

AUDIT SUB-COMMITTEE

23rd June 2011

**PRESENT:-**

**Conservative Group**

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

**Labour Group**

Councillors Bell and Shepherd.

AS/1. **MINUTES**

The Open Minutes of the Meeting held on 6th April 2011 were taken as read, approved as a true record and signed by the Chairman.

**MATTERS DELEGATED TO SUB-COMMITTEE**

AS/2. **INTERIM AUDIT REPORT 2010/11**

The Chairman welcomed Ian Barber and Kate Taylor of Grant Thornton to the Meeting, who gave a presentation on the 2010/11 Interim Audit. The Audit Report had been circulated. Following an introduction, it included an executive summary and sections on the audit approach, an update on accounts audit risk assessment, results of the interim audit work and a value for money interim update. A number of appendices to the document looked at logistics, accounts risks and an Action Plan, which included Officer responses.

Arising from the report, there was discussion about how the recording of the Bretby Crematorium sale would be monitored by the Auditors, as a post year-end transaction.

**RESOLVED:-**

*That the interim audit report for 2010/11 be received and approved.*

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

A report was submitted to outline the background and process, which had led to the submission of the Review of Self Assessment document and Action Plan. Background was provided on the Local Code of Corporate Governance adopted by the Council in 2008 and the role of the Audit Sub-Committee in receiving half-yearly reports on progress. A definition was provided of

corporate governance and the purpose of the Local Code of Governance. The report stated the Council's commitment to corporate governance and set out the six core principles against which corporate governance arrangements were measured. An Officer working group was established to undertake an assessment against the CIPFA/SOLACE checklist for governance arrangements. The report also explained the scoring mechanism used to assess the level of compliance with the supporting principles. A document showing the progress that had been made in the last six months was appended to the report, together with a copy of the Action Plan. The report explained the major items achieved in the last six-month period, focusing particularly on the Corporate Services partnership with Northgate.

It was requested that Officers research whether the wording used for these documents was prescriptive or if it could be revised. Information regarding the direction of travel of self-assessment scores was also requested.

**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 2010/11**

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 was focused on the effectiveness of computer systems that were used to administer council finances.

The Internal Audit Manager took Members through the report. He responded to questions about access to information that was now held by Northgate and the performance of the section, including work with Derby City Council and the partnership arrangement. It was requested that details be provided of the partnerships that were in place.

**RESOLVED:-**

***(1) That the Annual Report of the Internal Audit Service is noted.***

***(2) That the Annual Internal Audit Assurance Statement is approved.***

AS/5. **ANNUAL GOVERNANCE STATEMENT 2010/11**

A report was submitted on the Annual Governance Statement (AGS) for 2010/11. 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 AGS. It also provided a framework of issues to address and report upon, for assuring the 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 2010, was progressed during 2010/11 to address key issues identified, to maintain and strengthen the governance environment. Details of the areas achieved were included within the report. Again, an Action Plan had been completed, which would be progressed during 2011/12 and beyond, to maintain robust governance. Details were also provided of the work programme.

Arising from the consideration of the appended AGS, further information was provided regarding accident statistics.

**RESOLVED:-**

- (1) ***That it be recommended to the Finance and Management Committee that the Annual Governance Statement for the year ended 31st March 2011 be approved for publication alongside the Statement of Accounts for 2010/11.***
- (2) ***That it be recommended to the Finance and Management Committee that the Leader of the Council and the Chief Executive be authorised to sign the Annual Governance Statement.***

AS/6. **ACCOUNTING POLICIES 2010/11**

It was reported that the Sub-Committee was responsible for reviewing and considering proposed changes to the Council's accounting policies. Due to the full implementation of International Financial Reporting Standards (IFRS) for 2010/11, this had necessitated a review and update of accounting policies. IFRS had led to a fundamental change in accounting practice and it was important that the Council complied and made appropriate changes. A comprehensive report had been submitted to the Sub-Committee in June 2010 and Members were reminded of the areas it covered. Further updates were provided in December 2010 and April 2011.

The detail of the report explained IFRS further, including the phased approach that began in 2007/08, with full implementation from 1st April 2010. A

summary of the main changes resulting from IFRS was provided. Subsequent sections of the report looked at the Council's position, accounting policies and the main changes relating to:-

- Property, Plant and Equipment
- Government Grants and other Capital contributions
- Leases and lease type arrangements
- Employee benefits
- Materiality

Appended to the report were the proposed accounting policies. Officers responded to questions about the treatment of accrued leave, asset valuations and depreciation.

**RESOLVED:-**

***That the Council's proposed Accounting Policies be approved as submitted for inclusion in 2010/11 Financial Statements.***

AS/7. **UPDATE ON THE IMPLEMENTATION OF FINANCIAL SYSTEMS**

It was reported that the Sub-Committee had requested an update on the audit work on implementation of new financial systems, as detailed in the Annual Work Plan for 2011/12. This provided specific time to examine financial systems where the computer application was programmed for replacement during the year. This rendered the risk status as high until the level of internal control had been assessed. One of the main risks was ensuring the integrity of data transferred and that controls were in place to confirm this. The Sub-Committee, in approving the Annual Work Plan had highlighted the need to ensure these high-risk areas were addressed early in the programme. There were three major systems, namely Northgate's ResourceLink HR and Payroll system, Agresso's Financial Management system and Academy's Cash Receipting and Posting system. A briefing note was appended to the report for the Sub-Committee's information.

**RESOLVED:-**

***That the Sub-Committee notes the update on the implementation of financial systems.***

AS/8. **SUMMARY OF INTERNAL AUDIT REPORTS 2010/11 (FEBRUARY – MAY)**

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 had undertaken audit work during this period, as part of the arrangement to supply additional resources. Statistics were provided on the audit work completed against target. The percentage completed was lower than anticipated, as a result of the reduction in resources, although the work undertaken by Derby City Council had alleviated this situation. However, there was some slippage of audits into 2011/12. A more detailed analysis was provided as an appendix to the report.

**RESOLVED:-**

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

J. HARRISON

CHAIRMAN

The Meeting terminated at 5.40p.m.