

# Minutes



Listening Learning Leading

OF A MEETING OF THE

## **Audit and Corporate Governance Committee**

HELD AT 6.00PM ON 29 JUNE 2009

AT COUNCIL OFFICES, CROWMARSH GIFFORD

### **Present:**

Mr P Greene<sup>1</sup> (Chairman)

Mr P Cross, Mrs M Davies<sup>2</sup>, Mr P Harrison, Mr R Peasgood, Ms A Purse

### **Apologies:**

Mr M Harris tendered an apology.

### **Officers:**

Ms S Bayley, Mr S Bishop, Mr D Buckle, Mr G Bushell, Mrs K Fiander, Mr S Hewings, Mr T Hill, Mr W Jacobs, Mr P Nunn, Mrs P O'Callaghan, Mr H Oliver, Mr S Turner

### **Also present:**

Audit Commission - Mrs A Ockleston, Audit Manager

Capita - Ms S King, Contract Director, and Mr D Keen, Contract Manager

### **1. Election of Chairman for the municipal year 2009/10**

The committee elected Mr P Greene as chairman for the 2009/10 municipal year.

### **2. Appointment of Vice-Chairman for the municipal year 2009/10**

The committee appointed Mr P Cross as vice chairman of the committee for the 2009/10 municipal year.

### **3. Minutes 25 March 2009**

**RESOLVED:** to approve the minutes of the meeting held on 25 March 2009 and the confidential minute of that date as a correct record and to agree that the Chairman sign them.

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<sup>1</sup> Mr P Greene was elected Chairman at agenda item 1.

<sup>2</sup> Mrs M Davies left the meeting after item 7.

#### **4. Additional temporary resources in Finance**

Responding to a question Mr W Jacobs, Head of Finance, confirmed that he had received an in principle agreement for additional temporary resources to primarily look at Academy, Agresso and brown bin receipts subject to setting out the requirements for the role.

The committee noted the report.

#### **5. Costs and savings - shared management structure**

The committee considered the report of the Head of Finance and the Advisor to the Chief Executive, which advised the committee about the costs and savings of implementing the new shared management structure. The pay-back period was estimated at 1.2 years, not 1.7 years as originally anticipated. The costs and savings were set out as follows:

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

Responding to comments and questions, Mr T Hill, Advisor to the Chief Executive, Mr D Buckle, Chief Executive, and Mr W Jacobs, Head of Finance, explained that implementation of the new structure took place on an incremental basis as appointments were made rather than giving notice to directors and heads of service early on in the process. This method saved unnecessary anxiety to those affected. However, when the financial assumptions on this process were made, an implementation date of 1 April 2009 had been used. As a consequence of the incremental implementation of the structure, individuals' start and leaving dates were earlier or later than planned for in the financial assumptions. These resulted in costs and savings that were not included in the original proposal.

The committee noted the report.

#### **6. Risk management strategy**

The committee considered the report of the Head of HR, IT and Customer Services that asked the committee to review the risk management strategy 2009 – 2012. This would be a joint strategy with Vale of White Horse District Council. The report asked the committee to recommend Cabinet to approve the strategy at its meeting on 2 July 2009.

Responding to comments and questions, Mr R Mann, Cabinet member, Mr G Bushell, Business Improvement Manager, Mr S Bishop, Strategic Director, and Mrs A Ockleston, Audit Manager (Audit Commission), responded as follows:

- The risks of the shared management structure and access to senior staff had been addressed. Although Vale of White Horse District Council had different arrangements for customer service, the councils were investigating a telephone system that would allow access to officers whether they were at South Oxfordshire District Council or Vale of White Horse District Council.
- The strategy made individuals accountable for risk and there were processes to ensure accountability.
- There was evidence of joint risk mitigation throughout the county with a number of working groups in operation. One example of this related to flooding. As a consequence of the flooding in 2003, activities had been undertaken which lessened the effects of the flooding in 2007.
- Any risks identified in relation to partnerships would be included in the risk register.
- On an annual basis, internal audit produced a plan of intended audits. In doing this the audit areas were considered according to the level of risk exposure in terms of the council's ability to achieve its corporate objectives. Whilst an evaluation of the level of risk exposure had been undertaken in producing the plan, committee members could ask internal audit to carry out an audit of risk. The committee could also ask for any reports on risk.

The committee agreed to recommend that Cabinet adopt the joint risk management strategy noting that future risk reports would be presented, including statistical information on risks and evidence of the strategy working.

**RESOLVED:** to recommend Cabinet to adopt the joint risk management strategy as attached to the report of the Head of HR, IT and Customer Services to Audit and Corporate Governance Committee on 29 June 2009.

## 7. Internal Audit annual report 2008/2009

The committee considered the report of the Audit Manager that set out the work of internal audit in the year ended 31 March 2009 and advised the committee of the Audit Manager's opinion on the overall adequacy and effectiveness of the internal control environment.

Mr W Jacobs, Head of Finance, introduced the report highlighting the limited assurance reports in the control environment - these being key financial systems, anti-fraud and corruption arrangements, consultation, disaster recovery, emergency planning and brown bins. He explained that the apportionment of work between South Oxfordshire District Council and Vale of White Horse District Council was within the tolerance of a 45/55 per cent split with 383.75 days for South Oxfordshire District Council and 426.75 days for Vale of White Horse District Council. The apportionment of work was expected to reverse for 2009/10 although the team aimed to distribute the work equally between the two councils.

Responding to comments and questions, Mr R Mann, Cabinet member, Mr S Bishop, Strategic Director, Mr W Jacobs, Head of Finance, Mr H Oliver, Senior Auditor, and

Mrs A Ockleston, Audit Manager (Audit Commission), responded to comments and questions as follows:

- Whilst some of the language used in the reports sounded weak, this was because it was standard audit practice wording.
- Mr S Bishop, Strategic Director, would seek feedback on the two *poor* responses received on internal audit feedback. He would communicate this to committee members.
- In the event of any disagreement between the auditee and internal audit then an auditee had recourse to their line manager in the event of disputes. Notwithstanding that arrangement, if a situation of stalemate arose then the auditee could attend the committee to put forward their case and hear the committee's debate on the viewpoints put forward. However, committee members hoped that officers would not see attendance at the committee as a threat. Whilst internal audit confirmed that they were receptive to the view of auditees in the audit process, Mr R Mann, Cabinet member, asked officers to ensure that they challenged the views of auditors where audit recommendations were not appropriate for practical or efficiency reasons.

The committee sought assurances from officers and Ms S King, Contract Director, Capita, and Mr D Keen, Contract Manager, Capita, that the council would see improvements in the financial areas on which there were limited assurances. Adding to this, Mr W Jacobs, Head of Finance, confirmed that progress was being made and that Agresso was bedding in. There were residual areas for rectification – these being reconciliation and agreement of roles and responsibilities. The residual areas were being revisited. Ms S King confirmed the actions that had been taken: the Service Level Agreement had been reviewed with changes made and reviews had taken place with streamlining of processes to make them more efficient. Mr R Mann, Cabinet member, advised that a key area for improvement, requiring a great deal of effort, was the interface between departments and Capita. One of the reasons for the need for this work was the complexity of the council's activities and departments involving many different processes.

The committee noted the report.

## **8. Internal audit activity report 2009/2010 quarter 1**

The committee considered the report of the Audit Manager, which summarised the outcomes of recent internal audit activity for the committee to consider. Mr W Jacobs, Head of Finance, introduced the report stating that the reports for the committee's consideration were those with limited or nil assurances. Committee members had received copies of all other reports. He advised that, since 1 April 2009, the Audit Manager had been appointed as interim payroll manager. As a consequence, she would not be involved in future audits of the payroll process.

### **Emergency planning 2008/09**

In relation to the audit on emergency planning, Mr S Bishop, Strategic Director, confirmed that the council's plans in relation to terrorist attack and contamination would dovetail with Oxfordshire County Council's plans. He agreed to provide feedback to committee members on *the emergency stock, the team sheet template* and *test exercise* aspects of the audit, which were either past implementation or due for implementation on 30 June 2009.

## **Disaster recovery**

As a result of the committee's concern at the testing schedule, Mr S Bishop, Strategic Director, confirmed that he would establish whether the proposals for disaster recovery testing in October presented any risk to the council. He would report back to committee members whether this testing date was appropriate or it should be brought forward.

Mr S Turner, ICT Support Manager, advised that there would be no scope to recover funds from Hewlett Packard, the former disaster recovery contractors for the non-testing of disaster recovery arrangements.

## **Payroll**

Noting comment that high and low risk items had the same implementation dates, Mr W Jacobs, Head of Finance, acknowledged that the responses of the auditee were vague. However, the Interim Payroll Manager would address the areas of risk.

## **Dog control**

Mr S Bishop, Strategic Director, confirmed that he would speak with auditees to establish the reason for non-implementation of the recommendations by the target dates. Committee members asked for assurance that the deadlines would not slip once again.

## **9. Internal audit management report 2009/10 quarter 1**

The committee considered the report of the Audit Manager that reported management issues, summarised the progress of the internal audit team against the 2009/2010 audit plan up to 17 June 2009 and summarised the priorities and planned audit work for the remainder of quarter 2, 2009/2010.

Mr W Jacobs, Head of Finance, introduced the report and clarified the position in relation to the Audit Manager's additional role of Interim Payroll Manager. The Audit Manager had been identified as the most appropriate person to undertake payroll duties and she was still undertaking audit work. The payroll duty was an additional pressure on the audit team. The work was being absorbed but could not be sustained over the long term. The Audit Manager would undertake the payroll duty for a period of up to 12 months until a new finance structure was agreed. Any payroll audits thereafter for a period of up to three years would not involve the Audit Manager but would be undertaken by Mazars, with whom the council had a contract for additional audit services. Notwithstanding the efficiencies gained by the joint audit team with Vale of White Horse District Council, comment was made that they did not want to see too much pressure placed on the internal audit team as a consequence of the additional payroll duties.

The committee was pleased that the Audit Manager had increased the amount of chargeable work since she joined the council and offered their congratulations on the improvement.

The committee noted the report.

## 10. Statement of accounts 2008/09 including the Annual Governance Statement

The committee considered the report of the Head of Finance, which presented the statement of accounts 2008/09 including the updated Annual Governance Statement subject to final audit. Committee members had already been afforded the opportunity to ask officers questions about the accounts soon after their despatch.

Mr W Jacobs, Head of Finance, introduced the report stating that this report was about the accuracy of the financial statements, not the detail. A report on the final outturn would be presented to Corporate Improvement Scrutiny Committee and to Cabinet. The statement of accounts had been produced earlier than in previous years in spite of their increasing complexity. In producing the accounts, the accounting code of practice had been complied with. The committee was asked to note that there would be minor changes to the accounts. However, he was pleased with the integrity of the statement of accounts produced.

Mr S Hewings, Chief Accountant, explained the content of his report. He explained two changes to the accounts, which were not of a material nature. On page 31, *Building control account*, a surplus of £18,000 had been identified but on page 43 the wrong figure had been picked up. On page 23, there was an overstatement of £43,000 on the income and expenditure account. He advised that as much checking as possible had been undertaken with a view to averting the issues that arose in the 2007/08 accounts.

Mrs A Ockleston, Audit Manager (Audit Commission), explained the circumstances under which the Audit Commission would ask for changes to the accounts. She confirmed that, as these changes were immaterial, the committee should accept the statement of accounts as presented but in the knowledge that there would be further changes to them.

In response to a question, Mr W Jacobs, Head of Finance, advised that the reason the council did not use AAA rated institutions to lend to was because those institutions required far greater amounts than the council could lend. The council's practice was to lend to the highest rated institution available on the day. These requirements and potential risks were reflected in the treasury management strategy agreed at the most recent Council meeting.

The committee discussed future financial accounting issues with officers noting that of great importance was the mandatory introduction of International Financial Reporting Standards (IFRS), which would come into effect in two years time with a great deal of work required beforehand. The new standards could double the size of the accounts. To help lessen the impact of the fixed asset accounting requirements, the purchase of an asset accounting system could make the process more effective. Before purchasing a system the finance team would need to evaluate the costs and benefits. The committee agreed to consider reports on IFRS at future meetings.

In relation to the Annual Governance Statement, a request was made to produce a larger management structure chart.

**RESOLVED:** to approve the draft statement of accounts for 2008/09 and updated Annual Governance Statement.

## **11. Audit plan letter**

The committee considered the Audit Commission's letter dated 9 April 2009, which set out the work the Audit Commission proposed to undertake for the 2009/10 financial year at South Oxfordshire District Council. The letter set out a proposed audit fee of £104,906.

In response to questions on the work of the council and the fees, Mrs A Ockleston, Audit Manager (Audit Commission), advised that the fee would be unlikely to reduce. She explained that comparative councils would be charged a similar fee based on the Audit Commission's charging regime.

The committee noted the Audit Commission's planned activities and estimated fees.

## **12. Committee's work programme 2009/10**

The committee noted the work programme with the addition of regular reporting on the IFRS.

The meeting closed at 8.20pm.

Chairman

Date