

CHILTERN DISTRICT COUNCIL

MINUTES of the Meeting of the AUDIT COMMITTEE held on 23 JUNE 2010

PRESENT: Councillor D W Phillips - Chairman

Councillors: A K Bacon
R J Barber
A Dibbo
D G Meacock
J F Warder

APOLOGIES FOR ABSENCE were received from Councillors A D Garnett

ALSO IN ATTENDANCE: Councillors J S Ryman

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

1 ELECTION OF CHAIRMAN

It was proposed by Councillor A Dibbo and seconded by Councillor A K Bacon that Councillor D W Phillips be elected as Chairman of the Committee for the remainder of the Council year, following which it was

RESOLVED –

That Councillor D W Phillips be elected Chairman of the Committee for the remainder of the Council Year.

Note: Councillor D W Phillips in the chair.

2 ELECTION OF VICE-CHAIRMAN

Due to the infrequency of meetings it was agreed that a Vice-Chairman would not be appointed.

3 MINUTES

The Minutes of the Audit Sub Committee held on 18 March 2010, copies of which had been previously circulated, were agreed by the Committee and signed by the Chairman as a correct record.

4 DECLARATIONS OF INTEREST

There were no declarations of interest.

5 AUDIT & INSPECTION FEE 2010/11

The Chairman welcomed Mick West (District Auditor) and Jon Barlow (Audit Manager) from the Audit Commission, the Council's appointed external auditors.

Mick West, advised that the fee discussions for 2009/10 had not yet been completed. An opinion would be given on the 2010/11 accounts based on International Financial Reporting Standards (IFRS) principles.

Recent announcements by central government regarding the abolition of the Comprehensive Area Assessment (CAA) regime and its related Use of Resources work would have an impact on the level of external audit fees for both 2009/10 and 2010/11. Mick West suggested that there was likely to be a reduction in both years, although details were not yet available.

Mick West clarified that the CAA and its related Use of Resources formed one strand of statutory work. The Audit Commission Act 1998 also required external audit to ensure that the Council had made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, producing a Value for Money conclusion. To prevent duplication, the Audit Commission had utilised the Use of Resources work to help inform the Value for Money conclusion. This made it difficult to determine the impact on fees of the abolition of the CAA and its related Use of Resources assessment.

The Committee expressed significant concerns about the annual audit and inspection fees applied to the Council. It was felt that the fees were not proportionate and did not take account of local circumstances; the 'light touch' which was meant to be applied to efficient councils such as Chiltern, was not happening. Chiltern were bracketed with other districts which had far larger populations and more complex activities and therefore carried greater risk. In light of the government's emergency budget and the ever-increasing financial constraints facing the Council, it was felt that it would be more appropriate for fees to be frozen or reduced.

Mick West suggested that the fee was proportionate, with 2008/09 used as a baseline. Local circumstances were also recognised. When the Audit Commission had taken over from Grant Thornton as the appointed auditors, their fee had been used as a starting point. However, a review had revealed that that fee had not been sufficient, and it had been indicated that an increase in the fee would be sought.

Members made reference to the meeting held on 28 September 2009 (Minute 9 refers) when Mick West had stated that the Audit Commission had been unable to secure the Use of Resources background information and system documentation from Grant Thornton. Concern was expressed that the Council had been charged an additional audit fee since the Audit Commission claimed it had been unable to obtain information from Grant Thornton – who the Audit Commission had *themselves* appointed as the Council's External Auditor. Local authorities should not be charged for the failings of the Audit Commission. The Chairman reminded Mick West that he, the Chairman, had had it confirmed by the Commission's Head of Operations 'that the information

provided by Grant Thornton to Mick West complied with the Commission's minimum requirements for a handover of an audit'.

Mick West responded that the Council had not been charged an additional fee for the extra work undertaken. Although Grant Thornton had provided the overall Use of Resources judgement, the background information and system documentation had not been provided. The Audit Commission had had to start from fresh in order to ascertain that the necessary controls were in place; however, no additional charge was applied.

Mick West added that the Audit Commission's Extranet site provided the fees for all local authorities. He suggested that the fee levied at Chiltern would be lower than those for other similar councils. A further measure was against the scale fee, and Chiltern remained below this figure. Mick West apologised if it was perceived from his fee proposal letter – dated 30 April – that there was a threat implied to impose full scale fees if his proposals were not accepted; this was not his intention.

RESOLVED -

That the Audit & Inspection Fee 2010/11 be noted.

Note: Councillor D G Meacock entered the meeting at 6.50pm.

6 INTERNAL AUDIT SECTION ANNUAL REPORT 2009/10

The report before the Committee detailed the work of the Internal Audit Section for the financial year 2009/10. It included the planned audits completed, Internal Audit resources, variations to the Internal Audit Plan, agreed recommendations, and those recommendations that had not been implemented by agreed dates.

The vast majority of audits had resulted in an audit opinion of either 'full' or 'substantial' assurance, meaning a sound system of control was in place. No audits had received 'No Assurance'.

It was confirmed that the Internal Audit section continued to work well with the External Auditors. Mick West noted that the Council were required to have an effective internal audit system in place. If the External Auditors could not rely on Internal Audit, more work would be required which would be reflected in the audit fee. It was noted that it was more economically beneficial to the Council for Internal Audit to undertake work in areas such as payroll, as opposed to the External Auditors. Mick West confirmed that utilising Internal Audit, when resources permitted, would reduce the audit fee; however, there were limits on the finance work that Internal Audit could undertake. Internal and external audit shared test plans, and the External Auditors had requested that Internal Audit review benefit claims which, if done, would help keep the Council's external audit fees down.

It was suggested that it would be useful to include the percentage of recommendations which had not been implemented by agreed dates. The

Audit Manager confirmed that the number was relatively small. Due to the lack of resources, those that were low risk did not tend to be followed up.

The Committee proceeded to go through the outstanding recommendations. It was noted that risk management training for new Cabinet members should take place in the summer. There had been a hold-up due to lack of resources in the legal section regarding the issue on the payroll contract. The Chairman requested an update on the three Members who had not signed up to the ICT Security Policy.

RESOLVED -

That the Internal Audit Annual Report for 2009-10 be noted.

7 STATEMENT OF ACCOUNTS

The Committee were asked to consider and approve the draft Statement of Accounts and Annual Governance Statement for the financial year 2009/10.

A supplement to the report was circulated at the meeting detailing the cash flow statement and providing some minor amendments.

The accounts were subject to inspection by the Council's appointed external auditor and further amendments might be required as a result of their findings. It was anticipated that the Council's external auditors would report the results of their audit to the Audit Committee on 23 September 2010.

The Head of Financial Services proceeded to introduce the Statement of Accounts taking the Committee through the following sections as detailed in the report:

- Explanatory Forward, Accounting Policies and Statement of Responsibilities
- Core Financial Statements
 - Income and Expenditure Account
 - Statement of Movement on the General Fund Balance
 - Statement of Total Recognised Gains and Losses
 - Balance Sheet
 - Cash Flow Statement
- Collection Fund
- Annual Governance Statement

The key points highlighted for 2009/10 were:

- (a) A revenue budget underspend of £459k or 4.2% of the approved budget
- (b) A significantly improved position on the General Fund balance.
- (c) A fall in income from investments as a result of the impact of the recession on interest rates.
- (d) Capital expenditure during the year of £1.6 million.
- (e) A decrease in the Council's net worth of £12.8 million mainly attributable to an increase in the council's net liability on the pension fund.

- (f) 99.2% of Council Tax and 98.4% of Non Domestic Rate income due for the year was collected.

Regarding the Statement of Recognised Gains and Losses, the Committee noted that the decrease in the authority's overall net worth was mainly attributable to an increase in the Council's net liability in the Pension Fund. It was explained that this represented an accounting valuation calculated at a point in time in accordance with accounting requirements and that it was not a cause for alarm. In the longer term the Council's financial position was unaffected as the deficit would be made good by ongoing contributions into the fund over the remaining life of employees. Employers' actual contributions into the Pension Fund were determined through the triennial actuarial valuation which was calculated on a different basis. The last valuation was carried out as at 31 March 2010 although any change in contribution rates would not impact until 2011/12. It was also noted that the Council's current pension contribution rate was already high. The Head of Financial Services advised that rather than opt for a reduction in contribution levels, the Council had adopted a more prudent approach and kept contribution levels constant, shortening the recovery period from 20 to 17 years. This meant that at the next review, there was flexibility to again adjust the deficit recovery period and avoid any increase in contribution rates. The Committee also noted that due to national concerns over the sustainability and affordability of public sector pension schemes that the new coalition government had commissioned a review.

Following a question, the Head of Financial Services explained that the large difference in the Net Cost of Services between 2008/09 and 2009/10 – as shown on the Income and Expenditure Account – was the result of significant impairment losses in 2008/09 coupled with a windfall VAT refund received in 2009/10.

The statutory timetable for the Statement of Accounts required the approval of the Council by 30 June and publication of the accounts by 30 September. There would be a period of public inspection between 9 August and 6 September.

The Committee went on to review the Annual Governance Statement which described the Council's framework of internal control and governance arrangements, and noted the control issues identified and plans in place to deal with these.

RESOLVED -

- 1. That the Statement of Accounts 2009/10 be approved and signed by the Chairman of the Audit Committee.**
- 2. That the Annual Governance Statement for 2009/10 be approved.**

8 CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) - PROGRESS UPDATE

The report before the Committee outlined progress on the requirement for local authorities to convert to International Financial Reporting Standards (IFRS) from 2010/11. An updated project plan was included together with a high level implementation timetable.

It was confirmed that the External Auditors would review progress in restating the 2009/10 UK GAAP accounts to an IFRS basis in October / November.

The Head of Financial Services confirmed that despite the additional work involved, Chiltern was on course to meet the IFRS requirements.

RESOLVED -

That the progress update regarding preparation for the introduction of International Financial Reporting Standards be noted.

9 AUDIT COMMITTEE WORK PROGRAMME

The Committee considered the work programme detailed in the report, which took account of the requirements of both Internal and External Audit, previous requests made at Audit Committee meetings, and ad hoc items.

RESOLVED -

That the proposed Work Programme be approved.

10 EXCLUSION OF THE PUBLIC

RESOLVED –

That under section 100 (A) (4) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business on the grounds that it involved the likely disclosure of exempt information as defined in Part 1 of Schedule 12A of the Act.

Note: The relevant paragraph number from Part 1 of Schedule 12A is indicated at the end of the Minute heading.

11 CORRESPONDENCE FROM THE AUDIT COMMISSION (PARAGRAPH 3)

The Chairman outlined correspondence he had been engaged in with the Audit Commission regarding audit fees and the issues surrounding the Audit Commission's replacement of Grant Thornton as the Council's appointed external auditors – as mentioned in Minute 6.

Neil Childs had replied to confirm that the Council had not incurred an additional fee as a result of the handover, and that Grant Thornton had supplied the information they had been required too. The Chairman added that a meeting would be held with Neil Childs and Jo Smail from the Audit Commission on 28 June. The Committee proceeded to discuss the issues that could be raised at the meeting and the Council's relationship with its appointed external auditors. It was noted that as a small district council, Chiltern's risks were considerably less than neighbouring authorities; this should be reflected in the audit fees imposed – proportionality was required.

RESOLVED -

That the meeting with Neil Childs and Jo Smail from the Audit Commission be noted.

The meeting ended at 8.20 pm