

Audit & Governance Committee

24th January 2011

MINUTES

Present:

Councillor Bill Hartnett (Chair), Councillor Robin King (Vice-Chair) and Councillors Peter Anderson, Michael Braley, Andrew Brazier, Malcolm Hall and Roger Hill

Also Present:

David Evans (Audit Commission)

Officers:

T Kristunas, J Pickering and G Tanfield (Worcestershire Internal Audit Shared Services Manager)

Committee Services Officer:

I Westmore

23. APOLOGIES

Apologies for absence were received on behalf of Councillor William Norton.

24. DECLARATIONS OF INTEREST

There were no declarations of interest.

25. MINUTES OF PREVIOUS MEETING

RESOLVED that

the minutes of the meeting of the Committee held on 28th September 2010 be confirmed as a correct record and signed by the Chair.

26. AUDIT COMMISSION - ANNUAL AUDIT LETTER 2009/10

The Committee received and considered the Annual Audit Letter for 2009/10 as prepared by the Council's external auditors.

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Chair

The Letter provided a generally positive assessment of the Council's performance during the past financial year. It was noted that performance in the delivery of services was improving whilst the Council was also making significant savings against its original expenditure budget.

An unqualified opinion had been issued on the accounts of the authority in September 2010 and the Value for Money conclusion for the authority was also unqualified as the Council had been determined to have adequate arrangements to secure economy, efficiency and effectiveness. Unlike in previous years, however, a scoring system had not been used to assess the VFM conclusion. With the changes announced to the Audit Commission, work on VFM had been circumscribed and the assessment limited to whether arrangements were either adequate or inadequate.

The Letter noted the shared arrangements that had been put in place between Redditch Borough Council and Bromsgrove District Council and the likelihood that these arrangements would result in significant financial savings to the Council. The early adoption of these arrangements demonstrated the preparedness of the Council for the financial constraints that had come into effect over the past year or more. The letter did acknowledge that these arrangements were, likewise, one of the most significant areas of challenge and risk to the Council going forward.

Members noted that the Letter for 2009/10 contained just three recommendations. The efforts of staff involved in achieving this positive report were acknowledged. In response to further questions, the external auditor explained that the lack of advice for the future was essentially dictated by the restrictions placed upon the Audit Commission by the audit preparation rules within which they operated. The Committee was also informed that the Council had a sound balance sheet from the perspective of the Audit Commission, although the judgement as to whether the Council had too high levels of borrowing did not take account of how realisable were the Council's assets.

RESOLVED that

the recommendations included within the Annual Audit Letter 2009/10 be noted.

27. AUDIT COMMISSION - PROGRESS REPORT

The Council's external auditor presented a brief update on local and national matters that might be of interest to the Committee.

The planning of the audit work for the 2010/11 financial year was in progress and Members were made aware of changes in criteria for the coming year.

The Committee was made aware of the level of rebate for the 2010/11 audit fee that the Council could expect. The level of rebate identified in the report under-reported the overall level of rebate from the Commission to Local Government bodies more generally.

Members were informed of the moves that were being made to create a mutual business that would operate as an independent audit practice beyond the abolition of the Audit Commission.

RESOLVED that

current progress as presented in the report be noted.

**28. INTERNAL AUDIT – AUDIT QUARTERLY OUT-TURN
STATEMENT FOR THE PERIOD OF 1ST APRIL 2010 TO 30TH
NOVEMBER 2010**

Officers provided an update on the progress of the internal audit team against the programme of planned work for 2010/11. The Committee was informed that the team was behind schedule on the planned work, primarily as a result of the team having an un-filled vacancy and a member of staff having a period of long-term sickness absence. The time taken to complete ongoing audits had contributed to the slippage on the programme.

It was brought to Members' attention that chargeable and non-chargeable time had been differentiated for the first time in a report to this Committee. This differentiation had formed part of the original shared service agreement between the participating authorities. Chargeable time was charged to the Council but it was clearly in the interests of the service as a whole and the participating Councils to reduce the amount of non-chargeable time allocated to Officers.

The holding back of the work on financial services until the last quarter of the financial year was highlighted. Members were informed that this was planned and that it was considered best practice to carry out financial audits late in the year in order that the greatest assurance could be provided to management and external audit.

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Members were concerned that recommendations should be acted upon following the completion of audits. Officers informed the Committee that it was intended to procure specific audit software that would provide prompts to actioning Officers and other tiers of management in a process of escalation and that a recommendation tracker would be presented to the Committee henceforward.

RESOLVED that

the report be noted.

29. REVISED AUDIT ANNUAL PLAN 2010/11

Following on from the previous item, Members were presented with a revised audit plan for the present year which sought to address the slippage which had previously been identified.

The revised plan had been developed in consultation with senior management and took a more risk-focussed approach to the programme of planned work. The financial implication of this change would be a saving to the Council but it was stressed that the plans were not considered to be a diminution of the service provided as the emphasis would be very much on quality rather than quantity.

RESOLVED that

the report be noted.

30. PROVISIONAL AUDIT ANNUAL PLAN FOR 2011/12

In presenting the provisional programme of planned audit work for the 2011/12 financial year, Officers drew attention to a further reduction in the planned number of audit days. Submission of the provisional programme at this stage presented Members with the opportunity to have input into the programme, with the finalised programme being presented to Members at the next meeting of the Committee.

The key to reducing the numbers of days in the audit plan was reported to be an increasing focus on higher-risk areas and the reduction of time spent auditing systems which were considered immaterial. Heads of Service had been involved in discussions with audit managers over the final content of the provisional programme and consensus had been reached as to the content. Officers added that the Council, alongside the other participating authorities, had opted to achieve a 25% reduction in expenditure on internal audit

following the agreement of central Government funding to local authorities in December 2010. However, it was stressed that this saving was based on a contingency being made available to the service in Redditch to fund additional work should this prove necessary. This would be over and above the existing contingency built into the provisional programme and contingency could also be borrowed from that allocated to other Councils.

Members were keen that the effect of reducing the number of audit days so significantly be monitored going forward to ensure the reduction in activity was not to the detriment of the authority. It was reported by Officers that a monitoring statement would be submitted to each meeting of the Committee but that they were confident that the service would prove resilient. Further to this point, it was highlighted that the service, when taken as a whole across the County, would have a bigger pool of expert auditors to call upon. The use of internal auditors from other Councils was also seen to have benefits in terms of bringing a fresh perspective to the systems being audited and reducing any tendency towards cosy complacency. A particular strength of the new system would be an increase in the numbers of IT specialists available to the Council.

Members mentioned the work that had been undertaken previously in terms of the boosting of management capability by the internal audit team. It was confirmed that there would still be scope for advisory or consultancy work within the programme.

RESOLVED that

subject to the comments outlined above, the provisional programme of planned audit work for 2011/12 be approved.

31. INTERNAL AUDIT PROGRESS REPORT

The Committee considered an update to Members regarding the audits completed in the period June to November 2010.

The primary concern of Members was that certain problems tended to recur year after year which might hint at wider organisational issues. Officers undertook to address the issue of such recurrent problems through consideration by senior management at Corporate Management Team. Where such issues were related to income recovery, it was also noted that Council inaction in this area could have reputational risks for the Council as well as setting a poor precedent.

RESOLVED that

the report be noted.

32. TREASURY MANAGEMENT STRATEGY, PRUDENTIAL INDICATORS AND MINIMUM REVENUE PROVISION POLICY FOR 2011/12

Officers explained that this report, which was produced and considered on an annual basis had previously been considered by the Executive Committee. However, given the raised profile of treasury management in recent years following the collapse of a number of banks, it was considered that the subject required closer scrutiny, hence why it had been submitted to the Audit and Governance Committee.

It was reported that Redditch Borough Council had maintained a relatively low-risk investment policy in recent years with no investments extending beyond 364 days and the majority of borrowing taking place mainly from other local authorities. The Council was a net borrower with a capital programme largely funded by borrowing and it was not anticipated that this situation would change.

Members noted that it currently cost £1M to service the Council's debt. Whilst this figure was not a major burden upon the Council, it was made clear that this level of debt repayment did limit the scope to fund other, additional services through the Council's revenue spending.

It was suggested that the Council might not be obtaining the best return on its investments through its policy of short-term lending. Officers commented that higher rates of return were generally associated with increased levels of risk to the Council, but an undertaking was made to investigate risks and benefits in the conversion of short term borrowing to long.

RECOMMENDED that

subject to the comments in the preamble, above, the Treasury Management Strategy, Prudential Indicators and Minimum Revenue Provision Policy for 2011/12 be approved.

33. COMMITTEE WORK PROGRAMME 2010/12

RESOLVED that

the programme of future work for the Committee be noted.

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The Meeting commenced at 7.00 pm
and closed at 8.59 pm

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Chair