

# **Audit Committee**

**Thursday, 30 June 2011**

**Present:** Councillor Anthony Gee (Chair), Councillor Julia Berry (Vice-Chair) and Councillors Marie Gray, Paul Leadbetter, Pauline Phipps, Alan Platt and Geoffrey Russell

**Officers Present:** Gary Hall (Director of Transformation), Susan Guinness (Head of Shared Financial Services), Garry Barclay (Head of Shared Assurance Services), Chris Moister (Head of Governance), Clare Ware (Shared Financial Services Internal Audit Manager), Jan Minchinton (Principal Auditor (Chorley)) and Ruth Rimmington (Democratic and Member Services Officer)

**Also in attendance:** Tony Hough (Audit Manager, Audit Commission)

## **11.AU.16 APOLOGIES FOR ABSENCE**

An apology for absence was submitted on behalf of Councillor Dave Rogerson.

## **11.AU.17 DECLARATIONS OF ANY INTERESTS**

No Members declared an interest in respect of items on the agenda.

## **11.AU.18 MINUTES**

The minutes of the Audit Committee held on 17 March 2011 were confirmed as a correct record for signature by the Chair.

## **11.AU.19 TREASURY MANAGEMENT ANNUAL REPORT**

The Committee received and considered the report of the Director of Transformation updating Members on the Council's treasury management strategy. Part of the changes in the regulatory environment, concerning treasury management, was a greater onus on Members to scrutinise policy and activity.

The report updated on the prudential indicators. Borrowing had remained within limits and had been undertaken at the bottom of the interest curve. The funds for the Buckshaw Village Railway Station had not yet been required resulting in more cash in balances than anticipated.

Clarification was requested on the definition of MRP and the figures showing the incremental impact of capital investment decisions on Council Tax.

Members noted the treasury position, the positive position in relation to debtors and creditors and that Investments had gained interest of 0.65% compared to a bench mark of 0.43%.

In relation to Icelandic banks a judgement had been delivered upholding the priority status of Local Authorities, although this was still subject to further challenge in the Icelandic Supreme Court in the autumn. The book value of the investment at 31/3/11 was £1,570,000, however, the actual amount that would be received was currently expected to be £1,965,000. In response to a query officers confirmed that, technically, the Council would receive the money back with an element of interest.

**RESOLVED –**

- 1. The report be noted**
- 2. Clarification be on the definition of MRP and the figures showing the incremental impact of capital investment decisions on Council Tax.**

**11.AU.20 ANNUAL GOVERNANCE STATEMENT 2011**

The Head of Shared Assurance presented a report to remind the Committee of the regulatory framework requiring the Council to continuously review its system of governance and to formally publish an annual governance statement alongside its annual financial statements.

A management group consisting of the following officers was established to oversee the compilation of the statement, which included Head of Governance (Monitoring Officer), Director of Transformation (Section 151 Officer), Head of Policy and Communications, Head of Shared Assurance Services and Internal Audit Manager.

Members considered the draft annual governance statement which had been produced in accordance with guidelines issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE).

Members requested that an electronic solution be investigated to allow the submission and display of Councillors disclosures. In response to a query officers advised that the whistle blowing policy was raised as part of staff induction, but this was an area where awareness needed to be raised with staff. The policy included whistle blowing via an external body.

The governance arrangements for working with Partners were clarified and Members were advised that a monitoring report was presented to Executive Cabinet twice a year.

**RESOLVED**

- 1. The Annual Governance Statement be formally signed off by the Leader and Chief Executive before being submitted for external audit alongside the 2010/11 financial statements.**
- 2. An electronic solution be investigated to allow the submission and display of Councillors disclosures.**

**11.AU.21 DRAFT CORE FINANCIAL STATEMENTS 2010/11**

The Committee received a draft summary of the Core Financial Statements and key messages that would form part of the Council's year end Statutory Statement of Accounts (SOA) for 2010/11.

This was the first year these statements had been produced in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11, which was based on International Financial Reporting Standards. This resulted in some significant changes in both the approval process and format. A member learning session had been scheduled on Monday, July 4, 2011 entitled 'understanding Local Government finance' which all Members had been invited to attend.

This Committee was not required to approve the SOA by 30 June before inspection by external auditors, but would give them final approval prior to 30 September as they have done previously.

One of the main changes in the figures was the inclusion of an accrual for outstanding holiday entitlement. It was clarified that only 3 days could be carried over and this

figure did not appear in the accounts or have an impact on Council Tax as it was 'below the line'.

The Committee considered the movement in reserves and noted that the strategy to increase reserves and working balances to £2,000,000 had been achieved. An amount of slippage was always anticipated.

Members reviewed the comprehensive income and expenditure statement and noted, firstly, the exceptional item of income of £5,580,00 which was an adjustment to the estimated pension liabilities of the Council in respect of past employment. The second major item was also pension related as the actuary had reassessed the assets and liabilities of the fund and made a net £6,100,000 reduction in liabilities. The effect of these and other pension changes was a reduction of £10,400,000 in the pension deficit.

The balance sheet position was positive in relation to short term debtors and creditors. Officers would confirm the performance indicator information in relation to these.

In response to a query officers undertook to give detail on the reclassification of two leases as finance leases.

Members were advised that the balance on the cash flow statement was taken on a set date and timing made the balance figure difficult to interpret.

Members considered the collection fund account and requested a breakdown of figures by precepting authority for the debts written off. The Committee congratulated officers on the performance for the collection of Council Tax, particularly in the current economic climate.

#### **RESOLVED**

- 1. To note the report.**
- 2. To confirm the performance indicator information in relation to short term debtors and creditors for the three categories: 10, 22 and 30 days.**
- 3. To produce a breakdown of figures by precepting authority for the debts written off.**

#### **11.AU.22 INTERNAL AUDIT ANNUAL REPORT 2010/11**

The Head of Shared Assurance Services presented the internal audit annual report 2010/11 which summarised the work undertaken by the service during the 2010/11 financial year and gave an opinion on the adequacy and effectiveness of the control environment in the Council as a whole and in individual service areas.

Members noted that the majority of reviews had been completed, although for Shared Services there had been 135 planned days with only 91.3 used.

Officers advised that the 'efficiencies' audit area had been postponed pending a new system for Value For Money conclusions being introduced. Tony Hough, Audit Commission, advised that although the Comprehensive Performance Assessment was no longer in existence the Audit Commission were still required to provide a Value For Money conclusion.

There was only one area with a control rating of 'limited' and actions had been put in place to resolve the issues raised.

In relation to Benefit fraud the Committee queried the identified overpayment figures in percentage terms in respect of benefits and noted that recovery exercises would be carried out following investigations into each case. These had been highlighted as part of the National Fraud Initiative.

Members discussed the method the target was selected for the percentage of the audit plan completed, currently 92%, and requested officers revisit this target. It was noted that the target for customer satisfaction was high (96%) considering the nature of the service.

There was an issue with the number of agreed management actions implemented and the Head of Shared Assurance advised that more information on these would be provided in future.

Members were pleased that, in the opinion of Internal Audit, the Council continued to operate within a strong control environment.

**RESOLVED**

1. **To note the report.**
2. **To present further information on the agreed management actions that had not been implemented.**
3. **To review the target “% of audit plan completed”.**

**11.AU.23 ANNUAL AUDIT FEE 2010/11**

The Committee received a letter from the Audit Commission giving details of the annual audit fee for 2011/12. Tony Hough advised that the figures could be subject to further rebates.

Gary Hall advised that a letter had been sent to the Commission stating that the fees were high in the Council's opinion.

**RESOLVED to note the letter from the Audit Commission giving details of the Annual Audit Fee for 2011/12.**

**11.AU.24 COMPLIANCE WITH INTERNAL AUDIT STANDARDS**

The Head of Shared Assurance Services presented a report comprising information to enable 'those charged with governance' and 'management/section 151 officer' to provide the assurances being sought by the Audit Commission in respect of fraud and corruption as part of their audit of the Council's 2010/11 accounts.

Members noted that Internal Audit, having reviewed the specific information were satisfied that the Council's arrangements were such that positive assurances could be given in response to the Audit Commission.

**RESOLVED to request the Chairman of the Committee and Section 151 statutory chief finance officer to sign the assurance letters .**

Chair