

AUDIT SUB-COMMITTEE

28th September 2011

**PRESENT:-**

**Conservative Group**

Councillor Harrison (Chairman), Councillor Mrs. Patten (Vice-Chairman) and Councillor Ford.

**Labour Group**

Councillors Bell and Shepherd.

AS/9. **MINUTES**

The Open Minutes of the Meeting held on 23rd June 2011 were taken as read, approved as a true record and signed by the Chairman.

**MATTERS DELEGATED TO SUB-COMMITTEE**

AS/10. **ISA 260 REPORT ON THE COUNCIL'S ACCOUNTS AND FINANCIAL STATEMENTS FOR 2010/11**

A report was submitted by Grant Thornton, the Council's appointed auditors. This was the statutory annual report on the Council's accounts and financial statements for 2010/11. The Sub-Committee was asked to consider the report and its recommendations, together with the proposed management responses. Jon Roberts and Kate Taylor of Grant Thornton was in attendance at the Meeting and presented the report. It provided details on the audit of the Council's accounts, financial statements and financial systems for 2010/11, together with issues arising. Consequently, it provided an opinion on the accounts. The accounts and financial statements would then be presented to the Finance and Management Committee for formal adoption and publication on 29th September 2011.

In addition, the report assessed overall value for money arrangements. At the end of the audit, the Council was required to provide a letter of representation. This required the Council's Chief Finance (Section 151) Officer to provide assurances about the status of the accounts and financial statements. It also confirmed that the appropriate law, regulations and codes of practice had been complied with and that no irregularities existed that could have a material effect on the financial statements. Essentially, it confirmed that there were no material issues or transactions, other than those already reported and disclosed, that could materially affect the accounts for 2010/11. At the end of this process, the Chief Finance Officer would officially sign the letter to finalise this particular part of the audit work for the year.

The Auditors confirmed the areas that they had a duty to report on. Some quantitative and qualitative elements had been identified and the auditor referred to the adjustments that had been required as a result of the audit. There had been a demonstrable deterioration in the quality of the accounts, compared to previous years and some issues that were still to be resolved. The auditor asked that it be recorded that this had been brought to the Sub-Committee's attention.

Further detail was provided on the audit adjustments and issues outstanding, relating to cash flow and the Whole of Council Accounts, with the auditor also giving examples of areas where adjustments were required. It was questioned whether the move to International Financial Reporting Standards (IFRS) was the cause of these issues. However, this was not the sole reason and there were also issues around valuation, revaluation and depreciation. Officer input was sought on the reasons. A key cause was an IT module attached to the Asset Management System for capital accounting, which was no longer considered fit for purpose. Few authorities were now using this system and a simple spreadsheet might be another option going forward. It was clarified that none of the issues raised affected the 'bottom line' account figures.

The auditor then referred to classification issues. Arising from a Member's question, Officers explained the respective roles of the Sub-Committee and Policy Committee with regard to performance monitoring.

Consideration was given to the Financial Statements Audit, with the auditors highlighting unadjusted misstatements. Officers gave a context on the comparative amounts involved and it was explained how these matters would be addressed for the following year. Further explanation was provided in response to a Member's question, regarding the property, plant and equipment references within the Financial Statements Audit.

The Sub-Committee signified its acceptance of the officer responses to the points raised in this section of the auditor's report.

Consideration was then given to the appended action plan. It was suggested that periodic reports should be provided to the Sub-Committee on the implementation of these actions, with the first report being to the next Sub-Committee meeting.

Issues were raised relating to journals and how the public was made aware of the opportunity to inspect the accounts. There was concern over the late circulation of this item and it was questioned why the quality of the accounts had slipped so significantly. Another issue was the problems resulting from the inadequate IT system and whether compensation could be pursued.

**RESOLVED:-**

- (1) That the Sub-Committee approves the recommendations in Grant Thornton's report and notes the content of the Audit Letter.***
- (2) That periodic reports are provided to the Sub-Committee on the implementation of the Action Plan, with the first report being to the December Sub-Committee meeting.***

**AS/11. A REVIEW OF THE ARRANGEMENTS FOR SECURING VALUE FOR MONEY**

Grant Thornton presented its annual assessment on the Council's arrangements for securing value for money. The Sub-Committee was requested to consider the report and its recommendations, together with the proposed management responses.

Following the abolition of the Use of Resources Assessment in 2010, the Audit Commission introduced a new approach to assessing value for money (VFM) at a local level. The auditors were required to issue a broad conclusion on whether the Council provided VFM. The report submitted gave a more detailed assessment. It determined whether the Council had proper arrangements in place for securing both financial resilience, together with economy, efficiency and effectiveness. This was undertaken against a set of criteria, considered to be good practice, and which were detailed within the report. Grant Thornton's representatives presented the circulated report.

In all but one area, the Council was assessed as having adequate arrangements and key characteristics of good practice in place. Financial control was assessed as having potential risks, although there was evidence that the Council was addressing this. The report would also be presented to the Finance and Management Committee at its Special Meeting on 29th September 2011, for ratification and publication.

The auditor presented the report, explaining its format. The key message was that the majority of assessments were 'green', meaning that the arrangements were at or exceeded adequate standards. The Sub-Committee was informed of those areas rated as 'amber', meaning there were potential risks or weaknesses and considered each of these areas in turn.

Members asked about planned monitoring of the 'amber' areas, particularly around the Finance Department's staffing levels. Officers confirmed the ongoing discussions with Northgate and the additional staffing provided temporarily for the accounts process. Comparative figures were given on staffing levels, together with a recent, unsuccessful recruitment process for a senior post. It was felt that the Sub-Committee should also receive periodic updates on these areas.

**RESOLVED:-**

- (1) That the Sub-Committee approves the report and that the issues arising are referred on to the Finance and Management Committee.***
- (2) That periodic monitoring reports are provided to the Sub-Committee on the areas assessed as potential risks/weaknesses, with the first report being submitted to the December Sub-Committee meeting.***

AS/12. **SUMMARY OF INTERNAL AUDIT REPORTS 2011/12 (JUNE – AUGUST)**

It was reported that the Internal Audit team undertook its work in accordance with the Council's Strategic Audit Plan. Reports and memoranda were produced for many areas, detailing recommendations for improvements in internal control. A summary of reports recommending improvements to potential high-risk control weaknesses was submitted. This summary also included progress on the implementation of recommendations reported previously. Details were provided of those areas that Internal Audit had undertaken work on during the previous period. The Internal Audit service had also given advice on control and corporate governance issues. It was noted that Derby City Council's Internal Audit Service was undertaking audits during this period, as part of the partnership arrangement. Statistics were provided on the audit work completed against target. The percentage completed for this period was lower than planned, as a result of the transitional arrangements for the implementation of the partnership with Derby City Council.

Details were provided of planned format changes to this report in the future, to give additional detail. In response to Members' questions, information was provided on the banking arrangements and with regard to the implementation of the partnership arrangement with Derby City Council.

**RESOLVED:-**

***That the summary of Internal Audit Reports is noted and that it be recommended to Finance and Management Committee that no further action is required.***

J. HARRISON

CHAIRMAN

The Meeting terminated at 5.25p.m.