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| MEETING | AUDIT & GOVERNANCE COMMITTEE |
| DATE | 26 JUNE 2008 |
| PRESENT | COUNCILLORS PIERCE (CHAIR), CRISP, SCOTT, KIRK, MOORE AND WATT (SUBSTITUTE) |
| APOLOGIES | COUNCILLORS BROOKS AND R WATSON |

PART A - MATTERS CONSIDERED UNDER DELEGATED POWERS

1. DECLARATIONS OF INTEREST

Members were invited to declare at this point in the meeting any personal or prejudicial interests they might have in the business on the agenda.

No interests were declared at this point; however, the following interests were declared in respect of the Statement of Accounts (Minute 4 refers) when details of the relevant matters came under discussion:

- Cllr Scott – a personal interest, as a solicitor specialising in Equal Pay claims (but with no involvement in claims made by staff from this authority)
- Cllr Kirk – a personal interest, as a director of Connexions.

2. MINUTES

RESOLVED: That the minutes of the Audit and Governance Committee meeting held on 13 May 2008 be approved and signed by the Chair as a correct record.

3. PUBLIC PARTICIPATION

There had been no registrations to speak at the meeting under the Council's Public Participation Scheme.

4. STATEMENT OF ACCOUNTS 2007/08

Members considered a report which invited them to review and comment upon the Council's financial accounts for the 2007/08 financial year prior to their referral to Executive, and subsequently to Full Council, on 30 June 2008.

Copies of the draft Statement of Accounts were circulated at the meeting. An early version of the draft had previously been circulated to Members, with an explanatory note. *[The note will be attached to the on-line version of the agenda, as Annex 1 to this agenda item].* Officers apologised for the late production of the updated version of the draft. The report outlined a

number of changes to the Statement of Recommended Practice (SORP) agreed by CIPFA. These had contributed to the delay, as had the recent staff changes at a senior level within the Resources department.

There were still some gaps in the updated draft, notably the Foreword and the cash flow statement. A final draft version, incorporating the missing information, would be circulated to all Members of Council on the following day, in advance of the Council meeting on 30 June.

Members considered the information in the draft Statement of Accounts, questioned Officers in relation to financial details and, specifically:

- Noted with concern the increase in liability related to the Defined Benefit Pension Scheme (p.35)
- Requested a breakdown of income and expenditure in respect of developers' contributions under Section 106 ((p.49)
- Noted that the reduction in the Collection Fund balance (p.89) was smaller than had been planned.

RESOLVED: (i) That the Committee is satisfied, having reviewed the annual Statement of Accounts, that appropriate accounting practices have been followed.

- (ii) That the Executive and Full Council be asked to note:¹
- a. the Committee's concerns regarding the late presentation of the accounts;
 - b. the Committee's opinion that Corporate Management Team and Council should take responsibility for the proper and timely preparation of the accounts and ensure that adequate resources are in place to achieve this;
 - c. the Committee's comments on specific areas of the accounts, as recorded above.

REASON: In accordance with the Committee's remit within the Constitution to review the annual Statement of Accounts and bring any concerns to the attention of Council.

Action Required

1. Bring these comments to the attention of Executive on 30 June GR
2. Bring this comment to the attention of CMT RB

5. REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

Members considered a report which advised them of the outcome of the annual review of the effectiveness of the Council's internal audit system, as required by the Accounts and Audit Regulations 2003.

Action taken to address the four recommendations for improvement identified by the last review, as reported to Members on 24 September

2007, was detailed in paragraph 9 of the report. In addition to this, the self assessment checklist had been updated to reflect the shared service arrangement with North Yorkshire County Council, a detailed customer survey had been undertaken to seek the views of senior management, and the results of the latest CIPFA benchmarking data had been reviewed.

Based on the results of the review, the Council's system of internal audit was considered to be operating in accordance with accepted professional best practice, and remained effective.

Members expressed concern at the low level of response from departments to the customer survey (15%). Officers confirmed that action would be taken to try to improve this and also to address the delays in issuing audit reports, as identified in the survey results.

RESOLVED: (i) That the results of the review of the effectiveness of the Council's system of internal audit be noted.

(ii) That the Committee's concern regarding the low level of response to this important survey be brought to the attention of Corporate Management Team (CMT).¹

(iii) That consideration be given to including completion of the survey as an objective in Directors' annual appraisals, in order to improve the level of response.¹

REASON: In accordance with the Committee's duty to consider the adequacy and effectiveness of the Council's control environment.

Action Required

1. Bring these comments / suggestions to the attention of RB
CMT

6. ANNUAL REPORT OF THE CHIEF INTERNAL AUDITOR

Members considered a report which detailed the outcome of audit and fraud work undertaken during 2007/08 and provided an opinion on the overall adequacy and effectiveness of the Council's internal control arrangements, as required by the CIPFA Code of Practice.

Internal Audit had successfully delivered 91.6% of the work detailed in the 2007/08 Audit and Fraud Plan, as compared to 92% in 2006/07 and 91.3% in 2005/06. Details were set out in Annex 2 to the report. Counter fraud work undertaken in accordance with the approved Plan was summarised in Annex 3. This had involved mainly the identification and investigation of suspected fraudulent Housing and Council Tax Benefit claims but had also included increasing numbers of referrals relating to the fraudulent use of disabled blue badges. Details of investigations and prosecutions were set out in Annex 4.

The opinion of the Chief Auditor on the overall adequacy and effectiveness of arrangements, based on the results of audit and fraud work completed during the year, was provided in Annex 1. This identified significant control weaknesses in respect of the following issues relevant to the 2007/08 Annual Governance Statement:

- New sickness procedures not fully embedded and improved systems required for ensuring accurate management information on sickness
- Action required to ensure that the misstatements in the 2005/06 and 2006/07 Statement of Accounts are not repeated in future.

RESOLVED: (i) That the results of the audit and fraud work undertaken in 2007/08 be noted.

REASON: In accordance with the Committee's duty to consider the implications of audit and fraud findings.

(ii) That the opinion of the Chief Internal Auditor on the adequacy and effectiveness of the Council's internal control environment be accepted.

REASON: In accordance with the Committee's duty to consider the opinion of the Chief Internal Auditor.

(iii) That the significant control weaknesses identified during the year which are relevant to the preparation of the Annual Governance Statement be noted.

REASON: To enable the Annual Governance Statement to be prepared.

(iv) That a report be brought to the next meeting outlining progress on implementation of the procedures to address mis-statements in the Statement of Accounts.¹

REASON: So that progress on this significant control issue can be closely monitored.

Action Required

1. Bring report to the next meeting of A&G Committee (8 September) SA

7. URGENT BUSINESS: THE NEW COUNCIL HQ – RESPONSE TO QUESTIONS POSED BY THE AUDIT AND GOVERNANCE COMMITTEE

Members considered a report which responded to a number of questions which they had raised after the last meeting regarding the contract management arrangements for the project to build a new Council headquarters at Hungate.

The Chair had agreed to deal with this item as Urgent Business because the Committee needed to be satisfied with these arrangements as early as possible, and before consideration of the planning application.

The specific questions of concern to which the report responded were:

- a) The form of contract;
- b) The provisions for variations, claims, arbitration and bonding;
- c) The extent of nominated suppliers and nominated sub-contractors;
- d) Business continuity in the event of business failure by the main stakeholders;
- e) Business continuity in the event of the loss of the project leader;
- f) Arrangements for Member steering and the regularity of reports;
- g) Re-confirmation that the project still met the governance criteria of the best solution, at the right time and at the best cost for residents.

The Head of Property Services was present at the meeting and responded to further questions from Members to clarify the information in the report. He confirmed that the form of contract – Engineering Construction Contract Option D – had been selected as the best option in terms of risk and was a type of contract used successfully before by the Council. Any disputes were managed as part of the process of contracting, thus minimising delay. With regard to business continuity in the event of the loss of the project leader (meaning the Head of Resources), there were other project managers in place who could fill that role and the project management structure was considered sufficiently robust. The arrangements for retention were considered reasonable, although the sum was relatively small, because the project incorporated an incentivisation scheme.

RESOLVED: (i) That the responses provided to Members' questions be accepted.

(ii) That, nevertheless, the Committee remains concerned about the relatively small retention sum for the project and the arrangements for business continuity in the event of the loss of any senior members of the project team.¹

REASON: In the interests of effective management of one of the Council's major projects.

Action Required

1. Project team to note these comments

SA

PART B - MATTERS REFERRED TO COUNCIL

8. 2007/08 ANNUAL GOVERNANCE STATEMENT

Members considered a report which invited them to comment upon the draft Annual Governance Statement (AGS) for 2007/08, which would be published with the Statement of Accounts.

The draft AGS was attached as Annex 1 to the report. Members' attention was drawn in particular to the nine significant control issues included in the draft. These included those issues identified in the 2006/07 Statement of Internal Control (SIC) for which there was still insufficient evidence that new or improved control arrangements were fully embedded across the Council. Responsibility for each significant control issue had been assigned to a named Director, who would prepare a detailed action plan for each issue. Progress to deliver the action plans would be monitored by Internal Audit.

In considering significant control issues, Members commented that it would be helpful to know what kind of evidence was required to determine whether arrangements had been fully embedded across the Council. They also noted that specific deadlines had not been provided for the completion of proposed action to address these issues, although it was accepted that the information was in summary form and that detailed plans had been produced.

Members noted the monitoring arrangements for the overall AGS action plan, and the individual action plans for each Directorate and

RECOMMENDED: That the draft 2007/08 AGS be approved, subject to the following amendments:¹

- a) the re-wording of the control issue relating to Scrutiny Arrangements, to reflect the Committee's view that effective pre-decision scrutiny is *not* enabled by the EMAP process;
- b) the inclusion of specific target dates for the completion of proposed actions to address the control issues, and identified posts to take responsibility for those actions.

REASON: In accordance with this Committee's Constitutional role to oversee the production of the AGS (formerly the SIC) and recommend its adoption to Full Council.

Action Required

1. Refer recommendation to Council on 30 June (and inform GR Executive)

R Pierce, Chair

[The meeting started at 5.30 pm and finished at 8.45 pm].