

Audit & Governance Committee

26th September 2012

MINUTES

Present:

Councillor Derek Taylor (Chair), Councillor Roger Hill (Vice-Chair) and Councillors Roger Bennett and Yvonne Smith

Also Present:

Elizabeth Cave and Zoe Thomas (Audit Commission)

Officers:

A Bromage, T Kristunas and S Morgan

Committee Services Officer:

D Parker-Jones

11. APOLOGIES

Apologies for absence were received on behalf of Councillor Joe Baker.

12. DECLARATIONS OF INTEREST

There were no declarations of interest.

13. MINUTES

RESOLVED that

the minutes of the Committee held on 28th June 2012 be confirmed as a correct record and signed by the Chair.

14. COMMITTEE WORK PROGRAMME AND ACTION LIST

Members considered the Committee's Work Programme for the remainder of the 2012/13 Municipal Year. This included a new 'Action List' which had been established at the request of the Chair to ensure that any matters highlighted at meetings for Officer action were actioned and reported back on to Members. Once any actions

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had been completed and reported back on by Officers the item would then be removed from the Action List.

In relation to the Action List before Members that evening, Officers advised that a response had been received from the Department for Communities and Local Government on the Audit Commission's qualification letter on the Housing Revenue Account (HRA) subsidy. As a consequence of this, Officers stated that it was not practical to carry out a full review and that the Geographical Information System could be used as a possible solution, which both Members and Officers were satisfied with.

The Chair stated that there were some items to be actioned and reported back on arising from the minutes of the 23rd April 2012 meeting, which it was agreed he would email Officers a list of after the meeting for inclusion in the Action List. In response to questions from the Chair, Officers present from the Audit Commission provided further clarification in respect of the Housing Benefit Claim and HRA Subsidy (at Minutes 39 (1) and (2) - Audit Commission - Annual Grants Report 2010/11) of the 23rd April 2012 minutes, which did not require any further action.

The Chair requested that an item on the cumulative effect of there being no increase in Council Tax over the next 7 years be added to the Action List. He also clarified the detail regarding the Counter Fraud Initiative feasibility item already included in the Action List, which needed to cover social housing, sub-lettings, state benefits and procurement.

A further request was made by the Chair for Officers to look at what controls the Council had in place for those selling out funds and whether those controls were being properly operated, which Officers confirmed was already covered within the Audit Plan.

In relation to risk monitoring generally, it was agreed that Councillors Roger Bennett and Yvonne Smith would periodically examine the Council's Risk Registers to ensure that there were no issues arising which needed to be brought to the Committee's attention, and that they would report back on this to each meeting of the Committee.

Regarding the Committee Work Programme, Officers advised that the 'Review of effectiveness of Audit & Governance Committee' item which appeared under both the January 2013 and April 2013 meeting dates applied to the April meeting alone.

A request was made by the Chair, and supported by the Committee, that the draft Statement of Accounts in future be presented to the Committee for initial consideration at the point the

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Statement is issued to the External Auditors. This suggestion was supported by officers present from the Audit Commission who stated that it would be good practice for this to happen and that Grant Thornton (who were soon to be the Council's new External Auditors) would support reviewing the format of the Annual Accounts to reduce the volume of information currently included in these.

In relation to the Internal Audit annual programme of audits, Members requested that the Committee be permitted to add one area for audit to the programme each year, the subject matter of which would need to be agreed by the Committee. Officers advised that the draft programme of internal audits would be referred to the Committee for consideration in January, which would allow opportunity for consideration of an additional item for inclusion in the programme at that point. The programme would then be referred back to the Committee in April for final approval.

RESOLVED that

subject to the comments detailed in the preamble above, the Work Programme and Action List be noted and the amendments and updates raised to these be agreed.

15. AUDITED STATEMENT OF ACCOUNTS 2011/12

The Committee received the Council's Statement of Accounts 2011/12 for approval. A slightly updated version of the Statement to that included in the agenda papers was tabled by Officers, which it was confirmed contained minor typographical amendments and data changes.

Officers confirmed that the accounts had been signed off by the Executive Director of Finance and Corporate Resources on 30th June, and that in order to meet statutory requirements the Authority had until 30th September by which to gain Member approval on the Statement.

It was noted that changes had been made to the original Statement following submission to the District Auditors, which had focussed on:

- revised valuations of the Abbey Stadium and housing stock;
- additional notes regarding heritage assets (specifically the Paolozzi Murals);
- additional disclosures regarding shared services in accounting policies; and
- additional notes regarding financial instruments and trust funds.

Members discussed elements of the changes, the most significant of which related to the revised valuations of the Abbey Stadium and housing stock.

Officers present from the District Auditors highlighted the fact that a new accounting requirement had this year been introduced in respect of heritage assets. The issue with the Paolozzi Murals related to who owned these and the District Auditors recommended that before next year's Statement the Authority should resolve the legal issue of ownership. If it were then found that the Murals belonged to the Authority they would need to be included in the balance sheet.

RESOLVED that

- 1) the updated 2011/12 Statement of Accounts, as tabled at the meeting, be approved; and**
- 2) a copy of the Statement be signed at the meeting by the Chair.**

16. ANNUAL AUDIT OPINION 2011/12

The District Auditor presented her Annual Governance Report 2011/12 which summarised the findings from the 2011/12 audit.

She ran through the key messages contained in her report and confirmed that a material amendment had been made to the accounts following an error in the valuation of the Abbey Stadium. She concluded that she would be issuing unqualified opinions on the accounts and value for money (VFM) by the statutory deadline of 30th September 2012.

She outlined improvements which she felt still needed to be made to the Authority's accounts process before the accounts were submitted to the External Auditors, which included a more robust quality review of the accounts. However, none of the accounting issues were deemed to be substantial. In this regard, she reiterated her support for the suggestion made by the Chair earlier in the meeting that the draft Statement of Accounts be presented to the Committee earlier in the process.

Regarding VFM, Members' attention was drawn to the District Auditor's finding that the Council could not continue to rely on using balances to support expenditure, with considerable savings being necessary over the next 3 years. The Council would face considerable challenges in making savings at the same time as maintaining or improving services to the public. Whilst the 2012/13

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budget still contained unidentified savings which it was anticipated would be met by the shared services and transformation programmes, it was noted that it was difficult to specify transformation savings in advance. The District Auditor added that the Council's arrangements for managing its financial risks and for reporting delivery of savings needed to be more detailed and robust.

Members queried the reason for the significant initial undervaluation by the County Council of the Abbey Stadium. The District Auditor advised that this appeared to have arisen as a consequence of a miscalculation in the area size of the development, and added that the Council might therefore wish to set out to the County Council exactly what it expected by way of valuations in the future. The District Auditor further advised that following the valuation problems the Audit Commission had checked a sample of other valuations undertaken by the County Council, which had not raised any concerns.

The District Auditor went on to highlight her concerns with the Council's current risk management arrangements, and in doing so, reiterated her support of the suggestion made earlier in the meeting for two members of the Committee to be charged with reviewing the Council's Risk Registers.

Specific areas which the District Auditor felt required attention before the 2012/13 Statement of Accounts included:

- asset valuations: in light of the revised valuations necessary for the Abbey Stadium and housing stock;
- heritage assets: in particular the Paolozzi Murals to establish the issue of ownership of these;
- accounting policies for shared services: to simplify the current process for recharges and to look at introducing recharging of staff overheads and capital charges which were not currently recharged; and
- transformation: to produce detailed plans for savings which had been achieved from transformation as it was not apparent at present whether there had been clear financial savings as a consequence of transformation. The external auditors ideally wished to see reports on exactly what had been achieved by transformation projects and what savings had been made as a consequence, and if no savings had been made the reasons for this together with any planned actions.

Council Officers would be working with the District Auditors on the above issues. In relation to shared services, they would look at how charges should be split between the two Councils and

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subsequently recharged, together with which costs would not be included and therefore kept separate, in line with Members' expectations.

In relation to Housing Benefit transformation work, Officers commented that this was currently ongoing meaning that it was not possible to quantify savings at the present time, but that this would happen later this year. The District Auditor commented that Members could seek to have a timetable for when they would receive reports detailing progress with shared services and transformation. Members queried which Committee would receive such reports, to which the District Auditor responded that these would ultimately be for consideration by the Executive Committee (to consider savings plans and the delivery of any such savings), with it being the Audit & Governance Committee's role to ensure this process happened.

The District Auditor commented that the Executive Director of Finance and Resources needed to respond to the recommendations contained in the Action Plan at Appendix 4 to the Annual Governance Report. It was therefore agreed that a response be drawn up by Officers and considered at an additional meeting of the Committee which would ideally take place by the middle of November.

Members noted the contents of the Annual Audit Letter 2011/12 and the key challenges which lay ahead for the Council.

RESOLVED that

- 1) the Annual Governance Report 2011/12 be considered and noted;**
- 2) the draft letter of representation on behalf of the Council be approved;**
- 3) the Committee formally note the Annual Audit Letter 2011/12; and**
- 4) an additional meeting of the Committee be arranged, ideally to take place by the middle of November, to consider a response from the Executive Director of Finance and Resources to the recommendations set out in the District Auditor's Action Plan at Appendix 4 to the Annual Governance Report 2011/12.**

17. INTERNAL AUDIT - MONITORING REPORT

Further to the discussion earlier in the meeting under the Committee Work Programme and Action List regarding the addition of an item by the Committee to the Internal Audit programme of audits (Minute 14 above refers), Members considered the Internal Audit Monitoring Report as at 31st August, together with an update on Internal Audit matters raised by the Audit and Governance Committee at its meeting on 28th June 2012. Appendix 4 to the report provided an organisation structure of the Worcestershire Internal Audit Shared Service, which had been requested by the Committee at its last meeting.

Officers advised that further to publication of their report to the Committee that evening the Garages audit report had been issued and had been given a final Assurance Level of Significant. The Anti-Fraud and Corruption Survey had also been completed with no further risks having been identified with this.

Various other audits detailed in the report remained in progress, with the general direction of travel still being one of forward. Officers advised that where completed audits resulted in recommendations of either a high or medium priority, the recommendations would be brought to the Committee for monitoring.

Officers provided general clarifications in response to Members' questions on certain recommendations contained in the confidential Appendix 3 to the report. Officers were asked to check the position in relation to an invoicing matter and associated formulae (detailed at reference 2 to the Appendix) in order to avoid any repeat occurrence of this.

Members queried in general how they would know when any required actions had been completed. Officers confirmed that Internal Audit would usually bring to the Committee any exceptions, which included any inactions. Members could then decide how to take them forward. Officers present from the External Auditors confirmed that recommendation tracking which showed matters that had been actioned and completed was common practice and Officers agreed therefore that they would in future provide Members with an analysis of which actions remained ongoing.

RESOLVED that

the report be noted and that Officers in future provide the Committee with an analysis of which actions remained ongoing.

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(During consideration of this item Members discussed matters that necessitated the disclosure of exempt information. It was therefore agreed to exclude the press and public prior to any debate on Appendix 3 to the report ('High' and 'Medium' priority recommendations) on the grounds that information would be revealed relating to the prevention, investigation or prosecution of crime. However, there is nothing exempt in this record of the proceedings.)

18. EXCLUSION OF THE PUBLIC

RESOLVED that

under S.100 I of the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) Order 2006, the public be excluded from the meeting for the following matter on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 7 of Part 1 of Schedule 12 (A) of the said Act, as amended:

- **Internal Audit - Monitoring Report (as detailed at Minute 17 above)**

The Meeting commenced at 7.00 pm
and closed at 8.49 pm