

## **AUDIT COMMITTEE**

### **Minutes of a meeting of the Audit Committee held on Wednesday, 23rd September 2009 at 6.00 pm in the Scrutiny Meeting Room, Civic Offices, Telford**

**PRESENT:** D.Wright (Chairman), R.K.Austin, L.Lomax and W.L.Tomlinson.

**OFFICERS PRESENT:** Paul Clifford – Interim Corporate Director: Resources, Ken Clarke – Head of Finance & Audit, Pauline Harris – Corporate Finance Manager, Bernie Morris – Finance Manager – Treasury & Capital, Rob Montgomery – Group Auditor, Mike McDonagh – Partner KPMG LLP (UK), Andrew Cardoza – Senior Manager KPMG LLP (UK) and Andrew Roberts – Democratic Services Officer.

#### **AUC-26 MINUTES**

**RESOLVED** – that the minutes of the meeting of the Audit Committee held on 28th July 2009 be confirmed and signed by the Chairman.

#### **AUC-27 APOLOGIES FOR ABSENCE**

Councillor I.T.W.Fletcher (Vice-Chairman).

#### **AUC-28 DECLARATIONS OF INTEREST**

None.

#### **AUC-29 ANNUAL GOVERNANCE REPORT 2008/09**

The Committee received the report from KPMG in connection with the Annual Governance Report for the period ending 31st March 2009 which had been undertaken in accordance with the Audit Commission's Code of Audit Practice. The report summarised KPMG's work in the identification of the key issues during their audit of the Council's Financial Statements together with their assessment of the Council's arrangements to secure value for money in the use of resources.

Members were informed by KPMG that the external auditors were required to conclude whether the Council had adequate arrangements in place to ensure the effective use of its resources. This was measured against the Audit Commission's Use of Resources Assessment Framework. Members were further informed that this framework had been revised by the Audit Commission for 2008/09 and was significantly more challenging than previous assessments. The Committee were advised that based on the framework the Council had made proper arrangements to secure economy, efficiency and effectiveness in the use of resources. The Council had received an overall assessment score of 2 although areas of good practice had been identified in particular in Internal Control & Risk Management and in Asset Management (where the assessed score was 3 in these areas). Members were referred to the specific comments contained within Section 2 of the report.

In relation to the audited financial statements of the Council KPMG reminded the Committee that the Council was responsible for having effective systems in place to ensure the regularity and lawfulness of transactions, to maintain proper accounting records and to prepare financial statements that present fairly the financial position of the Council and its expenditure and income. Members were informed that KPMG had substantially completed their work on the 2008/09 financial statements. An improvement in the quality of the accounts and the supporting papers had been noted together with a reduction in the number of adjustments. The Committee were referred to the detailed comments in connection with the financial statements as contained within Section 3 of the report.

Members were further informed that there were a small number of minor matters outstanding and subject to these matters being resolved to KPMG's satisfaction it was anticipated that an unqualified opinion would be issued in accordance with the 30th September deadline.

Councillor Tomlinson enquired as to whether it would be possible to receive some benchmarking statistics that would indicate the comparative position of the Council's Use of Resources rating. By way of response KPMG indicated that within the Councils that they audited that they were unaware of any Council that received the top score, only one known council who had achieved an overall score of 3 – there were no known scores of 1 – which left the majority of councils rated at a score of 2. It was further confirmed that the requested comparative details could be included within the forthcoming Annual Audit Letter that would be published in December.

Councillor Tomlinson also enquired as to whether any specific guidance from KPMG could be provided to the Council that if actioned would result in a direct increase in the overall assessed score of the Council. In answer to this enquiry Mike McDonagh indicated that would be happy to reflect on the scores and provide further guidance – however it was unlikely that the following of any further specific advice from KPMG in itself would lead to a definite uprating of the scores obtained by the Council.

Councillor Lomax considered that it would be beneficial to obtain further information on other council's best practice which could be submitted to the Council's Value for Money Scrutiny Group. Councillor Tomlinson extended this to state that regard should be given to a consideration of the likely cost implications to the introduction of new initiatives when balanced against any future benefits including any revised scores. He did enquire as to whether information could be obtained by KPMG as to whether they could provide examples of best practice from other councils. KPMG advised that enquiries would be made for a 1 hour slot to a future meeting of the Value for Money Scrutiny Group.

**RESOLVED – that the KPMG Annual Governance Report 2008/09 for Telford & Wrekin Council be noted.**

**AUC-30      ANNUAL REPORT AND STATEMENT OF ACCOUNTS**  
**2008/09**

The report of the Interim Corporate Director: Resources was received which sought to inform Members of the outcome of the audit of the Council's accounts for 2008/09 and present the Statement of Accounts for approval.

The Committee were reminded that in accordance with the Accounts and Audit Regulations (2003) it was required that the Council should reports its 2008/09 annual accounts to Council in the prescribed format by the end of June. It was noted that a draft statement of accounts was approved by Council and signed by the Speaker on the 25th June 2009. Members were further informed that the regulations also stipulated that the final audited accounts should be published by the 30th September and in accordance with the relevant regulation the final audited accounts as attached to the report at Appendix A were formally presented to the Audit Committee for approval prior to publication. Members were reminded that following the Council meeting that was held on 25th June the Audit Committee had been given delegated authority to approve the Council's final audited Statement of Accounts.

Members were advised that KPMG, the Council's external auditors, had substantially completed their work and that an unqualified audit opinion was anticipated. It was reported however that a small number of audit areas remained to be completed and that there may also be some minor presentational changes required prior to publication. As a result of this the Committee were accordingly requested to grant delegated authority to the Head of Finance & Audit, following consultation with the Cabinet Member for Resources to formally finalise the statement of accounts, if the audit areas as detailed above remained uncompleted.

Following final approval and completion of the audit, the Statement of Accounts would be made available on the Council's web site, at libraries and in reception areas. An annual report which would incorporate a summary of the Statement of Accounts would also be included in the new style Insight publication later in the year.

Members were referred to the content of the report that indicated that the overall underspend had decreased very slightly by £2,000 following the audit which related to the difference between the NNDR grant claim form and the NNDR income figure included in the accounts. It was confirmed to the Committee that this change had resulted in a change to the General Fund balances position by £2,000. The Committee was also referred to a number of other adjustments in the accounts as outlined within the report that had been made after discussion with KPMG during the course of the final accounts audit. None of these impacted on the General Fund Balance position that had been previously reported. It was further reported that the Council was again anticipating the receipt of an unqualified audit report.

The Committee were also referred to the earlier report that had been submitted earlier in connection with the Annual Governance report from the external auditors.

A number of Members enquired as to whether the Statement of Accounts could be produced earlier and following a discussion KPMG agreed that this could be possible although regard would have to be given towards any holiday commitments of key staff either within the Council or KPMG.

**RESOLVED – that**

- (a) the final 2008/09 Statement of Accounts as annexed to the report be formally approved for an on behalf of the Council; and,**
- (b) if the audit has not been completed that delegated authority be granted to the Head of Finance & Audit following consultation with the Cabinet Member: Resources to make any final changes required to the Statement of Accounts prior to publication.**

**AUC-31      TREASURY MANAGEMENT – INTERNAL AUDIT REVIEW  
AGAINST THE AUDIT COMMISSION “RISK & RETURN”  
REPORT**

The joint report of the Head of Finance & Audit and the Audit & Risk Manager sought to update Members on the work that had been undertaken by Internal Audit in relation to the Council’s Treasury Management arrangements and the Audit Commission’s report entitled “Risk & Return”.

Members were informed that from the end of September the Audit Committee would have their terms of reference extended to include responsibility for reviewing the Council’s Treasury Management arrangements and making recommendations to Cabinet. The Committee were further reminded of the collapse of the Icelandic Banks in September 2008 and following these events the Audit Commission had produced a report entitled “Risk & Return” in late March 2009 which set out the lessons that had been learned and further outlined the best practice that should be followed for Investment and Borrowing in local authorities.

At around the publication of this report Internal Audit had been requested by the Interim Corporate Director Resources to review the Council’s Treasury Management arrangements against these guidelines alongside their normal annual audit work. The report submitted to the Audit Committee the results of this Internal Audit review and outlined the actions that would be required by the Council to ensure that it continued to operate in accordance with the best practice guidelines. Members were informed that the Council’s external auditors, KPMG, would utilise the work of Internal Audit to assist them in their assessment of the Council’s response to the Audit Commission report. It was further mentioned that all external auditors had been requested to report back on this to the Audit Commission by October 2009.

The Committee were informed that the audit review was undertaken during July 2009, to provide an opinion on the control environment together with the provision of a level of assurance for Treasury Management. In addition to the standard assurance areas the audit covered compliance with the Audit Commission – Risk and Return report that was issued in March 2009. It was reported that the audit findings had provided the Head of Finance & Audit with

an action plan for the Treasury Management Team to implement to ensure that best practice was being followed. However, the development of the action plan was initially delayed due to the work pressures associated with the closedown of the annual accounts.

Members were referred to the summary Treasury Management report that was attached to the report that detailed the actions required to ensure that the Treasury Management function was compliant with the Audit Commission's best practice guidelines.

The Committee noted that 23 best practice areas had been reviewed against the recent Audit Commission report. Compliance had been judged to be generally good but there were 18 areas where it had been identified that improvements could be made to ensure that the Council was meeting the best practice standards. The Chairman, Councillor Wright pointed out that in relation to the recommendations none related to legal or financial responsibilities.

Councillor Tomlinson referred to the recommendation reference number 1 within the detailed report in which it was stated that it had been agreed that the Audit Committee would receive future treasury reports. He commented that this provision was not within the remit of the terms of reference of the Audit Committee. By way of response it was agreed that the terms of reference would require amendment to take account of this by reference to the Council Constitution Committee for onward submission to Full Council for formal approval. As a result of this the Committee noted that it would commence receiving future treasury reports from the 1st December 2009.

Councillor Wright also made reference to any possible date slippage. By way of response the Group Auditor replied that there was a determination to ensure that there would be no such slippage and that all the dates contained within the recommendations were complied with. It was reported that a follow up audit would be undertaken early in the New Year, the results of which would be reported to a future meeting of the Committee

**RESOLVED** – that the contents of the Treasury Management Summary as attached at Appendix A of the report be noted.

#### **AUC-32      ANNUAL REVIEW OF TERMS OF REFERENCE**

The Committee received the report of the Interim Corporate Director: Resources which requested the members of the Audit Committee to review the terms of reference of the Committee and that any suggested amendments would be submitted to the forthcoming meeting of the Council's Constitution Committee that would be held on 27th October 2009. Members were also requested to note that in future the annual review of the committee's terms of reference would take place at the first meeting following the Annual Council Meeting (as had been agreed by the Council's Constitution Committee at its meeting that was held on 3rd September 2009).

Members were reminded that the Audit Committees terms of reference specified that the terms of reference should be reviewed annually. It was

pointed out that they were last reviewed in September 2008 and agreed by Council on 11th December 2008. Members were further requested to note that if there were any suggestions for changes that these would be presented to the Council's Constitution Committee on 27<sup>th</sup> October 2009 and would be effective following agreement at Council on 26<sup>th</sup> November 2009.

The Committee were advised that the terms of reference had already been revised during 2009/10 and agreed by Council on 25th June 2009. The amendment was to the statement of accounts section whereby the Committee now had the delegated responsibility to approve the Statement of Accounts on behalf of the Council. Members were reminded that previously the Committee reviewed them prior to final approval by Full Council.

Members were further informed that the Council's Constitution Committee on 3rd September 2009 had agreed to recommend to Council further changes to the Audit Committee terms of reference. This was an additional responsibility within the Governance Section – "To consider and review the Council's Treasury Management arrangements including Treasury policies, procedures and the management of the associated risks."

This change had been made in response to the "Risk and Return" report issued by the Audit Commission in March 2009 which made recommendations to local authorities in respect to the governance of their Treasury management activities following the collapse of a number of Icelandic Banks. This had been detailed in the earlier part of the meeting that had considered the Council's Treasury Management activities.

It was confirmed to the Committee that no other changes had been included or reported to members at this point but members were formally requested to review the revised terms of reference and make any further suggestions. Future reviews of the terms of reference would be held in June 2010 following the Annual Council meeting. Councillor Tomlinson requested that regard should be given for the need to undertake any change to the terms of reference that might be required at short notice and not to be in a position that no amendments could be considered other than at the meeting following Annual Council.

Councillor Tomlinson requested as to whether an additional paragraph which would refer to the recent invitations to relevant Cabinet Members and lead officers in order for them to provide assurance within their portfolios and business units.

Councillor Lomax enquired as to whether a greater emphasis could be included that would amplify the open nature of the committee. By way of response the Head of Finance & Audit indicated that committee meetings were always considered to be open to the press and public and that all agendas were published in an identical method as for other Council meetings.

KPMG also offered to review the current terms of reference of the Committee and to benchmark them with other authorities and advise the Council of the results of this exercise.

**RESOLVED – that**

- (a) **the Members of the Audit Committee following their review that the Terms of Reference of the Audit Committee as attached at Appendix A of the report be agreed; and,**
- (b) **that it is noted that the next scheduled review of the Audit Committee Terms of Reference will be undertaken in June 2010.**

**AUC-33      AUDIT COMMITTEE ANNUAL REPORT 2008/09**

The report of the Interim Corporate Director: Resources was received which sought to present to the Committee the Annual Report on the operation of the Audit Committee during 2008/09. Members were reminded that the Audit Committee was separated from the Standards and Audit Committee for the municipal year 2008/09 and the Members were reminded of the key benefits of the Audit Committee as outlined within the report. The Committee was further informed that this report would also be submitted to the next meeting of Full Council.

The Committee were further advised that as it was the key assurance Committee of the Council it was accepted best practice that an Annual Report should be presented to the Council on the operations of the Committee during the municipal year. This was the first report to Council on the operations of the Audit Committee and was structured based on the terms of reference that were operational during the year as attached at Appendix A to the report. Members were also referred to Appendix B which provided a summary of the business conducted by the Committee during the period under each section of the terms of reference.

Members were informed that In connection with the Internal Audit team officers had continued to provide reports on their activities and highlighted areas requiring attention by members. It was further mentioned that the Committee had requested additional information towards the end of the year in respect to budgeted and actual Internal Audit time and this has been incorporated into quarter 4 2008/09 and the 2009/10 update reports.

It was further noted that as a result of Internal Audit reports the Committee had received Members had invited the Head of Leisure and Culture to attend at a meeting of the Committee to provide assurance that improvements to Leisure Centre controls were being implemented and appropriate action had been taken. It had been concluded that these individual meetings with officers within the Council had been considered useful as it enabled the Committee to raise their concerns and be satisfied that action was being taken in a number of areas.

The 2007/08 Internal Audit Annual report provided an opinion on the assurance framework and control environment in addition to other information which demonstrated very good performance by the Internal Audit team. It was further reported that the Internal Audit team were part of the CIPFA benchmarking group and the analyses of the results were presented to the Committee. These results demonstrated that the Internal Audit team provided

value for money and compared well with other unitary authorities. The Internal Audit Plan for 2009/10 was presented and approved by the Committee at the March 2009 meeting.

It was confirmed to the Committee that the External Auditors Annual Audit & Inspection Plan 2008/09 was presented to the Committee on two occasions and agreed following fee and risk negotiations between officers and the auditors. The Interim Final Accounts Report 2007/08 was presented and considered by the Committee with 3 medium and 2 low level recommendations made (total of 5). Finally the Annual Governance report 2007/08 – ISA 260 was received which had highlighted that 3 priority 2 recommendations had been made. Following completion of the accounts and Use of Resources assessment the Annual External Audit report 2007/08 was reviewed by the Committee. It was concluded to be a reassuring report with unqualified accounts and some improved scores for Use of Resources. However members were requested to note that the inspection and reporting regime had been changed for 2008/09 which had resulted in the introduction of a much “harder test”.

The Committee were also responsible to oversee and seek assurance that the Council’s risks were being managed properly. It was advised that the Committee had received 3 updates on the key strategic risk register during the year and in March the Cabinet Members for Regeneration and the Environment attended with the Corporate Director: Environment & Regeneration to reassure the Committee on the management of the Housing growth risk. It was also noted that the Committee had requested more detailed descriptions in respect to the impact if the risk had occurred and that the further actions should all have a deadline. These particular changes were being incorporated in the September 2009 review.

In connection with governance the Annual Governance Statement 2007/08 had been approved following consideration of the supporting information which included the review of the effectiveness of the system of internal audit. The Committee again reviewed their effectiveness by way of a survey to members and key officers. Out of this further work had been undertaken but the Committee had concluded that currently no co-opted members were required to bring added skills to the Committee.

Members were reminded that the Statement of Accounts had been reviewed prior to recommendation to Council for approval. The meeting was preceded by a session with key Finance staff who had explained the statements and the changes that had occurred during the 2007/08 Civic Year. It was confirmed that these arrangements would be repeated for the 2008/09 accounts in September 2009.

The updated Anti-Fraud and Corruption Policy 2008 was approved by the Committee and recommended for adoption by the Council in September 2008. The annual report on activity was received in July 2009. It was further noted that monitoring by the Committee of the Speak Up policy was undertaken at the March 2009 meeting. The Committee did not review complaints until the 2009/10 municipal year when the 2008/09 Complaints Annual Report had been presented to the Committee.

In relation to the Committee's general duties and powers it was confirmed that the Committee had reviewed its Terms of Reference in September 2008 and this review had incorporated responsibilities in respect to Anti-Fraud & Corruption. The Committee had also considered how it would relate/work with the Value for Money Scrutiny Group. It agreed that as there are 2 common members that no formal links needed to be set up at the current time. Three members of the Committee had also attended external training provided by Price Waterhouse Coopers. This had reinforced the activities and approach of the Committee.

In connection with the 2008/09 Civic Year it had been concluded that the Committee had experienced a productive year and sought assurance for Members and the Community on the audit, governance, risk management and financial statements of the Council. The annual report concluded that having a dedicated Audit Committee had allowed the committee members to get to know the processes across the Council and that this had resulted in the evidence of a more detailed insight had enabled the committee to challenge and provide assurance. This had been evidence by the Audit Committee and Internal Audit team having been assessed and judged to be performing well in the annual external assessment as part of the Use of Resources.

In relation to the future it was noted that the Committee was not complacent and clearly understood that the Council was about to face some significant challenges and that it must continue to seek and provide appropriate assurance. Most notable of these changes were the proposed amendments to the changes to the regulation and inspection regime, the International Financial Reporting Standards and the Committee's revised role in monitoring the Treasury Management activities of the Council.

The Committee would continue to seek assurances from strategic risk owners and Heads of Service in respect to governance, risk and controls. The Committee had also identified some areas for additional training and these were scheduled for October/November 2009.

Finally Members noted that the vacancy that had commenced in June 2009 remained. However it was recognised that the newly appointed Members would be required to undertake the appropriate level of induction training which would be provided by the Audit & Risk Manager. The further training that had been planned for the autumn alongside the ongoing support from the existing Committee members would help to ensure that the new newly appointed member could develop and contribute to the operations of the Committee.

**RESOLVED – that the Audit Committee Annual Report 2008/09 be noted.**

**AUC-34      DATES OF FUTURE MEETINGS**

The Committee noted the future dates of meetings that were scheduled to be held for the remainder of the 2009/10 Civic Year. Members were also reminded of the planned training session that would be held on the 6th October 2009 in relation to Treasury Management, from 4.30 pm until 6.30 pm. There would also be two general refresher training sessions to be held on

2nd November 2009 commencing at 5.30 pm and the 3rd November 2009 commencing at 4.15 pm.

The meeting ended at 7.20 pm.

**Chairman:**

**Date:**