

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD AT COUNTY HALL, CHELMSFORD ON 27 SEPTEMBER 2010

Membership

W J C Dick	Mrs I Pummell
* A M Hedley	* T Sargent (vice Mrs I Pummell)
* M C M Lager (Chairman)	* T C Smith-Hughes (Vice-Chairman)
* J W Pike (vice W J C Dick)	

(* present)

The following officers were present in support throughout the meeting:

Cajetan Chukwulozie, Head of Internal Audit and Risk Management
Hannah Cleary, Governance Officer
Colin Ismay, Governance Manager
Margaret Lee, Director for Finance
Peter Lewis, Interim Head of Corporate Finance
Peter Tanton, Counter Fraud Manager
Sarah Harris, Senior Manager, Internal Audit

Louise Wishart, Audit Manager, Rob Murray, District Auditor, Natalie Thoms, Ian Davidson and Jon Barber from the Audit Commission (External Auditors) were also present.

52. Apologies for Absence

Apologies for absence were received from Councillor W J C Dick with Councillor J W Pike as his substitute, and from Councillor Mrs I Pummell with Councillor T Sargent as her substitute.

53. Minutes

The minutes of the meeting held on 28 June 2010 were approved as a correct record and signed by the Chairman.

54. Declarations of Interest

Councillor M C M Lager declared personal interests as a school governor in relation to item 5 (Accumulated School Balances) and as a member of the Essex Pension Fund Steering Board in relation to item 6 (2010/11 Pension Fund Fee Letter and Essex Pension Fund Annual Governance Report 2009/10).

Councillor T C Smith-Hughes declared personal interests as a school governor in relation to item 5 (Accumulated School Balances) and as a member of the Essex Pension Fund Steering Board in relation to item 6 (2010/11 Pension Fund Fee Letter and Essex Pension Fund Annual Governance Report 2009/10).

55. Annual Governance Report 2009/10 (Annual Audit Opinion 2009/10)

The Committee considered the Annual Governance Report by the External Auditors and received a presentation from Rob Murray, District Auditor.

Rob confirmed that an unqualified audit opinion would be issued on the Statement of Accounts for 2008/09 and 2009/10. A small number of minor amendments to the Annual Governance Statement had been requested and the Council had agreed to these. There was a small risk that the unqualified audit opinion would not be issued by the deadline of 30 September. The overall governance arrangements of the Council had improved considerably this year, although there was still room for further improvement. He added that the Annual Governance Statement presented a more balanced view than in previous years.

Rob drew attention to a number of points contained in the report; fixed asset reporting remained problematic despite the introduction of a new software system, and the accounts of the traded company Essex Cares would be issued with a qualified audit opinion, although it was to be noted that the accounts were not considered as materially misstated.

The action plan as shown in appendix 6 was not yet fully complete. The Committee **agreed** that this would be brought to the next meeting on 13 December. Margaret Lee explained that the action plan was considerably shorter than for the previous financial year, and demonstrated the significant improvements that had been made to the Council's governance arrangements. However, the Council took the recommendations that had been made very seriously, and work was already underway to address the points raised by the External Auditors. Ian Davidson added that there had been a real difference in the Council's approach this year, with significant impetus to make improvements.

Councillor Smith-Hughes asked about the potential consequences for the Council if the unqualified audit opinion was not issued by the deadline of 30 September. Rob Murray explained that the Audit Commission wrote to the Secretary of State at the end of October to advise of those Council's who had not had their opinions issued. The main consequence was reputational damage, although it was likely that the Council would have its opinion by the end of October.

Councillor Smith-Hughes complimented the establishment of the Corporate Governance Group, but asked how the cultural changes within the organisation would be measured and expressed dissatisfaction that the Annual Governance Report had been issued late. Councillor Sargent added that it was important to look to the future, and whilst the complexity of the reports was noted, it was important that papers were issued on time and that the Committee were not in this position next year. Ian Davidson highlighted

the recent Ethical Governance Audit that the Council had commissioned as a demonstration of the commitment to change, but acknowledged that cultural change was difficult. There would be a greater onus on the Council to self-regulate once the Audit Commission had been disbanded and this would need careful consideration for the future. Margaret Lee added that whilst the Statement of Accounts had been very complex this year, over the next 12 months the introduction of the new IFRS regulations would make matters even more complicated. She referred to page 10 of the report and the arrangements for accounting of Private Finance Initiatives. At present these accounting arrangements were unclear, meaning that the Council treated these matters in one way and were then required to work through them again to treat in another. Next years accounts would be far more complex and it may be that papers were issued late.

Councillor Lager felt that the issues of complexity were a matter for the internal and external auditors. The health of an organisation should be clearly visible from the accounts, and the Council needed to establish a method to reduce the information presented to enable this to be more apparent. If this required the Council to 'lobby' Central Government and CIPFA to reduce the complexity then this should form part of the work. There were examples in the business sector of accounts being signed off in 29 days or under, whilst the Council currently took over 3 months. The internal and external auditors needed to establish mechanisms to expedite the process. He requested that the following items were added to the action plan in appendix 6:

- efforts are made to simplify the information contained in the annual Statement of Accounts
- lobbying of Central Government and CIPFA in order to reduce the complexity of the accounting rules
- the creation of a sharper timetable to reduce the Statement of Account sign off time scales
- increased collaboration between the Internal and External Auditors in order to speed up the process

The Committee considered the matters raised in the report and **approved** the financial statements set out on pages 8 to 13.

The Committee took **note** of the adjustments to the financial statements set out in appendix 2 of the report, although the income and expenditure account and balance sheet information was not available for the 'Fixed Assets Revaluation Reserve'.

The External Auditors requested that the Committee agree to adjust the errors set out in appendix 3 in the financial statements they had identified, or to set out the reasons for not amending the errors. The Committee **agreed** that the material adjustment relating to the Pension Fund Deficit Reserve would be amended in the accounts. The other unadjusted misstatements set out in

appendix 3 would not be adjusted as they were not material. The External Auditors agreed that they would support this approach.

56. Exclusion of the Public

To consider whether the public (including the press) should be excluded from the meeting during consideration of an agenda item on the grounds that it involves the likely disclosure of exempt information as specified in Part I of Schedule 12A of the Local Government Act 1972).

Resolved:

That the public (including the press) be excluded from the meeting during consideration of the following items on the grounds that it involves the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972: (Paragraph 3 relating to the financial and business affairs of another party).

Part II (Business taken in Private)

57. Annual Governance Report 2009/10 (Annual Audit Opinion 2009/10)

The Committee considered the appendix to the Annual Governance Report 2009/10.

58. Exclusion of the Public

The Committee **agreed** at this point to re-open the meeting to the public.

Part I (business taken in public)

59. Variation in the Order of Business

The Chairman proposed a variation in the order of business taking Item 7 – Health Inequalities Report and item 8 – Essex County Council – Performance Management – Internal and Partnership, as the next items of business, followed by Item 5 – Accumulated School Balances. The remaining items would be taken in order of the agenda. The proposal was **agreed**.

60. Health Inequalities Report

Ian Davidson from the Audit Commission introduced the report, and confirmed that it was a good news story. The report summarised progress in Essex as a whole and also contained appendices providing assessment for the relevant Local Strategic Partnerships. Health equality had become part of the agenda across the county, and the Council was working well to address the issues.

Councillor Lager drew attention to the significant savings that could be achieved through people being persuaded to look after their health, and asked

if the report was shared with the Council's partners. Ian confirmed it was shared with the Essex Partnership Forum.

Councillor Hedley drew attention to the recognition given to the Essex Fire and Rescue Service, and their role in promoting health equality. Ian responded that the Fire Service performed a lot of valuable work behind the scenes.

Councillor Sargent added that success relied on all partners working together as a team to address health inequality. Ian explained that all partners came together to examine the roles they played in addressing health inequality.

The Committee received the report and **agreed** that a copy would be sent to the Essex Partnership Forum.

61. Essex County Council – Performance Management – Internal and Partnership

Ian Davidson, Audit Commission introduced the report, explaining that it was the result of two pieces of work that had been merged together. The report was a good news story and the Council had made significant progress in performance management. The main issues were consistency and quality of data, and how partners used the data the Council shared with them.

Councillor Smith-Hughes felt it was important that performance improved consistently across all areas, and it may be useful to have a report that picked up performance across the County. Councillor Lager referred to the regular performance reports that are considered by the Executive Scrutiny Committee, and the item on the Forward Look to undertake a future scrutiny review into performance.

The Committee received the report and **agreed** that a copy would be shared with the Executive Scrutiny Committee with reference to its future scrutiny review into performance arrangements.

62. Accumulated School Balances

The Committee considered report AC/22/10, and received an introduction from Jim MacDonald, Senior Finance Manager. Jim explained that the Secretary of State had clearly defined that revenue resources for each academic year were to be spent on students in that academic year. The Council had also had concerns over the accumulating balances of some schools, and had sought to address these using the appropriate mechanisms.

The overall balances held by schools in Essex had reduced by 13% or £7.1 million cash value since the last financial year. This demonstrated that the balance control mechanisms had been effective.

Councillor Smith-Hughes asked about the two schools that had had significant sums clawed back from their balances last financial year. Jim confirmed that

over £300,000 had been clawed back and that the same issues had not been repeated. The finance team had worked with the schools to improve their financial management.

Councillor Lager asked about the small number of schools showing a deficit balance and how this would be resolved. Jim explained that there was a process to work with schools that had deficit balances, and that repayment of such deficits could be recovered over a five-year plan. Such balances were regularly monitored until the balances were returned to a positive situation.

Councillor Lager asked about the balance of Furtherwick Park School and the significant difference in monies held since last year. Jim explained that following consultation, Furtherwick Park School would be closing in September 2012. As a result the school had to manage a reduction in pupil numbers, although they were receiving support from the Finance Team throughout this period.

Councillor Lager thanked Jim for attending and welcomed the added value that the Finance Team made to the schools in Essex.

63. 2010/11 Pension Fund Fee Letter and Essex County Council Pension Fund Annual Governance Report

Rob Murray, Audit Commission, introduced the fee letter and Pension Fund Annual Governance Report. He drew attention to the reduced fee contained in the letter that had been made possible through the identification of efficiencies.

He explained that the Essex Pension Fund would be issued with an unqualified audit opinion and was free from material error.

The Committee noted the contents of the letter and welcomed the reduced fee that had been made possible through the identification of efficiencies.

The Committee considered the matters raised in the report, **approved** the financial statements set out on pages 6 to 7, and took **note** of the adjustments to the financial statements set out in appendix 2.

64. Audit Commission Update

Rob Murray, Audit Commission, gave a verbal update to the Committee on the Secretary of State's announcement on 13 August 2010, of the intention to abolish the Audit Commission by December 2012. Legislation to this effect would be put to the Houses of Parliament shortly. Whilst the current arrangements would remain in place for the next two financial years, the medium to long term future was less certain. A range of options were currently being explored, including the potential for a management buy out solution. Rob offered to keep the Committee informed as further developments became available. This suggestion was welcomed by the Committee.

65. Annual Governance Statement – Progress against the Action Plan

The Committee considered report AC/24/10 and received an introduction from Colin Ismay, Governance Manager. Colin outlined that the Annual Governance Statement had been agreed by the Audit Committee in June 2010. As part of the 2009/10 accounts audit, the External Auditors reviewed the Annual Governance Statement and the insertion of a new paragraph (4.3) under Review of Effectiveness. Once the revised content had been agreed, the updated version would be signed by the Leader of the Council and the Chief Executive. The action plan was set out at Annex B.

Councillor Lager asked about entry 3.3.7 and whether the dates given for the Corporate Plan 2008-11 were correct, and whether the Use of Resources Assessment 2008/09 had been published in December 2009, and not June 2009 as stated. He asked if section 3.5.3 could make reference to the Standards Committee, and information about the publication of Members expenses. He also asked if details of the external inspections could be included. Peter Lewis, Interim Head of Corporate Finance stated that the changes requested by the Committee could be made for 2009/10.

The Committee **accepted** the report with the above amendments.

66. Letter to CIPFA and the LGA

The Committee noted report AC/25/10.

67. Referrals to the Children and Young People Policy and Scrutiny Committee

The Committee noted report AC/26/10 and agreed that the response from the Policy and Scrutiny Committee was appropriate.

68. Forward Look

The Committee considered report AC/27/10 and agreed the following additions:

- the Internal Audit First Quarter Risk Report would be considered at the 13 December meeting
- arrangements for the Committee to consider the external inspection reports (CQC, Ofsted) would be made for the 13 December meeting

The Committee agreed that the Governance Officer was to arrange an informal working session for early November, to allow consideration of the draft constitution and other corporate governance work in more detail.

69. Date and Time of Next Meeting

The next scheduled meeting of the Committee is on Monday, 13 December 2010 at 10am in Committee Room 1.

70. Dates of Future Meetings

The Committee noted the following dates of future meetings:

- 17 January 2011 at 10am in Committee Room 2
- 14 March 2011 at 10am (venue to be confirmed)
- 16 May 2011 at 10am (venue to be confirmed)

71. Exclusion of the Public

To consider whether the public (including the press) should be excluded from the meeting during consideration of an agenda item on the grounds that it involves the likely disclosure of exempt information as specified in Part I of Schedule 12A of the Local Government Act 1972).

Resolved:

That the public (including the press) be excluded from the meeting during consideration of the following items on the grounds that it involves the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972: (Paragraph 3 relating to the financial and business affairs of another party).

Part II (Business taken in Private)

72. Internal Audit Progress Report (including the revised Internal Audit Plan 2010/11)

The Committee considered report AC/23/10 by the Head of Internal Audit and Risk Management. The Committee agreed that a number of items contained in this report would be brought to a future meeting, and that two items would be referred to the Economic Development and Environment Policy and Scrutiny Committee.

73. Risk Report

The Committee considered report AC/28/10, and Steve Ede, Head of Procurement Operations was in attendance.

Steve advised the Committee that there were four internal contract boards with responsibility for implementing the inflation policy introduced in April 2010. The Procurement Team were working closely with service areas to assist them in letting effective contracts that had the best value for the Council.

The Committee thanked Steve for attending.

74. Business Continuity Report – IT

The Committee considered the updated action plan and received an introduction from Tony Dawson, Deputy Head of Information Services.

The Committee thanked Tony for attending.

75. Corporate Governance Update

The Committee considered report AC/29/10. Shirley Jarlett, Assistant County Solicitor, Kim Mayo, Solicitor, Amy Donovan, Project Lead and David Trousdale, Fast Track Manager, were in attendance to present the report and answer questions.

The Committee thanked them for attending.

Chairman
13 December 2010