

# **Audit Committee**

**Thursday, 29 September 2011**

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

**Officers Present:** Gary Hall (Director of Transformation), 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)), Gordon Whitehead (Principal Financial Accountant) and Ruth Rimmington (Democratic and Member Services Officer)

**Also in attendance:** Fiona Blatcher (Engagement Lead, Audit Commission)

## **11.AU.25 APOLOGIES FOR ABSENCE**

No apologies for absence were submitted.

## **11.AU.26 MINUTES**

**RESOLVED - The minutes of the Audit Committee held on 30 June 2011 be confirmed as a correct record and signed by the Chair.**

## **11.AU.27 DECLARATIONS OF ANY INTERESTS**

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

## **11.AU.28 ANNUAL ACCOUNTS AND GOVERNANCE REPORT**

The Committee received the Annual Governance report from the Audit Commission and the Annual Accounts from the Statutory Finance Officer, Gary Hall.

The Chair thanked the Head of Shared Financial Services and Principal Financial Accountant for the training session they had delivered the previous week.

Although the Committee were supplied with a summary report on the accounts in June the Accounts and Audit (England) Regulations 2011 required that members considered and approved the accounts by 30 September 2011. The auditor had now completed the audit and their report was enclosed with the agenda.

The auditor planned to issue an unqualified opinion on the Financial Statements and, an unqualified Value for Money Conclusion. There were no significant weaknesses in internal control identified and the auditor had reported positively on the quality of the accounts and the supporting workings.

Only one misstatement had been identified in relation to a reduction of £374,000 in the parking enforcement debtor. The adjustment had been miscoded leading to an overstatement in both debtors and creditors. This had been adjusted in the Statements submitted and the quality assurance process would be reviewed to ensure this kind of error would not happen again.

The accounts set out the financial position of the Council and showed confidence that the governance arrangements were robust. Savings were required and this would be a challenge for the Council, but good financial governance were essential going forward. The Council was in a strong financial position as a balanced budget had been achieved whilst not depleting balances.

Underspends were considered acceptable if the Council had achieved what it set out to do and the performance report showed that performance remained good. The Council actively tried to increase working balances at this time, given the financial uncertainty ahead. The unknown risk and cost of community transport had been removed. The only liability going forward was pensions and this was currently reducing. There was a risk of disruption in relation to potential changes to the pension scheme.

In relation to maintaining excellent service provision in challenging financial times Gary Hall advised the medium term financial strategy was a key document which considered how the Council might look to become more efficient over time. These included planning fees, the rationalisation of assets and contracts; a significant one being the waste contract. To address the remaining shortfall there were options, including challenging working practices, reviewing overtime, terms and conditions and reducing the workforce. All options would need to be considered.

Members queried performance monitoring arrangements with partners and Gary Hall reported the Council had a performance framework in place, which set out targets to be achieved. Outcomes were reported to Executive Cabinet twice a year including whether the contract was on budget and an assessment of financial strength and stability. Officers clarified that 4% had been used in the budget forecasts and this would be discussed with partners going forward.

The Committee discussed the risks posed to the Council arising from the changes to the pension scheme, including the potential for strike action by staff. The Chair requested that this issue be considered at a future meeting of All Party Leaders.

Fiona Blatcher, Audit Commission, reported that the annual accounts were of a very high standard, especially considering the implementation of the new Code of Practice on Local Authority Accounting, based on International Financial Reporting Standards (IFRS). There were fewer errors in the accounts than she had observed in other Local Authorities.

Fiona Blatcher advised that the Council was ahead of other Local Authorities in its approach to looking forward, striving for Value For Money and achieving a balanced budget which was not based on speculation.

The Vice-Chair commented that, due to the timing of the meeting, if there had been any issues which needed to be clarified there would not have been time to do so as the accounts needed to be approved by the following day. Officers suggested that the full statements be considered by the Committee in June next year, instead of just the primary statements.

#### **RESOLVED**

- 1. The Annual Governance Report be noted.**
- 2. The issue of risks posed to the Council arising from the changes to the pension scheme, including the potential for strike action by staff be considered at a future meeting of All Party Leaders.**
- 3. The Statement of Accounts for 2010-11 be approved.**
- 4. The Chair and Chief Executive be authorised to sign the Letter of Representation.**
- 5. To present the full statement of accounts to the Committee in June 2012.**

#### **11.AU.29 TREASURY STRATEGIES AND PRUDENTIAL INDICATORS 2011/12 TO 2013/14**

Gary Hall presented a report which reviewed the Treasury and Investment Strategies approved by the Council on March 1 2011. The document reported performance in

the first half of the year and compliance with prudential indicators. The Code of Practice for Treasury Management specified that the Council should review the treasury strategy and activity half yearly.

The Council had a statutory duty to determine and keep under review the "Affordable Borrowing Limits" within the approved Treasury Management Statement. In line with this, and the turbulence in the financial markets, the Council's Treasury Advisor, Sector, had recommended restricting deposit periods to three months for all institutions excepting the part nationalised banks.

Gary Hall confirmed that the Council had put all possible steps in place to minimise the risks which included the recommendation within this report. Since the report had been written a significant proportion of the Council's deposits had been placed within government accounts.

In response to a query on the Landsbanki situation Gary Hall advised that the Icelandic courts had previously upheld the Council's status as a priority creditor, but an appeal against that judgement would be heard by the Icelandic Supreme Court mid September, with a decision to be announced within the following month.

**RESOLVED - The report be noted, in particular that the maximum period for deposits with institutions other than the nationalised banks was currently restricted to 3 months.**

#### **11.AU.30 FUTURE OF EXTERNAL AUDIT ARRANGEMENTS**

The Committee received a letter which had been sent to the Chief Executive from the Audit Commission outlining the future arrangements for External Audit.

Fiona Blatcher advised a further letter had been sent in to the Chief Executive. The Audit Commission was currently in a transitional phase as in the future and Councils' would be able to appoint their own auditors. Contracts had been drawn up for geographical areas and once the contracts had been awarded there would be a consultation exercise. The contracts would be let on a 3 or 5 year basis.

A group from within the Audit Commission had formed a separate company to bid for these contracts. Audit Commission staff were expected to be TUPE transferred across to the company which won the contract.

Gary Hall expressed his concerns over the proposed changes, including Chorley having no say over who the auditor would be, as Chorley would be incorporated into a sub-regional "lot". There were concerns that the size of the contracts on offer and the proposed TUPE provisions would restrict new entrants to the market and result in a "carve up" between the top 4 accounting firms which would do little to strengthen competition. There were also concerns in relation to the quality of the external product.

#### **RESOLVED**

- 1. The update be noted.**
- 2. The Chair write to the Department for Communities and Local Government to express the concerns of the Committee on the future of external audit arrangements.**

#### **11.AU.31 PROPOSED WORK PROGRAMME AND SCALES OF FEES 2012/13**

The Committee received and considered the proposed work programme and scales of fees 2012/13 from the Audit Commission.

Fiona Blatcher reported that the audits would be undertaken by the firm which won the contract. The Audit Commission would oversee the contracts and set the fees. There was currently a 10% reduction in the fees but the fees would be confirmed in April once the contracts had been let.

Gary Hall reported that, in his view, the fees were too high for the levels of service provided, in particularly in a competitive market. Also, as the Council was a 4 star authority with a strong governance and value for money pedigree under which annual audits consistently revealed no significant issues of concern the fees should be reduced.

#### **RESOLVED**

- 1. The proposed work programme and scales of fees 2012/13 be noted.**
- 2. The Chair write to the Department for Communities and Local Government to express the concerns of the Committee in relation to the scale of fees for 2012/23**

#### **11.AU.32 INTERIM INTERNAL AUDIT REPORT**

The Head of Shared Assurance Services presented a report advising the Committee of the work undertaken in respect of the Internal Audit Plans for Chorley and Shared Services during the initial four months of 2011/12.

[Jan Minchinton](#), Principal Auditor, reported that the plan was on target to be achieved, with reviews completed to date receiving either “substantial” or “adequate” rating. Members considered appendix 1 which outlined the overall progress made in relation to the plan and appendix 2 which provided information on Internal Audit performance as at the end of July 2011.

The report highlighted one management action which was outstanding from the audit of driving licenses and insurance in relation to Members. Officers clarified that this issue had been raised by the Council’s insurers and posed a reputational risk for the Council.

The agreed way forward was for a letter be sent reminding Members of their responsibility to have a valid driving licence and MOT certificate (where required) and to check with their insurance company that they had adequate business insurance in order to undertake council business using their car. Officers highlighted that the responsibility lay with Members and checks would not take place although the travel and subsistence claim form would require them to sign up to this in making a claim. There would be an annual reminder letter to Members, and this information would also be included in the new Members induction information. The information would indicate that this would not apply just to those Members making a claim, but to all those who use their car to attend meetings and meeting constituents etc.

#### **RESOLVED**

- 1. The report be noted.**
- 2. The Chair write to all Members reminding them of their obligations in relation to business use insurance.**

#### **11.AU.33 THE BRIBERY ACT 2010**

The Monitoring Officer presented a report advising the Committee of the impact and requirements of the Bribery Act 2010.

The Bribery Act imposed new responsibilities on commercial organisations to prevent bribery being undertaken by employees or associated persons. The Council’s existing policies, procedures and codes of practice satisfied the principles, which if complied with, provided a defence to any potential prosecution.

The anti-fraud and corruption strategy would be reviewed in relation to this and training would be offered to both officers and Members.

**RESOLVED - The report be noted.**

Chair