

CHILTERN DISTRICT COUNCIL

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

PRESENT: Councillor D W Phillips - Chairman

Councillors: A K Bacon
R J Barber
J F Warder

APOLOGIES FOR ABSENCE were received from Councillors A D Garnett and D G Meacock

ALSO IN ATTENDANCE: Councillors J S Ryman, Mrs E P Stacey and C J Wertheim

ALSO IN ATTENDANCE: Mick West (District Auditor, Audit Commission).

12 MINUTES OF PREVIOUS MEETING

The Minutes of the Audit Committee held on 23 June 2010, copies of which had been previously circulated, were agreed by the Committee and signed by the Chairman as a correct record.

13 DECLARATIONS OF INTEREST

There were no declarations of interest.

Note: Councillor R J Barber entered the meeting at 6.32pm.

14 EXTERNAL AUDITORS ANNUAL GOVERNANCE REPORT FOR THE 2009/10 AUDIT

Legislation required that the external auditors reported certain matters to those charged with governance – the Audit Committee – before giving an opinion on the Council's financial statements. The accounts needed to be signed off by the external auditors and published by the statutory deadline of 30 September 2010. Mick West from the Audit Commission, the Council's appointed external auditors, was in attendance to present the report and answer questions.

Financial Statements

Mick West advised that work on the financial statements was nearing completion. No material errors had been found, and he anticipated giving an unqualified opinion by the statutory deadline.

A few small errors had been found in the financial statements – one of which was now resolved – and the Audit Committee proceeded to review these.

The Council had chosen not to correct an overstatement of the Council's share of the long-term liability of the pension reserve. Mick West advised that in his opinion an error had been made in calculating the apportionment between the Council and the Chilterns Crematorium Joint Committee. The Chief Executive advised that the issue had been highlighted in the accounts of the Chilterns Crematorium. The Committee noted that this was related to a subjective apportionment between accounts, which had no material impact on the financial statements and no adjustment was deemed necessary.

The external auditors had also identified an unexplained balancing entry in the statement of recognised gains and losses. Mick West advised that it could indicate that there were errors in other parts of the Council's financial statements. However, he added that the Council's attention was only being drawn to the error, there was no need to comment on it in the letter of representation; it was not material and external audit would still issue an unqualified opinion. The Head of Financial Services added that the figure had reduced from the previous year. It was not considered an appropriate use of the Council's resources to find and correct the error, when little would be gained, and it had no material impact. The Committee endorsed this view.

The Council were required to agree to adjust the errors found by the external auditors, or set out the reasons for not doing so. The Chairman read out the Council's proposed response to the two errors outlined above. These responses were agreed by the Committee.

Mick West advised of a balancing item in the Cashflow Statement which was probably due to the changed accounting arrangements in respect of local taxation. The Head of Financial Services advised that this might also be the result of the change in methodology for calculating net cash flow – from the direct method of reporting in 2008/09, to the indirect method in 2009/10. It was emphasised that the balancing entry related to the Cash Flow Statement; it was an accounting error not a physical 'cash' error.

Mick West added that further clarification was being sought regarding the valuation of land leased to the Council for the Chiltern Pools and Chesham Leisure Centres. This could impact on the Council's Fixed Assets, and consequently on the Balance Sheet, but would not have a material impact.

Internal Control

No material weaknesses had been found in internal control; however, the external auditors report did identify some important weaknesses.

Regarding payroll exception reports, the Head of Financial Services advised that these were not reviewed. However, Aylesbury Vale District Council, who performed the payroll function under agreement on behalf of Chiltern, did review them. The Committee suggested that the exception reports were likely to be few and could be reviewed at Chiltern. The Head of Financial Services agreed to do this.

The external auditors had also identified that the Council was not evidencing as prepared or reviewed the reconciliations of the daily summary of collections and bankings. There was a similar lack of formal recording of reviews / checks in other areas. The Principal Accountant advised that he was confident a sound system was in place. Checks were undertaken but formal recording had not previously been considered necessary. The Committee agreed that it would promote good housekeeping to evidence such reviews and that this should be done in future.

Regarding journals, Mick West advised that this area was under discussion with the Head of Financial Services since the external auditors could have assessed the incorrect journals.

The issue of the failure to clear unpresented cheques promptly was related to long-term staff sickness. The Head of Financial Services confirmed that this area was now being addressed and the backlog cleared.

Value for Money

Mick West advised that he intended to issue an unqualified Value for Money conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Mick West was asked for his opinion of what the Council's approach going forward should be in light of the financial constraints facing local authorities, and the announcement that Suffolk County Council planned to outsource all of its services. Mick West responded that the Council's Value for Money conclusion suggested that Chiltern was going about things in the correct way. He expressed a neutral view of privatisation, suggesting that there was not any one solution. Mick West added that the impact of the Coalition Government's October Spending Review was not yet known, but local authorities were likely to face tough political decisions. The Chief Executive added that many District Councils, like Chiltern, had already outsourced many of their services. Due to uncertainty surrounding the Local Government Finance Settlement, for financial planning purposes, grant reductions of 25% and 40% had been evaluated in the Cabinet report of 14 September; this report would also be presented to the Performance and Resources Overview Committee for comment on 2 November 2010.

RESOLVED -

- 1. That the Annual Governance Report for the 2009/10 Audit be received and the Management Representation Letter – including the Council's response to the minor errors in the financial statements – be approved.**
- 2. That the comments of the Audit Committee regarding weaknesses in internal control be noted.**

Note: Councillor Mrs E P Stacey entered the meeting at 7.02pm.

15 INTERNAL AUDIT SECTION HALF YEAR REPORT FOR 2010/11

The report before the Committee detailed the work of the Internal Audit Section for the period April to September 2010. It detailed the planned audits completed, corporate work undertaken, Internal Audit resources and performance, variations to the Internal Audit Plan, and a list of recommendations that remained unimplemented by agreed dates.

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 received a rating of 'No Assurance' or 'limited assurance'.

The Head of Financial Services advised that the number of audits completed during the period had been reduced due to the long-term absence of the Senior Auditor. As a result there would be a shortfall in Internal Audit resources for 2010/11. A report would be going to the Council's Management Team to agree on a risk basis which audits would be deferred to the following year.

The Committee proceeded to review those internal audit recommendations which had not been implemented by agreed dates.

Regarding data security, it was noted that one Councillor had refused to agree / sign the Council's ICT Security Policy, stating that he did not use any Council equipment. Regarding sanctions if he continued to refuse to sign, the Chief Executive advised that ultimately it would be a Standards Committee issue. The Committee agreed that it was appropriate for all Members to sign up to the ICT Security Policy, noting that even if they did not use the Council's equipment, all Members had access to it and a Chiltern email address. As a result, it was further agreed that the Member in question be asked to reconsider his position and sign the Council's ICT Security Policy.

It was noted that since the expiry of the memorandum of understanding there remained no formal contract between Aylesbury Vale and Chiltern District Council regarding payroll services. The Head of Financial Services advised that the delay was due to capacity issues but the work was under way. The Committee acknowledged the importance of the contract and requested a finalisation date.

Regarding the clarification of contract terms with Nexus, it was noted that this was at an advanced stage. Members were reminded of the role of the Chiltern Leisure Advisory Board in monitoring the leisure contract. Reports were also regularly submitted to the Council's Community and Environment Overview Committee. It was hoped that the recently announced merger between Nexus and Greenwich Leisure Limited would afford greater investment in the Chiltern Leisure Centres.

Following a question from the Committee, the Head of Financial Services agreed to circulate the reasons for the change in the level of assurance – from Full to Substantial – for Members Allowances and the Chilterns Crematorium.

RESOLVED -

- 1. That the Internal Audit Section Half-Year Report for 2010/11 be noted.**
- 2. That the Councillor who had refused to sign up to the Council's ICT Security Policy be asked to reconsider his position.**

The meeting ended at 7.18 pm