

AG.1

**MINUTES OF A MEETING
OF THE AUDIT AND GOVERNANCE
COMMITTEE**

**HELD AT THE GUILDHALL,
ABINGDON ON TUESDAY, 30TH
JUNE, 2009 AT 6.30PM**

Open to the Public, including the Press

PRESENT:

MEMBERS: Councillors Dudley Hoddinott (Chair), Andrew Crawford (Vice-Chair), Bill Melotti, Jerry Patterson, Judy Roberts and Robert Sharp

SUBSTITUTE MEMBERS: Councillor Jim Halliday (in place of Councillor Janet Morgan), and Councillor Gareth Jennings (in place of Councillor Michael Murray)

OFFICERS: Graham Ammundsen, Sandy Bayley, Steve Bishop, Alice Brander, David Buckle, Geoff Bushell, Steve Culliford, Trevor Hill, Paul Howden, William Jacobs, Penny O'Callaghan, Harry Oliver, Adrianna Partridge and Tim Treuherz

AUDIT COMMISSION REPRESENTATIVES: Maria Grindley and Anne Ockleston

CAPITA REPRESENTATIVE: Darren Keen

NUMBER OF MEMBERS OF THE PUBLIC: Nil

AG.1 **NOTIFICATION OF SUBSTITUTES AND APOLOGIES FOR ABSENCE**

The attendance of Substitute Members who had been authorised to attend in accordance with Standing Order 17(1) was recorded as referred to above with apologies for absence having been received from Councillors Janet Morgan and Michael Murray. An apology for absence was also recorded from Councillor Terry Cox.

AG.2 **MINUTES**

The Minutes of the meeting of the Committee held on 18 March 2009 were adopted and signed as a correct record.

AG.3 **DECLARATIONS OF INTEREST**

Councillor Jerry Patterson declared a personal interest in report 13/09 - Risk Management Strategy, in so far as he was a member of the Executive which it was likely would be recommended to adopt the Strategy (Minute AG.8 refers).

AG.4 **URGENT BUSINESS AND CHAIR'S ANNOUNCEMENTS**

None.

AG.5 **STATEMENTS AND PETITIONS FROM THE PUBLIC UNDER STANDING ORDER
32**

None.

AG.6 **QUESTIONS FROM THE PUBLIC UNDER STANDING ORDER 32**

None.

AG.7 **COST-SAVINGS ARISING FROM THE CREATION OF THE SHARED SENIOR
MANAGEMENT TEAM**

The Committee received and considered report 12/09 of the Head of Finance and the Advisor to the Chief Executive. The report set out the costs and savings of implementing the new shared management structure. On 16 July 2008, the Vale and South Oxfordshire District Councils had both agreed to create a shared senior management team. The report to the Councils' meetings had identified a minimum annual saving of £748,000 between the proposed structure and those existing in each Council. The savings were based on the following assumptions:

- the new management structure would be comprised of no more than one chief executive; three strategic directors; and eight heads of service;
- all posts were filled from existing staff;
- every displaced member of staff left rather than being redeployed; and
- re-grading of successful candidates was capped at ten per cent of the existing maximum salary .

Both Councils had acknowledged that redundancy costs would be between £310,000 and £578,000, and pension costs for early payment of benefits between £77,200 and £606,800. The combined short term costs were identified as being between £395,000 and £1,122,000. An additional £100,000 had been set aside (£50,000 from each Council) for the engagement of external recruitment consultants and other minor one-off costs. A maximum pay-back period of costs against savings was therefore under 1.7 years.

However, the costs and savings attributable to the new shared management structure were:

- ongoing annual salary savings of £791,000, which was £43,000 more than originally indicated;
- one-off costs for redundancy and early retirement of pension benefits of £922,000, which was £200,000 less than the maximum allocated;
- one-off costs for recruitment and other minor costs of £63,000, being £37,000 less than originally indicated; and
- additional net salary cost of £35,000 over two financial years covering start and leaving dates of staff.

It was noted that the ongoing costs were split equally between the two Councils but the one-off costs including pension and redundancy costs were split 66% South Oxfordshire and 34% Vale to reflect the maximum theoretical financial liability of each Council, given all possible appointment scenarios. In answer to a question from a Member, the Chief Executive and Strategic Director present both confirmed that their

time to date had been split equally between the two Councils and this would continue unless there was a significant reason to do otherwise. Time spent at each authority would continue to be monitored.

By 6 votes to nil with 2 abstentions it was

RESOLVED

- (a) *that the costs and savings resulting from the introduction of the shared senior management structure be noted; and*
- (b) *that the fact that the savings have exceeded the estimates be welcomed.*

AG.8 RISK MANAGEMENT STRATEGY

Councillor Jerry Patterson had declared a personal interest in this item.

The Committee received and considered report 13/09 of the Head of Human Resources, IT and Customer. The report proposed the adoption of a draft risk management strategy for the period 2009 to 2012. Members noted that the Strategy had been prepared jointly with South Oxfordshire District Council and had been supported by its Audit and Corporate Governance Committee.

Members accepted that having an up to date risk management strategy would help the Council meet its strategic objective of managing its business effectively. It would also support all of the Council's strategic objectives by setting out an approach that would identify and reduce risks to the delivery of services, performance targets and projects. The Strategy would also enable the Council to meet a requirement in the Government's Comprehensive Area Assessment framework, which required the Council to 'manage its risks and maintain a sound system of internal control'.

In answer to a question from one Member, it was noted that risk management had been written into the Council's recent major contracts, i.e. the new waste management contract and the financial services contract. All new contracts would include risk management arrangements in line with the Council's Strategy.

The Committee agreed to recommend adoption of the strategy to the Executive. However, it was suggested that the Strategy should clarify the timescales for the actions and that the timescales should be dependent on the level of risk. The reporting officer agreed to incorporate this.

Members noted that an update of the Strategy would be presented to the Committee in due course and a separate but related report on business continuity would also be forthcoming also.

RESOLVED

that the Executive be recommended to adopt the draft Risk Management Strategy, subject to the timescales being clarified to reflect the level of risk.

AG.9 AUDIT COMMISSION'S PLANNED ACTIVITY FOR 2009/10

The Committee received and considered an agenda report on the Audit Commission's planned activity for 2009/10. It was noted that in previous years the Audit Commission had produced an annual audit plan which had set out the planned audit and inspection activities and estimated fees. This year the Audit Commission had condensed this information into two letters which were appended to the agenda for the Committee's consideration. However, this would be supported by a more detailed plan.

RESOLVED

that the Audit Commission's planned activities and estimated fees be noted.

AG.10 INTERNAL AUDIT ANNUAL REPORT 2008/09

The Committee received and considered report 14/09 of the Audit Manager, which set out the annual report of Internal Audit for 2008/09 and advised the Committee on the adequacy and effectiveness of the Council's internal control environment.

The Audit Manager was satisfied that sufficient internal audit work had been undertaken to allow a reasonable conclusion to be drawn on the adequacy and effectiveness of the Council's risk management, control and governance processes. This opinion was based on the risk-based audits carried out during the year and other unplanned work on control systems. The Audit Manager's unqualified opinion was that satisfactory assurance could be placed on the Council's risk management, control and governance processes. There was a sound system of internal control but there were some weaknesses which might put some system objectives at risk. Areas of concern centred on key financial systems, corporate areas such as anti-fraud and corruption arrangements, consultation, contract monitoring, risk management and the management of the brown bins service. Where weaknesses had been identified, recommendations had been made for remedial action. In summary, the Audit Manager believed that 2008/09 had been a positive year with improved performance indicators and good feedback from service managers.

The Committee welcomed the report and praised the work of the Audit Manager and the Internal Audit staff.

RESOLVED

that the report be noted.

AG.11 INTERNAL AUDIT ACTIVITY REPORT 1ST QUARTER 2009/10

The Committee received and considered report 15/09 of the Audit Manager which set out details of recent Internal Audit activity, including reports on ten individual audits of the Council's operations. Of these audits, one had been given a full assurance rating, five were rated as satisfactory and four were given a limited assurance rating. It was these four audits with limited assurance the Committee focussed its attention.

Housing and Council Tax Benefits

The Committee questioned the service managers on various aspects of this audit which had received a limited assurance rating.

Internal Audit had recommended that Capita should provide the Council with a list of outstanding cheques to facilitate the cancellation on the financial banking system. Furthermore, the Council should be provided with information to support the reconciliation of housing benefit between the Academy and Agresso systems to provide assurance to the Audit Commission that prudent financial management had been established between the Council and its service provider. Members stressed the importance of bank reconciliation and were given assurances that all cheques up to the end of the 2008/09 financial year had been reconciled and the general bank account reconciliation was up to date. The Officers agreed to prioritise bank reconciliation and ensure that monthly checks were made to keep this up to date. (Note - Since the Committee meeting, the Head of Finance has confirmed that all bank reconciliations are up to date in 2009/10.)

Members queried why two of the Internal Audit's recommendations had not been agreed by Capita. These recommended (1) that Capita's system be used to denote the checking process undertaken by team leaders to enable them to provide assurance to the Council that the level of checking was adequate and effective, and (2) that Capita should review the components of the Quality Check Analysis report to ensure the information stated the number and nature of errors to assist the Client Team to improve and develop the benefit assessment process. Darren Keen, Capita's representative, reported that he disagreed with the recommendations as he saw no reason for further detail. His own internal client information provided sufficient detail for the client manager to check on Capita's performance. The Council's Contract Manager agreed with Capita's response. The Audit Manager was satisfied that acceptable alternative controls were being used. However, these would be checked at the follow-up audit stage.

In answer to a question from a Member, it was noted that the Council Tax and Housing Benefits service was monitored by the Ridgeway Shared Service Partnership Strategic Board on a monthly basis, either formally or by way of informal briefings. Internal Audit also carried out annual audits of this service. The Audit Manager reported that despite only achieving limited assurance, the service had improved since the audit had been undertaken. However, the Committee requested that an interim report was made to a future meeting on the operation of this service.

Freedom of Information

It was noted that an officer group consisting of representatives from each service area was responsible for the management of Freedom of Information requests. Of the 184 requests in 2008, only a few had not been correctly dealt with. The Legal Services Manager had been requested to ensure that all such requests were correctly responded to and cited an example in one service where this had not occurred. The public had the right to ask for information and there was a need to convey this message to all staff. It was noted that the Freedom of Information Policy would be reviewed in the autumn by the Legal Services Manager.

Creditor Payments

The creditor payments service had again received a limited assurance rating but the auditor was hopeful that recent improvements would result in a better assurance rating at the next audit.

Payroll

It was noted that further to the report, all of the actions had since been agreed by the service manager. The Audit Manager had been asked to temporarily act as Payroll Manager to improve the service following the transfer of the Payroll service to Finance and following previous limited assurance ratings by Internal Audit. A contract auditor would be used to carry out audits of the payroll service for the next three years to ensure no conflict of interest.

Emergency Planning

Despite receiving a satisfactory assurance rating, Members queried why the emergency plan for some services was incomplete. It was noted that the Council was in the process of reviewing its emergency planning processes and it was intended to adopt similar arrangements to those operating effectively at South Oxfordshire District Council. However, work on this had been suspended temporarily pending a county-wide review of emergency planning by Oxfordshire County Council.

Human Resources

This had received a satisfactory assurance. However, Members suggested that the officers checked whether Criminal Records Bureau checks should be introduced for emergency planning volunteers.

RESOLVED

- (a) *that the report be noted; and*
- (b) *that an interim audit report on the Housing and Council Tax Benefits service be made to the meeting of the Committee due to be held in January 2010.*

AG.12 INTERNAL AUDIT MANAGEMENT REPORT - 1ST QUARTER 2009/10

The Committee received and considered report 16/09 of the Audit Manager which reported on management issues in Internal Audit; summarised progress against the Audit Plan for the first quarter of 2009/10 up to the 17 June 2009 and summarised the priorities and planned audit work for the second quarter. The Audit Manager reported that the 2008/09 work had been completed and work on the 2009/10 plan was on schedule.

RESOLVED

that the report be noted.

AG.13 ADJUSTMENT TO GENERAL FUND BALANCE 2008/09

The Committee received and considered report 17/09 of the Head of Finance which informed the Committee of an omission in the Statement of Accounts 2007/08, resulting in the General Fund balance being over-stated. The report looked at the impact on the Council's Medium Term Financial Plan and made proposals on how to bring the Council's budget back in line with the requirement for balances to be at least 5% of the Council's annual budget requirement. The report also addressed the action to be taken to prevent any similar errors in the future.

The Head of Finance reported that two significant errors had been identified which seriously impacted on budget revenue balances. These had recently been discovered during the closedown of the 2008/09 accounts in May 2009. One error which had occurred in the 2007/08 statement of accounts related to the funding of capital expenditure where a government grant had been credited to the General Fund balance in the income and expenditure account but had not been reversed out again as expenditure. It was explained that this had not been discovered as the expenditure had not produced an asset for the authority and had already been written off. The regulatory accounting guidance, the Chartered Institute of Public Finance and Accountancy's 'Statement of Recommended Practice', a large document of several hundred pages, had advised that this expenditure should be reversed out of the General Fund balance, but this had been overlooked as the reference was not in what was considered to be the most logical place in this reference document. The relevant part of the guidance was split between different sections on pages 104 and 610 of the document. The Head of Finance understood how this had been missed, given the tight timescale to produce the statement of accounts. The second error, which had occurred in the revised 2008/09 budget, had resulted from double-counting the income budget for the planning delivery grant. As a result of these two errors, less some unexpected relief from the unbudgeted income and lower over-spending in 2008/09, the General Fund balances had been overstated by £700k throughout the Medium Term Financial Plan approved by the Council in February 2009. The Chief Accountant gave her assurance that there were no other double-counted grants that had not been identified.

The Committee questioned the Officers on what action they proposed to take to ensure this did not happen again. In response the Head of Finance reported that the Committee must question the Officers and satisfy itself that the Statement of Accounts was correct before it was signed off for audit. To stop this happening again, the Officers were actively looking out for such errors and more training would be given to accountants in the specialist areas of accountancy. The report also recommended that the Chief Accountant should have sole responsibility for the Medium Term Financial Plan. The Chief Accountants at the Vale and South Oxfordshire District Councils had agreed to check each other's Statement of Accounts before submission to the relevant committee for approval. The Chief Finance Officer could not guarantee that further errors would not occur, but stressed that the measures being put in place would make this much more unlikely. The risk would be minimised. However, the Officers warned that new international accounting reporting standards were to be introduced and these would put even greater demands on the accountants' time.

In answer to a question from one Member, Maria Grindley of the Audit Commission reported that the capital accounting error had not been seen at other councils. The accounts were complex but when the Audit Commission gave its assurance and opinion on the Council's Statement of Accounts it was restricted to looking at the key areas and not the detail. The Audit Commission was comfortable in its opinion on the Council's 2007/08 accounts as this was based on a risk assessment of the likelihood of material errors in the financial statements. The Audit Commission assessed the capital accounting risk as low due to the experience of the Officer involved. To conduct a more detailed assessment of the Statement of Accounts would more than double the audit fee payable by the Council, which could result in public criticism.

In answer to a question from another Member, it was reported that the Chief Finance Officer would attempt to correct this error by replenishing reserves to 5% of the Council's annual budget requirement by the end of March 2010. This could be achieved by re-profiling balances from other reserves that had been established for long term projects, such as funding the 2011 District Council elections. There were adequate reserves to cover this error. The reserves would then be replenished from managed under-spends over the course of 2009/10. To bring the Council's budget back in line, the Management Team would stop all non-urgent or non-essential expenditure. Vacancies could be held in abeyance for longer periods and be subject to management review. Every effort would be made to avoid adversely impacting on the 2010/11 budget.

The Committee noted that if this error had been discovered before the Council had set its 2009/10 budget this would have had a significant impact on services. Members noted the explanations given but called for an independent investigation into this matter and asked for the findings to be reported back to this Committee.

By 8 votes to nil it was

RESOLVED

- (a) *that the report containing explanations into the adjustment to the 2007/08 General Fund balance and the action being taken to prevent recurrences be noted;*
- (b) *that the impact on the Medium Term Financial Plan and the action taken to bring the balances back to the minimum required level be noted; and*
- (c) *that the Chief Executive be invited to carry out a full independent investigation of the causes of the errors highlighted in report 17/09 and present the findings and any recommended actions to the Committee.*

AG.14 STATEMENT OF ACCOUNTS 2008/09

The Committee received and considered report 18/09 of the Head of Finance which sought approval of the Statement of Accounts for 2008/09. The Accounts and Audit Regulations 2003 required approval of the 2008/09 Statement of Accounts by 30 June 2009. This power had been delegated to the Committee.

It was noted that the Statement of Accounts provided information on how the Council had used its financial resources. It was prepared following the end of the financial year on 31 March 2009. Following the Committee's approval, the Statement of Accounts would be audited by the external auditor and would be made available for public inspection from 23 July 2009. The accounts needed to be published by 30 September 2009, together with any certificate, opinion or report given by the external auditor.

The Committee was asked to approve the Statement of Accounts as an accurate record of the Council's financial transactions during the year and of the balances at the end of the year. It was noted that the Committee was not being asked to scrutinise why budgets were either under or overspent, other than to satisfy itself that in-year transactions and year-end balances were accurate. To assist the Committee, Members had been invited to a separate question and answer session on the Statement of Accounts held the previous week.

Tabled at the meeting was a set of amended accounts with the changes highlighted and the amendments explained. The Committee considered these in detail. It was suggested that an amendment should be made to note 9 of the Statement of Accounts in the section covering officer emoluments. This should clarify that the senior management structure had changed and that 50% of the cost of higher paid senior employees listed in the note was being recharged to South Oxfordshire District Council and vice-versa.

Members congratulated the Officers on completing the accounts in time for the deadline. Some Members felt that the Council was put under unnecessary pressure by the tight Government deadlines.

In answer to a question from one Member, it was reported that the Council had followed instructions from the Chartered Institute of Public Finance and Accountancy on how to deal with the investment the Council had in the Icelandic bank, Landsbanki, which had collapsed. The Statement of Accounts estimated that 95% of the Council's investment would be recovered.

Members asked that the third column heading in the table on page 32 of the Statement of Accounts should be changed to read 2007/08.

It was noted that the debtors total had increased to £3m. It was reported that this was not due to a rise in bad debts, (an area in which the Council had made good progress over the past year) but mostly related to a large Government grant that had not been received by 31 March.

In answer to a question from one Member, the Chief Finance Officer assured the Committee that the Council had sufficient reserves to cover the £700k error in the General Fund balance referred to earlier in the meeting (minute AG.13 refers). He agreed to consider whether the reference to "strong and sustainable" in the foreword to the Statement of Accounts needed to be reworded in September once the Council's position became clearer. This would largely depend on the level of savings which could be achieved over the next two months.

It was proposed by the Chair and by 8 votes to nil, it was

RESOLVED

that the Statement of Accounts for 2008/09 be approved for audit.

Exempt Information Under Section 100A(4) of the Local Government Act 1972

None

The meeting rose at 9.25 pm