

MEETING AC.07:1011
DATE 25.11.10

South Somerset District Council

Draft Minutes of a meeting of the **Audit Committee** held in the Main Committee Room, Council Offices, Brympton Way, Yeovil on **Thursday, 25th November 2010.**

(10.00 a.m. – 11.00 a.m.)

Present:

Members: Derek Yeomans (in the Chair)

Mike Best	Roy Mills
John Calvert	John Richardson
John Hann	Peter Roake
Ian Martin	Colin Winder

Also Present:

Tim Carroll

Officers:

Donna Parham	Assistant Director (Finance and Corporate Services)
Karen Gubbins	Principal Accountant - Exchequer
Ian Baker	Group Audit Manager – South West Audit Partnership
Andrew Ellins	Audit Manager – South West Audit Partnership
Andrew Blackburn	Committee Administrator

Also Present:

Peter Lappin	Audit Manager, Audit Commission
Brian Bethel	District Auditor, Audit Commission

62. Minutes (Agenda item 1)

The minutes of the meeting held on the 28th October 2010, copies of which had been circulated, were taken as read and, having been approved as a correct record, were signed by the Chairman.

63. Apologies for Absence (Agenda item 2)

Apologies for absence were received from Cllrs. Alan Smith and Robin Munday (Portfolio Holder – Resources and Legal Services).

64. Declarations of Interest (Agenda item 3)

There were no declarations of interest.

65. Public Question Time (Agenda item 4)

No questions or comments were raised by members of the public.

66. 2010/11 Internal Audit Quarterly Update Report (Agenda item 5)

The Audit Manager, South West Audit Partnership, introduced his report on the agenda, which provided members with a summary of internal audit activity for Quarter 2 including the position on progress with the Annual Audit Plan until 31st October 2010.

The Audit Manager referred to the report being provided in a new style and commented that he would welcome any feedback.

The officers then responded to members' questions and comments. Points raised included the following:-

- members welcomed the new format of the report. The Chairman particularly welcomed the appendix giving definitions of the terminology used within the report;
- reference was made to appendix B, which contained a list of all audits in the Annual Audit Plan 2010/11, and in response to a question, the Audit Manager explained that the numbers 1–5 in the recommendations column referred to the priority that should be given by the service in carrying out the recommendations of the audit review. Although there were some high priorities, the Audit Manager confirmed that none of the audits had found any high risks;
- a member referred to the audit reviews planned in respect of ICT Security and the Section 106 and Commuted Sums Follow Up and asked why they had been deferred. The Audit Manager reported that the Section 106 and Commuted Sums Follow Up audit had been deferred because the previous audit had only been completed in Quarter 1 and if the follow up had been carried out in Quarter 2 as previously planned it would have been too soon. The Assistant Director (Finance and Corporate Services) reported that the ICT Security audit had been delayed because of the work being carried out to move the Council's systems from Novell based technology to Microsoft. The ICT Manager had been informed, however, that the security audit must be completed by March 2011;
- in referring to the move to Microsoft, the Assistant Director (Finance and Corporate Services) reminded members that a training session had been arranged for all members on the changes to the e-mail system. She also indicated that there would be a dedicated telephone line for members if they experienced any problems.

The Committee was content to note the report of the South West Audit Partnership.

RESOLVED: that the Quarter 2 Report 2010/11 of the South West Audit Partnership including the position on progress with the Annual Audit Plan until 31st October 2010 be noted and accepted.

*(Andrew Ellins, Audit Manager, South West Audit Partnership – 01935 462378)
(andrew.ellins@southwestaudit.gov.uk)*

67. Annual Audit Letter (Agenda Item 6)

The Chairman welcomed the Audit Manager and District Auditor from the Audit Commission who introduced the Annual Audit Letter for the 2009/10 financial year, a copy of which was attached to the agenda.

In summarising the report the District Auditor contrasted it with the Annual Governance Report, which was presented to the Committee's September meeting. He indicated that the content of the Annual Audit Letter was similar to that of the Annual Governance Report but was written in a more straightforward and understandable way. There were, however, some additions, details of which he explained to the Committee.

Reference was made in the Audit Letter to the Commission being satisfied that the authority was well prepared for the introduction of IFRS (International Financial Reporting Standards) for next year's accounts. The Committee also noted that an unqualified opinion had been given on the Statement of Accounts for 2009/10.

The District Auditor also explained that the criteria used to assess whether the Council had adequate arrangements for Value for Money had changed since the Government's announcement that Comprehensive Area Assessment would cease and the Commission no longer issued Use of Resources scores. He indicated that a simple yes or no was now given as to whether adequate arrangements were in place for Value for Money and it was noted that the Council was well within the minimum standards and an unqualified conclusion was given on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources. He further mentioned that District Council's were assessed for their use of natural resources for the first time in 2009/10. He indicated that the Council had been found to have a highly effective approach to minimising its use of natural resources.

The District Auditor further referred to the Council having provided data for the National Fraud Initiative, a national data matching exercise to identify potential fraud in the public sector. It was noted that the Council had begun to review some of the data matches for single persons discount for Council Tax and that it had recently commissioned a company called Experian to use its database to identify properties where those discounts needed to be followed up. The Audit Letter recommended that the Council should investigate and resolve data matches and report progress to the Audit Committee. The Assistant Director (Finance and Corporate Services) reported that she anticipated that a report would be made to the Committee in March next year.

The District Auditor further commented that the Audit Commission had been reviewing its approach to local value for money work from 2010/11, given the scale of pressures facing local authorities in the current economic climate, in order to introduce a more targeted and better value approach. The Committee noted that the audit work would be based on a reduced number of reporting criteria, specified by the Commission, concentrating on securing financial resilience and prioritising resources within tighter budgets.

In referring to current and future challenges, the District Auditor indicated that the Government's Comprehensive Spending Review, which included a reduction in funding for local government of 7.1% a year from 2011/12 for the next 4 years, had been referred to in the Annual Audit Letter. It was recognised that the Council would need to find significant savings and that steps were being taken to address that issue.

Comment was expressed by members that the reductions in funding would not necessarily be 7.1% each year as it may be that the greatest reductions would be required in the earlier years. Given that possibility, the Committee felt that the reference in the Annual

Audit Letter would be better shown as 28% over the next four years from 2011/12. The Audit Manager indicated his agreement to amend the report accordingly.

The District Auditor further indicated that the Letter recognised that the partnership with East Devon District Council was in its early stages. It was also noted that as part of that partnership the compatibility of IT systems was being reviewed and bearing in mind that partnerships could expand it was recommended that regard should be had to compatibility with other neighbouring authorities.

During discussion, a member referred to the Government's announcement that the Audit Commission was to be disbanded and asked how that would affect its future. The District Auditor informed members that new arrangements were to be put in place by 2012/13 and would involve a move to the private sector from which bids would be invited to provide the service. The Commission itself was looking at ways of transferring into the private sector and it was anticipated that they would be submitting a bid to provide the service in future. The Chairman wished the Commission well with the bidding process.

A member queried whether the audit fees would remain at the current level. The District Auditor explained that the Commission had a statutory duty to set the fee level over the last two years but everything now had to go through the Department for Communities and Local Government (DCLG) until 2012. Although it was not known what impact that may have, the expectation was that there would not be an increase in fees in the short term. In the longer term after 2012, it was anticipated that competitive fees and a quality service would be one of the key principles.

The Committee thanked the Audit Manager and District Auditor for their report and was pleased to note the contents of the Annual Audit Letter.

- RESOLVED:** (1) that the contents of the Annual Audit Letter for 2009/10 as set out in the agenda report be noted;
- (2) that the Committee note the agreement of the Audit Manager to amend paragraph 36 to show the reductions in funding arising from the Government's Comprehensive Spending Review as 28% over the next 4 years from 2011/12 rather than 7.1% a year over the same period.

(Mark Williams, Chief Executive - 01935 462101)
(mwilliams@southsomerset.gov.uk)

68. Treasury Management Performance to September 2010 (Agenda item 7)

The Principal Accountant – Exchequer summarised the agenda report and the Committee reviewed the Treasury Management Activity and the performance against the Prudential Indicators for the six months ended 30th September 2010.

Particular reference was made to a recommendation to raise the maximum limit for investments with the Bank of Scotland/Lloyds Banking Group, which was currently set at £6,002,000. It was noted that the Council's Treasury Advisers, Arlingclose, were comfortable with the Council increasing the group limit to £9,002,000 but maintaining a £6,000,000 individual limit for each of the two banks (plus any outstanding interest for Bank of Scotland). That would enable the Council to take advantage of higher interest rates for investing for longer periods rather than using our short term money market funds.

Given the current banking issues in Ireland, the Committee asked that confirmation be sought that raising the maximum limit with the Bank of Scotland/Lloyds Banking Group would not increase the risk for the Council. The Committee felt that further clarification should be sought from Arlingclose regarding this issue and that any increase in the maximum limit for investments with the Bank of Scotland/Lloyds Banking Group should be delegated to the Section 151 Officer (Assistant Director (Finance and Corporate Services)) in consultation with the Chairman of the Audit Committee.

- RESOLVED:** (1) that the Treasury Management Activity for the six month period ended 30th September 2010 be noted;
- (2) that the position of the individual Prudential Indicators for the six month period ended 30th September 2010 be noted;
- (3) that confirmation be sought from Arlingclose that raising the maximum limit for investments with the Bank of Scotland/Lloyds Banking Group would not increase the risk for the Council and that any increase in that limit be delegated to the Section 151 Officer (Assistant Director (Finance and Corporate Services)) in consultation with the Chairman of the Audit Committee.

(Karen Gubbins, Principal Accountant - Exchequer - 01935 462456)
(karen.gubbins@southsomerset.gov.uk)

69. Date of Next Meeting (Agenda item 8)

The next meeting of the Committee was scheduled to take place on Thursday, 23rd December 2010. It was noted, however, that after consultation with the Chairman, it was suggested that the meeting be cancelled bearing in mind its closeness to Christmas and that there was no urgent business to require the meeting to be held. Members were asked to endorse the cancellation of the December meeting.

In response to a comment from a member, the Assistant Director (Finance and Corporate Services) indicated that should the Somerset County Council budget cuts or the Government Formula Grant Settlement have an impact on any governance issues, she would report back to the Committee.

Members endorsed the cancellation of the December meeting and noted that the next meeting would be held on Thursday, 27th January 2011 at 10.00 a.m. in the Main Committee Room, Council Offices, Brympton Way, Yeovil.

NOTED.

(Andrew Blackburn, Committee Administrator – 01460 260441)
(andrew.blackburn@southsomerset.gov.uk)

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 Chairman