

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE
HELD AT FOLLATON HOUSE, TOTNES ON TUESDAY, 7 APRIL 2009**

MEMBERS

* Cllr M J Howarth - Chairman

* Cllr J T Pennington - Vice-Chairman

* Cllr P Coulson

* Cllr G Date

* Cllr R F Croad

* Denotes attendance

Also in attendance:

Cllr M J Hicks and J W Squire.

Officers in attendance: For All Agenda Items:

Strategic Director (Resources), Internal Audit Manager, Head of Financial Services, Risk and Health & Safety Advisor, Shared Head of Improvement and Member Support Officer, Mr Steve Brown Audit Manager (Audit Commission), West Devon Borough Council Audit Committee, Chief Accountant (WDBC) and Head of Financial Services (WDBC).

Officers in Attendance: For individual Items:

Item 12: (minute A.34/08 below refers) Head of Property Services

A. 25/08 MINUTES

The minutes of the meeting of the Audit Committee held on 2 December 2008 were confirmed as a correct record and signed by the Chairman, subject to the following amendment:-

In relation to the resolution for minute no A.20/08 'Anti Money Laundering Policy and Procedures', the Committee wished to see the word 'Money' which preceded 'Policy', be deleted. The resolution was therefore to read:-

'That the Council be RECOMMENDED that:-

1. the Anti Money Laundering Policy be adopted'

A.26/08 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.27/08 AUDIT PROGRESS SUMMARY TO 20 MARCH 2009

Mr Brown advised the Committee that the 'Audit Progress Summary' would be produced regularly in the future, which would inform the Council of Audit Commission events and national reports.

A.28/08

ANNUAL AUDIT AND INSPECTION LETTER – SHDC 2007/08

The Committee was informed that the Council had been rated as 'Excellent' and had done well to improve from an already high base. It was noted in the 'direction of travel' report that the Council had made good progress with the delivery of its priorities and that it had performed better than most councils e.g. in such areas as recycling composting waste and time taken to process benefit claims. However, the Council had performed less well in being able to demonstrate that it systematically considered the diverse needs of all sections of the community when it designed and delivered services. The 'direction of travel' report also recommended that the Council ensured that 'plans to improve' in areas where progress had been slow, e.g. such as in the provision of affordable housing, were put in place. The report also acknowledged the challenges that would be faced by the Council in the year ahead, which included uncertainty over the future of local government structures, the need to introduce a new pay structure for staff to meet equal pay requirements and an increase in demand for some services due to the economic downturn.

During the discussion, the following points were made:

- 1) A Member suggested that the contribution of funding towards the Watermark Centre in Ivybridge would have been more appropriately listed under the section 'Good Jobs' of the assessment, as the motivation for the funding had been to support the creation of jobs;
- 2) Regarding the recommendation to 'systematically consider the diverse needs of all sections of the community when it designed and delivered services', a Member asked Mr Brown how the Council could improve. In response, the Committee was informed that this was a legislative requirement and that the comment had been made, not because it was felt that the Council had not considered the needs of those who were disadvantaged, as it evidently did so, but rather that the Council needed to make these considerations on a 'systematic basis'. In terms of rectifying this requirement, it was noted that consultation and meetings would be undertaken with disadvantaged groups to assess their needs, and all new Council policies and strategies would be cross-referenced with the results of those consultations to provide the systematic framework that was currently lacking. It was confirmed that the resources for this labour intensive work would be shared with West Devon;
- 3) On the matter of the slow progress on the development of affordable housing, a Member commented that the delay was due to difficulties in identifying suitable locations, not a lack of commitment to deliver on this Council priority. In reply, Mr Brown acknowledged that the planning process had impeded progress but reiterated that the Council had not met its own target;

- 4) A Member commented that they were pleased that the Audit Commission had acknowledged the problems that the uncertainty over local government restructure had caused local authorities in Devon and wished to congratulate SHDC staff for continuing to make improvements in difficult circumstances.

It was then:-

RESOLVED

That the comments in the report presented to the Committee and the Annual Letter of Inspection 2007/08 be noted.

A.29/08 USE OF RESOURCES – SHDC 2007/08

Members considered the Audit Commission's report that evaluated how well the Council had used its resources during the 2007/08 financial year. The assessment had comprised of five themed areas which were:

- Financial Reporting;
- Financial Management;
- Financial Standing;
- Internal Control; and
- Value for Money.

Using their standard scoring scale to assess the Council on the above themed areas, the Audit Commission had rated the Council as 3 (i.e. had consistently performed above minimum requirements) for all categories. However, the report did highlight that no ethics training had been offered to Members or Staff and that the Council had not investigated promptly high risk data matches identified through the NFI data matching exercise. The report also outlined further potential areas for Value for Money improvements. These were that the Council extend the use of sustainability impact proposals for strategic decisions, that actions be taken to reduce sickness absence and to undertake reviews for high cost services, such as street cleaning and waste collection to identify potential cost savings whilst maintaining high levels of performance.

It was also noted that the next 2008/09 'Use of Resources' assessment would be based on new categories of enquiry and would form part of the new performance assessment framework for local government and its partners, known as Comprehensive Area Assessment (CAA). The focus in the future would be on outcome driven.

During discussion, the following points were made:

- 1) On the matter of ethics training, the Strategic Director (Resources) advised that training had been made available to Members, but they had not been able to demonstrate to the Audit Commission that they had provided enough. However, it was noted that the training that had been made available had not been well attended by Members;
- 2) Regarding Data Matching, Members were reassured that the checks had now been done and it was explained to them that the delays had been caused by flaws in some of the data received, and that this should have been communicated to the Audit Commission promptly;
- 3) With regard to sickness absence, the Committee was informed that this matter was a priority for the SMT's agenda and was being actively monitored and measured using the Bradford Factor System. A Member raised concern that a high rate of sickness absence could be indicative that people were being overworked and under stress, or it could indicate other internal organisational issues. Officers advised that SHDC had a higher sickness level than West Devon Borough Council (WDBC), but were on a par with Mid Devon and Torridge Councils. However, it was noted by the Strategic Director (Resources) that it was potentially misleading to compare figures with West Devon who did not, for example, have front line staff such as street sweepers and refuse collectors.

It was then:-

RESOLVED

That the report be noted.

A.30/08

AUDIT OF THE FINANCIAL STATEMENTS – SHDC 2007/08

Members considered a report by the Audit Commission that assessed whether the Council's annual financial statements fairly stated the financial position of the Council. The Audit Commission confirmed that they were able to give an unqualified audit opinion for 2007/08. Generally, the Audit Commission found the Council's control environment to be robust and to be operating effectively.

However, the pre-statements review identified that a number of expected controls covering the input of debtors onto the sundry debtor's system and debt management, were either absent or not operating effectively. Other recommendations contained in the report were:

- To instruct a valuer to undertake an annual impairment review;
- That the asset register be regularly reconciled with the property terrier;
- That all asset holders notify the capital accountant of any additions or disposals;
- That regular existence testing is undertaken to ensure the asset register is complete;
- That the Council reviews its process for ensuring that assets remain fairly stated after enhancement work;
- That valuation certificates should include explanations of significant valuation movements.

In discussion, a Member asked for an update on the £500,000 of un recovered debt that was in excess of 150 days. In reply, officers informed that Housing Benefit had been separated out to the Housing Team and a new Sundry Debt Officer was to be appointed. A Member emphasised that this was a very important issue and would need to be revisited regularly. Another Member questioned whether pursuing debt in the current economic climate was helpful to residents. In reply, it was stated that the Council endeavoured to negotiate a repayment plan with debtors, but that if they consistently defaulted then legal action would be taken as a last resort.

A.31/08 **AUDIT OF DATA QUALITY**

Members considered a report by the Audit Commission that summarised their findings on the Council's Data Quality for 2007/08. The Commission's overall findings were that the management arrangements for ensuring data quality were consistently above minimum requirements and there were a number of areas of strength, however it was noted that the BVPI 82b (Household waste management, composting) had not fallen within the expected range but that the Council had demonstrated that this was attributable to real performance improvement.

At the conclusion of this item, the Audit Commission was thanked for the opportunities that had been given to officers to provide supporting information where required. In reply, Mr Brown thanked SHDC officers for their co-operation which had assisted them in undertaking the assessment.

It was then:-

RESOLVED

That the report be noted.

A.32/08 INTERNAL AUDIT STRATEGY 2009/10

As a requirement of the Code of Practice and Audit Manual 2009, the Members considered a report that outlined the Internal Audit Strategy for 2009/10. The report stated that the strategy represented a high level statement on how the Internal Audit Service would be delivered and developed in accordance with the terms of reference and how it linked with the Council's priorities and objectives. The Internal Audit Manager advised that there had been some changes to the 2008/9 strategy, including being the potential impact of Local Government Review and shared Audit service arrangements with Teignbridge District Council (TDC) (Minute A.14/08 refers).

In discussion, a Member asked if progress had been made, regarding the requirement for the appropriate skills within the audit team. In reply, it was stated that the shared service arrangement had provided mutual benefits and had enabled the service to be better placed in respect of enhancing the skills and resources base.

Members expressed their thanks to the team for all their hard work.

It was then:-

RESOLVED

That the report be noted and approval be given to the Internal Audit Strategy 2009/10.

A.33/08 INTERNAL AUDIT – ANNUAL INTERNAL AUDIT PLAN 2009/10

The Committee considered a report that updated it on the 3-Year Audit Plan 2009/10 to 2011/12, the Annual Internal Audit Plan 2009/10, the 3-Year Computer Audit Plan for 2009/10 to 2011/12 and the Computer Audit Plan for 2009/10.

The 3-Year Audit Plan was derived from an assessment of all the systems in the 'Audit Universe' and was undertaken in association with Audit colleagues from Teignbridge District Council (TDC) under the shared service arrangement. All systems had been risk assessed using an Institute of Internal Auditors statistical methodology that considered:

- Value of transactions;
- Complexity of the System;
- Inherent risk (vulnerability to fraud or error);
- Political Sensitivity;
- Time since last audit; and
- Impact on other systems.

The resulting scores determined the priority rating and the number of days to be spent on each system. Systems deemed of high internal risk scored 1 and would be audited annually.

The report further outlined the Annual Internal Audit Plan 2009/10 which was developed from the 3-Year Audit Plan. The Internal Audit Manager informed Members that the structure of the plan (Appendix A) had been changed from the format of previous years and was presented in order of priority rating with fundamental systems (Priority 1) appearing first. The lowest priority 3 audits had been grouped together because of the potential requirement for amendments to be made pending a decision on Local Government Review (LGR).

Regarding the 3-Year Computer Audit plan, the risk assessments had been made using the same methodology of the Internal Audit Plan. The Annual Computer Audit Plan (Appendix B) would be resourced internally and had been updated to reflect emerging risks and resource changes, chiefly the shared service arrangements with TDC and the potential impact of LGR. As a result of the delays on LGR, a decision had been made to continue with a 3-Year plan as normal but having regard to the fact that plans may have to be changed at short notice. The Shared Service Audit brought forward from 2008/09 had been held over until Year 2 of the 3-year plan, pending the result of LGR.

During the ensuing debate, the following points were made:

- 1) A Member queried whether the statistical methodology had been previously used. In reply, officers advised that it had been used to identify resource requirements and resource availability over a 3 year period. The scores had been shown in the report to Members for the first time;
- 2) A Member commented that the cleanliness standards at a public convenience in Salcombe had deteriorated and he was concerned that such examples outlined that there was more focus on delivering value for money than performance. Officers replied that the team undertook a separate risk assessment at the beginning of each individual audit, and performance outcome would be considered as part of the audit. If the audit identified any value for money issues, these would be reported and an action plan agreed with the relevant manager.

RESOLVED

1. That the Audit Plan and Computer Audit Programme for 2010 have been reviewed and commented upon (as detailed above).
2. That the Internal Audit Team be thanked for its work on these plans.

A.34/08 **PROGRESS AGAINST THE 2008/09 INTERNAL AUDIT PLAN**

A report was considered which informed Members of the principal activities and findings on the Internal Audit section to 28 February 2009. The report provided a summary of the main issues arising from completed individual audits and also demonstrated the progress made by the section against the 2008/09 annual audit plan.

The audit plan had also been reviewed and updated to reflect emerging risks and these were incorporated into the plan either through the contingency days or by a change to the plan, depending on the significance. The Internal Audit Manager updated the Members on a change to the plan, that being that the Council had agreed to act as the Accountable Body for two project groups under the Rural Development Programme for England. The project groups were Greater Dartmoor and South Devon Coastal Local Action Groups. These groups would approve community projects for financial support over a wide range of activities. Devon Renaissance (DR) would manage the process on behalf of the Council and produce claims from their established systems for the Council to send to the Rural Payments Agency. The Council would distribute the funding based on the individual projects audited claims. Auditing of the quarterly claims would be necessary therefore and would be expected by the RDA. The Council would be unable to recover all of its costs.

In light of the Committee wishing to discuss elements of the exempt appendices, it was:-

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 item of business as the likely disclosure of exempt information as defined in paragraph 7 of Schedule 12A to the Act is involved.

Coast Protection Issued 10.07.2008

In discussion, the Head of Property Services orally provided an update of the latest position. It was requested that the Head of Property Services produce an updated report for discussion at the 29 July 2009 Prosperity Policy Development Group (PDG) meeting;

Community Parks and Open Spaces Issued 06.11.2008

In discussion, it was requested that the Head of Landscape and Leisure update the Audit Committee re proposals to raise the budgeted income for sponsorship stated in the audit report;

Salcombe Harbour Issued 05.2.2009

In discussion, it was requested that the Harbour Master attend the Audit Committee Meeting on 9 September to report on how the issues highlighted in the report were being progressed;

Subject – Main Accounting System -2007/09

It was agreed that the Internal Audit Manager would provide an e-mail update to Members of the Audit Committee on the progress of recovering monies due from a partner.

It was then:-

RESOLVED

That:-

The public and press be re-admitted.

During discussion on the report, the following points were made:-

- 1) A Member proceeded to express disappointment that the audit of Shared Service activity had been put on hold as a result of LGR. In reply, officers advised that as soon as the outcome of LGR was known, it would be re-introduced into the 2009/10 plan and capacity for that had been factored. The Head of Financial Services (WDBC) offered to provide the Audit Committee with a copy of their recently undertaken audit of shared services.
- 2) A Member commented that they felt there was insufficient scrutiny of Council business regarding planning and building control. In reply, the Committee was advised that the Joint Steering Group on shared services was looking at overall governance and finance arrangements and that this issue was a top priority. The Internal Audit Manager advised Members that an audit of development control was currently underway as part of the 2008/09 audit plan and building control appears early in the 2009/10 plan as a shared audit with TDC;
- 3) The Internal Audit Manager advised Members that for a shared audit at both Councils, one auditor will carry out the work on both sites reducing the level of research required for that topic, and providing an opportunity to share good practices. The audit managers will ensure that resource implications on the two teams are evenly matched.

It was then:-

RESOLVED

That the Committee has considered the progress made against the 2008/0 Internal Audit Plan and wishes to raise the following specific issues;

1. that the Committee expresses its concern regarding the costs being incurred by the Council for the administration and audits of the Greater Dartmoor and South Devon Coastal Local Action Groups;
2. that the draft Audit report undertaken by West Devon Borough Council be presented to the Audit Committee Meeting on 16 June 2009;
3. that the Programming Panel be **RECOMMENDED** to schedule an agenda item on the on the Dartmouth Embankment to the Prosperity Policy Development Group meeting on 29 July 2009;
4. that the Harbour Master be invited to attend the 9 September 2009 Committee meeting to update Members on how issues identified in the audit report had been progressed;
5. that the Internal Audit Manager provide an electronic update to Members on the latest position regarding monies owing to the Council by a partner;
6. that the Head of Landscape and Leisure be invited to attend a future Committee Meeting to update Members on progress with regard to generating income from sponsorship.

A.35/08

UPDATE ON DEBTORS SYSTEM

The Head of Financial Services advised Members that a new member of staff was being recruited as a result of a review into the Debtors system. He further advised that a separate system would operate for housing benefit which had been implemented in January 2009 and had been operational since February 2009. The new systems would be included as part of the next round of audit reports.

A.36/08 **RISK MANAGEMENT - (QUARTERLY REVIEW)**

A report was considered which provided a quarterly update on risk management matters. The report concluded that the Council's risk management systems were developing satisfactorily but that potential changes in the structure of local authorities in Devon would require that significant risks and appropriate control measures had been considered.

It was then:-

RESOLVED

That the Committee has considered the progress made on risk management and notes the content of the report.

(Meeting commenced at 10.00am and concluded at 12.30pm)

Chairman