

MINUTES OF A MEETING OF THE
AUDIT COMMITTEE HELD IN THE
COUNCIL CHAMBER, WALLFIELDS,
HERTFORD ON TUESDAY
29 JUNE 2009 AT 7.30 PM

PRESENT: Councillor J O Ranger (Chairman).
Councillors K Darby, J Hedley, M Pope,
R Radford, N Wilson.

ALSO PRESENT:

Councillor M Tindale.

OFFICERS IN ATTENDANCE:

Lorraine Blackburn	- Committee Secretary
Simon Drinkwater	- Director of Neighbourhood Services
Chris Gibson	- Internal Audit and Business Improvement Manager
Alan Madin	- Director of Internal Services
Ceri Pettit	- Head of Strategic Direction (Shared) and Performance Manager

ALSO IN ATTENDANCE:

Justin Collings	- Grant Thornton - External Auditor
Paul Dossett	- Grant Thornton - External Auditor

55 CHAIRMAN'S ANNOUNCEMENTS

The Chairman welcomed Members to the meeting. He commented that, with the consent of Members, he would change the order of the agenda.

56 APOLOGY

An apology for absence was later received from Councillor J P Warren.

RESOLVED ITEMS

ACTION

57 MINUTES

RESOLVED – that the Minutes of the meeting held on 31 March 2009 be confirmed as a correct record and signed by the Chairman.

58 EXTERNAL AUDIT REPORT – AUDIT STRATEGY DOCUMENT

Paul Dossett (External Auditor) submitted an Audit Strategy Document for the year ending 31 March 2009. The audit strategy and approach was set out in the report, now submitted.

It was noted that the External Auditors planned to use IDEA data interrogation software to take data samples directly from the Council's system and produce relevant information to be used in the audit process.

Section 2 of the report now submitted, highlighted six key areas where the External Auditors would concentrate their work. It was noted that although the Council had no investments in Icelandic banks there was still a risk of financial institutions becoming insolvent. The audit would also consider the accounting treatment in relation to The Causeway and the finance lease arrangements. The External Auditors explained that, with regard to the leisure contract, disclosure arrangements would need to be

reflected in the audit. He commented that the Council's accounts would be available for public inspection for 20 days. Members of the public would be allowed to question the Auditors on 14 August 2009.

In response to a query from Councillor M Pope regarding the timetabling of administrative matters, the External Auditors commented that they were satisfied that the timeframes could be achieved given the Council's past performance.

In response to a query from Councillor M Pope regarding the audit of Local Government financial statements being reviewed by the Quality Assurance Directorate, Paul Dossett explained that local authorities were subject to the same rigorous assessment as commercial companies.

Members welcomed the Strategy and received the report.

RESOLVED – that the Audit Strategy for the year ending 31 March 2009 be received.

59 DATA QUALITY ACTION PLAN 2008/09

The Leader of the Council submitted a report on the progress against the Data Quality Audit Action Plan and proposed completion date revisions.

The Head of Strategic Direction (shared) and Performance Manager explained that the Council had maintained the performance level in 2007/08 with regard to management arrangements for ensuring effective data quality processes, but that there was still room for improving some actions to improve data quality. An Action Plan showing an updated progress position was attached to the report now submitted. Of the 15 recommendations, 9 had been achieved, 3 were ongoing and 3 required a revised completion date.

It was noted that the Council would be aiming to achieve level 3 in relation to changes in the Use of Resources Assessment 2008/09 and subsequent advice from the

External Auditors.

Members received the report and supported revisions to the proposed completion dates.

RESOLVED – that the progress against the Data Quality Audit Action Plan be noted and the revised completion dates be agreed.

60 USE OF RESOURCES ACTION PLAN 2008/09 –
PROGRESS REPORT AGAINST THE EXTERNAL
AUDITORS' RECOMMENDATIONS

The Leader of the Council submitted a report on the progress made against the External Auditors' recommendations following the Council's 2007/08 Use of Resources assessment.

The Head of Strategic Direction (Shared) and Performance Manager, explained that the introduction of the new Comprehensive Area Assessments, effective from 1 April 2009, would make it more difficult to achieve and maintain an overall score of 3. It was noted that Key Lines of Enquiry (KLOEs) had changed in three areas. These were explained. Paul Dossett explained how the new framework affected scoring levels and that the assessment would be carried out for the year just finished.

Appendix A of the report now submitted, highlighted the status of the progress made against the recommendations. It was noted that three actions had had their completion date revised.

In response to a query by Councillor M Pope regarding the three actions which had had their completion dates revised, Paul Dossett explained that the first two related to the development of Partnership Working.

Member noted the progress made against the recommendations and supported the proposed revised completion dates in relation to actions 3, 4 and 6.

RESOLVED – that the progress made against the recommendation be noted and the revised completion dates for actions 3, 4 and 6 be approved.

61 STATEMENT OF ACCOUNTS 2008/09

The Executive Member for Resources and Internal Support provided an overview in relation to the Statement of Accounts for 2008/09. He referred to the overall position in relation to underspends and commented that the Council was not expected to have any resources to supplement next year. The pension liability variances were explained and the risk issues in relation to The Causeway lease.

The Director of Internal Resources commented that, year by year, the accounts were becoming more complex, the idea being that they reflected what was happening in the private sector. He commented that there was increasing interest in the balance sheet and assets on the balance sheet and substantial focus on asset valuations. He referred to the gains and losses which were £25million less at the end of the year.

In response to a query from Councillor M Pope regarding the performance percentage of 59%, the Chairman commented that this was a poor figure and that the Council aimed to achieve between 80-85% in performance of an original budget. The Executive Member for Resources and Internal Support commented on the possible reasons for this less than anticipated achievement. The Chairman urged the Executive Member to ensure that there was an effective Rolling Programme in place when slippage occurred. The Chairman commented that the Executive and Corporate Business Scrutiny must satisfy themselves that effective arrangements were in place.

In response to a query from the Chairman concerning the Statement of Movement on the General Fund Balance, the Director of Internal Resources explained the issue in relation to reconciling the deficit as set out in the report now submitted. He recommended that £1.6million be placed in

general reserves. The Director explained that certain costs were not taken into account for the purpose of setting Council Tax in that some items which were revenue, were in some circumstances, allowed to be applied as capital. The value of the pension fund and the employer's contribution were explained.

The Director of Internal Services explained the "language" changes necessary in relation to the Statement of total Recognised Gains and Losses and suggested that the total recognised gains for the year be amended to read "Total Recognised losses/(gains) for the year". This was supported. Paul Dossett (External Auditor) explained that a deficit situation was something many local authorities were facing. Some were in a worse situation.

In response to a query from Councillor M Pope concerning the payment of VAT, the Director of Internal Services commented that in most years, there would be a "nil return" as any VAT the Council was charged would be recovered.

In response to a query from Councillor M Pope concerning the increase in the Audit Fee Costs, Justin Collings (External Auditor) explained that the figure in 2007/08 of £17,000 was an estimated figure provided early in the relevant year. The increased figure reflected additional grant work which was needed.

In response to a query from the Chairman concerning three acres of land awaiting development, the Executive Member for Resources and Internal Support commented that these were, in the main, small parcels of land. The Executive Member undertook to provide Members with a written response as to where these parcels of land were.

In response to a query from the Chairman concerning borrowing, the Director of Internal Services commented that loans were structured to mature periodically and at different times.

The Director of Internal Services explained the valuation and liabilities of the pension fund. He commented that last

year, liability had stood at £67.2million and had reduced by the end of the year to £45.6million. He commented that the Government had released a consultation paper looking at local government challenges in this area. The Director undertook to circulate this. The Chairman commented that the pension fund was of major concern to all local authorities although it was expected that matters would recover over time. Paul Dossett commented on the significant risk for employers in terms of the increase in employers' contributions at a time when interest rates were dropping.

The Executive Member for Resources and Internal Support commented on The Causeway and the lease arrangements. He commented that the Council's liability was £7million on an asset worth £6million. The Director of Internal Services referred to an amendment of note 28 (Reconciliation of the Income and expenditure Account to the Revenue Activities Cash Flow) to reflect adjustments in relation to The Causeway lease. This was noted.

The Director of Internal Services commented that in relation to the Irish Bank, action had been taken and monies placed in a more secure position.

In response to a query from Councillor M Pope, the Executive Member for Resources and Internal Support explained that the Council had approximately 20 bonds maturing at different times.

Members received the report and requested that the Committee's comments and amendments detailed below, be referred to Council.

RESOLVED – that (A) the typographical error in relation to Note 8 be amended to read Note 9;

DIS

(B) the amendment in Note 28 (Reconciliation of the Income and expenditure Account to the Revenue Activities Cash Flow) to reflect adjustments in relation to The Causeway lease be noted; and

(C) the wording in the Statement of Total Recognised Gains and loss be amended to read “Total recognised losses/(gains) for the year”.

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62 DRAFT ANNUAL GOVERNANCE STATEMENT 2008/09

The Leader of the Council submitted a report on the draft Annual Governance Statement for 2008/09 and the progress made against implementing the action plan contained in the 2007/08 Annual Governance Statement. It was noted that the Annual Governance Statement was necessary to meet the requirements set out in the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006. The Statement needed to address all corporate systems, processes and controls spanning the Council’s activities. A number of proposed amendments to the Statement were tabled at the meeting.

The Internal Audit and Business Improvement Manager commented that the 2007/08 Annual Governance Statement had included fifteen measures to enhance the Council’s internal control framework during 2008/09. It was noted that of the fifteen, ten had been achieved and the remaining five actions had been carried forward to the draft 2008/09 Annual Governance Statement. These were set out in the Appendix of the report now submitted.

The Chairman commented that in relation to the identified significant governance issue relating to Pathfinder, the extra efficiency target of 0.5% had been achieved and the comment should be amended to reflect this.

The Internal Audit and Business Improvement Manager referred to the list of proposed amendments. Members supported a suggestion to reflect both “internally and externally managed” treasury management functions within the core principle of promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour.

In respect of the external treasury management function, the Director of Internal Services commented that it was not unusual to write to the Council's Fund Managers seeking assurances that any matters which should have been brought to the Council's attention, had been.

The Internal Audit and Business Improvement Manager referred to the issue of needing to promote and demonstrate the values of good governance and that the Remuneration Panel would review Members' allowances in July 2009. Members' acknowledged that this review would not now begin before autumn 2009.

In receiving the report, Members thanked the Officers for their work in preparing the Annual Governance Statement and requested that their comments be forwarded to Corporate Business Scrutiny Committee.

RESOLVED – that (A) the draft 2008/09 Annual Governance Statement be noted;

(B) the reference to Treasury Management Strategy Statement and Annual Investment Strategy be amended to cover both "internally and externally managed" functions; and DIS

(C) the timescale for the review of Members' allowances by the Independent Remuneration Panel be amended to autumn 2009. DIS

63 INTERNAL AUDIT SERVICE – APRIL 2008 TO MARCH 2009

The Internal Audit and Business Improvement Manager submitted a report outlining Internal Audit activity relating to the financial year 2008/09. It was noted that the overall level of assurance awarded for systems reviewed was "good" and this represented an overall improved direction of travel from the previous year.

It was noted that good risk management practices were

delivered throughout 2008/09 and that the approach adopted for monitoring the Annual Governance Statement Action Plan to enhance East Herts Council's internal control framework was robust.

The Internal Audit and Business Improvement Manager confirmed that the use of IDEA data analysis software was also used within the service.

In response to a query from Councillor M Pope, the Internal Audit and Business Improvement Manager confirmed that the Members' IT Protocol had been extended through a non-key decision. The treatment of breaches of protocol would be picked up at the next major re-write.

Members received the report and noted the good progress made.

RESOLVED – that the report be received and the good progress made be noted.

64 OPERATIONAL AND STRATEGIC RISK MONITORING REPORT (1 JANUARY 2009 - 31 MARCH 2009)

The Leader of the Council submitted a report detailing actions taken to mitigate and control risks tracked by operational and strategic risk registers during the period 1 January 2009 to 31 March 2009. The Director of Neighbourhood Services confirmed that this would be the last time Members would receive such a report in this format as a Healthcheck report would be submitted on a quarterly basis, which would fit in with corporate controls and would allow reports to be more flexible and responsive to change.

There were no "adverse" movements recorded in either the Operational or Strategic Risk Registers.

RESOLVED – that (A) the progress in taking action to mitigate and control risks tracked by operational and strategic risk registers during the period 1

January – 31 March 2009 be noted; and

(B) the referral of the report to the Executive on 28 July 2009 be noted.

65 INTERNAL AUDIT PLAN 2009 -2010

The Internal Audit and Business Improvement Manager submitted a report setting out the draft internal audit plan of activity covering the period 1 April 2009 to 31 March 2010, the detail of which set out in the Appendix to the report now submitted.

The Chairman, on behalf of Members, thanked the Officer for a very detailed report.

RESOLVED – that the content of the draft Internal Audit Plan covering the period 1 April 2009 to 31 March 2010 be approved.

66 INTERNAL AUDIT SERVICE – POSITION STATEMENT

The Internal Audit and Business Improvement Manager submitted a report on the internal audit activity undertaken since the last Audit Committee and provided an update on outstanding recommendations. Appendix A of the report now submitted, detailed the current audit opinion on the status of recommendations. It was noted that significant progress had been made in clearing recommendations since the last Audit Committee on 31 March 2009.

The Internal Audit and Business Improvement Manager commented that an Internal Audit Independence Protocol had recently been revised and approved by Corporate Management Team. This revised protocol would strengthen internal audit independence.

Members received the report and welcomed the revised protocol.

RESOLVED – that the report be received.

67 WORK PROGRAMME

The Internal Audit and Business Improvement Manager submitted a report on the revised work programme for the 2009/10 civic year, attached as an Appendix to the report now submitted.

The Chairman commented that it might not be possible to look at all the programmed items given the length and content of the reports and suggested that Officers give some thought to reports having a shorter format with appendices as appropriate.

The Director of Internal Services commented that a task and finish group had met and would be reporting shortly on its work in relation to report writing and would pick up the issue of “plain English”.

The Committee supported this approach and noted the report.

RESOLVED – that the Work Programme, be approved.

The meeting closed at 9.25 pm.

Chairman
Date