

Committee: ANNUAL ACCOUNTS COMMITTEE

Date: 25th September 2006

Subject: AUDIT COMMISSION ANNUAL GOVERNANCE REPORT –
RESPONSE AND ACTION PLAN

Report Of: Director of Financial Services

Ward(s) All

Purpose To respond to the Audit Commission Annual governance report for Eastbourne Borough Council for the audit year 2005/2006 and to its action plan.

Decision Type: Key Decision

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Recommendation: The Committee is asked to:

- 1) note the Director of Financial Services' responses to the findings and recommendations of the Audit Commission Annual governance report
- 2) agree the action plan appended to this report

1.0 Introduction

- 1.1 This report presents responses to the Annual governance report for the audit year 2005/2006 prepared by the Audit Commission and which is separately presented to Committee today by the external auditor.
- 1.2 This report also presents an action plan to address the recommendations made by the Audit Commission in its report and seeks the Committee's agreement to this plan.

2.0 Background

- 2.1 The Council enjoys a positive relationship with its external auditor which is evidenced by regular contact, both formal and less formal, at many levels within the Member and officer structure. Indeed the external auditor has increasingly worked with finance staff to provide support and guidance where necessary and appropriate, in order to increase understanding and to raise standards. Similarly, the Council takes very seriously the findings and recommendations arising from the work of its auditor and is committed to addressing any and all shortcomings so that improvements may be made and standards raised.

- 2.2 It is true to say that the audit of the 2005/2006 accounts has presented the Council, and indeed all other Councils, with a harder test than has been present previously. This is partly because of the accelerated timetable for the closure, presentation and approval of the accounts, and partly because of more stringent audit requirements introduced under International Standard of Auditing (ISA 260). For example, to gain the assurance that the auditor needs in order to form an opinion on the statement of accounts and to issue a conclusion on value for money ISA 260 has introduced more onerous testing where key internal controls demand it.
- 2.3 It is true to say also that the Council is more self-aware of areas within its financial management where improvement needs to be made and standards raised. This self-awareness was one of the key drivers that lay behind the review of corporate management structures undertaken by the Chief Executive and agreed by Cabinet in March and April and implemented from May this year. A number of benefits are already in place from this review – the appointment of Lesley Lane as Assistant Director Financial Management and as the Council’s statutory section 151 officer, the placement of both accountancy and internal audit within Lesley’s new team – and further benefits will flow from Lesley’s restructure of her accountancy team which is currently underway and due for completion during October in advance of detailed budget work for 2007/2008 and accounts closure for 2006/2007.
- 2.4 Similarly the Council is aware of the need not only to invest in the continuing training and development of its finance staff – which it does through professional bodies like AAT and CIPFA – but also of the need to have the right tools to do an increasingly demanding job in an increasingly efficient and effective manner. That is why the Council has agreed to support the introduction of new business information systems, including a new financial information system that will go live on 1st April 2007, through an investment of £250,000 within its approved capital programme.
- 2.5 The background to our delivery of the 2005/2006 accounts is one of change and transition. Change through new personnel, new roles and new responsibilities, and transition through new structures and new systems. In hindsight it is fair to conclude that we may have focussed on meeting the earlier statutory timetable for the approval of the accounts by 30th June at the expense of some of the qualitative aspects we are striving to meet.

3.0 Responses to the findings and recommendations of the Annual governance report

- 3.1 I have had the opportunity recently of sitting down with Darren Wells and Simon Mathers of the Audit Commission to discuss in detail the findings and recommendations set out within their report. This was an open and honest discussion, and indeed a pragmatic one. I acknowledge all of the findings listed and accept all of the recommendations made. They are soundly based and when addressed in full will evidence significant improvement by us.
- 3.2 My overarching concern is always to be assured that there has not been and will not be any loss to the public purse. Despite shortcomings in our systems of internal control I am pleased that the auditor has found no such loss from fraud or error.

- 3.3 I accept however that any shortcomings increase risk and that these need to be tackled promptly and effectively. The review and restructure of the accountancy team will greatly assist with this as it will put in place greater clarity of roles and responsibilities and focus resources in a more concentrated manner than has existed previously. In addition the placing of Internal Audit within the Financial Management team provides opportunity for complimentary work around the key financial statements and controls. And we are learning already, but must do more, from those authorities that perform better than we do, particularly where they use the same systems and are engaged with the same external auditor.
- 3.4 The action plan that is appended to this report demonstrates both our commitment and our activity towards addressing the Audit Commission recommendations. Notwithstanding that we are already at the mid-point of the current financial year we will use our very best endeavours to ensure that these same recommendations do not reappear in next years report. Indeed, as part of our self-awareness of the Council's wider financial management environment and its ambition to improve, we intend to go beyond this particular set of Audit Commission recommendations so that we can improve the overall score for Use of Resources.
- 3.5 Members will be aware from the Audit Commission report that the two technical qualifications given within the external auditors opinion on the 2004/2005 accounts will have to continue for the 2005/2006 accounts. The detail of these is set out within the Audit Commission report and will be discussed as part of the presentation of that report by the auditors. However, within the auditor's opinion on the 2005/2006 accounts there will also be a qualified conclusion by exception on the Council's use of resources. Again, the detail of this is set out within the Audit Commission report and will be discussed within that part of today's agenda so is not repeated here.
- My response to this is to seek to have these qualifications removed at the earliest opportunity – that is, for the 2006/2007 statement of accounts. I am confident that the Council has both the will and the capacity to be able to remove the qualified conclusion on use of resources. I am similarly confident that we will be able to remove the technical qualification surrounding Eastbourne Buses accounts. The technical qualification around the so called "item A adjustment" is more difficult to judge. We have undertaken much work to resolve this without actually doing so. The auditor has guided us in this work so far as he is able to do so and has tested our work. We will continue to work with the auditor to seek an acceptable resolution to this matter at the earliest opportunity.
- 3.6 The Audit Commission report, its findings and its recommendations is accepted. It identifies practical and operational issues we have been aware of and which we have started to address already. We have more to do but we have willingness and a commitment to do so. The relationship we have with the Audit Commission is both professional and pragmatic and this will serve us well as we implement the improvements necessary to enable future accounts not to be qualified.
- 3.7 May I remind the Committee that the auditor has found no loss to the public purse from fraud or from error or from misappropriation arising from the

detailed work he has undertaken on the Council's accounts for financial year 2005/2006.

4.0 Consultations

4.1 Not relevant for this report

5.0 Implications

5.1 As set out within this report and the accompanying action plan.

6.0 Summary

6.1 The Audit Commission Annual governance report in respect of the audit year 2005/2006 identifies challenges and makes recommendations that this Council must address. This report and its accompanying action plan provide a positive response to the findings of and recommendations made by the Audit Commission.

Bruce Bird
Director of Financial Services

Background Papers:

The Background Papers used in compiling this report were as follows:

Audit Commission, Annual governance report, Audit 2005/2006

To inspect or obtain copies of background papers please refer to the contact officer listed above.