

## **AUDIT COMMITTEE**

### **Minutes of a meeting of the Audit Committee held on Tuesday, 31st March 2009 at 6.00pm in the Reception Suite, Civic Offices, Telford**

**PRESENT:** D. Wright (Chairman), I.T.W. Fletcher (Vice-Chairman), G. Ashcroft, R.K. Austin and L. Lomax.

**OTHER MEMBERS PRESENT:** Councillors E.J. Carter – Cabinet Member: Regeneration and M.B. Hosken – Cabinet Member: Environment.

**OFFICERS PRESENT:** Ken Clarke – Head of Audit & Democracy, Jenny Marriott – Audit & Risk Manager, Rob Montgomery – Group Auditor, Meredith Evans – Corporate Director: Environment & Regeneration, Jonathan Rowe – Head of Leisure & Culture, Stuart Davidson – Business Manager: Leisure Facilities & Services, Andrew Cardoza – Senior Manager KPMG LLP (UK) and Peter Evans – Assistant Manager: KPMG LLP (UK).

#### **AUC-49      MINUTES**

**RESOLVED** – that the minutes of the meeting of the Audit Committee held on 27th January 2009 be confirmed and signed by the Chairman.

#### **AUC-50      APOLOGY FOR ABSENCE**

Councillor W.L.Tomlinson

#### **AUC-51      DECLARATIONS OF INTEREST**

None.

#### **AUC-52      KPMG – ANNUAL EXTERNAL AUDIT REPORT 2007/08**

The Committee received the report of KPMG which summarised the work that had been undertaken by KPMG at the Council in their role as the authority's external auditors. The Committee was reminded that the auditor's responsibilities were outlined within the Audit Commission's Code of Audit Practice (the Code). Under the Code KPMG were required to review and report on three main areas which included – the Statement of Accounts, the Use of Resources and Data Quality. Members were informed that the report covered the financial year 2007/08.

In connection with the Statement of Accounts it was confirmed that KPMG had issued an unqualified opinion and certificate on the Council's 2007/08 accounts. The certificate was issued to confirm that they had completed all the work that was required for the 2007/08 financial year under their statutory responsibilities. It was also pointed out that KPMG were also reviewing the Council's Whole of Government Accounts (WGA) submission to determine as to whether it was consistent with the statutory accounts.

Members were informed that like a number of other authorities, it was noted that the Council had found the new requirements for a Statement of Total

Recognised Gains and Losses (STRGL) in the 2006/07 financial year a challenge with several large adjustments being required in 2007/08 to correct it.

In relation to future accounts production and audit process and how these could be improved for the 2008/2009 accounts a number of meetings had been held between KPMG and the Council. It had also been agreed that there would be a programme of monthly meetings during the closedown period to enable earlier discussion and agreement of the impact of new accounting developments and changes.

On the Council's Use of Resources, the Committee were advised that between July and September 2008 KPMG completed their scored judgement on the Council's use of resources against Key Lines of Enquiry (KLOEs) that were specified by the Audit Commission. The Committee were pleased to note that the Council had once again achieved an overall score of 3 in the assessment overall. Members were also pleased to note the score for Internal Control had increased from a 3 to a 4. The Council had been commended by KPMG, as the scores had been obtained despite increases in KLOE requirements which included a harder test.

Finally, Members were referred to the Data Quality – the Committee was informed that KPMG were required to assess the Council's arrangements over the quality of its performance and other data, and to test a small number of indicators in detail.

The Committee were informed that KPMG tested four indicators which included two benefits indicators that the Audit Commission required to be tested and two further indicators which were selected on a risk basis. It was reported that no issues were identified in relation to the benefits indicators however some adjustments were required to the other two indicators.

Members were referred to Appendix A of the report which outlined a summary of recommendations and proposed action plan to be undertaken by the Council.

During a discussion a number of members enquired as to the details of the one question and objection that was received from one elector and the cost that was involved in dealing with the same as outlined within the report. Members were advised that there was no evidence of any unlawful expenditure or of any other issue that KPMG were required to address under their statutory powers. In connection with the fee level the Committee were advised that as a result of the ongoing collaborative work that was undertaken between the Council and KPMG the fee that had been charged was extremely low.

Another Member referred to Appendix A – Summary of Recommendations and pointed out that there was no time frame for completion of any of the action plan items and as to whether progress against these should be monitored by the Committee. By way of response it was acknowledged that it would be within the remit of the Committee to monitor such progress.

**RESOLVED** – that the KPMG Annual External Audit Report 2007/08 be noted.

**AUC-53      STRATEGIC RISK 10 – FAILURE TO DELIVER THE HOUSING GROWTH AGENDA**

The Committee were referred to the previous meeting that was held on 27th January 2009 and the review of the key Strategic Risks that had been undertaken. During the discussion of this particular item the Members agreed that the risk identified as Risk 10 within the register – failure to deliver the housing growth agenda should be more fully considered. Accordingly it was further agreed to invite the risk owners – the appropriate Cabinet Member and Corporate Director to this meeting in order to provide the further information to the Committee.

Members were introduced to Meredith Evans – Corporate Director: Environment & Regeneration and also Councillors M.B. Hosken – Cabinet Member: Environment and E.J. Carter – Cabinet Member: Regeneration.

The Corporate Director: Environment & Regeneration advised on the historical background to development within Telford & Wrekin and that significant capacity and infrastructure had been provided by the former Telford Development Corporation with the previous provision of housing growth being matched with a corresponding increase in employment growth within the Town. Members were reminded that within the Borough local housing growth targets were set via the Regional Spatial Strategy (RSS), with the current version providing a target of 1325 new market houses per annum until 2026. The Committee was informed that this figure was currently being revisited as part of the RSS Phase 2 Review. It was noted that in recent years housing delivery locally had averaged c.500 homes pa. The credit crunch and recession had further depressed delivery with 381 new homes built in 2007/08.

It had been recognised that the current slowdown was a national issue with the majority of Local Authorities seeing a significant reduction in the completion of new homes and that it had been estimated that this would continue for a further 18 months – 2 years. Whilst it was accepted that local actions could and were making an immediate difference the success of these were dependent on measures taken at a national level particularly in relation to the availability of mortgage finance.

Members were referred to the updated version of the Plan for Strategic Risk 10 which was tabled referring to the key controls from the risk register and summarised the achievements secured to date, future actions and anticipated timescales. A key element in ensuring future delivery was the new Housing & Regeneration Partnership with the Homes & Communities Agency (HCA) and AWM. This would provide the opportunity to maximise investment into the area for affordable housing, infrastructure and a range of grant funding. It was noted that HCA incorporated English Partnerships who were also able to invest their land as well as providing capacity and expertise in order to support future housing delivery.

The Chairman invited Members to raise any questions or comments in relation to the comments made by the Corporate Director or of the tabled briefing note. Any responses are provided within the following brackets.

Councillor I Fletcher – enquired about the target dates contained within the tabled action plan. In particular he referred to the proposed target date (end of March 2009) for the publication of the draft Housing & Regeneration Priority Plan for public consultation and that as far as he was aware he had not received sight of this document. He also enquired as to the publication of the Local Investment Plan. (By way of response the Corporate Director replied that the draft Housing & Regeneration Plan document was not quite ready to be published. In connection with the Local investment Plan the preparation of this document was still in progress and in any event would need to proceed through the Council's Cabinet process).

Councillor Austin – referred to the establishment of the Housing & Regeneration Partnership Board and enquired as to whether there were any elected members of the Council on this Board. (It was confirmed that membership on the Board included Councillor E Carter and also Councillor J Seymour). Councillor Austin also enquired about the LGA Urban Commission and the effectiveness that had been realised from membership of this particular group. (Councillor Carter responded by stating that he represented the Council on this particular body and that he had found attendance at this particular LGA Commission useful. He indicated that at present the Commission were currently looking at future housing growth. It had been noted by him that a number of papers referred to Council's who had retained their own housing stock and he was keen to ensure that any perceived measures which might be introduced would also benefit other Councils such as Telford & Wrekin who had disposed of their stock to other registered RSLs etc).

The Committee wished to record their thanks for the attendance at the meeting of the Corporate Director: Environment & Regeneration and for the Cabinet Member: Environment and the Cabinet Member: Regeneration. The Cabinet Members, Corporate Director and KPMG personnel left the meeting at this point.

**AUC-54      HEAD OF LEISURE & CULTURE TO UPDATE THE COMMITTEE ON AUDIT REPORTS IN HIS AREA**

Members were referred to the previous meeting and in particular that it had been agreed at the meeting that was held on 27th January 2009 that further information and assurances should be provided in connection with the improvements in the controls within the Council's Leisure Services. The Committee were further reminded that this request had followed the findings of the Audit reports in connection with Oakengates Leisure Centre (October 2008) and of the Telford Ice Rink (November 2008) – with both reports having categorised the facilities as amber.

The Head of Leisure & Culture and the Business Manager: Leisure Facilities & Services were in attendance at the meeting in order to provide a further oral

update into the actions and other measures that had been introduced since the original publication of both audit reports.

Members were reminded that the Leisure Centre's were large and complex facilities with particular challenges and individual issues in particular to administration and cash management. It was confirmed however that a good relationship existed between the Leisure Managers and the members of the Internal Audit team. It had been further acknowledged that the original reports had highlighted a number of areas for improvement particularly in connection with administration and cash procedures and that adherence to these particular procedures should be maintained. The Committee was advised that subsequent follow up reports had now been published which had revised the original categorisation for both sites as yellow. However it was further noted that there would be further follow up reports undertaken in March, April and June 2009.

Members were referred to the briefing paper that was tabled at the meeting that highlighted the key agreed actions arising from the reports. In conclusion significant work had been undertaken in order to improve the identified procedures and to ensure that the appropriate level of training had been delivered. It had also been concluded that whilst the improvements would help to reduce the risk of theft or misappropriation of money or property ultimately they would not remove the risk. The implementation of the identified procedures would minimise opportunity and aid early detection and reporting.

Members noted the identified actions and the level of proactive work that had been introduced by the service area together with the further review mechanisms that would be shared at future service management meetings.

The Committee wished to record their thanks for the attendance at the meeting of the Head of Leisure & Culture and the Business Manager: Leisure Facilities & Services. They both left the meeting at this point.

**AUC-55      INTERNAL AUDIT PLAN 2009/10 AND STRATEGY 2009/10-2011/12**

The report of the Corporate Director: Resources was considered by the Committee in which they were requested to approve the Internal Audit Plan 2009/10 and the Strategy for 2009/10 – 2011/12. Members were referred to the terms of reference of the Committee as detailed within the report. The Committee were further reminded that the Corporate Director Resources had responsibilities under section 151 of the Local Government Act 1972 and the Accounts and Audit Regulations 2003 (as amended).

Under the Accounts and Audit Regulations 2003 (as amended) Internal Audit provided part of the assurance on the Council's internal controls reported within the Annual Governance Statement (including the Statement on Internal Control). The Corporate Director Resources was therefore responsible for ensuring that the internal audit plans coverage was appropriate and sufficient to meet all these obligations.

The Internal Audit Strategy was extracted from the Internal Audit Business Plan and outlined how the Internal Audit Service would be provided in order to meet legal requirements and the Council's priorities. The previous strategy was for the period 2007/08-2009/10. However, during 2008/09 the Council had implemented priority plans and the strategy had been updated to reflect this.

The Committee were reminded that Internal Audit had a statutory obligation but also strived to ensure a quality and up to date service for the Council. To do this it followed the CIPFA Code of Practice on Internal Audit in Local Government (2006) and further guidance provided in the CIPFA Audit Manual (December 2004). Internal Audit work, in addition to obtaining assurance on controls for the Council, aimed to identify improvements to controls so that managers and their teams could achieve their objectives and thus contribute to the Council achieving its ambitions. This was part of the Council's corporate governance framework and the effective management of risks.

It was also mentioned that in accordance with good practice, Internal Audit planning was directly linked to the Council's risk management processes. The Council's risk management processes were well embedded and were an integral part of the decision making, management and performance processes.

The Committee were referred to the draft plan attached to the report within Appendix A which had been drawn up and directly linked to the Council's current Strategic Risk Register. It had been adjusted to take account of the forthcoming organisational changes as the risk areas and controls require review irrespective of which portfolio they operated from.

Based on good practice the plan also contained around a 10% contingency to meet any unexpected work requirements, any changes identified during dialogue with senior officers within the Council or changes to resources during the year. Any significant changes would be agreed with senior management and reported to the Committee.

Members were also requested to note that specialist ICT audit work at the Council was provided by an external contractor, Haines Watts who were contracted for a three year period that had commenced on 1<sup>st</sup> April 2007. It was reported that they had performed well during the contract to date and would continue to assist Internal Audit to provide assurance on technology. The detail of the proposed ICT audit plan was attached as Annex 1 to Appendix A. The plan also included the provision of an Internal Audit Service to Transforming Telford Ltd (30 days).

The Strategy for 2009/10- 2011/12 was attached as Appendix B and had been updated early (previous agreed Strategy 2007/08 – 2009/10) to reflect the Priority Plan and the Council's Local Code of Good Governance.

**RESOLVED – that the proposed Internal Audit Plan 2009/10 and the Strategy for 2009/10 – 2011/12 be approved.**

**AUC-56      RESULTS OF THE SURVEY ON THE EFFECTIVENESS OF THE AUDIT COMMITTEE**

The report of the Corporate Director: Resources was received which sought to provide members of the Audit Committee with the results of the survey that had been completed to review the effectiveness of the Audit Committee.

Members were informed that in March/April 2007 a survey had been undertaken to review the Audit Activities of the Standards and Audit Committee but there had been a limited response and a further survey was undertaken in January 2008. The results of the survey were presented to the Standards & Audit Committee on 3<sup>rd</sup> April 2008.

For the municipal year 2008/09 the Standards and Audit Committee was separated into two separate Committees and it was agreed that a further survey would be undertaken on the effectiveness of the Audit Committee during February 2009. The Committee were advised that out of the 16 surveys sent out 13 were returned which provided an 81% response rate. The response rate for members was 78% and for officers 100%.

The Committee was referred to the detailed responses outlined within the report and the analysis contained within the tables. The results had been analysed and the table in Appendix A showed the questions and the average scores for 2008 and 2009. Out of the 22 questions, eight scored an average of over 3.5 (compared to 3 in 2008), eleven scored between 3 and 3.5 (compared to 13 in 2008) and three scored an average below 3 (compared to 6 in 2008). There were no average scores below 2.77 (compared to 2.63 2008).

In conclusion the results confirmed that overall the Audit Committee was satisfactory to good and performed effectively most of the time to all of the time.

Members were further reminded that questions had been asked about co-optees. The Committee were referred to the results as outlined in Appendix B of the report. The survey results indicated that 62% of the respondents agreed that the Committee required one or more co-optees with 31% not agreeing and 7% indicating that they did not know. In connection with the number of co-optees and of the 62% that had responded yes 37.5% indicated one, 37.5% indicated 2 and 25% gave no indication. Other comments were made about co-optees being appointed for specific pieces of work/reviews.

There was a discussion within the Committee in connection with the co-option of an external person(s) and a number of members commented that if a co-optee was to be appointed that initially the Committee would need to examine their current individual skills and knowledge to identify as to whether there were any gaps or shortfalls of knowledge and expertise. If there were no current gaps etc identified it was questioned as to whether a co-optee would in fact be required. The Audit & Risk Manager agreed to undertake a skills and knowledge audit of the existing Committee members and that this document would be referred to a future Committee meeting when a final

decision could be made. Members also agreed that further training could be provided in the future.

**RESOLVED** – that the survey on the effectiveness of the Audit Committee be noted, that the Audit & Risk Manager should undertake a Skills and Knowledge Audit of the individual members of the Committee to identify any gaps in knowledge and skills. Also, that further refresher training should be provided on overall governance and risk management and the key financial issues and key accounting policies within the accounts prior to their submission to the Committee and the Council.

**AUC-57      REVIEW OF THE KEY STRATEGIC RISK REGISTER –  
JANUARY 2009 (FOR INFORMATION)**

The Committee received the information report of the Corporate Director: Resources requesting that they should note the results of the review of the key strategic risk register that had been undertaken in January 2009. Members were reminded of the need to review the Key Strategic Risk Register regularly in order to reflect the constant changes affecting the Council, its risks and the effectiveness of the controls implemented to manage these risks.

The last formal review of the Key Strategic Risks had taken place during September and October 2008. The Committee was advised that the results of the January 2009 review of Key Strategic Risks were shown in Appendix A to the report, with the changes since September 2008 being shown in colour and bold. In September 2009, there were 18 key strategic risks identified on the key strategic Risk register. Following this review there were now 19 key strategic risks. The Committee was informed that the next review was planned for May 2009.

At the Audit Committee held on 27<sup>th</sup> January 2009, it was suggested that future versions of the Strategic Risk Register should include more information about the nature of the risk and that wherever possible future actions should have a clear target timescale. It was intended to adopt these suggestions from the next review of the risk register, in May 2009.

Following a member question in connection with the new risk (number 37) that had been placed within the register members agreed that the Corporate Director: Adult & Consumer Care and the Cabinet Member: Adult & Consumer Care should be invited to attend the next meeting to explain to the Committee the further actions that had been established within the identified risk and in particular the further action within number 6 being the exercise elements of the Plan (April 2009) in accordance with the Business Continuity Management Strategy.

**RESOLVED** –

- (a) that the changes to the key strategic risk register as detailed within the report and the Council's continued commitment to the effective management of risks be noted, and;

- (b) that the Corporate Director: Adult & Consumer Care and the Cabinet Member: Adult & Consumer Care be invited to attend the next meeting of the Committee to address the Committee in relation to the new risk 37 that had been agreed to be included within the Strategic Risk Register.

**AUC-58      EXCLUSION OF PRESS AND PUBLIC**

**RESOLVED** – that the press and public be excluded from the meeting for the following item of business on the grounds that it may involve the likely disclosure of information, as defined in Paragraph 2 of Part 1 of Schedule 12A Local Government Act 1972.

**AUC-59      UPDATE ON THE COUNCIL'S SPEAK UP POLICY – APRIL 2007-DECEMBER 2008**

The report of the Corporate Director: Resources was received which sought to update members on the use and reviews of the Speak Up policy during the period April 2007 to December 2008. Members were reminded that the Standards & Audit Committee in September 2007 had approved a revised Confidential Reporting Policy to meet the requirement of a review that had been undertaken at that time, to reflect the inclusion of contractors, suppliers and partners within the Policy and a few other changes to make it current within the Council.

Following that review and due to practical applications the Standards & Audit Committee in January 2008 had approved a name change for the policy to the Speak Up Policy and further clarifications of parts of the policy. As Members recalled from the municipal year 2008/09 the Standards & Audit Committee was separated into two committees the Standards Committee and Audit Committee. The terms of reference of the one Committee were separated into two but these were further revised by Council in December 2008.

The Committee were informed that the report now presented provided information from April 2007 to December 2008 as part of the committee's monitoring role in respect to this policy. Previous monitoring of the policy had been undertaken by the Corporate Director Resources. It was reported to Members that during the period April 2007 to December 2008 there had been 2 messages left on the Speak Up hotline.

It was also noted that there were also issues raised by members of the public, usually with the Chief Executive. It was mentioned that these were reviewed and investigated where possible by Internal Audit and action taken when appropriate. It was pointed out that these were not part of the Speak Up Policy but part of the Council's Anti-Fraud and Corruption Policy.

**RESOLVED** – that the contents of the report be noted.

The meeting ended at 7.48 pm.

**Chairman:**

**Date:**