

Audit Committee

22 September 2009

Minutes



Independent Member:

John Morley (Chairman)

Members Present:

Councillors George Cooper, Tony Eginton, Liz Kemp and Mary O'Connor.

Apologies:

Paul Hutt (Deloitte)

Officers Present:

Harry Lawson (Corporate Accounting Manager), Nancy Le Roux (Senior Finance Manager – Corporate Finance), Christopher Neale (Director of Finance & Resources), Nisar Visram (Corporate Accountant) Helen Taylor (Head of Internal Audit and Corporate Governance), Paul Whaymand (Head of Accountancy Services) and Khalid Ahmed (Democratic Services Manager).

Others Present:

Gus Miah and Helen Hogg (Deloitte)

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Declarations of Interest:

John Morley and Councillor Liz Kemp declared Personal Interests in Agenda Item 6 - Auditor's report on Statement of Accounts and Agenda Item 7 – Auditor's report on Pension Fund Accounts as they were both Members of the Board of Hillingdon Homes.

Councillor George Cooper declared a Personal Interest in Agenda Item 5 – Internal Audit Progress Report and Agenda Item 11 – Head of Audit Update Report on School Audits as he was a Governor of St Mary's School. He also declared a Personal Interest in Agenda Item 7 – Auditor's report on Pension Fund Accounts as he was a member of the Pension Fund.

Councillor Tony Eginton declared a Personal Interest In Agenda Item 5 – Internal Audit Progress Report and Agenda Item 11 – Head of Audit Update Report on School Audit as he was a Governor of Abbotsfield School for Boys, Hillside Junior School and Minet Nursery and Infant School. He also declared a Personal Interest in Agenda Item 7 – Auditor's report on Pension Fund Accounts as he was a member of the Pension Fund.

Councillor Mary O'Connor declared a Personal Interest in Agenda Item 5 – Internal Audit Progress Report and Agenda Item 11 – Head of Audit Update Report on School Audit as she was a Governor of Botwell School and Moorcroft School. She also declared a Personal Interest in Agenda Item 7 – Auditor's report on Pension Fund Accounts as she was a member of the Pension Fund.

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| 19. | <p>Minutes of the meeting held on 29 June 2009</p> <p>Agreed as an accurate record.</p> | |
| 20. | <p>Exclusion of the press and public:</p> <p>It was agreed that Agenda Item 14 (Minute No.30) be considered in private.</p> | |
| 21. | <p>Internal Audit Progress Report</p> <p>The report provided Members with details of the summary of Internal Audit activity for the period to 31 August 2009.</p> <p>The Head of Internal Audit and Corporate Governance reported that there was no cause for concern at this time with levels of assurance and all reports had an action plan agreed with Internal Audit. The main issues raised were:-</p> <ul style="list-style-type: none"> • Business Continuity & Civil Emergency – Limited assurance. An area of concern was the ICT back up and disaster recovery plan which was unsatisfactory. Members were assured that Council wide ICT was being rationalised and would be centralised to ensure this would improve • Adult Education (2008-9) – Limited assurance. Concerns were in relation to the Plus Business system and the level of audit risk. The Adult Education management team had developed solutions to the concerns raised and would enhance the use of the system to ensure errors were eradicated • Oyster Cards – Limited assurance – Members noted that there was no evidence to suggest that the use of Oyster Cards was being abused • Environmental Services Application (M3) – Limited assurance. The main concern was in relation to password security settings. Work was taking place with ICT to get the supplier to adapt the system to ensure recommendations on Internal Audit were implemented • Teachers Payroll – Starters, Changes and Leavers – Limited assurance. Concerns were in relation to inadequate checks for duplicate bank details and there being no robust email system in place with regard to Education Personnel. • Diabetes Management in Schools – Members were informed that at Northwood School, an audit was undertaken at the request of the Director of Education and Children's Services because of concerns regarding financial management at the school. Internal Audit was satisfied that all necessary action would be | <p>Action By:</p> |

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| | <p>taken to address the issues</p> <ul style="list-style-type: none"> • Supporting People Grant (2008-09) – Full assurance level. The only area of concern was that the database software which had been recommended during last year’s audit had still not been purchased. Members were assured that this software was not fundamental to the service but it would make the service more efficient • Access to Housing – Details of the outstanding recommendation and its implementation would be forwarded to Members <p>In relation to email communication Members expressed concern regarding the occasional errors which had occurred with the publication and then emailing of Committee agenda and reports. Members were asked to forward details to the Head of Internal Audit and Corporate Governance to enable her to look at this in a future scope.</p> <p>Resolved -</p> <ol style="list-style-type: none"> 1. That the in-year progress against the Internal Audit Plan for 2009-10 and the updated position of those audits that were scheduled in 2007-8 and 2008-9 be noted. | <p>Action By:</p> <p>Helen Taylor</p> <p>Members/Helen Taylor</p> |
| <p>22.</p> | <p>External Audit Annual Governance Report</p> <p>Before consideration was given to the report the Chairman explained to Members the reason the report was late in being distributed. Gus Miah thanked both Members and officers of the Council for their understanding.</p> <p>Consideration was given to a report which summarised the findings of the External Auditor on the audit of the 2008/9 Statement of Accounts and the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources.</p> <p>Since the approval of the accounts on 29 June 2009, a number of amendments had been identified by both the Corporate Accountancy Team and Audit and the financial statements had been amended to reflect these changes.</p> <p>Gus Miah from Deloitte attended the meeting and introduced the report to Members. The following risks and judgemental areas were addressed:</p> <ul style="list-style-type: none"> • Oracle system update • Fraud and corruption and the potential for increased occurrence as a result of the economic downturn • Bad Debt Provision: During an economic downturn | |

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| | <p>there was a greater risk that debt recovery would fall</p> <ul style="list-style-type: none"> • A reduction in the value of the asset base to reflect the economic downturn and • Impairment of investments held in Icelandic Banks <p>In relation to other risks in relation to the Council's Use of Resources Assessment and Value for Money reference was made to the cost reduction programme. The Council had set and achieved a £11.3m cost reduction programme in 2008/9 and forecast a programme of £10.9m for 2009/10, in addition to a further £1m in year savings programme.</p> <p>It was identified that the Council was under pressure with regard to its expenditure on Asylum Seekers and this had been taken into consideration when reviewing the accounting entries and arrangements to manage these pressures. The Head of Accountancy Services provided Members with the history to the Asylum Seeker Funding and said there was a £2.239m expenditure gap which the Council had claimed for through a Special Representations Bid. The Director of Finance & Resources confirmed in the Management Representation Letter, his opinion that the bid would be successful. Members concurred with this.</p> <p>In 2008/9 the Council had a successful year in managing its finances. The accounts recognised a £68m deficit in the year, but this was primarily due to impairments to the carrying value of fixed assets, caused by the economic downturn in property prices.</p> <p>Regarding the Council's financial performance and standing, the Council had had a successful year increasing balances from £12.6m to £16.9m.</p> <p>Members were updated on the audit status and informed that only a few Internal Review processes remained outstanding. Subject to the satisfactory completion of these, it was anticipated that an unqualified opinion would be issued.</p> <p>The Annual Corporate Governance Statement (AGS) was being updated to reflect the latest findings following the Council's internal certification process, and subject to this review, the AGS would be signed off.</p> <p>The Value for Money conclusion was that based on the review, the Council would be issued with an unqualified value for money conclusion.</p> <p>Members were provided with details of materiality and identified misstatements (differences in judgement) which were as follows:</p> | <p>Action By:</p> |
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| | <ul style="list-style-type: none"> • Imported Food Unit - the Council provided a service to check imported food at Heathrow airport and surpluses had been built up which the Council recognised should not be classified as a creditor, but that further work would be undertaken next year to determine the correct classification • Council Tax Bad Debt provision – Deloitte expressed their opinion that the Council had underestimated the bad debt, based on their experience with local authorities, whereas the management view was that as the Council was more proactive in the recovery of Council Tax, the current provision was sufficient. However, the Council had agreed to review the provision for next year’s accounts. • Non Domestic Rates Bad Debt Provision – Deloitte's view was that Non Domestic Rates bad debt provision would increase due to the current economic climate and so they proposed that an adjustment should be made to increase the provision. Experience in Hillingdon was that the recession had little impact on collection rates in the previous year and management had concluded that there was no reason to revise the provision. <p>Resolved-</p> <ol style="list-style-type: none"> 1. That the adjustments, both recorded and unadjusted as detailed in the report be noted. 2. That the internal control recommendations as detailed in the report be noted. 3. That the progress made and actions being taken to continue to improve the quality and accuracy of the information contained within the accounts and to address the matters raised in the report be noted. | Action By: |
| 23. | <p>External Auditor Report On The Pension Fund Annual Report and Accounts</p> <p>The Senior Finance Manager for Corporate Finance reported that the Representation Letter would be amended to delete references to the Audit Committee.</p> <p>Regulations required that this Committee, as the body charged with the governance of the Council’s accounts, received this report.</p> <p>Members were informed the only outstanding item was in relation to investment valuation.</p> <p>Resolved -</p> <ol style="list-style-type: none"> 1. That the Auditor’s findings and the actions | |

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| | recommended to improve the quality and accuracy of the information contained within the report and the accounts be noted. | |
| 24. | <p>Final Use Of Resources Report</p> <p>Members were reminded that an interim report was considered by this Committee at its meeting in June 2009.</p> <p>Guy Miah from Deloitte reported that overall it was considered the Council had achieved a strong level 2 performance overall, with a clear path visible to achieve a level 3 in the future.</p> <p>With regard to financial governance and leadership of the Council, the Committee noted the comment in the report; “The audit committee receives and considers both internal and external reports relating to financial management and governance. It monitors progress made against recommendations, and there is evidence of senior managers being challenged on areas where further progress could be made”.</p> <p>Discussion took place on section 3.2.2 Understanding costs and achieving efficiencies – key features, and the comment regarding benchmark information indicated that further efficiencies could be made by the Council. In relation to children’s and adult social care, the Council’s costs were in the upper quartile when compared to the Council’s nearest neighbours. The Chairman commented that their costs may rise in future years, and this level of preventative spend may reduce costs.</p> <p>Members noted the comment in section 4.4.1 Risk Management and internal control, that “The Audit Committee provides robust challenge and has an independent chair with a financial management background”.</p> <p>The Committee expressed their thanks to Deloitte for the manner in which they had conducted the audit.</p> <p>Resolved-</p> <ol style="list-style-type: none"> 1. That the information contained in the report be noted. | Action By: |
| 25. | <p>Revised Treasury Management Practices</p> <p>The CIPFA Code of Practice on Treasury Management in Public Services recommended the creation and maintenance of Treasury Management Practices. These provided information on the responsibilities, decision making and reporting arrangements in place for the treasury management function. In line with the increased scrutiny of Treasury</p> | |

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| | <p>Management processes, and the role of this Committee in approving the Annual Treasury Management Strategy, it was appropriate for this Committee to review Treasury Management Practices.</p> <p>Reference was made to training manual which was being arranged by Arlingclose, the Council's Treasury Management consultants. This would be followed up once available.</p> <p>Resolved-</p> <ol style="list-style-type: none"> 1. That the information contained in the report be noted. | <p>Action By:</p> <p>Nancy Le Roux</p> |
| 26. | <p>Conversion to International Financial Reporting Standards (IFRS)</p> <p>Members were informed that from 2010/11, Local Authorities' Statement of Accounts would be required to be prepared under an IFRS based Code of Practice on Local Authority Accounting. With this Committee being charged with governance of the authority's Statement of Accounts, details of the project plan to implement the transition would be reported to the Audit Committee.</p> <p>One of the initial tasks following completion of the audit of the 2008/09 accounts, would be to restate the 2008/09 balance sheet.</p> <p>Resolved-</p> <ol style="list-style-type: none"> 1. That the report and progress made be noted and a further report be submitted to this Committee's next meeting. | <p>Nancy Le Roux</p> |
| 27. | <p>Head of Audit Update Report on School Audits</p> <p>The report provided Members with a summary of Internal Audit activity in schools and the initiatives which were taking place to improve the financial management in schools.</p> <p>Members were asked to feed any comments through to the Head of Internal Audit and Corporate Governance.</p> <p>Resolved -</p> <ol style="list-style-type: none"> 1. That the progress in following up previous recommendations and the initiative to improve financial management in schools in the future be noted. | |
| 28. | <p>Audit Committee Work Programme</p> <p>Members were informed that a provisional date on 28 June 2010 had been earmarked for a meeting of this Committee.</p> <p>Discussion took place on the issue of Risk Management, and</p> | |

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| | <p>it was considered that this should be reviewed twice a year. Officers would report back to this Committee on the reporting mechanism and the constitutional arrangements for Risk Management.</p> <p>The Annual Audit report which was submitted to Council would be submitted to this Committee.</p> <p>Resolved –</p> <ol style="list-style-type: none"> 1. That the information contained within the report be noted. | |
| 29. | <p>Audit Committee Workshop</p> <p>Officers were asked to revisit possible dates for the Workshop as a mutually convenient date had not been possible for all Members of the Committee.</p> <p>Resolved –</p> <ol style="list-style-type: none"> 1. That the information be noted and an Audit Committee Workshop be set up on a suitable date. | Khalid Ahmed |
| 30. | <p>Internal Audit Progress Report</p> <p>The report on this item was included in Part II as it contained information relating to the financial or business affairs of any particular person (including the Authority holding that information) and the public interest in withholding the information outweighed the public interest in disclosing it (exempt information under paragraph 3 of Part 1 of Schedule 12 A to the Local Government (Access to Information) Act 1985 as amended.</p> <p>Members were provided with details of Internal Audit investigations which had been undertaken.</p> <p>Resolved –</p> <ol style="list-style-type: none"> 1. That the information contained in the report be noted. | |
| | <p>Meeting closed at: 7.10pm</p> <p>Next meeting: 16 December 2009 at 5.00pm</p> | |

These are the minutes of the above meeting. For more information on any of the resolutions please contact Khalid Ahmed on 01895 250833. Circulation of these minutes are to Councillors, Officers, the Press and Members of the Public.