**

That the current position regarding the costs associated with Aylesbury's new theatre be noted.

### **3. AUDIT COMMISSION – GOVERNANCE REPORT**

The Committee received a report at their last meeting on the Annual Governance Statement 2007-08 which had been reviewed and its contents noted.

The Committee received a report and draft copy of the Annual Governance Report for AVDC 2007/08 which summarised the findings from the Audit Commission's 2007/08 audit, as at 2 September, which was ongoing. It identified key issues that AVDC was recommended to consider before the Audit Commission issued their opinion, conclusion and certificate. The audit had identified specific risks and areas of judgement in the following areas:-

- (i) Key areas of judgement and audit risk (relating to ensuring expenditure was brought into line with income, and that there was active monitoring of both individual schemes and effective management of the overall capital programme).

- (ii) Draft Representation letter – at this stage there were no specific representations that were required from the Council.
- (iii) Accounting practice and financial reporting (relating to setting up the Council's Asset Register system in accordance with Statement of Recommended Practice (SORP) guidance), and aspects of the Fixed Assets Register.
- (iv) Errors in the financial statement – errors, other than those of a trivial nature had been reported to management. At this stage, all necessary corrections required to the accounts had been made.
- (v) No identified weaknesses in the design and operation of internal control had been identified.
- (vi) Other matters – the auditors had raised two issues relating to the special car parking area arrangements that existed between AVDC and the County Council, and the arrangements for the disclosure of related party transactions and currency of the Council's register of interests.

The Committee was also informed that the external auditors had examined, against 12 criteria, corporate arrangements for securing economy, efficiency and effectiveness in its use of resources and concluded that the Council had adequate arrangements in place. No significant weaknesses in arrangements had been identified. The findings would be reported in greater detail later this year.

Members commented on the following:-

- (a) clarification was sought and provided on the impact that new SORP guidelines had had on the Council's asset register system, and on preparation of the Council's financial accounts.
- (b) an assurance was sought, and provided by the external auditors, that any delay in adopting and approving AVDC's final accounts for 2007/08 by the 30 September deadline, due to the external auditors being unable to complete their review work would not score against AVDC in the Use of Resources judgement.
- (c) further information was sought and provided on the points raised by the external auditors at (i), (iii), (iv) and (vi) above.
- (d) clarification was sought on Accounting practice and financial reporting, and the external auditors agreed to report on the finalised version of this information to the next meeting. Further information was provided by officers on the actions they were taking to ensure that the Council's asset register system complied with SORP guidelines.
- (e) further information was sought and it was confirmed by the auditors that verification of some AVDC's fixed assets was undertaken.
- (f) clarification was sought from the external auditors who advised that they were taking steps to ensure that the main audit work for 2008/09 was undertaken on time.

The external auditors also informed the Committee that the Finance Division would be under additional pressure over the next year or two to embed all of the new Statement of Recommended Practice guidelines and international

financial reporting standards. These had to be achieved against a challenging timetable that was likely to place a strain on the Division's resources. It was agreed that a report on the timetable and related issues would be reported to a future meeting.

Following these discussions, it was:-

RESOLVED –

That the contents of the report be noted.

#### **4. ADOPTION AND APPROVAL OF FINAL ACCOUNTS**

The Committee received a report on the outturn position of the Council's financial accounts for 2007/08 to their last meeting and agreed that the draft Statement of Accounts, as amended, be approved for inspection by the External Auditors.

The Committee received information on further changes that had been made to the final accounts for the financial year 2007/08 since that meeting. These changes largely related to the presentation of information and as such, these changes did not impact on the overall outturn position.

Members were advised that the external auditors were not yet in a position to sign off the accounts. This situation has arisen largely from late completion of previous clients' audits and the subsequent resource impact this has placed upon them, together with a number of nationwide accounting issues that has meant that they have needed to review certain elements of everyone's accounts in more detail. There was no suggestion that the delay was as the result of any action or inaction on AVDC's part.

Following a discussion of the changes to the final accounts and the information from the external auditors on when their review work would be completed, it was

RESOLVED –

- (1) That the changes to the final accounts for Aylesbury Vale District Council for the financial year 2007/08, as previously reported, be noted.
- (2) That the Committee adopt and approve the final accounts for Aylesbury Vale District Council for the financial year 2007/08.
- (3) That, in the event that any further issues were raised by the Audit Commission, authority is delegated to the Head of Finance in consultation with the Audit Committee Chairman, or Vice Chairman in his absence, to make such non significant changes as are necessary in order to finalise the accounts.
- (4) That any non-significant changes made in order to finalise the accounts be reported to Audit Committee Members via an Audit Briefing Note.

## **5. EXTERNAL AUDIT PROGRESS REPORT**

The Committee received a report informing them on the progress made to date on work identified to be undertaken in the current financial year. This included progress on the planned outputs for the 2007/08 audit work and the programme of work to be undertaken for 2008/09, as reported to the Committee in March 2008.

RESOLVED –

That the contents of the External Auditors' progress report be noted.

## **6. AUDIT BRIEFING NOTE**

The Committee received a report which provided Members with an opportunity to respond to the matters raised in the Audit Briefing Note number 2 which had previously been distributed to Audit Committee Members. The matters covered in the note were risk management, business continuity and the national fraud initiative, and had also included copies of the risk registers for the Council's major projects.

Members commented as follows:-

- (i) Waterside Risk Register – clarification was sought and provided on the planning application by the Aylesbury Society relating to land on the north side of Exchange Street.
- (ii) further information was sought on how the Council addressed issues such as legal and other challenges in the Risk Register.
- (iii) Waterside Risk Register item R3 (Less than best requires Government Office for the South East (GOSE) approval) – information was provided on the requirements governing the disposal of land for less than the best consideration that could be reasonably obtained, which was the case with the AVDC owned land that formed part of the Waterside project. Members were advised that forms had now been completed and submitted to GOSE.

RESOLVED –

That the contents of Audit Briefing Note number 2 be noted.

## **7. RISK MANAGEMENT STRATEGY**

The Committee received a report setting out the revised and updated Risk Management Strategy and Improvement Plan for consideration and comment by Members prior to approval by the Cabinet Member for Corporate Issues.

There being no comments that the Committee wished to pass back to the Cabinet Member for Corporate Issues, it was

RESOLVED –

That the contents of the revised and updated Risk Management Strategy and Improvement Plan be noted.

## **8. INTERNAL AUDIT PROGRESS REPORT**

The Committee received a report on the progress made to date on work identified in the current financial year's Internal Audit Plan. A full list of the final audit reports agreed and issued during the current financial year was attached as Appendix A to the Audit Tracker report (minute 9).

The progress report included:-

- (i) that a number of reviews were currently being undertaken, including a report on car loans and one on the service that provided advice to members of the public who may be homeless or in financial difficulties.
- (ii) that work was about to start of reviews on AVDC's management of consultation with the public and preliminary work was being undertaken to prepare for the partnerships review postponed from last year.
- (iii) that preparatory work was underway to collate information for the National Fraud Initiative (NFI).
- (iv) information on joint working arrangements with other Councils that were being put in place to share staff for some audit work with the County Council (October 2008) and Wycombe District Council (December 2008)

Members asked whether the homelessness / financial difficulties advice service had the capacity to deal with additional work created as a result of the credit crunch. The Committee was also interested in obtaining further information, in due course, on the results of the joint working arrangements. An undertaking was given to provide information on these issues to a future meeting.

**RESOLVED –**

That the contents of the Internal Auditor's progress report be noted.

## **9. AUDIT TRACKER**

The Committee received the Audit Tracker for consideration and comment, and were asked to consider whether it would be appropriate to include future Tracker reports in a Briefing Note in advance of the meeting, so that Members could request additional information about outstanding areas of risk where recommendations had not been implemented as expected.

Members commented as follows:-

- (i) Recommendations overdue more than 12 months – Members were advised that it was aimed to implement the recommendation on the fixed asset register (balance sheet entries) by the end of March 2009, and to implement the fixed asset register (financial procedure rules

should contain asset management guidance) before September 2009. This last recommendation would have to go to full Council for approval.

- (ii) Payroll Audit for 2008 – Members were informed that the issues relating to the contract extension with Chiltern District Council had now been resolved.
- (iii) Debtors audit – the Committee was advised that the Finance Division was awaiting a quote on debtor systems that would allow the Council to better monitor and manage multiyear arrangements.

Following a discussion of the Tracker, it was

**RESOLVED –**

- (1) That the contents of the Audit Tracker be noted.
- (2) That it be agreed that future tracker reports be included in a briefing note in advance of Audit Committee meetings.

#### **10. AUDIT COMMITTEE WORK PROGRAMME 2008/09**

The Committee considered the draft Work Programme for the period up until March 2009. It was requested that reports on the final governance findings and on the approval of the final accounts be submitted to the next meeting.

**RESOLVED –**

That the Work Programme be approved, as amended by the addition of the above items.

#### **11. FUTURE MEETINGS**

The next meeting of the Audit Committee would be held at 6.30 pm on the 5<sup>th</sup> November, 2008, in the Meeting Room at The Gateway, Gatehouse Road, Aylesbury.