

AUDIT COMMITTEE

4th November, 2009

PRESENT:- Councillor Chilver (Chairman); Councillors Cadd, Isham (Vice Chairman), Kennell, Mills and Ralph. Councillor N Blake attended also as an ex-Officio Member.

APOLOGIES: Councillor Mrs Mallard, Mrs Morgan-Owen and Mrs Rowlands.

1. MINUTES

RESOLVED –

That the Minutes of 15th September, 2009 be approved as a correct record.

2. INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Committee received a presentation on the implementation of the International Financial Reporting Standards (IFRS). From 2010/11, local authorities' Statements of Accounts would be prepared under an IFRS-based Code of Practice on Local Authority Accounting. This was part of a wider public sector move to international standards.

In central government, departments were required to meet four 'trigger points' set by HM Treasury, which specified the dates by which the opening IFRS balance sheet and the figures for the comparative year were to be prepared and audited. For local government, no formal 'trigger point' dates had been set. The Chartered Institute of Public Finance and Accountancy (CIPFA) Local Authority Accounting Panel (LAAP) had issued a Bulletin (LAAP No. 80) to assist local authorities to develop their own project plan for IFRS implementation. The project plan contained in the bulletin was, however, guidance rather than a formal requirement.

Members were informed:-

- (i) that the process for putting together the 2008/09 financial accounts had been greatly improved on the previous year, and had enabled the external auditors to issue an unqualified opinion on them before 30 September, 2009.
- (ii) on some of the key issues detailed in LAAP 80 that local authorities should already be working on in preparation for IFRS, including implementation timescales and having in place an outline project plan.
- (iii) on the risks that the external auditors foresaw for the Council in implementing IFRS, such as:-
 - the increased demands that would be placed on the finance function, and others supplying information for the financial statements.

- preparing the 2009/10 financial statements, as a lot of capital works were still coming on-stream.
 - preparing group accounts (on the basis of the property joint venture commencing in 2009/10)).
 - preparing 2009/10 year end figures to allow for the move to full IFRS in 2010/11.
- (iv) that if the Council was not proactive in moving towards IFRS implementation in 2009/10 then it was merely storing the 'problem' up for 2010/11.
- (v) that AVDC would need to consider how the extra information gathered through IFRS would be fed into external reporting by the Council. There would also be links to use of resources and value for money conclusions.
- (vi) that it was likely that IFRS would increase the work required to be undertaken by the external auditors which would impact on the audit fee charged to the Council.
- (vii) that based on experiences from the NHS and from work to date with other local authorities, possible 'problem' areas for the Council could include:-
- recording all leases (which would have a wider definition).
 - defining property, plant and equipment in greater detail, which was linked to calculating the depreciation of assets.
 - making provisions against end of year leave accruals.
 - financial instruments, in particular embedded derivatives, needed accounting for separately.

In response to the above information from the external auditors, the Head of Finance informed Members of the steps and processes that the Council was taking to implement IFRS. These included:-

- attending workshops to understand what was required in restating the balance as at 1st April, 2009.
- that the Council had purchased a new software package to aid Fixed Asset accounting that would assist in recording fixed assets that needed to have their components valued separately, i.e. lifts, boilers and specialist equipment.
- being aware that the new theatre and conference centre would need to be valued according to IFRS following their completion.
- starting work to review all leases to determine whether they were finance or operating, and to identify land and building elements separately.
- working on leave entitlements, as entitlements which were carried over to the following year would have to be recorded as a financial cost at the year end.

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

- (i) that local authorities were still awaiting guidance from CIPFA on how they were to implement IFRS. This included advice on the minimum value below which assets would not need to be recorded.
- (ii) that Aylesbury Vale Estates (AVE) would need to prepare group accounts which would then be brought into AVDC's accounts. AVDC was seeking specialist advice on how best to deal with this matter.
- (iii) that the value of assets in the accounts should remain the same when the balance sheet was restated.
- (iv) an explanation was provided on embedded derivatives and comparator information required to restate balance sheets.
- (v) that a Project Board had not been established to look at IFRS implementation.

At the conclusion of the presentation and discussions Members thanked the external auditors and the Head of Finance, and it was

RESOLVED –

- (1) That the information presented on the IFRS be noted.
- (2) That the Audit Committee would like to receive regular reports from the Officers on the Council's implementation of IFRS.

3. AUDIT COMMISSION ANNUAL GOVERNANCE REPORT FOR 2008-09 (FINAL REPORT)

The Committee had received the final version of the 2008/09 Annual Governance Report to their last meeting that had summarised the findings from the 2008/09 audit which was substantially complete. At that time there had still been some outstanding questions over the final wording of the report, the Action Plan in Appendix 5 had not been fully completed and the response of AVDC managers to the points raised had not been included.

The annual governance report had now been finalised and was presented to Members for their information.

RESOLVED –

That the contents of the report be noted.

4. EXTERNAL AUDIT REVIEW OF MATERIAL INFORMATION SYSTEMS

The Committee received a report setting out the findings of the external auditors interim audit conducted in preparation for their work on AVDC's 2008/09 financial statements.

The report explained the approach adopted to ensure compliance with international standards, the results of issues identified during the review of the

control environment and an assessment of the key controls in the material information systems.

The report was used by the External Auditors in planning their work on the financial statements. It included a number of recommendations which were detailed in the Appendix 1 Action Plan. The majority of these had already been addressed, while those that required future actions would be added to the audit management system (Galileo) to ensure that their implementation was monitored.

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

- (i) the external auditors gave an undertaking to present their future reviews of material information systems to the Audit Committee in June, at the same time as the statement of accounts was reported.
- (ii) on the controls introduced relating to ensuring completeness over invoice processing.
- (iii) it was agreed that the future results of material information systems, such as the details in Table 1 in the report, would include more detailed information on compliance and testing as it related to 'Key control assessment' and 'Additional testing requirement'.
- (iv) on the Council's policy relating to capital reserves. Members were advised that the Cabinet Member for Resources was currently undertaking a review of the different reserves held by the Council which would be reported to Cabinet in December.
- (v) that work was still ongoing to update the Financial Regulations.

RESOLVED –

That the external audit review of material information systems be noted.

5. EXTERNAL AUDIT PROGRESS REPORT

The Committee received a report informing it of the progress made by the external auditors in delivering the work set out in the 2008/09 and 2009/10 audit plans.

The revised 2008/09 audit plan had been agreed by the Audit Committee at their June 2008 meeting. Progress made on the work programme was detailed in Appendix 2 to the Committee report.

An outline fee letter for the external audit work required to be carried out for 2009/10 had been discussed at the last meeting. The external auditors were required to review this quarterly to assess whether any changes were required in the fee. The next such report would come to the Committee's December 2009 meeting.

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

- (i) that the annual audit letter would be submitted to the December meeting with information on the Comprehensive Area Assessment / One Place assessment.
- (ii) that the timetable for external audit works to be undertaken during 2009/10 would be submitted to the December meeting.
- (iii) that the external auditors would report on the key findings from the reviews on the Buckinghamshire Pathfinder project and Buckinghamshire Health Inequalities phase 2 review among public sector partners to the December meeting, to allow Members to assess whether this information should be reported wider through the Council.
- (iv) that the audit work on grants claims had been completed and had not identified any major issues. The external auditors were required to issue a qualification letter to the Department of Works and Pensions.

RESOLVED –

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

6. AUDIT COMMITTEE WORK PROGRAMME 2009/10

The Committee considered the draft Work Programme for the financial year 2009/10 which included the changes agreed at the previous Audit Committee meetings in June and September 2009.

RESOLVED –

That the Work Programme, as updated at the meeting, be approved.

7. FUTURE MEETINGS

The next meeting of the Audit Committee would be held at 6.30 pm on the 7th December, 2009, in the Meeting Room at The Gateway, Gatehouse Road, Aylesbury.