

AUDIT COMMITTEE

Minutes of a meeting of the Audit Committee held on Tuesday, 2nd February 2010 at 6.00 pm in the Reception Suite, Civic Offices, Telford

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

OFFICERS PRESENT: Ken Clarke – Head of Finance, Jonathan Eatough – Head of Governance, Jenny Marriott – Audit & Risk Manager, Pauline Harris – Corporate Finance Manager, Bernie Morris – Finance Manager: Capital & Treasury, Clive Jones – Head of Regeneration & Housing and Andrew Roberts – Democratic Services Officer.

AUC-45 MINUTES

RESOLVED – that the minutes of the meeting of the Audit Committee held on 3rd November 2009 be confirmed and signed by the Chairman.

Members were referred to the final paragraph on page 4 in relation to Business Continuity and it was pointed out that the current review following the corporate restructure would not be available until the end of March 2010. It was agreed by the Committee that this item should be deferred until the June 2010 meeting.

AUC-46 APOLOGIES FOR ABSENCE

Councillor J.A.Dixon

AUC-47 DECLARATIONS OF INTEREST

None

AUC-48 TREASURY MANAGEMENT – INTERNAL AUDIT REVIEW AGAINST THE AUDIT COMMISSION “RISK AND RETURN” REPORT – FOLLOW UP RESULTS

The joint report of the Head of Finance and the Audit & Risk Manager was received which sought to update members on the follow up work undertaken by Internal Audit on the previous Internal Audit report on the Council's Treasury Management arrangements which was undertaken as a result of the Audit Commissions report entitled “Risk & Return”.

Members were reminded that the Committee's terms of reference included responsibility for reviewing the Council's Treasury Management arrangements and making recommendations to Cabinet. Internal Audit had carried out a review of Treasury Management practices against guidance issued by the Audit Commission in their publication Risk & Return March 2009. The result of this review was reported to this committee at its previous meeting in September 2009.

The Committee was reminded that the original audit review was undertaken during July 2009 and it provided the Head of Finance with an action plan for the Treasury Management Team to implement to ensure that best practice was being followed for investment and borrowing by the Authority. It was further reported that Internal Audit had undertaken a follow up to this review to ensure that the required actions had been implemented. It was concluded that the Treasury Management team had implemented the majority of the recommendations.

Members were advised that there were a small number of recommendations which were still in progress because CIPFA had now produced a revised guide 'Treasury Management in the Public Sector' code of practice and cross sectoral guidance notes 2009. The Treasury Team were currently checking that Council documentation complied with this guidance as well as the Audit Commission Guidance and it was anticipated that this work would be completed by 31 March 2010.

Members were also referred to the complete audit follow up report which was attached as Appendix A to the report which detailed the actions that had been implemented to ensure that the Treasury Management function was compliant with the Audit Commission's best practice guidelines.

RESOLVED – that the progress achieved on the actions arising from the Treasury Management Summary follow up report as detailed within Appendix A of the report be noted.

AUC-49 DRAFT TREASURY MANAGEMENT STRATEGY

The joint report of the Chief Finance Officer and the Head of Finance was received by the Committee which sought to inform of the Council's Treasury Management activities during 2009/10. The report also presented the Treasury Management Strategy which included the proposed borrowing limits and prudential indicators, the Minimum Revenue Provision Policy and the Annual Investment Strategy for 2010/11, all of which were required to be formally approved by Council. Members were informed that the strategies and proposals followed CLG and CIPFA guidance (namely the revised CIPFA Treasury Management Code of Practice and the revised CIPFA Prudential Code and the latest Investment Guidance).

Councillor Tomlinson enquired as to the protocol in connection with any comments that might arise from this particular committee. The Head of Finance responded by stating that the Audit Committee was only scrutinising the Treasury Management Strategy and that any agreed comments could be incorporated within the report which would be presented to Cabinet.

Members received details of the Council's projected overall portfolio position and the Treasury Limits and Prudential Indicators which stated the projected outturn for the 2009/10 financial year together with the estimates for 2010/11, 2011/12 and 2012/13. Details were also provided in connection with the estimated borrowing requirement and the projected interest rate forecast for both bank base rate and varying PWLB terms for the same periods.

The Committee were also advised of the Council's Borrowing Strategy which would be required to be flexible in order to take account of changing market conditions. This Strategy would be amended in the light of a number of factors, which included;

That as interest rates were forecast to rise during the year that longer term borrowing would be considered when opportune; that PWLB loans would be taken as appropriate; that fixed rate market loans at 25-50 base points below PWLB rates would be considered; that reduction of investments to fund new or replaced borrowing might provide opportunities to secure best value and/or reduce risk and rescheduling opportunities would be continually monitored with any potential savings being used to balance against re-financing costs.

In relation to borrowing in advance of need the Committee was informed that the Council would only borrow in advance of need under defined specific circumstances and in particular where there was a requirement to fund the capital programme and that also borrowing in advance of need would not be undertaken when it would be undertaken purely to gain profit.

The Committee were also advised of the Council's Investment Policy which underpinned the Council's Investment Strategy, which were based on principles which in order of priority were – the Security of capital; the Liquidity of its investment and the optimum Yield. Members were further informed that the aim was to achieve the optimum rate of return on its investments, commensurate with the proper levels of security and liquidity and that in order to preserve security of its investments the Council's adopted risk appetite was low. It was also unlawful for the Council to borrow purely to invest or lend in order to make a return was prohibited and it was confirmed to the Committee that the Council would not undertake any such activity of this nature.

Members were also advised on the Council's Creditworthiness Policy. This was underpinned by the creditworthiness service that was provided by Sector Treasury Services and included the use of credit ratings from rating agencies, which included Fitch, Moodys and Standards and Poors. This information combined credit ratings, credit watches, credit outlooks and credit default swaps, also other market intelligence supplemented the service that was provided to the Council. Credit ratings would be monitored daily and checked prior to making any investment decisions. Members were informed that if a downgrade resulted in a counterparty no longer meeting the Council's required minimum criteria any investment would be immediately withdrawn. Councillor Tomlinson made comment in connection with the Creditworthiness Policy and the need to include the usage of intelligence should also be included as a mechanism. He also suggested that the word "disinvestment" should also be included within the final paragraph of 6.10.2.

The Committee also received guidance on the principles that were applied to the Council's exposure to risk and in particular reference was made to Sovereign Exposure i.e. investment exposure to one country. The Committee was reminded that there was no limit that could be invested in the UK. However, in relation to exposure in other countries the Strategy proposed that the maximum that could be invested in any single foreign country would be limited to 25% of the Council's investments. Other principles included

guidance in order to reduce a liquidity risk should the Council have insufficient funds to meet costs and market/interest rate risk which would reduce financial loss due to changes in interest rates.

Finally guidance was received by the Committee on the Minimum Revenue Provision Strategy – with MRP being the minimum amount that had to be set aside for the repayment of any external loans. The Council was required to make prudent provision backed by prudential borrowing and further details were outlined of the factors and methods by which the MRP would be calculated.

Councillor Tomlinson referred to the prudential indicator table that was provided on page 10 and noted in particular the increase in Council Tax (band B in a total year) – he noted that the probable outturn for 2009/10 would be £4.22 but raised enquiries on how the subsequent figures had been calculated and requested further information as to how these figures had been calculated. He also requested that an additional statement should be added to the Strategy that provided indicative details as to the assumptions that were made based on the estimated Council investments and borrowings. Councillor Austin also enquired as to why the average figure was based on a Band B property when for the majority of comparable figures Band D levels were cited. In connection with the quoted council tax valuation band B was provided as this level was the most prevalent within the Borough.

Councillor Tomlinson further referred to the Capital Financing Requirement that was quoted within the table on page 10 – and he noted that there were no details provided of future financial receipts and he also questioned as to whether the Committee could be provided with further details of the assumed level of capital receipts that had been estimated in future years beyond the details that had been provided. The Head of Finance confirmed that these assumptions could be provided.

Councillor Tomlinson also raised a concern as to the proposed percentage level of the Council's investments that could be invested in a single country – and he considered that 25% was too high. Councillor Lomax further enquired as to whether the Council had ever invested an amount that had approached this percentage level. The Finance Manager responded by stating that the maximum had never been exceeded although the Council had been close to this maximum limit on an occasional basis. He further stated that based on a maximum available investment fund of approximately £85m would amount to a sum of approximately £20m. There was a discussion as to what level the Committee would consider to be appropriate – a limit of 10% was initially suggested, however the Head of Finance stated that this level would be too tight given not only the level of investment placed internally within the Council but also to enable the Council's External Treasury investment managers to operate effectively within their current instructions. At the conclusion of the discussion it was felt that the limit should be reduced to 20%.

Councillor Tomlinson enquired as to whether in relation to the Council's liquidity risk all of the current capital projects had been built into the projections that had been provided. The Head of Finance confirmed that all current projects had been encompassed within the MRP Strategy.

Following a further discussion the Committee following scrutiny of the draft Treasury Management Strategy wished to raise the following comments subject to the provision of additional information that had been requested.

That in relation to the incremental figures of the impact of capital investment decisions that the Committee noted the increasing annual cost.

Although CIPFA only required the Committee to consider the estimated indicative figures and indicators for three years the Committee considered that there was a requirement to receive additional information for a further two years. The Head of Finance was requested to provide this further information.

In relation to the limit on the Sovereign Exposure Limit the Committee felt that the maximum limit should be 20% and that measures should be in place for a decision making mechanism when the maximum limit was close to being realised. The Head of Finance confirmed that the programmed monthly meetings would allow this level to be monitored and provide sufficient notice should there be a requirement to amend the investment parameters.

The Committee noted that there could be an increase in the level of significant level of borrowing against future major capital projects and that the present review of the Treasury Management Strategy was purely based on the basis of the current assumptions and knowledge that was available to the Committee at this time.

Members also considered that it was not possible to reach a formal conclusion on the proposed Treasury Management Strategy and requested that the information that had been requested should be obtained and referred back to the Audit Committee. Following a further discussion it was agreed that the meeting should be adjourned until the 10th February 2010.

RESOLVED – that consideration of the draft Treasury Management Strategy be deferred to a further meeting of the Audit Committee that would meet on Wednesday 10th February 2010, commencing at 5.00 pm.

AUC-50 REVIEW OF THE EFFECTIVENESS OF THE AUDIT COMMITTEE 2009/10

The Committee received the report of the Head of Governance which sought agreement on how they would measure the effectiveness of the Audit Committee. It was noted that the results of any review would be reported to the Audit Committee at the forthcoming March 2010 meeting.

Members were reminded that a survey was undertaken in February 2009 to review the effectiveness of the Audit Committee. The results of the 2009 survey were used to decide if a co-optee was required and to identify further training for Audit Committee members. The appointment of a co-optee was not agreed following the 2009 survey but further training had been provided to members of the Audit Committee.

The survey needed to be repeated again to assess the continued effectiveness of the Audit Committee and to re-visit the decision on whether to

appoint any co-optees. In order to provide a consistent review and for comparison purposes it was proposed to use the same survey as 2009 including the additional questions on co-optees. The Committee were referred to Appendix A of the report which detailed the proposed survey.

It was proposed that the survey would be issued to the Members of the Audit Committee, Councillor A Lawrence previously the Cabinet Member Resources and Cllr Sean Kelly Cabinet Member Efficient Community Focussed Council; the Chief Executive, Chief Financial Officer (Corporate Director Resources), Head of Finance, Head of Governance and the Audit & Risk Manager and the External Auditor (KPMG).

RESOLVED – that

- (a) the Committee agree to the publication of the survey as detailed within the report at appendix A; and,**
- (b) that the results should be reported to the March 2010 Audit Committee meeting where a decision will be made in connection with the appointment of co-optees.**

AUC-51 ANNUAL AUDIT LETTER 2008/09

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 two main areas which included – the Use of Resources and the Financial Statement of Accounts and the Annual Governance Statement. Members were informed that the report covered the financial year 2008/09.

The Committee was referred to the key areas from the 2008/09 audit work. These being –

Use of Resources assessment this was the first assessment in connection with this aspect under the Audit Commission's new UoR regime. This demonstrated that the Council had got sound processes in place and there was evidence revealed of positive outcomes in all three themes (managing finances, governing the business and managing resources). This had resulted in the Council achieving a level 2 score against each of the three themes. Members were further advised that each of these three themes were scored with reference to areas within the themes. In respect of Risk Management and Internal Control and Strategic Asset Management there was strong evidence that the Council was delivering outcomes and received individual scores of 3.

It was pointed out that another key message was how well the Council managed and improves its services and contributes to wider community outcomes and in particular how successful the Council was in delivering its corporate priorities. In connection with this part of the assessment the Council scored at a level 2 out of 4 score. Whilst it was noted that the Council had

some good and excellent services such as Adult Social Care other areas were judged as not achieving the same progress.

Members also noted that the Council had achieved an unqualified opinion on the Council's accounts on 25th September 2009. It had been reported that a number of adjustments had been identified to the Council's 2008/09 draft accounts the aggregate of which had been considered to be material however all of these had been successfully addressed and as a result the unqualified opinion had been issued in advance of the statutory deadline. The Committee were also requested to note that the number of adjustments were lower than for the previous year.

The KPMG report also highlighted and identified a number of future issues that would face the Council in forthcoming years. These included the requirement from 2010/11 that Councils would be required to prepare their financial statements under the International Financial Reporting Standards and that the Council would need to prepare for this transition. KPMG had begun to meet with the Council to discuss the preparations and had agreed areas where KPMG could provide assistance. Members were also informed that HM Treasury was also developing guidance for 2010/11 which would require all public sector bodies to report publically on sustainability performance in annual reports. The Committee was advised that CIPFA was in discussion with the Treasury about how this would impact on local authorities. Finally the report referred to the extreme pressure that would be placed on the UK public expenditure forecasts for the medium term and the consequent pressure that would be placed on local authority funding. It was anticipated that future financial settlements would be extremely tight increasing the need for council's to have comprehensive efficiency programmes supported by sound financial management arrangements. KPMG had noted that the Council had reduced its structure from five portfolios to four and had also commenced restructuring based on no portfolios at all and this was acknowledged as a means to reducing its cost base but that these cost reductions would need to be maintained in the future.

Councillor Tomlinson referred to the chart that appeared on page 7 of the report and the position that Telford & Wrekin Council had been judged as a Level 2 Council which had resulted in them being placed in the lower half. He commented that he would like KPMG to express its views on how the Council could improve its ranking. By way of response the Audit & Risk Manager advised the meeting that the Council had enquired as to whether Telford & Wrekin could be compared on a like for like basis with other similar Unitary Authorities rather than all but the report had not been changed by KPMG to reflect this. The Council had also used the feedback from KPMG to inform the self assessment for the 2009/10 Use of Resources assessment which was now in progress.

Councillor Tomlinson further enquired as to whether a further report should be submitted to the Committee from KPMG and the need to invite the Cabinet Member: Efficient Community Focussed Council to explain future proposed actions in order to improve the current scores.

Councillor Fletcher referred the meeting to the minutes of the Audit committee meeting held on 3rd November 2009 that had been approved earlier in relation to an update that had been provided in the minutes to the earlier meeting held on the 23rd September 2009. The minutes stated that the Head of Finance had confirmed that KPMG would include within the Annual Audit Letter specific guidance following a reflection of the Council's Use of Resources scores and other measures within their remit. The Audit Committee requested that this specific guidance should be sought.

RESOLVED – that the contents and conclusions contained within the KPMG Annual Audit Letter for 2008/09 be noted. Members also agreed that the Cabinet Member: Efficient Community Focussed Council should be invited to the next meeting.

AUC-52 CATERING

Members were referred to the previous meeting of the Committee that was held in November 2009 when an enquiry was raised in relation to catering and the implementation of a trial cashless system within two schools. It was agreed that an invitation would be extended to the Head of Resources, BSF and Social Regeneration to attend at a future meeting to provide an update report in relation to school catering.

The Committee was addressed by the Head of Regeneration & Housing who provided an update in connection with school catering.

The meeting was reminded that the supplier of the Council's existing cashless system went into administration in August 2008 and since this time the Facilities Management Team had limped along with limited support from former employees of the company and ICT. It was acknowledged that the nature of the system made it a very difficult system to support, with some schools having resorted back to more cumbersome procedures for reconciliation, cash collection and meal recording.

Members were also informed that following the completion of the recent external review of the facilities management service undertaken by Northgate Kendric Ashe (NKA) it had been concluded that there was no case for replacing the failing cashless catering system and that a manual system would offer greatest benefit to the service. This conclusion was received with some measure of surprise as there were some significant advantages with a cashless facility particularly with the provision of improved management information for parents, priority leads, service managers and back office systems.

It was reported that through the Borough Towns Initiative to rebuild or remodel sports and learning communities, funding had been set aside to evaluate options for the introduction of a single payment card or device. It was envisaged that this would incorporate a cashless catering option. Users of the card or device would be able to purchase credits through use of the Councils online payments system which would also allow payment by debit or payment card. As part of the projects commitment to research and development funding had been provided through the Building Schools for the Future

Programme and DCSF Capital Grant to trial one possible solution. It had been proposed that the trial would take place within the Phoenix School and a further primary school.

It had been acknowledged that a modern electronic single device system (including a cashless catering option) would assist in maintaining sound systems of internal control. For example an electronic reconciliation system would highlight for managers occasions where a school failed to bank income for immediate investigation. ICT were also currently preparing a business case for the implementation of a single payment card/device with these findings from the review being incorporated into the business case.

In conclusion it was recognised that until the Council was equipped with a universal full electronic system in place it would be necessary to continue with the current manual systems of reconciliation to ensure that systems of control were maintained.

A number of members whilst acknowledging the conclusions that had been published by NKA expressed surprise at their conclusion that there was no case for replacing the cashless system with a replacement.

AUC-53 INTERNAL AUDIT QUARTER 3 2009/10 AND RISK MANAGEMENT UPDATE REPORT

The report of the Audit & Risk Manager was received by the Committee which sought to update members on the work of Internal Audit during quarter three – October to December 2009; together with an update report in connection with risk management. Members were reminded that the Committee received a quarterly update of the work of Internal Audit. This report included the update report for quarter three October – December 2009. The Audit Committee also received assurance on the Council's risk management arrangements and this report also included an update on activity in this area.

The report also provided information on the work of Internal Audit during October to the end of December 2009 together with an update on the progress of previous audit reports issued in the period January 2008 to September 2009.

Internal Audit activity during this period had focussed on the completion of the audits set out in the Internal Audit Plan including the few carry forwards from quarter 2. The key theme during quarter 3 had been the completion or good progress on the fundamental audit areas that had been previously identified by the external auditor. It was confirmed that the work in these areas was scheduled to be completed by the end of February 2010 prior to KPMG reviewing the work in mid March 2010 as part of their final accounts audit.

The Committee were referred to the Appendices as attached to the report which included a list of the final graded reports issued in quarter three together with details of budgeted time, actual time, percentage variance and comments. Also attached to the report was a list of all work undertaken for quarter three of 1 day or more and details of previous graded reports from

January 2008 to September 2009 with their current status and further information on the 1 red and 3 amber reports issued this quarter.

Members commented on the late circulation of some detailed papers and the Audit & Risk Manager apologised and said these would be more timely in future.

Members were referred to Appendix A which provided information on the 18 final reports issued in quarter 3. The catering investigation at a Primary School was a red report and took 38 days due to the need to review records from January 2008 to September 2009, several interviews and liaison with third parties. It was reported that a further management issues report had been issued and was in the process of agreement. Further details were provided within the exempt paper as contained within Appendix D of the report.

The following areas had received an allocation of time over that originally planned including Council Tax/NNDR, the off contract spend and the Email/Internet review for the identified reasons as detailed within the report.

Further details of amber reports in relation to the Confirm system and the Residential Services review were also outlined in Appendix D.

Members were also advised that a review of the strategic risk register was undertaken in September/October 2009 but the review and agreement of the results by CMT had not yet occurred due to the Council's re-organisation. The Committee was further informed that existing risks were being managed by the appropriate Corporate Director and Heads of Service. As part of the Priority Improvement and Service Delivery Planning Processes the strategic risk register would in the future be reviewed and CMT would identify what risks they wished to monitor on a regular, exception basis.

The Council's Risk Management Strategy would be updated once on-going processes had been agreed. However the methodology - the identification and management of risks continued across the Council, including within projects and partnerships.

RESOLVED – that the Internal Audit Update Report on Quarter 3 2009/10 (October – December 2009) and the Risk Management Update Report be noted.

AUC-54 DATES OF FUTURE MEETINGS

The Committee noted the remaining date of the meeting in the 2009/10 Civic Year was scheduled to be held on Tuesday 30th March 2010, commencing at 6.00 pm.

AUC-55 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 1 of Part 1 of Schedule 12A Local Government Act 1972.

**AUC-56 APPENDIX D OF THE INTERNAL AUDIT QUARTER 3
2009/10 AND RISK MANAGEMENT UPDATE REPORT**

Members were referred to Appendix D that had been submitted with the Internal Audit Quarter 3 2009/10 report that contained exempt information as defined in Paragraph of Part 1 of Schedule 12A Local Government Act 1972. The appendix contained details in relation to recent Internal Audits that had been undertaken within this reported quarter. One of the audits contained information that had been reported to the police and also had resulted in individual personnel issues being dealt with by the Council.

The Audit Committee was informed that procedures within the particular area had been reinforced to ensure that a repeat of the issue was not repeated.

The meeting ended at 8.00 pm.

Chairman:

Date: