

AUDIT COMMITTEE

26 September 2011

Attendance:

Councillors:

Hammerton (Chairman) (P)

Banister (P)
Higgins (P)
Hutchison (P)
Mather (P)

McLean (P)
Mitchell (P)
Sanders (P)
Verney

Deputy Members:

Councillor Warwick (Standing Deputy for Councillor Verney)

Others in attendance who addressed the meeting:

Councillor Beckett – Leader of the Council.
Councillor Wood - Portfolio Holder for Finance and Estates.

1. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman welcomed to the meeting Mr P Jarvis (District Auditor) and Mr M Bowers (Audit Manager) from the Audit Commission, the Council's external auditors.

2. **MINUTES**

RESOLVED:

That the minutes of the previous meeting held on 29 June 2011 be approved and adopted.

3. **FUTURE OF LOCAL AUDIT**
[\(Report AUD009 Refers\)](#)

The Head of Finance reported that the Council's response to the Department of the Communities and Local Government's consultation on the future of Local Public Audit had been submitted and the response to the consultation was awaited. However, a procurement exercise had been announced which would result in the appointment, by the Audit Commission, of new auditors for the external audit work for 2012/13, for a period of either 3 or 5 years.

Consequently it would not be necessary for the Council to appoint its own external auditors until after this time.

RESOLVED:

That the proposals for the future of local audit be noted.

4. **INTERNAL AUDIT PROGRESS REPORT TO 31 AUGUST 2011**
([Report AUD010 Refers](#))

In response to Committee questions, the Internal Audit Manager confirmed that a number of areas for audit had involved cash handling, for example cases within the Car Parking Service. He was satisfied that areas of weakness, where identified, had been followed up and key controls were now in place.

The Committee sought clarification on a vacancy within the Internal Audit team, which had resulted in a current shortfall in resources of 114.5 audit days. It was asked whether the decision not to fill this vacancy at this stage had increased the Council's exposure to risk when dealing with the more difficult audits. The Internal Audit Manager responded that following discussions with the Corporate Management Team, it had been decided not to fill the vacancy pending further discussions on how the work could be resourced in the longer term within the Internal Audit Partnership. This decision was taken in view of the experience of the remaining team, especially in high risk areas, and the adoption of a three year Audit Plan with recurring audits.

In the context of the reduction in Audit resources as highlighted above, the Committee questioned how the audit of the new in-house Environmental Services Contract would be covered from October. The Internal Audit Manager stated that the audit of the new in-house service had been delayed to take place in the fourth quarter of the year to allow audit controls to be put into place. The new Environmental Services Contract was complex with two authorities involved, and he was confident that a robust audit opinion could be achieved by a joint audit with East Hampshire District Council in January 2012. Councillor Beckett and Councillor Wood added that they were satisfied with the assurances given by the contractor and that it would be more beneficial to undertake an audit once the new contract had settled down.

The Committee noted that there were a number of audits outstanding and it was explained that these were completed in draft form and were required to be brought to a final report. There were no outstanding audits to commence.

RESOLVED:

1. That the matters raised by Internal Audit and action taken by Management be noted.

2. That the changes to the 2011/12 Internal Audit Plan be approved.

5. **TREASURY MANAGEMENT STEWARDSHIP REVIEW 2010/11**
([Report AUD011 Refers](#))

The above Report had not been notified for inclusion on the agenda within the statutory deadline. The Chairman agreed to accept the item onto the agenda, as a matter requiring urgent consideration, due to the need to consider the matter in a timely fashion.

In response to questions, the Head of Finance stated that the new Treasury Management advisers (Arlingclose Limited) were proactive in providing investment advice and that in future they would also be advising on the options in managing the Council's debt. She added that the Audit Committee would be offered training on Treasury Management prior to the Council setting its new strategy.

The Council would need to consider its borrowing requirement in relation to its appetite to spend in support of its Capital Programme and Change Plan outcomes. With the Council increasingly looking to borrow, the requirement to obtain the highest yield on its investments became less of a concern, and the amount of investments held by the Council at year end had been reduced from circa. £20m to £14.5m over the last year. Although a relatively high return of 0.8% could be achieved on cash held on deposit in the bank, investments were made at the best rate achievable on the day and spread in accordance with the Treasury Management Strategy to reduce risk.

Councillor Wood stated that with the return on investments being so small, there was little to be gained by increasing investment risk. Councillor Beckett added that any prudential borrowing would be in accordance with the strict criteria applied by the Council, which would be to use borrowing only to fund assets that offered a financial return.

RESOLVED:

That the Treasury Management Stewardship Report for 2010/11 and the Actual 2010/11 Prudential Indicators at Appendix A to the Report be approved.

6. **ANNUAL GOVERNANCE REPORT 2010/11**
([Report AUD012 refers](#))

Mr P Jarvis (District Auditor) and Mr M Bowers (Audit Manager) from the Audit Commission, the Council's auditors, presented the Annual Governance Report 2010/11. They proposed an unqualified audit opinion and commented that the accounts were well prepared, in what had been a challenging year with the transition to International Financial Reporting Standards and the introduction of new internal financial systems. In addition, in respect of Value

for Money, the Council had a strategy and could demonstrate making savings and the effective use of resources.

In terms of specifics, the Audit Commission's representatives stated that the Council had been correct and prudent in its action to make provision for the potential liability to pool Housing Capital Receipts, plus interest.

In respect of the overpayment of staff salaries, the Chief Executive explained that such payments were not widespread and of the cases that had occurred, arrangements had been made for the overpayments to be repaid. In addition, changes had been made to payroll controls to help prevent a recurrence.

The Head of Finance explained that in respect of the systems administration access, there were compensating controls in place, but the Council would also commission an external independent review to further improve the levels of internal control.

RESOLVED:

1. That the Annual Governance Report 2010/11 be noted.
2. That the thanks of the Committee and the Portfolio Holder for Finance and Estates be forwarded to Alexis Garlick, Head of Finance and her Team, together with all the other staff involved across the Council, for the positive Annual Governance Report.

7. **STATEMENT OF ACCOUNTS 2010/11 AND LETTER OF MANAGEMENT REPRESENTATION**

([Report AUD013](#) and [Addendum](#) refers)

The above Report had not been notified for inclusion on the agenda within the statutory deadline. The Chairman agreed to accept the item onto the agenda, as a matter requiring urgent consideration, due to the need to approve the Statement of Accounts. In addition, it was noted that the above Addendum containing additions and revisions to pages 7 and 14 of the Report (caused by very recent information resulting in the provision being released for concessionary fares) was not notified for inclusion on the Agenda within the statutory deadline. The Chairman agreed to accept revised pages 7 and 14 as a matter requiring urgent consideration, in view of the need to comply with the timetable for approving the Statement of Accounts.

The Head of Finance highlighted to the Committee the significant actions taken to compile the Statement of Accounts including the IFRS transition, asset reclassifications, pension adjustments and the reasons behind changes to the balance sheet. It was noted that the National Non-Domestic Rate Collection was £868,000 less than in the previous year and this was explained through the take-up of the Small Business Relief Scheme and a 10% rise in empty properties.

In answer to questions from the Committee, the Head of Finance stated that figures relating to the Silver Hill development were at this stage not of sufficient significance to appear as a separate entry in the accounts. Expenditure had been incurred in respect of the employment of consultants, which was normally re-imbursed by the developer. The Council incurred its own costs when independent advice was occasionally needed e.g. when Thornfields went into administration. Looking forward, there was expected to be financial transactions of the development flowing through the Council's ledgers when the Compulsory Purchase Order was progressed. Major land and property purchases to consolidate the scheme, including Coitbury House, were held in the Council's Asset Register.

It was noted that developers' contributions were shown in the accounts as creditors, as they may be repayable and it was considered that this was the correct accounting treatment. It was also explained that the Council had increased its provision for bad debts in response to the present economic conditions.

In respect of capital commitments as detailed on page 44 of the report, it was explained that the figure of £189,000 for CCTV reflected the contractual commitment to capital expenditure to complete the scheme. The Council would be reimbursed for this expenditure when the project was completed as part of the Silver Hill development.

In considering the contingent liabilities detailed on page 70 of the Report, the Head of Finance stated that an earmarked reserve of £185,000 was held in case the cost of claims resulting from claims against the Municipal Mutual Insurance Company were passed on to the Council. Councillor Beckett commented that a recent Court case might suggest that this was now more likely to happen and asked the Head of Finance to investigate the possibility of the Council making an insurance premium payment to cover its liability.

RESOLVED:

1. That the letter of representation on behalf of the Council (Appendix A) and the final Statement of Accounts for 2010/11 (Appendix B) be approved.
2. That the thanks of the Committee and the Portfolio Holder for Finance and Estates be forwarded to Alexis Garlick, Head of Finance, and her Team for the preparation of the Statement of Accounts.
3. That the Head of Finance investigate the possibility of the Council making an insurance premium payment to cover its contingent liabilities with the Municipal Mutual Insurance Company.

The meeting commenced at 5.00pm and concluded at 7.10 pm.

Chairman