

# AUDIT COMMITTEE

29<sup>th</sup> June, 2009

**PRESENT:-** Councillor Chilver (Chairman); Councillors Mrs Bloom (in place of Isham), Mrs Mallard, Mills, Mrs Morgan-Owen, Ralph and Mrs Rowlands. Councillor N Blake attended also as an ex-Officio Member.

**APOLOGIES:** Councillors Cadd, Isham and Kennell.

## 1. MINUTES

The following comments regarding the accuracy of the minutes were made:-

- (i) that Councillor Mills had attended the Audit Committee meeting on 16<sup>th</sup> March, 2009.
- (ii) that Councillor Mrs Mallard had attended the Audit Committee meeting on 13<sup>th</sup> May, 2009.

RESOLVED –

That, subject to the clarification on the attendance information detailed at (i) and (ii) above, the Minutes of the meetings held on 16<sup>th</sup> March, 2009 and 13<sup>th</sup> May, 2009 be approved as correct records.

## 2. INTERNAL AUDIT MANAGER'S ANNUAL REPORT FOR 2008-09

The Head of Internal Audit is required to provide a written annual report to those charged with governance timed to support the Annual Governance Statement, which should be presented to Members and considered separately from the Annual Governance Statement and formal Accounts.

The Committee received a report detailing the Internal Audit's opinion on risk management, control and governance and their effectiveness in achieving the Council's agreed objectives for 2008-09. Based on this work, Internal Audit had reached the opinion that the Council's key financial systems were operating soundly. There were no fundamental breakdown of controls resulting in material weakness sufficient to qualify the overall audit opinion.

This year the Internal Audit team had not given a "No" assurance opinion in any reviews but had given "limited" assurance opinions in five areas. These areas included the employment of casual workers and work on the handling of credit and payment card payments from members of the public. Members were advised that management had responded rapidly to Audit's concerns in these areas and in most cases action had been taken immediately to address the issues raised.

The Committee was given an overview of audit activity for 2008-09 and provided with a summary of audit work undertaken in significant areas, including progress on items previously raised. Members sought and were provided with additional information on the following:-

- (i) that the Monitoring Officer had advised that the guidance from central Government would be required before the revised Code of Conduct for Officers could be finalised. Central Government had not given a firm indication as to when this guidance would be issued.
- (ii) Partnership arrangements – Members commented that it was important for information on significant partnerships, in particular their annual reports, to be regularly reported to all Members. Officers gave an undertaking to report back on this issue.
- (iii) on the financial governance arrangements that the Corporate Board had in place to monitor and keep a careful control over all current projects to ensure that they were completed on time and to budget.
- (iv) that an update of AVDC’s Financial Regulations had been drafted and would hopefully be submitted to full Council in September 2009.
- (v) it was explained that an independent review of Internal Audit undertaken by the external auditors had confirmed that the Audit Section was meeting the expected standards.
- (vi) an explanation was provided on the initial risk assessment work that was undertaken when benefit fraud cases were referred to the Audit Fraud Investigation Unit for investigation.
- (vii) that the Internal Audit Manager was satisfied that managers were being proactive in response to the ‘limited’ opinion given in five areas, as detailed in the Committee report.
- (viii) an explanation was provided on the term “control environment”, which meant that all the appropriate checks and balances, and monitoring of these arrangements in a particular area were in place.
- (ix) Members were advised that the performance assessments in Section 7 of the Committee report related to comparisons of the Internal Audit Section against national benchmarking information provided independently by CIPFA.
- (x) Members were informed that regular monitoring meetings were held with contractors on the major projects to ensure that they were being managed with the agreed timescales and budgets.
- (xi) an explanation was provided on the inspections that the Office of Surveillance Commissioners undertook to ensure that AVDC’s was properly using the powers granted under the Regulation of Investigative Powers Act relating to carrying out surveillance of individuals.

RESOLVED –

That the contents of the Internal Audit Manager’s annual report for 2008-09 be noted.

### **3. ANNUAL GOVERNANCE STATEMENT 2008-09**

The Annual Governance Statement for Aylesbury Vale District Council, which would be signed by the Leader of the Council and the Chief Executive when approved by the Audit Committee, formed part of the Council’s formal

accounts for the financial year 2008-09. A draft version of the Annual Governance Statement was reported to the Audit Committee in March 2009, and had been discussed and commented upon by Members.

The Committee received the final version of the Annual Governance Statement and were advised that one change needed to be made at paragraph 4.7.1 to state that the Chairman of the Standards Committee would be presenting his Annual Report to full Council on the 8<sup>th</sup> July, 2009.

Members were further advised that the assurance gathering process for preparing the Statement was based on the management and internal control framework of the Council and, in particular, on the independent report of the Council's Audit Manager. The assurance framework included individual statements from each Head of Service covering the Internal Control Framework within their service. This was in the form of a self-assessment questionnaire and assurance statement covering all aspects of service operation. Where Heads of Service raised matters of concern these were then identified in the Annual Governance Statement together with the details of proposed remedial action. The progress made in resolving the actions was monitored as part of the audit tracker system.

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

- (a) on the monitoring arrangements and information that evidenced that the Procurement Strategy and Contract Procedure Rules were in line with the Council's aims and objectives and principles of best value.
- (b) that an update of AVDC's Financial Regulations had been drafted and would hopefully be submitted to full Council in September 2009.
- (c) Risk Management (paragraph 4.10.4) – Officers gave an undertaking to provide information on the further work that was still needed across some of the other significant partnerships in the next Audit Briefing Note.
- (d) an explanation was provided on the improvements that were being made to integrate the risks from the various major projects into Project Board / team meetings.
- (e) it was agreed that the significant control issues raised in last year's Annual Governance Statement that had now been completed and signed off could be removed from future reporting to the Audit Committee.

Having critically reviewed the Annual Governance Statement 2008-09 and the supporting documentation, having considered the robustness of the Council's governance arrangements, and monitored the actions arising from the review arrangements, it was

**RESOLVED –**

- (1) That the contents of the Annual Governance Statement 2008-09 be noted.

- (2) That the Annual Governance Statement 2008-09, as amended by the change to paragraph 4.7.1 as detailed above, be approved for inclusion in the Council's Statement of Accounts for 2008-09.
- (3) That information on Risk Management – significant partnerships, as discussed at (c) above, be provided to Members in the next Audit Briefing Note.

#### **4. DRAFT STATEMENT OF ACCOUNTS 2008-09**

The Committee received a report presenting the draft accounts and the final outturn position for the financial year that ended on 31<sup>st</sup> March, 2009. The accounts had still to be inspected by the External Auditors and any adjustments that might be required as a result of that inspection would be reported to the Committee at a later date. Regulations required the draft accounts to be approved by 30 June each year. As part of the process of finalising this year's accounts they had already been quality assured by a CIPFA representative.

Members attention was drawn to the following corrections that needed to be made to the draft Statement of Accounts:-

- (i) that an updated note reconciling the Net Cashflow Statement had been produced, a copy of which was circulated to Committee Members.
- (ii) As a result of a late announcement that the accounts needed to be updated to take account of Performance Reward Grants of £289,000 relating to AVDC assisting in meeting Local Public Service Agreement stretch targets in Buckinghamshire's Local Area Agreement.
- (iii) that in view of the latest information from the administrators for the Icelandic banks, the amount of the deposits likely to be recovered would need to be downgraded from 95% to 85%. The final recovery position to be included within the accounts for 2008/09 would not be fully known until the end of September, 2009.
- (iv) that a contract for £3.5m for constructing the Gateway conferencing facility had been entered into and would have to be recorded as a future capital commitment.
- (v) that the two of the figures relating to Contributions to Capital at the bottom of page 18 of the accounts had been transposed. The figures for 2008/09 in the third column from the left should read:-

Capital Reserves	£2,797,000
Capital Receipts Unapplied Account	£945,000

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

- (a) it was confirmed that the budget planning process for 2010/11 would pay particular attention to the impact of the recession on the Council's business and services.
- (b) it was confirmed that a full re-valuation exercise had been undertaken on all of the Council's assets which had identified a reduction of approximately one-third across all assets, equal to £40m.

- (c) Members were informed that it was planned to build AVDC's share of the Local Government Pension Scheme to 100% funding over the next 20 years. The next triennial actuarial valuation of the Pension Scheme would take place in March 2010.
- (d) on the £92,492 refund of VAT on car parking excess charges.
- (e) on the increased net costs of keeping the Civic Centre open, and savings that might have been realised had it been closed at an earlier time.
- (f) an explanation was given as to how Councils had been allowed to defer the impact of potential losses of deposits held with Icelandic banks until 2009/10, at which point it was expected that greater clarity would exist over the prospects of recovery.
- (g) it was confirmed that AVDC was taking steps to re-negotiate the Special Parking Areas agreement with the County Council.
- (h) Accounts Page 37 relating to the Aylesbury Vale Property Investment Portfolio – it was agreed that the last sentence should read, "The exact form of this arrangement is yet to be concluded.", and that the text following this should be deleted.
- (i) on the interest rates that AVDC was obtaining for its current investments and could expect to earn for the next twelve months.
- (j) an explanation was given on how the interest equalisation account operated, in particular relating to any future write-offs of investments made with Icelandic banks.

RESOLVED –

- (1) That the outturn position for 2008/09 be noted.
- (2) That the draft Statement of Accounts, as amended by (i) – (v) above and (h) above, be approved for inspection by the External Auditors.
- (3) That approval be given to the Head of Finance, in consultation with the Audit Committee Chairman, to make any minor amendments to the draft Statement of Accounts prior to their submission for inspection by the External Auditors. (The Head of Finance was asked to notify all Committee Members of any minor amendments that were made).

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

The Committee received a report informing it:-

- on progress made on the External Audit work programme for 2007/08, detailed at Appendix 1 to the Committee report.
- on progress made on the External Audit work programme for 2008/09, detailed at Appendix 2 to the Committee report.
- as in previous years, on a detailed audit plan for 2009/10 with the proposed audit fee.

Members were informed that the proposed audit fee for 2009/10 was £122,300 (exclusive of VAT) and represented an 11% increase on the 2008/09 planned audit fee. In setting the fee at this level, the External auditors had assumed that the general level of risk in relation to the audit of the financial statements was not significantly different from that identified in 2008/09. A separate plan for the audit of the financial statements would be issued in December 2009, which would detail the risks identified, planned audit procedures and any changes in fee. Any significant amendments to the audit fee during the course of the audit would be discussed first with the Head of Finance and then reported to the Audit Committee.

The Committee was informed that the external auditors had identified a number of significant risks in relation to their value for money conclusions and this would influence work undertaken in the next year including on the implementation of International Financial Reporting Standards, use of natural resources, the arrangements for the operation of the joint property venture partnership and the leisure trust, the arrangements for the construction and operation of the new theatre, and the implications of the Buckinghamshire Pathfinder project for the way the Council ran its business and services.

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

- (i) that the Interim audit memorandum 2008/09 of issues arising from the assessment of the Council's key financial systems had been drafted and would now be discussed and agreed with Officers.
- (ii) it was clarified that the term "Direction of Travel" had been renamed "Managing Performance against priorities".
- (iii) that audit work on ensuring effective overall arrangements for the management of the Council's capital programme had been completed, and that the draft report was now due to be agreed with Officers. No significant issues had arisen during this review work.
- (iv) it was agreed that a report and discussion be held at the next meeting on 15<sup>th</sup> September, 2009 on how those charged with governance exercised oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council. This discussion should include looking at how Audit Committee Members gained an assurance that all relevant laws and regulations had been complied with.

RESOLVED –

- (1) That the contents of the External Auditors' update and progress report be noted.
- (2) That an agenda item and report on the issues detailed at (iv) above be included on the agenda for the 15<sup>th</sup> September, 2009 meeting.

## **6. AUDIT BRIEFING NOTE – JUNE 2009**

The Committee received a report which provided Members with an opportunity to respond to the matters raised in the Audit Briefing Note number

5 (June 2009) which had previously been distributed to Audit Committee Members. The matters covered in the note were:-

- (i) business continuity planning.
- (ii) risk management update (including updated Risk Registers for Theatre, and Waterside projects, and for the growth agenda).
- (iii) review of Risk Registers for major projects.
- (iv) Internal Audit progress report (reports issued and the recommendations tracker).

Members were provided with an update on issues that had arisen since the Audit Briefing Note had been issued including on a grant of £325,000 that AVDC had received to protect 57 homes in Buckingham from flooding, and on swine flu.

Prior to the meeting Members had submitted questions on a number of issues including on the Risk Registers for the Waterside project, the new theatre, AVDC's growth agenda and the office relocation project, and on understanding the Galileo Actions Report for internal audit findings. Officers gave an undertaking to provide information on these issues in the next Audit Briefing Note.

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

- (i) that a Project Group looking at the re-location of staff when the lease on Friars Square had expired had been formed and was being led by the Head of IT.
- (ii) that the Risk Registers were regularly reviewed but updated quarterly.
- (iii) Officers gave an undertaking to report back on whether the contract for the Ambassador Group to operate the new Waterside Theatre had been signed and completed.
- (iv) it was confirmed that the Revenues Section was working to ensure that a more consistent approach was taken to documenting procedures, including an annual review, version control, authorisation and a common format. An undertaking was given to report back on this matter to the Committee.
- (v) Members were informed that a recommendation in the Payroll Audit for 2009 relating to working more hours per week than was permissible under the Working Time Regulations was being dealt with by the Head of People and Payroll.
- (vi) it was confirmed that systems were now in place so that the lending limit with a single lender could not be exceeded.

RESOLVED –

- (1) That the contents of the Audit Briefing Note (June 2009) and information to be provided by Officers in response to queries raised be noted.

## **7. AUDIT COMMITTEE WORK PROGRAMME 2009/10**

The Committee considered the draft Work Programme for the period up until March 2010. The following changes were agreed:-

- (i) External Audit Use of Resources – to come to the 15/9/2009 meeting.
- (ii) External Audit Annual Audit letter – to come to the 4/11/2009 meeting.
- (iii) External Auditors to submit an Organisational Assessment report, including information on the Buckinghamshire area assessment, to the 4/11/2009 meeting.

The Committee also agreed that, where it was practicable and the agenda was not too busy, they would like to receive training / information sessions immediately prior to future meetings on issues including:-

- interpreting and understanding the Statutory accounts (February 2010 meeting).
- insurance.
- procurement/contract procedures.
- lessons learnt from the Use of Resources Year 1 conclusions (to inform Members on the next Use of Resources assessment which would be undertaken between November 2009 and March 2010).

RESOLVED –

That the Work Programme, as amended by (i) to (iii) above, be approved.

## **8. FUTURE MEETINGS**

The next meeting of the Audit Committee would be held at 6.30 pm on the 15<sup>th</sup> September, 2009, in the Meeting Room at The Gateway, Gatehouse Road, Aylesbury.