

**Audit and Governance Committee**  
**Friday, 27 June 2008, County Hall, Worcester****Minutes****Present:**

Mr J R Webb (Chairman), Mr R C Adams (for items 1-6),  
Mr J M Cairns, Mr W P A Hartnett, Mr J Holden.

Mr A I Hardman also attended.

**Available papers:**

The members had before them:-

- A. The Agenda papers and Appendices referred to therein (previously circulated);
- B. A revised Annual Governance Statement dated 26 June 2008 (circulated at the meeting); and
- C. The Minutes of the meeting held on 3 March 2008 (previously circulated).

(A copy of documents A-B will be attached to the signed Minutes).

**79. Named  
Substitutes  
(Agenda item 1)**

None.

**80. Apologies/  
Declarations of  
Interest  
(Agenda item 2)**

An apology was received from Trish Haines, the Chief Executive.

**81. Public  
Participation  
(Agenda item 3)**

None.

**82. Confirmation of  
Minutes  
(Agenda item 4)**

**RESOLVED:** that the Minutes of the meeting held on 3 March 2008 be confirmed as a correct record and signed by the Chairman.

**83. Annual Statutory  
Financial  
Statements for  
the year ending**

The Committee considered the Annual Statutory Financial Statements for the financial year ending 31 March 2008.

The Director of Financial Services introduced the report and made the following points:

- the future capital investment reserve included £4.5 million for the Council's commitment to support the delivery of the Building Schools for the Future (BSF) project. The Government had recently announced that the Council would be entered early into the programme. There were risks associated with the programme and external audit would be reviewing its progress to ensure that it delivered its objectives
- the cost of the provision of street lighting was escalating in the present economic climate
- the level of balances was adequate and safe to be able to deal with any potential emergency
- the total operational assets had increased as a result of the heavy investment in capital projects
- all schools were required to provide a plan for the use of reserves. In extreme circumstances, the Council had the power to claw back unused reserves which would be put back into a delegated funding formula. This funding was ring fenced for use in schools
- the majority of the borrowing by the Council was through the Public Loans Board which was the cheapest loans facility available to the Council
- in 2007/08 Haybridge High School obtained foundation status and as a result had been removed from fixed assets of the Council. The transfer represented no cost to the authority and this had been reflected in the accounts.

District Auditor, Liz Cave, introduced the Annual Governance Report and made the following points:-

- new accounting rules for this financial year meant that there had been significant changes to the manner in which the accounts had been audited to follow more closely procedures within the private sector. She had been impressed by the dedication and responsiveness of the Council's accountancy team to these changes
- 4 key areas of judgement and audit risk had been identified:
  - payroll
  - Bromsgrove Schools PFI

- Ownership and existence of assets
- Impairment (reduction in asset values)
- Nothing specific had been identified for the Council to consider as part of the draft representation letter
- In relation to the qualitative aspects of the Council's financial reporting, the following issues had been identified:
  - The Council had not separately identified intangible assets. Officers would do this in 2008/09
  - The Council needed to ensure that weaknesses in payroll, nursery provider payments and creditor payments outside SAP identified by Internal Audit were promptly resolved
  - The Council needed to formalise treasury management arrangements with the Fire and Rescue Authority in a revised service level agreement

She was content that these matters were being addressed

In the ensuing debate, the following principal points were raised:

- how could the Council prevent the deficit reported this year reoccurring next year? The Director of Financial Services commented that the complicated nature of the technical accounting procedures had meant that a deficit had been recorded which gave a misleading impression of the actual position
- the pension fund deficit appeared to be increasing. The Director of Financial Services advised that the actuarial evaluation had indicated that as result of people living longer, the pension promise was growing. Additionally, Pension Fund investments are subject to global economic turbulence
- what proportion of the Council's vehicle fleet was leased? The Director of Financial Services stated that previously capital investment through borrowing had been discouraged therefore leasing of vehicles had been a more cost effective method of operating the fleet. However the present taxation regulations made it more financially prudent to buy rather than lease vehicles
- the Director of Financial Services explained that the Government had introduced a scheme for landfill usage allowance for each Council. At present a

value of £0 had been placed on the allowance to reflect the current market value. This might change in the future as Councils became familiar with the scheme and a market place eventually emerged. It was important that this Council proceeded with its programme for waste disposal to avoid the cost implications of buying allowances from other Councils to cover any shortfall in its own provision in the future

- it appeared that the amount of pooled budgeting was increasing. The Director of Financial Services acknowledged this was the case and it was important that this work was monitored. In relation to the Primary Care Trust (PCT) pooled budget, agreements had been tightened with regard to a clear distinction of responsibilities. Liz Cave commented that she also acted as the auditor for the PCT. Pooled budgets had been identified in her work plan and a report would be submitted to the next meeting of this Committee
- How were decisions involving expenditure on capital projects controlled? The Director of Financial Services explained that the Capital Programme was reviewed by the Council every year. Specific allocations were made within the Programme for larger capital schemes. There were budgetary controls to prevent the overrun of smaller project costs
- The District Auditor had highlighted an “impairment” of £101 million in the accounts. The Director of Financial Services commented that this was due to a technical difference between the advice given by CIPFA and the interpretation of accounting procedures by the District Auditor. He would provide guidance for members of the Committee on the ‘impairment’ process
- As requested in the District Auditor’s Governance Report, the Director of Financial Services would prepare the representation letter and submit a copy to the Committee for information at its next meeting.

**RESOLVED: that the Annual Statutory Financial Statements for the year ending 31 March 2008 be approved.**

## 84. Annual Governance Statement

The Committee considered the Annual Governance Statement.

**(Agenda item 6)**

The report indicated that the Accounts and Audit Regulations 2003 required the County Council to conduct a review at least once a year of the effectiveness of its system of internal control and publish an Annual Governance Statement (AGS) each year with the Authority's financial statements. Responsibility for the review and approval of the AGS had been delegated to this Committee.

The purpose of the AGS process was to provide a continuous review of the effectiveness of internal control and risk management systems so as to obtain assurance of their effectiveness.

The Director of Financial Services presented an amended version of the Statement to the Committee (A copy of which was circulated at the meeting). He explained that the amended version better reflected the District Auditor's concerns regarding the risks associated with the implementation of the new HR/Payroll system. He had discussed the matter with the Chief Executive and Leader of the Council prior to the Committee.

In the ensuing debate, the following principal points were raised:

- The Governance Statement only referred to a single control weakness, however the District Auditor in their Report referred to two other weaknesses. The Director of Financial Services commented that the Governance Statement was the Council's own statement and it would therefore differ from the District Auditor's Report. The District Auditor commented that although more than one risk had been identified, HR/Payroll had been identified as the main risk. She was satisfied with the way in which the Council was handling that risk and with the revised statement
- There was a perception issue in terms of what was meant by a 'significant' risk. The word 'significant' needed to be put into context. The Director of Financial Services reported that there were a variety of controls in place to minimise the significance of the risks associated with HR/Payroll.

**RESOLVED: that the amended Annual Governance Statement attached as an appendix be approved.**

**85. External Audit and Inspection Plan 2008/09 (Agenda item 7)**

The Committee considered the External Audit and Inspection Plan 2008/09.

Terry Tobin, on behalf of the District Auditor, introduced the report and made the following points:

- there would be a separate audit opinion on the Pension Fund for the next financial year
- there would be a new assessment of the use of resources for 2008/09. The new assessment would form part of the Corporate Area Assessment (CAA) framework for 2009
- a number of key risks had been identified in relation to Value For Money (VFM) including the need to deliver significant efficiency savings; the new Worcester Library PFI; and revisions to the waste PFI. All these risks would be carefully monitored
- Mary-Anne Bruce had been appointed as the Corporate Area Assessment Lead. This post replaced the previous Relationship Manager post.

In the ensuing debate, the following principal points were raised:

- The Director of Financial Services suggested that the District Auditor might wish to consider including two further key risks in their audit plan: Building Schools for the Future; and government proposals for “personalisation” of social care .
- Did the District Auditor pinpoint areas of the Pension Fund that required radical alteration? Terry Tobin commented that District Audit were principally concerned with the accuracy of the information provided. They relied on the actuarial advice regarding liabilities compared to assets.
- Concern was expressed about the size of the fee for the work undertaken by the District Auditor for the current financial year. Liz Cave explained that the fees were exceptionally high because of the work associated with the Corporate Assessment.

**RESOLVED: that the contents of the External Audit and Inspection Plan 2008/09 be noted.**

**86. Long Term Debtors (Agenda item 8)**

Further to minute 52, the Committee considered the arrangements for securing debts for care costs under accrued accommodation arrangements.

In the ensuing debate, the steps taken by the Council when a particular debt exceeded the value of the property, were queried. The Director of Financial Services advised that in such circumstances, the debt would be written off. However, the average debt per person was approximately

£13,600 therefore this scenario was unlikely.

**RESOLVED: that the report be noted in the context of the Council's overall corporate government arrangements.**

**87. Future Work Programme (Agenda item 9)**

The Committee considered its Future Work Programme.

In the ensuing debate, the following principal points were raised:

- the Cabinet Member with Responsibility for the Environment be invited to update the Committee with regard to the Waste PFI Contract at a future meeting
- A report on the Pension Fund and how it operates should be brought to a future meeting
- The Vice-Chairman reported that he had attended the Local Government Financial Statements Member Training Course provided by PricewaterhouseCoopers. Copies of the course material could be circulated to the those members of the Committee unable to attend.

**RESOLVED: that**

**(a) the Future Work Programme be noted with the addition of possible items on the letter of representation and the Pension Fund; and**

**(b) In addition, the Cabinet Member with Responsibility for the Environment be invited to update the Committee with regard to the Waste PFI Contract.**

The meeting ended at 12.20 pm

Chairman .....