

**PERFORMANCE SELECT COMMITTEE held at COUNCIL OFFICES
LONDON ROAD SAFFRON WALDEN at 7.30 pm on 21 SEPTEMBER 2010**

Present: Councillor H S Rolfe - Chairman
Councillors S Barker, A J Ketteridge, R M Lemon,
J Salmon and R D Sherer.

Officers
in attendance: R Auty (Head of Community Engagement),
S Bronson (Audit Manager), T Cowper (Principal
Accountant), S Joyce (Assistant Chief Executive–
Finance), J Mitchell (Chief Executive), M Perry (Assistant
Chief Executive-Legal), R Procter (Democratic Services
Officer), A Webb (Director of Central Services).

Also attending: Gary Belcher and Debbie Hanson - Audit Commission.

PS22 APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

Apologies for absence were received from Councillors T P Knight,
P A Wilcock and A C Yarwood.

*Councillor S Barker declared a personal interest in matters relating to the
Local Government Pension Scheme.*

PS23 MINUTES

The Minutes of the meeting held on 27 July 2010 were received, approved as
a correct record and signed by the Chairman.

PS24 ACTION LIST/MATTERS ARISING

The Committee considered the action plan and received confirmation that the
actions listed had been accomplished.

(i) Minute PS14 – Audit Commission Fees

The Assistant Chief Executive-Finance updated Members regarding a letter
sent to the Secretary of State, as requested by the Committee. He said a
reply had now been received, indicating that the government shared the
Council's concerns over resources for the external auditing regime. The
government intended to disband the Audit Commission, and in future councils
would have freedom to instruct their own auditors. The Secretary of State
also acknowledged the Council's suggestions on how fairness and
transparency of the inspection process might be better achieved.

(ii) Minute PS17 – Asset Management

The Assistant Chief Executive-Finance said following the failure of partnership
proposals with Basildon, discussions were now taking place with Braintree
District Council. The option was being explored to appoint asset management

consultants, and an offer of support from Chelmsford was also being considered. An asset management and asset register would be brought to the Finance and Administration Committee before the end of the year.

The Chairman emphasised the Committee's concern to see real progress in developing the resources to address this primary issue.

(iii) **Minute PS18 - Corporate Risk Register**

The Head of Community Engagement explained the advantages and disadvantages of a proposed change to the presentation of data in the corporate risk register. It was agreed to include two additional columns of data giving the previous quarter's impact and likelihood.

There were no other matters arising in relation to the Minutes of the last meeting.

PS25 AUDIT COMMISSION PROGRESS REPORT

The Committee considered the report of the District Auditor which summarised progress against the audit plan for 2009/10 and highlighted progress since the previous meeting of the Committee. Members noted that work on the final accounts had substantially been completed. It was noted that the results of the audit of the final accounts were stated within the Annual Governance Report.

The Chairman was pleased there were no significant issues, and said he wished to record his appreciation of the finance team's achievements.

PS26 ANNUAL GOVERNANCE REPORT

The Committee considered the report of the Assistant Chief Executive-Finance, which accompanied the Audit Commission's Annual Governance Report. This report was in his view a fair summary of the outcomes of the 2009/10 audit, and he recommended that the report be approved. The report, along with the Committee's comments, would be submitted to Full Council on 30 September.

Debbie Hanson then presented the Annual Governance Report, and tabled two updates to the appendices. She referred Members to her proposal to issue an unqualified audit opinion, although she wished to highlight some outstanding issues. If any further matters arose in concluding this work before the meeting of Full Council, she said in addressing these she would keep in full communication with the Chairman of the Performance Select Committee.

Debbie Hanson referred to a number of material adjustments which had been identified. The main adjustments related to the fixed asset accounts and the cash-flow statement, which she said required some focus in order to move forwards. The figure given in the report for the overall impact of the adjustments was now stated to be an increase of £1,041k net asset value on

the balance sheet, however there was no impact on revenue reserves as most of the adjustment related to classification.

Debbie Hanson then referred to the value for money conclusion, in which she acknowledged significant improvements in the Council's arrangements, compared to the previous year. She proposed issuing a qualified value for money conclusion to reflect the fact that weaknesses remained in asset management arrangements, but said this would be qualified to a much lesser extent than in the previous year. She added that next year's value for money conclusion would not repeat these issues.

Debbie Hanson went on to highlight findings within her report identified under the financial statements section, and in particular the recommendation to review the fixed asset register. She acknowledged the introduction of complexities under the new IFRS regime, and then referred Members to the action plan (appendix 6) which set out in full her recommendations.

At the invitation of the Chairman, the Assistant Chief Executive-Finance responded to the findings relating to building control. The auditor's findings indicated the building control account had been in deficit for the last three years, which was in breach of the regulations governing the operation of this account. The Assistant Chief Executive-Finance said a new fees and charges scheme would come into force shortly, which would result in the cost of all services being covered by income. During the year 2010/11 the service should make progress towards a break-even position, and by the following year it should have achieved full break-even status.

Councillor Ketteridge said the Council was well aware of the issues identified in the auditor's report, and there were no surprises.

The Chairman referred to previous comments the Committee had made about the issue of asset management, about which Members were frustrated and felt the Council must address with the utmost urgency.

Debbie Hanson then directed Members to amendments tabled relating to her report, which comprised an additional misstatement in the debtors and creditors item, for which officers had made the necessary adjustment; and a number of additional misstatements which management had not adjusted. Unadjusted items were required to be brought to the attention of Members in order to assist them in fulfilling their governance responsibilities. She then referred Members to the comments on bad debt provision, which was the most significant unadjusted item.

Debbie Hanson said these items did not impact on the bank and deposits figures, and concluded by asking the Committee to agree the report and to delegate authority to enable officers in consultation with the chairman to liaise with the auditor to agree the accounts.

The Assistant Chief Executive-Finance thanked the external auditors' team for the constructive and flexible way in which the audit had been carried out. He acknowledged the fairness of the reporting on a number of errors, for which

he took responsibility. However, he emphasised to Members the fact that none of these items affected the financial position of the Council. In order to give Members an insight into what was a qualitative review process, he drew their attention to the fact that the task had been significantly more onerous due to changes to the financial rules and the Council's early adoption of the new accounting standards. Further, officers had needed to complete the work in less time because of the Council's decision that this Committee should receive the accounts before Full Council.

Councillor Barker asked about the reasons behind the classification of fixed assets with regard to Angel Lane car park, the Pig Market and land at the Lord Butler Leisure Centre. The Assistant Chief Executive-Finance gave a detailed explanation.

The Assistant Chief Executive-Finance then responded to the auditor's opinion regarding bad debt provision. Bad debt provision was a subjective judgment, and in this case he had exercised his judgment to reach a different conclusion from the auditor. In his view there was not yet sufficient evidence to increase the bad debt provision, as the recession was a key consideration. He was satisfied the Council had made sufficiently good progress in collecting bad debt, and in his view it was not appropriate to use methodology based on a commercial approach, as had been suggested by the auditor. It should also be noted the majority of these sums would not impact on the accounts due to the type of income these amounts comprised. It was therefore agreed to keep bad debt provision under review.

Councillor Ketteridge said he fully supported the view held by the Assistant Chief Executive-Finance. He referred to a recent report by the BBC indicating Uttlesford occupied a high position in a survey of business resilience.

The Assistant Chief Executive-Finance then commented on the cash flow statement conclusion. He said the supporting note gave more detail on the cash flow, but it was currently incorrect. Officers were continuing to work on the cash flow statement, and would provide a correct version to Full Council.

Councillor Lemon expressed his approval of the frank approach taken in explaining the accounts. The Assistant Chief Executive-Finance said he found it reassuring that the accounts had achieved this standard, as the revenue figures had not changed, but only the presentation of certain assets and liabilities. He wished to flag up the forthcoming requirement for the finance team to work to full IFRS reporting standards, as this would prove a challenge for a small team.

The Chairman asked about a staffing issue mentioned, and officers gave an insight into the impact this problem had had on the department during preparation of the accounts.

The Chairman then invited Debbie Hanson to comment on the discussion of the accounts. She echoed officers' emphasis on IFRS compliance, for which she urged them to ensure they had in place sufficient resources.

The motion as set out in the report was proposed by Councillor Ketteridge, and seconded by Councillor Lemon, and it was duly passed.

RESOLVED to recommend that Full Council

- 1 approve the financial statements, taking account of the matters raised in the report;
- 2 note the adjustments to the financial statements which are set out in the report;
- 3 agree not to adjust the accounts for errors that management had declined to amend because they were not material to the user's understanding of the accounts;
- 4 take note of the qualified Value For Money conclusion;
- 5 approve the letter of representation on behalf of the Council as set out in the report;
- 6 agree the response to the proposed action plan.

PS27 **LOCAL GOVERNMENT PENSION SCHEME**

The Assistant Chief Executive-Finance presented a report which set out information supplied by Essex Pension Fund representatives to explain the reasons for the pension fund deficit. He gave apologies on their behalf, as it had not been possible for their representative to attend in person. The report set out answers to questions such as the calculation of the fund, the reasons for the increase in the Council's share of the pension deficit and options open to the Council to fund the deficit.

Councillor Ketteridge said this was a very useful report and noted it gave some comfort for those pension fund members who were already retired. The Chairman commented on the long-term nature of decisions affecting the pension fund, and that this Council played no part in taking such decisions.

The Assistant Chief Executive-Finance said the Pension Fund would shortly issue a draft funding strategy upon which the Council would be consulted. This survey would come before the Finance and Administration Committee in November. He said only significant reform would assure the stability of the fund, and he referred to the forthcoming publication of the results of the Hutton review which were likely to have a significant impact on decisions to be made in the near future.

PS28 **2009/10 AUDITED STATEMENT OF ACCOUNTS**

Members considered the report of the Assistant Chief Executive-Finance and the draft statement of accounts, which had already been scrutinised by the Committee on 22 June. The final version of the accounts, accompanied by the auditors' reports, would be brought to Full Council next week, and this Committee was therefore invited to recommend the accounts to Full Council, subject to some minor updates.

At the suggestion of the Chairman Members considered in full the detail of the adjustments which were to be finalised.

Councillor Salmon proposed, and Councillor Ketteridge seconded the motion, which was duly passed.

RESOLVED to recommend to Full Council on 30 September that the audited 2009/10 Statement of Accounts be approved for publication.

PS29 **ENVIRONMENTAL CRIME ENFORCEMENT**

At the request of Members a report had been brought to the Committee setting out the main offences and penalties falling within the remit of environmental crime and providing an insight into some of the difficulties involved with enforcement. The Chairman thanked the Assistant Chief Executive-Legal for what was a very helpful report.

In response to questions from Members, the Assistant Chief Executive-Legal said the Council had recently issued two fixed penalties for littering, and this had resulted in good publicity for this type of enforcement. However there was a question of resources in terms of available trained staff. He then gave a summary of the provisions governing collection and disposal of abandoned untaxed vehicles.

Members were keen that this report should be made available to parish councils, as they often had to deal with environmental crime and issues such as dog waste and fly tipping. The Chairman asked the Assistant Chief Executive-Legal to include in the report details about the available penalties for these types of offence, and to circulate the report to parish clerks.

PS30 **INTERNAL AUDIT PROGRESS REPORT**

Members considered the report of the Audit Manager which gave an update on work undertaken since the last report to the Committee on 27 July and provided details of implemented and outstanding internal audit recommendations.

The Chairman noted there had been good progress and thanked officers for their report.

PS31 **PROTOCOL FOR LIAISON BETWEEN INTERNAL AND EXTERNAL AUDIT/REVISED INTERNAL AUDIT WORK PLAN**

The Chairman suggested the next two agenda items be taken together as they dealt with the same question. The report of the District Auditor set out the proposed working relationship between the Audit Commission audit team and the internal auditors of the Council. The report of the Audit Manager had been prepared in response to a review of the 2010/11 Internal Audit Plan and in order to comply with the Committee's request at its previous meeting that areas be identified for audit fees reduction in relation to closer alignment of

Internal Audit and external audit work. This report highlighted the fundamental differences in auditing work undertaken by an organisation's internal audit section and its external auditors, and noted the fact that the protocol drawn up by the Audit Commission for the first time gave details of specific audits it would be undertaking, together with the timetable and information on the type and size of testing it would carry out.

The Chairman noted that both the internal and external audit teams wished to work together whilst maintaining the independence of internal audit. The intention behind both reports was to promote a 'joined up' approach, where possible within the legal framework.

The Audit Manager explained that the internal audit work on which the external auditors would be placing reliance would only cover the first three quarters of the year to 31 December 2010. The external auditors would be carrying out sample testing of the final quarter of the year in accordance with their auditing standards and as part of their specific testing for the annual statement of accounts audit work. Debbie Hanson agreed it was important to ensure a correct match between both regimes.

Councillor Ketteridge said he wished to highlight the fact the external auditors had cost the Council £198,000 over the last twelve months, and this figure was in addition to costs of internal audit. This figure was a huge proportion of this Council's budget. The Chairman agreed, and noted representations on this point had been made in the letter to the Minister. He said the cost could be worked out as £6 per year per council taxpayer, and in view of the indications given by the coalition government on reducing public expense, this figure was excessive, particularly when compared with other public areas. Nevertheless, Members acknowledged the helpful contribution of the audit process to the Council.

The meeting ended at 8.40pm.