

## **AUDIT COMMITTEE**

### **Minutes of a meeting of the Audit Committee held on Monday, 28th June 2010 at 6.00 pm in the Reception Suite, Civic Offices, Telford**

**PRESENT:** D.Wright (Chairman), D.R.Chaplin (Vice-Chairman), D.G.Allen, R.K.Austin and J.A.Dixon.

**OFFICERS PRESENT:** Ken Clarke – Head of Finance, Jenny Marriott – Audit & Risk Manager and Pauline Harris – Corporate Finance Manager.

**OTHERS PRESENT:** Andy Cardoza – Senior Manager KPMG LLP and Peter Evans – Assistant Manager KPMG LLP

#### **AUC-1 MINUTES**

**RESOLVED** – that the minutes of the meeting of the Audit Committee held on Tuesday 30th March 2010 be confirmed and signed by the Chairman subject to the correction of the spelling to read Peter Evans in the first line of minute number AUC-63.

The Audit & Risk Manager provided an update in relation to minute number AUC-67 – Results of the survey on the Effectiveness of the Audit Committee and the discussion that had taken place in connection with the co-option of an external person who would provide additional accountancy and audit expertise. It was reported to Members that following a further discussion with the Chairman of the Committee it had been concluded that given the current re-structuring of the Council, the current financial uncertainty and also that the Borough elections were scheduled to be held in May 2011 it was agreed that the process for the appointment would commence after the Borough Elections following a skills audit of the members of the Committee. Members also noted that if the process to appoint a co-optee was undertaken now it would not be concluded until September/October 2010.

#### **AUC-2 APOLOGIES FOR ABSENCE**

Councillor L.Lomax.

#### **AUC-3 DECLARATIONS OF INTEREST**

None

#### **AUC-4 REVIEW OF THE TERMS OF REFERENCE OF THE AUDIT COMMITTEE**

The Audit & Risk Manager provided a verbal report following a recent review of the Terms of Reference of the Audit Committee. Members were advised that it had been agreed through the Constitution that every Committee would at its first meeting following the Annual Council Meeting review the committee's terms of reference. The Committee were reminded that the last amendment of the Terms of Reference had recently taken place at Council following the decision that the Committee would review and **monitor** the

Council's treasury management arrangements. The Audit & Risk Manager advised that no further amendments to the terms of reference were suggested. Accordingly, it was;

**RESOLVED** – that following the review that had been conducted by the Audit & Risk Manager and the consideration by the Committee it was formally agreed that no amendments to the Terms of Reference of the Audit Committee were required.

#### **AUC-5      KPMG – AUDIT PLAN AND FEE LETTER 2010-2011**

The Committee received the Annual Audit Fee Letter – 2010/2011 that had been received from KPMG. Members were referred to the letter that outlined the audit work that would be undertaken by KPMG for the 2010/11 financial year together with the fee that was proposed to be charged to the Council.

Members were informed that KPMG's audit work would be based on a risk based approach to audit planning as established by the Code of Audit Practice and work mandated by the Audit Commission for 2010/11 and would only reflect on the audit element only. The letter pointed out that the stated fee did not include any inspection and assessment fees which would be charged separately by the Audit Commission.

The letter referred to the basis on which the Audit Fee was based which stated that the fee that was charged by reference to a scale of fees that were dependent on the size and complexity of the Council. Accordingly the proposed indicative fee for 2010/11 was £287,200 (plus VAT) – this fee did include a one-off cost of £17,200 for the implementation of IFRS for which the Council would receive a full rebate from the Audit Commission. The comparable element of the fee with the prior year was £270,000. It was confirmed to the Committee that only half of the number of the allocated days for IFRS had been utilised last year and that the remainder would be undertaken during 2010/11, it was further mentioned by KPMG that other training support had been offered to the Council and that further training could also be investigated in the future.

The Committee were reminded that the use of – resources assessments would be based upon the evidence from three themes – Managing finances; Governing the business; and Managing resources. However, members were further informed that a number of risks had been identified which could impact on the value for money conclusion. These risks included Council Reorganisation; Single Status; the Capital programme and the Railfreight terminal. The Committee was further advised of the planned outputs contained in Appendix 2 of the letter. The proposed fee also excluded any additional work that might be requested by the Council, these being subject to separate discussions and a detailed project specification being agreed.

The effects of the recent announcement that the CAA regime was to be abolished was discussed particularly in relation to the previous detailed analysis of performance that had previously been shared. It was suggested by KPMG that in relation to the Use of Resources some “soft” benchmarking could be utilised. In answer to a question as to whether this sharing would be

based on best practice KPMG confirmed that this would be possible, however there would be no actual ranked scores as would have previously been the position. The Committee agreed that there would be benefit to the Council if information was shared in relation to examples of best practice within similar authorities. Andy Cardoza referred to the recent meeting of the Council's Policy Forum which had been open and honest at which examples of best practice had been provided.

The Audit & Risk Manager informed the Committee that contact had been made with the Audit Commission to enquire in connection with the fee proposed to be levied in 2010/11 upon which a response was currently awaited. Although she did confirm that the CAA Client Fee would be repaid to the Council as a result of the abolition of the CAA regime.

**RESOLVED** – that the KPMG Annual Audit Fee Letter – 2010/2011 be noted.

**AUC-6            KPMG – CERTIFICATION OF CLAIMS AND RETURNS 2008-2009**

The Committee received the report from KPMG (External Auditors) which followed the auditors work on the certification of the Council's 2008/09 claims and returns which had been undertaken in their capacity as the auditors appointed by the Audit Commission.

Members were informed that for the 2008/09 Council Year KPMG had certified seven claims with a total value of £72.6m and two returns with a total value of £69.9m. The report also indicated that two further claims had been received with a value of £0.4m in December which were expected to be certified by the end of February.

KPMG confirmed that unqualified certificates for eight claims and returns had been given but that qualification had been required for one claim for the Disabled Facilities grant. This qualification followed from a qualification that had been issued in October 2008 on the Council's 2007/08 claim on the basis that insufficient evidence had been retained to support recipient's entitlement to grants where assessments were made at the recipient's home. It was confirmed that the Council had changed its procedures following this qualification, however the 2008/09 claim included assessments up to this point where evidence had not been retained.

In connection with adjustments it was reported that three of the Council's grants and returns had been varied as a result of the certification work that had been undertaken. The first of these adjustments related to the Housing and Council Tax Benefit subsidy claim which had resulted in a reduction of subsidy of £1.653, as a result of an identified system error which had resulted in the miscalculation of overpayments in unusual circumstances, an isolated error in relation to uncashed cheques and errors due to the claim being compiled with a system report which was not the most up to date available.

Other identified issues related to the Teachers' Pension Return where a figure had been recorded in the wrong section of the return and adjustments were

also made to the Regeneration Through Heritage and Donnington Business Units ERDF claims.

In connection with the fees charged for the certification of grants and returns in 2008/09 to the end of December 2009 had exceeded the original estimate of £45,000 – it was reported that the total fees charged was £45,815. In relation to the two remaining claims was estimated to be £2,300.

KPMG commended the Council on the low level of actual adjustments that had been identified and that this was remarkable when compared to the overall level of the total claims and returns that had been audited.

**RESOLVED – that the KPMG Report on the Certification of Claims and Returns for 2008/09 be noted.**

#### **AUC-7        INTERNAL AUDIT ANNUAL REPORT 2009-2010**

The report of the Chief financial Officer was received by the Committee which sought to present the Internal Audit Annual Report for 2009/10.

Members were reminded that the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 (the Code), which has been deemed as proper internal control practice under the Accounts and Audit (England) Regulations 2003 (as amended), stated under Standard 10 – Reporting, that “the Head of Internal Audit must provide a written report to those charged with governance timed to support the Statement on Internal Control”. This Internal Audit Annual Report summarised the key areas for 2009/10 and provided an opinion to support the Council’s 2009/10 Annual Governance Statement

The Council’s section 151 officer’s statutory obligation under the Accounts and Audit (England) Regulations 2003 (as amended) was to provide assurance on the systems of internal control as provided by the work of internal audit and this assurance formed part of the Council’s assurance framework.

The Committee was reminded that the system of internal control assisted the Council to manage and control the risks which could affect the achievement of its priorities and objectives rather than eliminate them completely. Internal Audit and the other assurance processes therefore provided reasonable and not absolute assurance of the adequacy and effectiveness of the systems of internal control within the Annual Governance Statement.

Members were advised that the planned Internal Audit resources for 2009/10 were 1837 days plus 50 days specialist ICT audit provided under contract (from an external provider). The actual resources available were 1756 days due to leavers during the year and a member of staff going on a career break following maternity leave. Vacant posts had also not been filled due to 1.5 fte posts being included in the 2010/11 savings proposals. The other vacant posts had been held in light of the forthcoming structure review in Governance. An external contractor had also been used to cover the majority of the resource shortfall but there had still been pressure on the team to deliver the annual audit plan, especially with the unplanned work demands.

The Committee was informed that 79 reports were issued during 2009/10 six more than in 2008/09. With 85% of these reports were green (good) or yellow (reasonable). There was also an increase of one for amber (limited) reports and two for red (poor) reports. The red reports had already been presented to the Audit Committee; and were unplanned special investigations in Children's Services. Following these particular reports one area was progressing well and the other (completed and recommendations agreed in quarter 4) had a follow up undertaken in May 2010.

It was further reported that there had been a 12% reduction in Financial Regulation/DCSF and legal recommendations, which reassured the Committee that there had been a decrease in non adherence to key controls. In addition where Financial Regulation/DCSF or legal recommendations were made management had agreed short implementation timescales or had already implemented the action by the time the final report was agreed. There had also been an increase of policy and procedure recommendations of nearly 27%. This was attributed to the improvement of having more policies and procedures in place but the fact that they were not regularly reviewed, kept up to date or shared with all appropriate staff.

A requirement of the Accounts and Audit Regulations 2003 (as amended) was for an annual review of the system of internal audit. The assessment from 2008/09 had been reviewed and updated and minor areas for improvement identified, Members were referred to the details contained within Appendix C of the report.

Internal Audit had completed all the work for the External Auditor and therefore achieved the target of 100%. The Committee was reminded that if this work had not been completed on time and to an acceptable standard it would have been possible that the External Auditor would have undertaken the work at a considerably higher cost to the Council. The unit had also completed 90% of the other planned work, which was considered best practice. The target for completing planned work was 92.5% but this had not been achieved due to unplanned work above the contingency; staff turnover; and the acceleration of the timetable and deadlines for the CAA - Use of Resources 2009/10.

In addition to service efficiencies Internal Audit had made its contribution during the year to the Council's efficiency targets. For 2009/10 the service had achieved £5,578 cashable savings. This compared to £7,078 for 2008/09 (the reduction was due to the reduced contract with Transforming Telford).

The Committee was reminded that Internal Audit was a member of the CIPFA benchmarking club (membership of 147 local authorities). Members were referred to the earlier report which had been presented in November 2009 which confirmed that Internal Audit compared positively against other unitary authorities.

The details of received customer feedback received via post audit questionnaire feedback was detailed in Appendix B of the report. The service had also undertaken the second annual forum with a small group of Heads of Service and Service Delivery Managers who had been subject to regular audit, receipt of reports and where possible who attended last year. The

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action plan and progress from October 2008 was reviewed and an open and honest discussion took place. A few additional minor areas for improvement had been identified with the next session arranged for October 2010.

**RESOLVED** – that the Internal Audit Annual Report for 2009/10 be noted.

**AUC-8      TREASURY MANAGEMENT – REPORT ON 2009/10  
OUTTURN AND 2010/11 TO DATE**

The report of the Head of Finance was received which sought to update members on the 2009/10 Treasury Management outturn and details of the current position for 2010/11 to date. Members were reminded that this report had been presented to the meeting of Full Council that was held on 24th June 2010.

The Committee were advised that the Annual Report was covered within the report and in particular paragraphs 7-16. The Committee were also referred to the outline of the portfolio outturn position as at 31st March 2010, which had resulted in the total debt outstanding at £123.076m and total investments at a level of £73.811m which had resulted in a slight increase of indebtedness of around £3m. Members were informed that the main reasons for the changes over the year included, investment opportunities taken in previous years to lock in at favourable interest rates; Investments were reduced through not reinvesting investments as they matured and the reduction of fund manager investments in order to lessen the need to borrow and reduce investment risk and volatility.

Members were referred to the new loans that had been arranged during the year and those that had also been repaid. The Committee were advised that one of these repaid loans had generated a discount of £0.213m. Temporary money market loans had also been used in order to fund short term cash flow movements, with the total borrowed over the year totalling £265m with interest rates ranging between 0.25% and 0.90%. The Committee were further referred to the analysis of the Council's debt maturity as at 31st March 2010.

During the year it was confirmed that the Council had operated within the Treasury Limits and Prudential Indicators as set out in the Council's Treasury Policy Statement and the Annual Treasury Statement at all times – details of these limits were as set out in Appendix 1 of the report.

In connection with the investment outturn for 2009/10 Members noted that the number of external fund managers had been reduced from 3 to 1. The Committee noted that in connection with the Internally Managed Investments was higher than the rate of return that had been earned by the external fund managers. Members were referred to the table in paragraph 13 of the report which indicated that the overall outturn for 2009/10 had resulted in a net saving against budget of £1.4m.

The remainder of the report outlined the present position in the current year as at 31st May 2010. In relation to borrowing no long term or temporary borrowing had been undertaken as at 31st May 2010 and details were provided of a loan that had matured on the 1st May. In connection with

internally Managed investments the strategy for the year was to gain maximum benefit at minimum risk and to strive to achieve the 7 day deposit rate. As at 31st May 2010 the total amount of internal managed investments totalled £57.3m and the total amount which was externally managed by Investec stood at £19.8m.

**RESOLVED** – that the Treasury Management Outturn Report for 2009/10 and the reported current position as at 31st May 2010 be noted.

**AUC-9**            **2009/10 – STATEMENT OF ACCOUNTS**

The report of the Head of Finance was received which sought the approval of the Committee to the 2009/10 Unaudited Statement of Accounts. Members were reminded that the final outturn position for both Revenue and Capital had been presented to the meeting of Full Council that was held on the 24th June 2010. The presented draft accounts following the Audit Committee's approval would be audited during July 2010 by KPMG and would be brought back to the Committee in September for final approval.

Members were advised that the revenue outturn position was within budget with a final net underspend of £332,000 (-0.27% of net budget). The capital programme was £79.811m and spend at year end totalled £45.168m; there were delays to the commencement of some schemes in 2009/10 giving a year end variation of £34.643m but all main projects were now underway and rigorous progress monitoring arrangements in place.

The Committee were informed that the formal Statement of Accounts, as attached to the report presented the outturn information in the format required by statutory regulations. The Statement had also been prepared in accordance with the CIPFA Statement of Recommended Practice and in line with the Accounts and Audit Regulations. The Statement consisted of the Income & Expenditure Account; the Statement of Movement on General Fund Balances; the Statement of Total Recognised Gains and Losses; the Balance Sheet; the Cash Flow Statement; the Notes to the Core Financial Statements and the Collection Fund. The Statement of Accounts was also supported by the Statement of Responsibilities, the Annual Governance Statement and the Statement of Accounting Policies.

**RESOLVED** – that the unaudited Draft Statement of Accounts for 2009/10 be approved.

**AUC-10**            **INTERNAL AUDIT QUARTER 4 – 2009-2010 – UPDATE REPORT**

The Committee received the joint report of the Head of Governance and the Audit & Risk Manager which sought to provide an update on the work of Internal Audit during Quarter 4 which covered the period January – March 2010. The report also provided an update on the progress of previous audit reports that had been issued in the period April 2008 to December 2009.

Members were informed that during this reporting period Internal Audit had focussed on the completion of audits set out in the Internal Audit Plan

including the few carry forwards from quarter 3. The key theme during quarter 4 had been the completion of the fundamental audit areas identified by the external auditor. The majority of the work in these areas was completed by end February 2010, in readiness for the External Auditors interim visit in early March. The remainder were completed by end March 2010.

The Committee was referred to the Appendices as attached to the report which included a list of the final graded reports issued in quarter four together with details of budgeted time, actual time, percentage variance and comments. A list of all work undertaken for quarter four of 1 day or more and details of previous graded reports from April 2008 to December 2009 and their current status. Further information was also provided in relation to the 3 Amber reports issued this quarter.

Members were referred to Appendix A annexed to the report that indicated the 23 final reports that had been issued in quarter 4. Members were further referred to the income investigation at a school was a red report and took 17 days from contingency. The management issues report also finalised this quarter was graded yellow as many of the recommendations had already been actioned by the time the review had been completed. A follow up would take place before the end of the summer term (July 2010).

Unfortunately the estimate for the Arthog visit and systems review was significantly under. During planning the scope was extended from the previous visit which was 5 years ago and therefore the time allocation was not a proper reflection of the work required. In addition once on site additional testing had been undertaken on safeguarding areas.

Members were provided with details on the reported original red/amber reports and Members were advised further on the following:

Catering Systems – the current position was confirmed and it was noted that management were addressing the issues raised. It was confirmed that a further review of catering processes would be undertaken in July 2010.

Business Continuity – it was reported that a follow up would be undertaken in Quarter 2 2010/11 as part of a full audit. Following a brief discussion it was agreed that the appropriate Head of Service would be invited to the next meeting in July 2010 in order to provide a further update to the Committee.

Safeguarding – File Audit – it was confirmed that the follow up due in February 2010 was now in progress.

Adult Residential Services – this follow up had now been completed and that the grading had now been revised to Yellow.

The Committee expressed their thanks for the report which was considered to be comprehensive and a very clear record of progress. Members expressed concern around the risk of looked after children – the continued budget/expenditure position but also the impact of the emergency budget and cuts on this area. The Committee requested that the Director of Children's Services and appropriate Head of Services and Cabinet members be invited

to attend the Audit Committee meeting on Tuesday 2nd November 2010 in order to provide an update on this area and how the risks were being managed.

**RESOLVED** – that the update report in connection with Quarter Four (January – March 2010) be noted.

**AUC-11      ANNUAL REPORT ON RISK MANAGEMENT – 2009-2010**

The report of the Chief Executive as Lead Officer for Governance was received which sought to inform Members of the Risk Management activities for 2009/10 was received for information.

**RESOLVED** – that the contents of the Risk Management Annual Report for 2009-2010 and the Council's commitment to the existing risk management and good governance be noted for information.

**AUC-12      REVIEW OF THE RISK MANAGEMENT STRATEGY 2010**

The Committee received the report of the Chief Executive as Lead Officer for Governance in relation to the revised Risk Management Strategy for information.

**RESOLVED** – that the revised Risk Management Strategy as contained within Appendix 1 of the report be noted for information.

**AUC-13      TELFORD & WREKIN AUDIT COMMITTEE – OUTLINE OF BUSINESS FOR FUTURE MEETINGS**

Members received a programme of proposed business items for consideration by the Committee for the 2010/11 Civic Year. Subject to the inclusion of an item in relation to the risk of looked after children – the continued budget/expenditure position but also the impact of the emergency budget and cuts on this area with the Director of Children's Services and appropriate Heads of Service and Cabinet members attend the meeting to be held on Tuesday 2nd November 2010.

**AUC-14      DATES OF FUTURE MEETINGS**

The Committee noted the dates of the remaining meetings of the Committee that were scheduled for the 2010/11 Civic Year were Tuesday 27th July 2010, Tuesday 21st September 2010, Tuesday 2nd November 2010, Tuesday 1st February 2011 and Tuesday 29th March 2011 with all meetings scheduled to commence at 6.00 pm.

It was mentioned that the meeting to be held on 29th March 2011 would also be moved to an alternative date.

**AUC-15      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-16      APPENDIX E OF THE INTERNAL AUDIT QUARTER 4 – 2009-2010 – UPDATE REPORT**

Members were referred to Appendix E that had been submitted with the Internal Audit Quarter 4 2009-2010 that contained exempt information as defined in Paragraph 2 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. It was confirmed that the reported audit contained information that could lead to the identity of an individual.

**RESOLVED** – that the contents contained within Appendix E of the update report in connection with Quarter Four (January – March 2010) be noted.

The meeting ended at 7.15 pm.

**Chairman:**

**Date:**