

AUDIT SUB-COMMITTEE

26th September 2007

PRESENT:-

Conservative Group

Councillors Timms (Chairman) and Councillor Atkin.

Labour Group

Councillor Lane (Vice-Chairman) and Councillor Shepherd.

AS/9. APOLOGY

An apology for absence from the Meeting was received from Councillor Mrs. Brown (Independent Member).

AS/10. MINUTES

The Open Minutes of the Meeting held on 21st June 2007 were taken as read, approved as a true record and signed by the Chairman.

MATTERS DELEGATED TO SUB-COMMITTEE

AS/11. AUDIT COMMISSION – ANNUAL GOVERNANCE REPORT 2006/07

The Sub-Committee received a presentation from Andrew Blackburn, the Council's Relationship Manager at District Audit on the Statutory Annual Report on the Accounts and Financial Statements for 2006/07. Sally Smith, the Audit Manager was also in attendance. The governance report had been circulated and included key messages and sections on the Accounts and Statement of Internal Control, together with the use of resources. The Annual Governance Report provided an opinion on the accounts, which were approved in draft form by the Finance and Management Committee at its Meeting on 28th June 2007. In addition, the report assessed the overall value for money arrangements and as a consequence, an opinion was provided whether, overall the Council provided value for money.

At the end of the Commission's audit, the Council was required to provide a letter of representation. This was appended to the Commission's report and required the Council's Chief Finance (Section 151) Officer to provide assurances about the status of the accounts and the financial statements. It also confirmed that the 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 known, other than those already reported and disclosed that could materially affect the accounts for 2006/07. Following this and subject to any issues raised, the Director of Corporate Services would officially sign the letter as the Council's responsible Finance Officer, to finalise this particular part of the audit work for the year.

Mr. Blackburn gave an overview of the main adjustments to the financial statements, from the documents originally drafted. In particular, he referred to the decrease in the net book value of Council dwellings, the decrease in

exceptional items and provisions relating to costs for 'single status' and a presentational change regarding the Housing Revenue Account. Reference was made to the accounting practices and the systems for internal control, particularly about the improvements and arrangements for completing the bank reconciliation. Finally, he referred to an Appendix to the Governance Report on the value for money conclusion. This comprised of twelve code criteria, all of which were considered to be 'adequate'.

The Head of Finance and Property Services raised a further issue, which was not covered in the Governance Report. There was a new requirement from 2006/07 for a further Statement of total recognised gains and losses. This reconciled the Council's net worth, and how this equated to income and expenditure and the valuation of its assets. After the accounts had been considered by the Finance and Management Committee, accountants had to adjust certain figures, but this did not affect the 'bottom line'. In the spirit of transparency, Mr. Blackburn confirmed that the Auditors were aware of this issue and they were satisfied.

Questions were invited and Councillor Atkin sought further information regarding the adjustments to financial statements. In particular, he questioned whether reference should have been made to the additional costs for the Conjoined Planning Inquiry. Officers confirmed that a sum of £400,000 was included within the Council's accounts at the end of March 2007. Councillor Atkin then referred to variations to agreed budgets and particularly expenditure commitments made just prior to the May election. The Director of Corporate Services responded to this enquiry, as the Council's section 151 Officer. She confirmed her previous statements elsewhere, that there were sufficient funds to meet all proposed expenditure and nothing incorrect had occurred. Since that time, it had become apparent that the future financial position would be tighter and measures would be put in place.

The Officer responded to a further question from Councillor Atkin, speaking about the 3-year financial planning arrangements and the balance requirements for both the General Fund and Housing Revenue Account. She explained the decision to move to a 5-year planning approach and the benefits this would provide. Councillor Atkin questioned whether this would result in the expenditure of some reserves and the Director confirmed the requirements to ensure that balances were maintained over this 5-year time frame. The Chief Executive spoke about the management of the Council's assets as a means to ensure that the Council's financial position was maintained.

Councillor Shepherd recognised the prudent stance on financial issues. He also referred to the Council's newspaper and equated the cost of this publication to less than employing one Officer. Councillor Lane asked the Auditors how budgets for 'single status' would be treated in future years. Mr. Blackburn explained the work undertaken and particularly the feedback received from both accountants and the Human Resources section. It was a matter for the Council to consider how such expenditure was reported, but understood that it was recognised within the Medium Term Financial Plan. As a general point, the Auditors had to consider the Council's financial standing when preparing the Governance Report. In March of this year, the Council's reserves stood at over £3 million and a view was formed on the value for money conclusions, to ensure that expenditure would be met by actual available resources. It was concluded there was adequate provision. He added that the Auditors would monitor closely expenditure and resource availability in the future. [Page 2 of 7](#)

Next, Councillor Atkin questioned the current value of the pension reserves. It was acknowledged that the sums involved were significant and reference was also made to the actuarial valuations. The nature of this liability meant that employer's contributions would vary, but the position at South Derbyshire was the same as elsewhere. Officers added that regular updates were received from Derbyshire County Council about the pension fund and an outline was given of known factors that affected it. The Actuary undertook a detailed valuation every three years and where employer contributions increased, these had to be met and recognised in the Medium Term Financial Plan. In response to a further question from Councillor Atkin, it was confirmed that presently the employer contributions equated to 3 times the employee contributions.

In response to a question from the Chairman, Mr. Blackburn gave an explanation of the requirement for the Auditor to obtain written representations from the Council, where sufficient appropriate audit evidence could not reasonably be expected to exist. He drew Members attention to the letter of representation that was appended to the Governance Report and confirmed that this was one aspect, but not the only audit evidence used.

In closing the discussion, the Chairman thanked Mr. Blackburn for his work with the Council over the last 5-years and thanked Mrs. Smith for her contribution over the past 3-years.

RESOLVED:-

That the Audit Commission Annual Governance Report for 2006/07 be received.

AS/12. CORPORATE GOVERNANCE ISSUES

Further to Minute No. AS/6, a report was submitted to provide progress on a number of corporate governance issues, raised by Councillor Lane at the last Meeting.

With regard to the Council newspaper, it was reported that at the Council Meeting on 5th July 2007, the Leader referred to the cessation of the newspaper. She advised that a report would be submitted to a future Council Meeting, to consider changes to the Communication Strategy, spoke of plans to have a more focused Strategy and to ensure that media was provided with information regularly.

Secondly, the Corporate Plan had been discussed. At the Council Meeting on 16th August 2007, a copy of the revised Corporate Plan for the period 2007/10 was circulated. The Leader outlined the changes implemented in this Plan, making particular reference to value for money, which was reflected throughout the document. It included key actions and the Leader had spoken about the review of financial strategies and the Medium-Term Financial Plan. The Leader highlighted aspects of the Plan, particularly flooding issues, crime prevention and work with East Midlands Airport on noise issues. In addition to the full document, there would be a more user-friendly leaflet.

Next, information had been sought about Working Panels. Details were provided of the Working Panels appointed for the current municipal year and those additional working panels that were active in 2006/07.

Finally, an update was provided on the appointment of Member Champions, which took place at the Council Meeting on 16th August 2007.

Councillor Lane referred to the statement of Internal Control and the targets for June 2007, relating to the Communication and Consultation Strategies. He asked when completion of the Communication Strategy was expected. The Chief Executive replied that a document had been received from the Controlling Group and it had been submitted to the Policy Unit for consideration. He gave a brief outline of its straightforward content and this could be reported to the next Audit Sub-Committee Meeting, if this was helpful. Councillor Shepherd enquired about the costings associated with this Strategy. Councillor Lane referred to the Corporate Consultation Strategy and the responsibility for Officers to produce an annual plan on consultation. Officers explained that much of this work was in progress and a significant part related to Communication Strategy. It was anticipated that this would be submitted for Committee consideration shortly. Councillor Lane reminded of the Corporate Plan requirements to have a Communication and Consultation Strategy, together with the constitutional provisions relating to area meetings. He referred to the work of the former Corporate Scrutiny Committee and the timetable established for such consultation. No Area Meetings were presently planned and this was a concern from a Corporate Governance viewpoint. Councillor Lane requested a report from Officers on this issue.

The Chief Executive acknowledged the points raised, whilst understanding that the new controlling group would have its own objectives. He confirmed that the existing constitutional requirements would have to be met and spoke about progress on co-ordinating Area Meetings. The Director of Corporate Services referred to the consultation arrangements for the Corporate Plan and the budget process. Councillor Lane replied that the strategic planning cycle did not need to include budget issues at this stage. He was concerned that the Council was moving backwards, but Officers confirmed that finance would follow function, with consideration given to the Corporate Plan and then the funding requirements. The Chief Executive assured that the Constitution had not been changed and was not planned to be changed.

Next, Councillor Lane referred to the Working Panels active in 2006/07 that had not been appointed this year. He questioned how the functions of these panels would be delivered. It was understood that the new controlling group intended for issues to be reported to relevant policy committees, rather than working panels. Following further discussion, it was requested that the Leader of the Council be asked to provide a report to the next Audit Sub-Committee Meeting, to explain how the work of the discontinued working panels would be addressed.

Councillor Lane then referred to a communication issue regarding disposal of the Council's housing stock. The Leader had declined to comment on this matter at a Council Meeting, but subsequently had provided a report through the local press. He had real concerns about this as Members should have been informed first, to decide how to handle this sensitive issue. Officers were not able to answer this point and did not consider it to be the right forum for discussion of a Member's conduct. They were content that the Corporate Governance arrangements in place were sufficient.

RESOLVED:-

(1) That the Audit Sub-Committee notes the report on Corporate Governance issues.

(2) That the Leader of the Council be requested to submit a report to the next Audit Sub-Committee Meeting regarding the arrangements for consideration of issues, that would previously have been discussed at certain Working Panels.

AS/13. STATEMENT ON INTERNAL CONTROL – UPDATE ON WORK PLAN

Under Minute No. AS/6 of 21st June 2007, the Sub-Committee approved the Statement of Internal Control (SIC) and it was duly reported as part of the Council's financial statements for 2006/07. The SIC identified some areas that were considered to be essential in strengthening the internal control environment and these were set out within an appendix to the report. A summary was provided of the progress made to date on the following issues:-

- Continue to review the Local Code of Corporate Governance
- Maintain and strengthen the current partnership arrangements
- Improve performance in the Use of Resources Assessment
- Implement a Data Quality Strategy
- Develop Communication and Consultation
- Embedding the performance management framework in the Council
- Implement actions from the Audit Commission's review of the LAA

Particular detail was provided on embedding the performance management framework in the Council, where an action plan had been produced, based on four Audit Commission recommendations.

Officers explained how the Improvement Plan was rolled forward and confirmed that it was included within the Best Value Performance Plan. There was also a draft Data Quality Plan, but this still had to be considered by Members. Reference was made to the whistle-blowing policy and Officers confirmed the action being taken to meet the required standards. Councillor Lane then referred to the report's Appendix on internal control actions. There had been some slippage on the dates within this schedule and it was questioned whether the timescales should be set as March 2008. It was suggested that at the next Meeting, a revised action plan be submitted for consideration. Members were reminded of the current organisational review and it was hoped that by the time of the next Meeting, the position would be clearer.

In response to further questions, Officers explained that some previous targets had been superseded. In particular the Local Code of Corporate Governance had been replaced with a Strategy Code. New guidelines were being considered and would be presented to the next Audit Sub-Committee Meeting. Councillor Lane was also concerned that the revised Constitution, relating to the Overview and Scrutiny Procedure Rules had not yet been circulated to Members.

Councillor Atkin referred to the consideration of the Local Area Agreement (LAA) and spoke in his role as Chairman of Overview and Scrutiny Committee. Derbyshire County Council was the accountable body and further information on the LAA could be obtained from its website.

RESOLVED:-

(1) That progress on strengthening the Council's Internal Control framework for 2007/08 be approved.

(2) That an updated Action Plan on Internal Control be submitted to the next Audit Sub-Committee Meeting.

AS/14. SUMMARY OF INTERNAL AUDIT REPORTS 2007/08 (MAY-AUGUST)

The Sub-Committee received details of specific Internal Audit reports. The Internal Audit Team undertook a programme of work each year, in accordance with the Council's Strategic Audit Plan. Documentation was produced for many areas of the Audit work, detailing recommendations for improvements in internal control. Recommendations were categorised dependent upon the degree of risk identified and managers agreed the recommendations together with plans for implementation. A summary of reports recommending improvements to potential high risk control weaknesses was submitted. Where appropriate, this summary included progress on the implementation of previous recommendations reported and any related detailed reports requested by Members.

The Chairman noted the improvements to bank reconciliation arrangements. Councillor Atkin referred to arrangements for the write-off of arrears, particularly those of former tenants. He questioned how the Council sought to trace people that had moved on, and made a comparison to the arrangements used by Amber Valley Borough Council. It was confirmed that there were debt recovery processes in place, but an outline was given of the difficulties in recovering former tenant debts. A comparison was made to Council Tax and this Council had one of the best collection rates in the Country.

Councillor Lane added that a debt recovery agency was now also being used. He then asked about the Audit Plan, changes to procurement systems and he was particularly interested in arrangements for the Housing Repairs and Maintenance Service. Officers confirmed that the creditors system was audited every year and spoke also of the Section's involvement in the procurement function. Changes were planned to the Financial Procedure Rules to accord with latest CIPFA guidance and this would be considered by the Finance and Management Committee.

Councillor Atkin sought further information about the £1 million LOBO loan. This loan was due to mature in 2032 and there would be financial penalties if the loan was repaid before that time. However, there were break clauses and if the lender invoked an interest rate rise, the Council could repay this loan without such penalties. An outline was also given of the short-term loan and investment activity.

RESOLVED:-

That the summary of Audit reports be noted and the arrangements recommended to the Finance and Management Committee as satisfactory.

H.M. TIMMS

CHAIRMAN

The Meeting terminated at 5.30 p.m.