

EAST DEVON DISTRICT COUNCIL
Minutes of a Meeting of the Audit and Governance
Committee
held at Knowle, Sidmouth on 25 June 2009

Present: Councillors:
Ken Potter (Chairman)
Tim Wood (Vice-Chairman)

Bob Buxton
Chris Gibbings
Stephanie Jones

Also Present: Barrie Morris Grant Thornton
Kate Jefferies
Natalie Sharp

Tanith Cox Internal Audit and Governance Manager
Simon Davey Head of Finance
Diccon Pearse Corporate Director
Mark Williams Chief Executive
Diana Vernon Democratic Services Officer

Apologies: Councillors:

David Atkins
Peter Bowden
Derek Button
Andrew Moulding – Portfolio Holder - Resources
Graham Troman – Member Champion for Data Quality

The meeting started at 3.30 pm and ended at 5.20 pm

***1 Public Questions**

No questions were raised by members of the public or Councillors.

The Chairman used this opportunity to comment on the financial pressures currently being faced by the Council and the aspiration for the Council to achieve a positive outcome from the Comprehensive Area Assessment.

***2 Minutes**

The minutes of the meeting of the Audit and Governance Committee held on 26 March 2009 were confirmed and signed as a true record, subject to Kate Jefferies name being recorded in full in the list of those in attendance.

***3 Internal audit – options for service delivery**

At its meeting of 26 March 2009 the Audit and Governance Committee approved a revised audit plan for 2009-10 in recognition of the internal audit resources available to the Council. Diccon Pearse, Corporate Director outlined the history of the service and difficulties experienced in recruiting and retaining auditors. It was necessary to address how to adequately deliver the Council's internal audit plans. The report outlined the advantages and disadvantages of the various options for the long term provision of the audit service, namely:

- to provide an internal audit service using Council employed staff,
- to appoint an external audit service provider, or
- to use a mixture of internal and external expertise.

*3 **Internal audit – options for service delivery (cont)..**

The Corporate Director advised that a review needed to be carried out to analyse what work could be carried out in-house with the available staffing resources and where additional support needed to be bought in. This review would be undertaken during the course of the year. The Council needed sufficient resources, whether in-house or from outside support to be able to deliver the audit plan. The uncertainty over outcomes of the Local Government Reorganisation in Devon and the anticipated return of the Principal Auditor from maternity leave at a future date would be taken into account when planning the service beyond the current year.

It was further proposed that, until an external supplier was appointed to undertake the core system work required the service continue to use agency staff as necessary.

RESOLVED that to supplement the limited resources of the in-house team an external provider be engaged for one year to undertake an agreed schedule of audits (to be determined through review of current in-house capacity against the requirements of the audit plan), with agency staff being appointed as necessary (subject to approval from the Chief Executive) to undertake the core work of the service until the supplier has been appointed.

*4 **Internal audit annual report for 2008/09**

Consideration was given to the annual report of the Internal Audit & Governance Manager, which summarised the work completed by the service during the 2008/09 year. Due to lack of resources, the service had concentrated on high risk areas. A limited number of medium and lower risk audits had also been completed during the year.

The Internal Audit and Governance Manager gave an overview of the report, the quality assurance of work carried out and feedback received from audit clients. The Internal Audit & Governance Manager gave a verbal report of her overall 'audit opinion' and took the Committee through each section of the report, referring specifically to the key messages. There were corporate governance, partnerships, corporate risk management, the review of data quality, probity work covered in the year, the reviews of core financial systems and other high risk audit areas. It was confirmed that high risk audits would feature in the audit plans for 2009/10, and that an exercise to review the Council's National Indicators was already well underway for the current year.

The service had also contributed to the broader 'governance' role and had introduced a number of policies, strategies and codes during the year.

Members noted the scope of the internal annual audit report and its key messages.

In discussion, the level of Leisure East Devon's (LED) General Fund was questioned. The Chief Executive advised that the £600K within the fund was an appropriate level for 3 month cover but that this amount should now, more significantly, be taken into account when the extent of the service provided and funding arrangements were being considered. The Committee felt that it would be appropriate to discuss this matter with the Council's representatives on the LED Board.

Members also noted the concerns raised in respect of housing services and were advised that this area was regarded as high risk in terms of expenditure and reputational risk and, consequently, had been included within the 2009/10 audit plan.

Members also discussed the weaknesses in respect of purchase cards which had resulted in tightened controls and procedures it was confirmed that a follow-up had been included within the 2009/10 audit plan..

***4 Internal audit annual report for 2008/09 (cont)..**

Members noted that the review of the Council's ICT Services had highlighted concerns over the accuracy and quality of data being reported to the Programme Board as well as widespread breaches to the Council's Financial Regulations and Contract Standing Orders. Recommendations made would improve the service and a follow up review would also be helpful to make sure that these had been implemented. The Chief Executive confirmed that it was appropriate to seek an interim report from ICT on the progress being made in implementing recommendations. It was suggested that the Portfolio Holder – Communications be invited to the next meeting where the concerns raised in the audit could be discussed together with an update on the remedial action being taken by the Service. Members recognised that it was the role of the Portfolio Holder to keep a watching brief on ICT systems and procedures.

- RESOLVED**
- (1) that the internal audit annual report for 2008/09 be noted,
 - (2) that the Council's nominated representatives on Leisure East Devon be invited to answer questions at the next meeting on the current service provided by LED and future direction of travel,
 - (3) that the Portfolio Holder – Communications be invited to the next meeting of the Committee to discuss the Committee's concerns in respect of the ICT systems and procedures and to confirm his understanding that actions recommended to address these concerns were being implemented.

***5 Annual Governance Statement**

The Internal Audit & Governance Manager reported that the Council was required to produce an Annual Governance Statement and had used the Chartered Institute of Public Finance and Accounting/Society of Local Authority Chief Executives (CIPFA/SOLACE) Guidance Note for English Authorities "Delivering Good Governance in Local Government" as its framework for compliance.

A comprehensive review of governance arrangements had been carried out which measured the Council's performance against the Audit Commission's Corporate Governance Key Lines of Enquiry (KLoEs). The Annual Governance Statement set out the adequacy of the Council's governance arrangements and confirmed that these were operating effectively in practice, and included action planned to fill the main gaps in governance arrangements revealed by the reviews.

Barrie Morris of Grant Thornton advised that the Annual Governance Statement would form part of their assessment which would be fed back to the Committee at its September meeting. He advised that the Council had met the minimum standards and the action plan would help the Council improve.

- RESOLVED** that the annual Governance Statement (full and summary) be agreed and adopted.

***6 External audit - interim report**

Members noted the interim report produced by Grant Thornton summarising findings from the interim audit which had principally been focussed on accounts' audit responsibilities under the Code of Audit Practice. In addition the audit had included a review of the adequacy of budgetary control arrangements, the risk register, governance and counter fraud arrangements as part of the Use of Resources work. At this stage the audit was to examine the 'mechanics' of the Council, to determine what controls were in place, whether its systems were sufficiently robust and the extent to which these could be relied upon. This would form the basis of a detailed review of the Council's audit work.

*6

External audit - interim report (cont)..

Members noted the key messages to the Council contained in the report, in summary:

- ...The overall arrangements in place for the delivery of the Internal Audit programme met the minimum standard,
- ...There was no material weakness in the Council's general IT control environment which could adversely impact on the Council's financial statements.
- ...No material weaknesses had been identified through the review of the key financial systems.
- ...Arrangements for closedown and financial reporting were considered adequate for the Council to meet its statutory requirements regarding financial reporting.
- ...In respect of the action plans arising from the 2007/08 interim and final accounts audits, it was noted that some progress had been made but a significant number had not been implemented and these areas would be included within the review of the final accounts audit.

Recommendations for improvement were included in Sections 2-5 of the report; a number of significant opportunities for improvement had been identified including:

- ...the need for clear documentation and rationale for audit testing,
- ...inclusion of the Task and Finish Forum's recommendations in the action plan for improvements,
- ...Internal Audit to publish an annual report to supplement the information within the final monitoring report, and,
- ...consideration by the Council of the longer term provision of the Internal Audit Service and its advisory function.

Members were advised of 3 possible levels of audits, from a 'transaction test walk through' (where a system is documented and an individual transaction checked from the beginning to end to make sure that the controls are operating within the system), compliance testing and substantive testing. It was deemed unnecessary by the External Auditors and thought to be inappropriately costly to undertake full reviews every year if no significant problems had been identified in the previous year. The cost of each level of review reflected the extent of the audit.

Proper debate and clarification on the extent of audits required for the different functions would be useful as the Committee was currently unclear about the detail in which the various audits were carried out. It was the responsibility of the Strategic Management Team and the Audit and Governance Committee working with Internal Audit to make sure that the internal audit programme was robust enough for the organisation and to ensure confidence in its systems. The Committee appreciated the need to achieve consistent standards and that Members would benefit from a wider understanding in practice of the terminology used and the use of audit testing undertaken.

The Corporate Director explained the need to achieve a balance between controls and systems. Audit's role was to check that controls were in place and were adequate. High risk systems were checked more regularly.

Due to the current public examination of MPs' expenses, it was suggested that a review of EDDC Councillor and Officer Expenses should be undertaken as a high priority to make sure that the policy was appropriate and that adequate checks were in place.

- RESOLVED**
- (1) that the external audit interim report for 2008/09 be noted,
 - (2) that a report be presented to the next meeting of the Committee setting out the Council's policies relating to Officer and Councillor expenses, together with feedback from the external auditors in this respect to enable Members to discuss and consider whether there should be an urgent high level internal audit of Members' expenses.

*7 **Final Statement of Accounts 2008/09**

Consideration was given to the report of the Head of Finance, up-dated at the meeting, regarding the Statement of Accounts 2008/09. The Audit and Governance Committee was required to approve the Council's Statement of Accounts prior to 30 June 2009, in order for them to be audited and published by 30 September. The Statement made comparison with the Revenue and Capital Outturn report, setting out the Council's financial position against budgets; this was considered by the Executive Board at its meeting on 10 June 2009.

The Committee appreciated the tight timescales in producing the Final Statement. The Head of Finance advised that adjustments were being made to the way in which the Final Statement was produced and it was hoped that next year the Statement would be produced for consideration at an earlier date.

The Vice Chairman felt that it would have been helpful to include an explanation about the revaluation of housing stock within the Statement as there was a significant year on year variation. The Head of Finance noted this comment and added that the revaluation was undertaken every 5 years but was reviewed annually and this was particularly relevant in the current financial climate.

In response to concerns in respect of the deficit of the pension fund, the Corporate Director confirmed that this fund was administered by Devon County Council and would be reviewed in March 2010. This Council would then be advised of its required contribution rate to meet its liabilities. Members recognised the on-going consequences of having a final salary pension scheme and that the matter should possibly be reviewed in the light of future deficit.

Members noted the details of debtors at Note 22 in the document. There had been a significant increase in benefits payments. The figures included bad and doubtful debt provision which was currently under review.

Following detailed examination and scrutiny by the Committee, the unaudited Statement of Accounts for 2008/09, was approved. Audited accounts would be published by 30 September following the audit of the accounts by Grant Thornton.

RESOLVED that, subject to audit, the Statement of Accounts for the financial year ending 31 March 2009 be approved.

Chairman Date.....