

## CHILTERN DISTRICT COUNCIL

### MINUTES of the Meeting of the AUDIT SUB COMMITTEE held on 28 SEPTEMBER 2009

**PRESENT:** Councillor D W Phillips – Chairman

" A K Bacon  
" R J Barber  
" A D Garnett  
" D G Meacock  
" M Stannard

**IN ATTENDANCE:** Councillors J F Warder.

**ALSO IN ATTENDANCE:** Jon Barlow (Audit Manager) and Mick West (District Auditor) from the Audit Commission.

#### 7. **MINUTES**

The Minutes of the Audit Sub Committee held on 10 June 2009, copies of which had been previously circulated, were agreed by the Sub Committee and signed by the Chairman as a correct record.

#### 8. **DECLARATIONS OF INTEREST**

There were no declarations of interest.

#### 9. **EXTERNAL AUDITORS ISA260 REPORT AND MANAGEMENT REPRESENTATION LETTER**

As the Committee charged with governance, the External Auditors' Annual Governance Report (incorporating the ISA260 and draft Letter of Representation) was reported to the Audit Sub Committee. Jon Barlow and Mick West from the Audit Commission – the Council's external auditors – were in attendance to present the report.

The Statement of Accounts had been approved by full Council on 23 June 2009. There had been no changes as a result of the audit which would require re-approval of the accounts.

The audit was substantially complete and the External Auditors expected to issue an unqualified opinion on the Council's accounts by the 30 September statutory deadline. Similarly, the External Auditors had substantially completed their work on the Council's arrangements for achieving economy, efficiency and effectiveness in its Use of Resources and expected to issue an unqualified Value For Money conclusion by the statutory deadline.

## **Financial Statements**

Mick West advised that there had been no material errors found in the financial statements, although there were a number of issues to be resolved that had been raised with the Head of Financial Services. It was noted that the amendment for the accounting treatment for the Civil Enforcement Area deficit had now been agreed. Treatment of any future deficit on the account would require a policy decision regarding possible transfer to reserves.

The Sub Committee's attention was drawn to the fact that the accounts had not been amended for £161k mis-stated depreciation. This was the result of the district valuer's review of impairment being undertaken at the end of the financial year but being accounted for from the start of the financial year. However, it was not a material figure – as acknowledged by the Audit Commission – and the Head of Financial Services advised that the impairment value represented only a best estimate and that a different valuer could have given a different figure. The Audit Sub Committee noted the error but considered that to restate the accounts would result in increased work for little benefit to the Council and the residents of Chiltern.

Regarding revenue expenditure funded from capital under statute (REFCUS), Mick West noted that this was a new aspect of the 2008/09 accounts. The Council had applied REFCUS incorrectly in some instances, although there was no bottom line effect of this. The Head of Financial Services advised that these errors were the result of the Council continuing previous practices, and not fully appreciating the changes. The Audit Sub Committee noted the error and that it was not material and agreed that the accounts should not be amended. It was also agreed that this represented a learning point for the future.

The Statement of Total Recognised Gains and Losses (STRGL) had an unexplained balance of £165k. Mick West suggested that this indicated potential errors in the accounts and suggested that the figure needed to be accepted or investigated; however, it was not a material sum in terms of the Council's overall accounts. The Audit Sub Committee noted that this figure was not material against a budget of over £11m and that it represented an improvement from the previous year and for these reasons agreed that the accounts should not be amended.

## **Internal Control**

The External Auditors were satisfied that there were no material weaknesses in internal control. However, they had identified a number of control issues and they continued to work with the Council to progress these further prior to sign off.

Councillor Phillips suggested that it would be useful for the External Auditors to include an indication of the degree of risk that each issue gave rise to. The Audit Sub Committee suggested that the wording of this section of the report could be improved since, despite stating that the Council had no material weaknesses in internal control, the section was headed 'Material Weaknesses in Internal Control' implying that the bullet points listed were

material weaknesses. Mick West confirmed that the wording would be reviewed.

Regarding the progress that the Council had made in addressing the weaknesses identified in internal control, the Head of Financial Services advised that the existing authorisation controls for journals had been a conscious decision at the time of implementing the finance system. Only members of the finance team could process journals, and whilst the risks associated with the same members of staff inputting and posting journals had been acknowledged it had been decided to accept the risk, which was considered low, as separating these duties further would have a detrimental impact on the efficient operation of the team. The finance team had already met to review the documentation processes providing evidence for journals to further improve controls.

With regard to occasions when those authorising payments were exceeding their authorising limits, the Head of Financial Services reported that an email had already been sent to staff reminding them of the procedures to be followed. The Head of Financial Services added that controls were in place to prevent one person making an order, authorising it, and then paying the invoice. It was suggested that this was an issue where further discussion needed to take place with the External Auditors since a misunderstanding appeared to have occurred.

Regarding internal controls on treasury management authorisation, Councillor Phillips reported that he had shared the concerns of the External Auditors. However, following an investigation of the matter he was satisfied appropriate controls were in place but acknowledged that written assurance was not necessarily always prompt.

The Audit Sub Committee agreed that it would be useful if the External Auditors included an update on internal control, particularly around authorisation. Mick West confirmed that the External Auditors' November report would revisit the issue and sign post if it was no longer a concern.

### **Use of Resources**

Mick West reported that the Council had achieved at least minimum standards in each Use of Resources category. He explained that the assessment had changed for 2008/09 and was more challenging; most local authorities were expected to receive lower scores than in previous years. Mick West stated that Chiltern had scored a solid Level 2 overall, which was satisfactory with scope to advance. He added that a separate detailed Use of Resources report would be produced in due course detailing the full results. Councillor Barber suggested that it would be useful if this could include not only ways for the Council to improve its score, but also suggestions as to how the Council could better utilise its resources.

### **Audit Fees**

Mick West reported that the Audit Commission might need to charge an extra fee to cover additional work undertaken in their first year to document systems, gather Use of Resources background information and to undertake additional systems testing to obtain sufficient assurance due to their assessment of weak controls around journals and the payments system. He

added that the Council already received a 20% reduction in the standard audit fee. It was not yet known what the additional fee might be.

The Audit Sub Committee – and Councillor Warder, who was also in attendance – were strongly opposed to any such additional fee, and could not see any justification for an additional charge.

Mick West declined to answer a question from Councillor Stannard regarding the staff hours involved in the audit, stating that this was not how the fees were determined.

Councillor Phillips noted that the Audit Sub Committee had expressed similar concerns regarding external audit fees at previous meetings; most recently on 5 June 2008 (Minute 5 refers). He suggested that the Council should not pay any additional fee.

Mick West responded that the audit fee was predicated on a certain level of control being in place. Grant Thornton, The previous external auditors, had scored the Council at Level 3 for Use of Resources suggesting that sound controls were in place. The new auditor's assessment was that this had not been the case and additional testing was required.

Councillor Stannard referred to Mick West's earlier explanation that the Use of Resources assessment had in fact changed for 2008/09 and was more challenging. Mick West confirmed that the Use of Resources criteria had changed, however, the financial statements assessment remained unchanged. He stated that the Audit Commission had no knowledge of the Council's arrangements before beginning the audit, only the previous score was known. Despite their best efforts, the Audit Commission had been unable to secure the Use of Resources background information and system documentation from Grant Thornton. As a result it had had to be established by the Audit Commission.

The Audit Sub Committee expressed incredulity that the Council were going to be charged an additional audit fee since the Audit Commission were unable to obtain information from Grant Thornton – who the Audit Commission had *themselves* appointed as the Council's external auditor.

Councillor Phillips noted that the Audit Commission established best practice for external audit, and it rotated auditors on a cyclical basis. He suggested that the Council were entitled to expect that the Audit Commission could require its appointed auditors to hand over evidence to incoming auditors. Local authorities should not be charged for the failings of the Audit Commission.

Mick West acknowledged that the Audit Commission did appoint auditors. It did produce guidance on what should be handed over when auditors changed; however, it was within the rights of Grant Thornton to withhold this information if they wished.

Mick West added that the lack of Use of Resources background information and system documentation from Grant Thornton, was not the only reason the additional fee might be applied, citing the assessed lack of controls requiring

greater testing than expected. The Head of Financial Services advised that she was unaware of changes in the Council's accounting procedures to warrant significant additional work, and a consequent additional fee.

The Chief Executive expressed concern regarding the hand over process between outgoing and incoming auditors, and suggested that it was causing an on-cost to local authorities. He added that it was an issue that District Councils as a whole needed to raise with the Audit Commission.

### **Audit Committee**

Mick West advised that although it had not been made an issue for 2008/09, the Council needed to address the fact that a Scrutiny Sub Committee was dealing with governance issues. Guidance issued by CIPFA recommended that Audit Committees should be independent of the Cabinet and Scrutiny functions.

The Chief Executive advised that this issue would be raised at the meeting of the Constitution Review Committee on 6 October 2009.

### **Management Representation Letter**

Regarding the Management Representation Letter, it was confirmed that this would be signed off by the Council's Chief Executive and Section 151 Officer. Mick West requested that the Council set out its reasons for not amending errors highlighted by the external auditors in the financial statements.

### **RESOLVED -**

**That the Annual Governance Report be received and the Management Representation Letter be approved.**

*Note: Councillor D G Meacock left the meeting at 7.22pm.*

## **10. INTERNAL AUDIT SECTION – HALF-YEAR REPORT 2009/10**

The report before the Sub-Committee detailed the work of the Internal Audit Section for the half-year to September 2009. It detailed the audits completed, fraud and corruption reviews, and probity work undertaken.

Internal Audit gave an assurance rating for each completed audit, ranging from Full Assurance, where a sound system of control was in place; to No Assurance where the system was open to significant error / abuse.

No audits had been given No Assurance. There was one audit (relating to the newly introduced national performance indicators) which had been given limited assurance.

All Internal Audit reports detailed recommendations (where applicable) arising from Internal Audit work. Such recommendations were rated High, Medium or Low risk and detailed the officer responsible for implementing each recommendation and the date when the recommendation was

scheduled for implementation. The Chief Executive confirmed that the Council's Management Team were fully aware of the recommendations and implementation dates to ensure accountability.

Regarding data security, Councillor Phillips suggested that the outstanding recommendation requiring Council members to formally agree to the ICT Security Policy before using Council IT resources, should be completed promptly.

Regarding the use of Deloitte to supplement the work of Internal Audit, it was confirmed that Deloitte undertook the majority of specialist computer audit work. Councillor Garnett suggested utilising Deloitte's to train the Council's own internal audit staff.

**RESOLVED -**

**That the Internal Audit Section Half-Year Report for 2009/10 be noted.**

**The meeting ended at 7.56pm**