

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE
HELD AT FOLLATON HOUSE, TOTNES ON TUESDAY 6 APRIL 2010**

MEMBERS

* Cllr J T Pennington - Chairman

* Cllr P Coulson - Vice-Chairman

* Cllr B F Cane

* Cllr R M Lawrence

* Cllr R F Croad

* Denotes attendance

Officers in attendance for all agenda items:

Strategic Director (Resources), Head of Financial Services, Internal Audit Manager,
Risk and Health and Safety Advisor and
Senior Member Support Officer.

Also in attendance for all agenda items:

Mr A Williams (District Auditor – Audit Commission) and Sue Heath – (Audit Manager
- Teignbridge District Council).

A.31/09 MINUTES

The minutes of the meeting of the Audit Committee held on 1 December 2009 were confirmed as a correct record and signed by the Chairman.

A.32/09 DECLARATIONS OF INTEREST

Members were invited to declare any interests in the items of business to be considered during the course of the meeting, but none were made.

A.33/09 AUDIT COMMISSION PROGRESS SUMMARY TO 11 MARCH 2010

The District Auditor (Audit Commission (AC)) advised the Committee of the following:

- Reports issues by the Audit Commission since last meeting;
- Work completed;
- Work in progress; and
- Audit Commission events and national reports.

During discussion, the Chairman raised a query regarding the reported lack of participation by district councils in the partnership approach offered by Devon County Council in terms of new requirements for International Financial Reporting Standards (IFRS). In response, the District Auditor replied that the Audit Commission had no concerns within Devon, as the partnership approach was working and South Hams staff had attended joint meetings to discuss the implementation of IFRS requirements.

A.34/09 ANNUAL AUDIT LETTER – 2008/09

The District Auditor (AC) advised Members that the Annual Audit Letter was a summary of work undertaken once that work was complete. Therefore, there was nothing in the letter that Members had not previously been informed of. There was one item raised during the discussion which related to the letter of objection received. The District Auditor explained that the AC received various communications in terms of the public's right to make formal objection to accounts. The audit could not be closed until the matter had been investigated, but once an audit was closed then the public right to make objections ceased. The Strategic Director (Resources) advised Members that the letter of objection related to a complaint in relation to the amount of money that the Council had spent on a leaflet during the consultation phases on the Local Government Review. At the time, the then District Auditor, whilst accepting there was some substance to the argument, felt that it was not so significant so a clear audit certificate had been issued.

A Member queried the difference in valuation of fixed assets which had been highlighted as a significant issue arising from the audit. In response, the Head of Financial Services advised that the different valuation had arisen purely because a different valuer had been used. The AC agreed with the second valuation and therefore the accounts had to be changed.

The Chairman acknowledged the overall score of 2 for Use of Resources, and hoped that the Council was working towards achieving a score of 3. Officers advised that achieving a score of 3 would involve resource implications.

Finally, in relation to workforce planning, the Strategic Director (Resources) explained that often, the score given was based on the production of evidence and he was confident that, when inspected again, this area of work would score significantly better.

A.35/09 CERTIFICATION OF CLAIMS AND RETURNS

The District Auditor explained that this was a brief paper to inform Members on the audit of grant claims. The report sets out the background that determined which claims were audited. Two claims were in excess of £500,000 and therefore required a review, and only one claim had any subsequent amendment. This claim had a sample tested and errors were found, but these were isolated, and not systemic of the way the claims were treated. Further, of the three recommendations made by the AC, all had been accepted by the Council.

A.36/09 AUDIT OPINION PLAN

The District Auditor advised Members that the purpose of this report was to inform Members of the approach that would be taken by the AC in auditing the Councils' accounts. They would look at controls, audit controls and form an opinion on the control of accounts. As part of the process they would also identify risks. He then asked that this Committee meet in September 2010, in order to allow presentation of the opinion.

In response to a question relating to fees, the District Auditor advised that one of the figures related to 2008/09, and another figure to 2009/10.

A.37/09 IFRS CHECKLIST FOR MEMBERS

The District Auditor introduced this, his final report of the agenda. This report was to provide information to Members, however, there was a more detailed report, later on the agenda (minute A.43/09 below refers).

A.38/09 PROTECTING THE PUBLIC PURSE CHECKLIST (LOCAL GOVERNMENT FIGHTING FRAUD)

The Internal Audit Manager introduced this report, and advised Members that the checklist referred to had previously been presented to the Committee in December 2009 (minute A.28/09 refers). He went on to say that we were able to answer 'yes' to all questions on the checklist.

The Chairman stated that this was a very comprehensive report, but another Member noted that all the points seemed to be reactive, and he wanted to know if there was an active fraud strategy. In response, the Head of Financial Services confirmed that proactive work did take place. In terms of benefit claims, this formed part of the routine information requested from clients, so fraud protection was at the front end of the process. There was also a fraud team which worked within the Revenue and Benefits section. The Internal Audit Manager added that the Council took part in initiatives such as the National Fraud Initiative which was facilitated by the AC.

Following the discussion, it was agreed to amend the recommendation to take account of the proactive work undertaken by the Council.

It was then:

RESOLVED

That the position of the Council against the checklist included in the Audit Commission publication 'Protecting the Public Purse – Local Government Fighting Fraud' (September 2009), has been considered and, wherever possible, the Council's actions would be on proactive work to prevent fraud from entering into the system.

A.39/09 INTERNAL AUDIT TERMS OF REFERENCE AND STRATEGY

The Internal Audit Manager introduced this report and advised Members that the Internal Audit team operated to CIPFA standards, which required the production of terms of reference and an annual strategy. The Terms of Reference, whilst reviewed but not updated every year, were included this year as there had been some changes, mainly in relation to the work which would be undertaken for West Devon Borough Council (WDBC).

The Chairman highlighted a number of areas within the report, however the main discussion related to the concerns raised by the Members that 80 days, or 15% of the audit plan, would now be devoted to work for WDBC. The Internal Audit Manager explained that this had been achieved by realigning some of the lower risk items within the South Hams Audit Plan from a three year to a five year cycle. He was still confident that the most high risk areas would be audited on an annual basis.

The Strategic Director (Resources) advised that he met regularly with both the Head of Financial Services and the Internal Audit Manager, and the situation would be monitored. Should any concerns arise he would raise a request with the Executive for additional resources.

The Chairman then asked for information relating to the collaboration with Teignbridge District Council (TDC). The Audit Manager from TDC advised that, whilst true collaboration arose when services were combined, collaboration was still working and both sides were benefiting from sharing best practice. Some examples included sharing Terms of Reference and Strategy documents, and sharing knowledge gained from training events that one or other had attended.

The final point raised related to time set aside for contingency, and the Internal Audit Manager explained that he felt the level was appropriate, and in the future if the contingency was not used, then it could be directed to the lower priority work.

It was then:

RESOLVED

That the Internal Audit Terms of Reference and Audit Strategy 2010/11 be approved.

A.40/09

INTERNAL AUDIT – ANNUAL INTERNAL AUDIT PLAN 2010/11

The Internal Audit Manager introduced the report which detailed the proposed five year plan, as alluded to in the previous item. He advised that an annual risk assessment was undertaken to draw up the plan and the risk assessment is based on a number of elements including value of transactions, political sensitivity and impact on other systems.

During discussion, the following points were raised:

- Legislative changes can impact significantly on the relevant service e.g. new Licensing regulations;
- The time set aside for auditing Improvement included looking at the National and Local Performance Indicators;
- A new system had been introduced in relation to follow up to reports; and
- New software had been introduced to assist with the efficiency of the Trade Waste function, which would release time for the Trade Waste Officer to concentrate on securing new business opportunities.

It was then:

RESOLVED

That the five year audit plan 2010/11 to 2014/15 and computer audit plan and operations plan for 2010/11 had been reviewed.

A.41/09

PROGRESS AGAINST THE 2009/10 INTERNAL AUDIT PLAN

The Internal Audit Manager introduced the report which was to inform Members of the principal activities and findings of the Internal Audit section for 2009/10 to 28 February 2010, by providing a summary of the main issues raised by completed individual audits, and by showing the progress made by the section against the 2009/10 annual audit plan, reviewed by the Audit Committee in April 2009 (minute A.33/08 refers).

There was a brief discussion, before the Members turned to the exempt appendix which had been presented with the report.

A.42/09 **EXCLUSION OF PUBLIC AND PRESS**

RESOLVED

That in accordance with Section 100(A)(4) of the Local Government Act 1972, the public and press be excluded from the meeting during consideration of the following items of business in order to avoid the likely disclosure to them of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the Act.

Members then discussed the exempt appendix, which had been presented as part of the report, and the Internal Audit Manager responded to a number of queries that were raised.

It was then:-

RESOLVED

That the public and press be readmitted.

It was then:-

RESOLVED

That the progress made against the 2009/10 Internal Audit Plan had been considered.

A.43/09 **INTERNATIONAL FINANCIAL REPORTING STANDARDS – FORTHCOMING CHANGES TO THE STATEMENT OF ACCOUNTS**

The Head of Financial Services introduced this item as an update for Members on the transition to International Financial Reporting Standards (IFRS) based reporting. He advised that the Council was still awaiting guidance on some aspects.

The Chairman had raised concerns from Devon County Council in relation to District Councils not taking advantage of partnership opportunities being offered, however, South Hams District Council was part of the Devonwide Group and our Chief Accountant attended their meetings.

The Head of Financial Services reported that the biggest amount of work related to the determination of leases and Property Services had reallocated work to enable each lease to be examined. This work was on schedule and should be completed by the end of April. In addition, staff were attending training courses and it was evident that there were different interpretations of the rules. He concluded however, by stating that he was confident that this Council would meet the standards laid down.

It was then:-

RESOLVED

That the move towards International Financial Reporting Standards (IFRS) for local authorities be noted.

A.44/09

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2010/11

The Head of Financial Services introduced this item and explained that the strategy had been sent to Executive and then approved by Council.

The Strategy reflected a huge amount of activity by various bodies, such as CIPFA and the AC, as a result of the Icelandic bank situation.

The priority for South Hams District Council was now protection. The strategy now adopted was a risk averse strategy with investments all in the United Kingdom, with the exception of Santander Bank.

Whilst some Members felt that better rates of return could be attained from longer term investments, the Head of Financial Services explained that one of the impacts of the risk averse strategy was a restriction on the length of time that monies could be invested. Another Member added that the responsibility of the Audit Committee was to ensure that investments were made in line with the approved strategy.

Finally, the Chairman asked that the Treasury Management Monitoring Reports, as well as being presented at the mid year point to the Executive, were also presented to the Audit Committee.

It was then:-

RESOLVED

That the Treasury Management Strategy and Annual Investment Strategy 2010/11 has been reviewed.

A.45/09 **RISK MANAGEMENT QUARTERLY REVIEW**

The Risk and Health and Safety Advisor presented a report to Members that provided them with an update on risk management for the period from December 2009.

He advised that a Task and Finish Group of the Community PDG would meet on the 7 April 2010 to discuss non significant partnerships, and would then report to the Community PDG at its meeting on 15 April 2010.

During discussion a Member asked that a report be taken to the Shared Services Joint Steering Group suggesting that the Audit Committee carry out risk workshops on specific service areas.

It was then:-

RESOLVED

That the Committee has considered and commented upon the progress made on risk management.

(Meeting commenced at 10.00 am and concluded at 12.50 pm)

Chairman