

AUDIT SUB-COMMITTEE

16th June 2010

**PRESENT:-**

**Conservative Group**

Councillor Timms (Chairman) and Councillor Mrs. Patten (Vice-Chairman)

**Labour Group**

Councillors Lane and Shepherd.

**APOLOGY**

An apology for absence from the Meeting was received from Councillor Ford (Conservative Group).

AS/1. **MINUTES**

The Open Minutes of the Meeting held on 6th April 2010 were taken as read, approved as a true record and signed by the Chairman.

**MATTERS DELEGATED TO SUB-COMMITTEE**

AS/2. **INTERIM AUDIT REPORT 2009/10**

The Chairman welcomed Councillor Mrs. Patten to the Audit Sub-Committee, following her recent appointment as Vice-Chairman. He also welcomed Kyla Bellingall of Grant Thornton, who presented the interim audit report for 2009/10. The document included an Executive Summary and sections on the Use of Resources, the Interim Accounts Audit and follow-up of prior year recommendations. An action plan was appended on the Interim Accounts Audit and the Use of Resources – Underlying Principles.

An outline was given of changes being implemented by the Coalition Government relating to the Use of Resources and the abolition of the Comprehensive Area Assessment. It was noted that the work undertaken to date on Use of Resources had included the moderation of scores. A comment was made regarding the provisional score for procurement, which had been increased through the moderation process. The Council had achieved a very good standard and the qualitative measurements would stay, notwithstanding the Coalition Government changes.

Kyla Bellingall also spoke about the continuing work on Value for Money and further information on this would be available in September. With regard to

the action plan, Grant Thornton was satisfied with the management responses submitted. Questions were also submitted on the Auditor's perception of South Derbyshire, as compared to other local authorities and with regard to the Agresso financial management system.

**RESOLVED:-**

***That the Interim Audit Report for 2009/10 is approved.***

AS/3. **LOCAL CODE OF CORPORATE GOVERNANCE – REVIEW OF SELF-ASSESSMENT**

A report was submitted outlining the background and process, which had led to the submission of the Review of Self Assessment documents and of the action plan, which was appended to the report. A revised Local Code of Corporate Governance was adopted by the Council on 3rd July 2008, at which time it was reported that a Self Assessment audit had been carried out by Officers, providing evidence of how the Council had fulfilled or intended to fulfil its commitment to corporate governance. In approving this Code, Council resolved that the Audit Sub-Committee should receive half-yearly reports on progress in relation to compliance with the six core principles, on which the Code was based. This was to ensure that the Audit Sub-Committee oversaw and monitored arrangements for complying with Corporate Governance issues, including approving the Annual Governance Statement.

The detail of the report provided a definition of Corporate Governance and explained the purpose of a Local Code of Governance. It stated the Council's commitment to Corporate Governance and explained how governance arrangements were measured against six core principles, which were set out within the report. A Senior Officer Group had been established and met on a six-monthly cycle, to assess the governance arrangements. The Group carried out an assessment against the CIPFA/SOLACE checklist to measure compliance with the six supporting principles. The Self Assessment provided the evidence of how the Council had fulfilled or intended to fulfil its commitments and a copy of the report showing the progress made in the last six months was also provided. It was agreed that an action plan be created to address certain areas and a copy of the Action Plan was also appended to the report.

Major items that had been achieved in the last six months included retaining a level 3 out of 4 for Use of Resources, which showed that the Council was performing well across all services being provided to the community. Achievements against a National Equality Framework peer assessment and with regard to risk management processes were also reported.

A Member commented on the improved scores achieved against the self-assessment. It was questioned how senior management became aware of changes in requirements and details were provided. Comments were

submitted about the length of the document, but it was noted this was in accordance with CIPFA guidance.

**RESOLVED:-**

***That the Sub-Committee receives the review and reports to Council on progress in achieving the action points set out in the Self Assessment of performance under the Local Code of Corporate Governance.***

AS/4. **ANNUAL REPORT OF THE INTERNAL AUDIT SERVICE 2009/10**

The Sub-Committee considered the Annual Report of the Internal Audit Service, which provided Members with information on the work of Internal Audit during the past year. It included an assurance that the Council's key financial systems could be relied upon and that a sound system of internal control existed.

The detail of the report explained the work undertaken by the Internal Audit Team and its close working relationship with the external auditors. In essence, Internal Audit verified that financial and other systems included a level of control sufficient to prevent and detect error and financial irregularity. Increasingly, Internal Audit work focused on the effectiveness of computer systems that were used to administer Council finances.

**RESOLVED:-**

- (1) That the Annual Report of the Internal Audit Service be noted.***
- (2) That the Annual Internal Audit Assurance Statement be approved.***

AS/5. **ANNUAL GOVERNANCE STATEMENT 2009/10**

A report was submitted on the Annual Governance Statement, which formed part of the Statement of Accounts for 2009/10. A definition was provided on Governance and it was confirmed that this was an area that concerned the whole authority. In recent years, it had assumed a higher profile, due to greater expectations and the need to avoid issues around financial reporting, public conduct and accountability. Appended to the report was a flowchart that set out the process for compiling the Annual Governance Statement (AGS). It also provided the framework of issues to address and report upon, for assuring the Sub-Committee in respect of internal control and governance arrangements. Details were provided of the CIPFA guidance on production and publication of the AGS, together with the work undertaken in compiling it. An Action Plan, produced in May 2009, was progressed during 2009/10 to address significant issues identified as key in further strengthening the governance environment, forming part of the AGS. Details of the areas achieved were included within the report. Again, an Action Plan had been completed, which would be progressed during 2010/11 and beyond, to

address significant issues identified as key in further strengthening the governance environment. Areas included were also detailed within the report.

**RESOLVED:-**

- (1) That it be recommended to the Finance and Management Committee that the Annual Governance Statement for the year ended 31st March 2010 be approved for inclusion in the 2009/10 accounts.***
- (2) That it be recommended to Finance and Management Committee that the Leader of the Council and the Chief Executive be authorised to sign the Annual Governance Statement.***

AS/6. **SUMMARY OF INTERNAL AUDIT REPORTS 2009/10 (FEBRUARY TO MAY 2010)**

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. Recommendations were categorised depending upon the degree of risk identified. 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 for the previous period. The Audit Service had also given advice on control and corporate governance issues.

Officers highlighted Internal Audit's involvement at the new Etwall Leisure Centre, to address initial problems with IT systems. A financial and operational audit was being undertaken and this would be reported to the Sub-Committee in September. A Member referred to the review undertaken by the Overview and Scrutiny Committee on the Etwall Leisure Centre and questioned whether the Audit report should be passed to the Chairman of that Committee. It was noted that the Overview and Scrutiny Committee had been advised of the audit review undertaken. It was for the Audit Sub-Committee to consider these financial aspects.

**RESOLVED:-**

***That the Summary of Internal Audit Reports be noted.***

AS/7. **IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS**

It was reported that the Sub-Committee was responsible for monitoring the effective development and operation of Corporate Governance. Under the regulatory framework governing the Council's accounts, the implementation of International Financial Reporting Standards (IFRS) was a key governance

issue. Adopting proper accounting practice was a key measure of good governance and IFRS was a fundamental change in accounting practice. Consequently, it was important that the Council complied and made appropriate changes. A report was submitted to provide awareness for the Sub-Committee, including background on IFRS. It provided an update on the Council's position and the proposed actions to ensure that the Council implemented the changes in a timely and correct manner.

The detail of the report provided background and information on how IFRS would apply in the public sector. It included sections on the impact for local authorities, the implementation timetable and the main implications. The statutory requirements to meet IFRS were set out in the 2010/11 Code of Practice on Local Authority Accounting. The main technical changes identified in the Code were summarised as follows:-

- Treatment of capital grants and contributions
- Structure of financial statements
- A new requirement on segment reporting
- Non-current assets - property, plant and equipment
- Property leases
- Investment properties
- Impairment of assets
- Non-current assets held for sale
- Employee benefits
- Accounting for associates

The report concluded with further sections on the Council's position, restating the accounts and training and support.

Officers explained that the implications of the move to IFRS would be more significant for certain authorities. For South Derbyshire, the main impact related to asset valuation and leases and such things as assessing the cost in the accounts, of staff carrying forward leave entitlements. A question was submitted about asset valuation impairment, to which a response was provided.

**RESOLVED:-**

- (1) ***That the Sub-Committee notes the requirements regarding the implementation of International Financial Reporting Standards.***
- (2) ***That the progress to date and the proposed actions to fully implement the International Financial Reporting Standards, as they apply to the Council are approved.***
- (3) ***That progress against implementation is reported to the Committee on a quarterly basis.***

AS/8. **GRANT CLAIMS – FOLLOW-UP REPORT 2008/09**

It was reported that the External Auditor's report to the Sub-Committee on 6th April 2010 highlighted two high priority recommendations. These were associated with Housing Benefits and Housing Revenue Subsidy base data returns. A report was submitted to provide an update on progress to achieve the actions agreed by the Sub-Committee.

On the Housing Benefits Subsidy return, the main issue identified related to some homelessness cases, where insufficient documentation or supporting evidence was being collected to support the benefit claim, where the client was being placed in bed and breakfast accommodation. Some errors did occur in 18 out of 59 sample cases. Consequently, the Auditor was unable to confirm the entitlement to and amount of benefit being claimed. Following the audit, a review of processes had taken place and the improvements made were reported.

The Housing Revenue Account Subsidy Return involved the provision of base data on the Council's housing stock, from which the Government calculated the entitlement to housing subsidy. As noted in previous years, the Council had not been able to provide comprehensive records to support the dwelling analysis within this claim. Consequently, the Auditor had qualified the claim for the last two years. The potential implications in terms of loss of subsidy were reported. Work had progressed to overcome these issues by increasing the data collected through the housing management system and the report explained how sufficient evidence would be provided for the future. In summary, subject to the view of the Auditor after this year's claims were checked, all of the outstanding actions had been completed.

**RESOLVED:-**

***That the Sub-Committee accepts the report on the Council's actions to implement the External Auditor's recommendations.***

H.M. TIMMS

CHAIRMAN

The Meeting terminated at 5.00 p.m.