

## **AUDIT COMMITTEE**

### **Minutes of a meeting of the Audit Committee held on Tuesday, 3rd November 2009 at 5.30 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 & Audit, Jenny Marriott – Audit & Risk Manager and Andrew Roberts – Democratic Services Officer.

#### **AUC-35 MINUTES**

**RESOLVED** – that the minutes of the meeting of the Audit Committee held on 23rd September 2009 be confirmed and signed by the Chairman.

Although the minutes were approved updates were provided in connection with the following points contained within the minutes.

Page 2 – paragraph 4 – the Head of Finance & Audit 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 that fell within their remit.

Page 2 – paragraph 5 – KPMG had also confirmed that Jes Leaper would be available to attend at a future meeting of the Value for Money Scrutiny Group in order to appraise the Group of examples of best practice that was implemented by other councils that they assess as part of their external audit remit.

#### **AUC-36 APOLOGIES FOR ABSENCE**

None

#### **AUC-37 DECLARATIONS OF INTEREST**

None

#### **AUC-38 INTERNAL AUDIT UPDATE ON QUARTER 2 2009 (JULY – SEPTEMBER 2009)**

The joint report of the Head of Finance & Audit and the Audit & Risk Manager was received which sought to update members on the work of Internal Audit during quarter two 2009/10 July to September 2009. The report also provided an update on the progress of previous audit reports that were issued during the period January 2008 to June 2009.

It was noted that 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 1. The key work areas that had been reviewed during the period were Council tax/NNDR, Residential Services, Treasury

Management, Internet/e-mail review, Buy Back Schemes, Service Contracts and Arthog.

Members were reminded that the Treasury Management review against the Audit Commission report "Risk & Return" was presented to the last Audit Committee. Since then the External Auditors, KPMG had used this work to update the Audit Commission on the Council's position. The Committee noted that KPMG were able to rely on the work undertaken by Internal Audit and would not need to undertake any additional work in this respect.

The Committee were referred to the Appendices as attached to the report which included a list of the final graded reports issued in quarter two together with details of budgeted time, actual time, percentage variance and comments. A list of all work undertaken for quarter two of 1 day or more and details of previous graded reports from January 2008 to June 2009 and their current status and further information from the one amber report that had been issued this quarter was referred to the Committee.

Members were referred to Appendix A which recorded 20 final reports that had been issued in quarter 2. The Committee were requested to note that there was only one amber report – Safeguarding – File Audit. Although there had been no issues identified in respect to adult safeguarding the review revealed concerns in respect to documentation and a lack of procedures. Councillor Fletcher enquired as to whether there had been any similar Internal Audit review of Child Safeguarding. By way of response the Audit & Risk Manager confirmed that there was no reason why this particular aspect could not be undertaken as part of the work programme during the next quarter. Internal Audit were confident that management were addressing the issues raised and that it was anticipated that this particular service area would move to yellow at the follow up audit planned in January 2010.

Members were also referred to the unplanned areas identified in Appendix A to the report. Internal Audit was confident and had been assured by management that controls had and would continue to improve in all areas where recommendations had been made.

The Committee was further referred to Appendix C which reported the position on the original red/amber reports that remained amber or that required to be highlighted to members. In this respect the Committee were referred to Items 2 – Catering systems and 5 – Business Continuity. In relation to the catering systems members were informed that revised catering procedures had been introduced which should move the grading to yellow following verification by Internal Audit in quarter 3. These revised procedures had already highlighted further issues as outlined in the table.

In connection with the implementation of the recommendations for Business Continuity it was noted that these could not be fully implemented whilst there was uncertainty around future organisation of the Council. This had been delayed by the reduction from 5 portfolios to 4 earlier in the year, and would be delayed again by further as yet unknown organisational changes. The work remained scheduled for completion by March 2010. It was reported that whilst

there had been progress on training and some areas of testing these had been insufficient to change the grading.

**RESOLVED** – that the Internal Audit Update report on Quarter 2 2009 (July – September 2009) be noted.

**AUC-39      HALF YEARLY PROGRESS ON THE CONSOLIDATED 2008/09 GOVERNANCE ACTION PLAN**

The Committee considered the report of the Corporate Director: Resources which requested that Members should note the progress that had been achieved against the 2008/09 consolidated Governance Action Plan. Members were reminded that the Council was statutorily obliged to produce an Annual Governance Statement which should be signed by the Chief Executive and Leader of the Council and that this was included in the Annual Accounts.

The Annual Governance Statement for 2008/09 had been agreed by Cabinet and the Audit Committee in June 2008. This Statement included an action plan which identified areas for improvement for the Council. It was further noted that in addition to this action plan during 2008/09 there were governance actions identified from the work of Internal and External Audit. All of these actions had now been consolidated together into one action plan which CMT and the Audit Committee were responsible for monitoring.

The 2008/09 Annual Governance Statement (AGS) Action Plan was presented to Cabinet and the Audit Committee in June 2009 and incorporated an action plan of 13 areas for improvement. It was reported that during 2008/09 Internal Audit as part of their assurance work had assessed the Councils adherence to the local Code of Good Governance, with 15 recommendations being made, some of which were included in the AGS action plan.

In addition, KPMG as a result of the change of Chief Executive, had identified 8 governance areas for improvement. Members were informed that some of these had already been identified and included in the AGS Action Plan. The Corporate Director Resources, as the Council's lead governance officer had also requested that all governance actions from 2008/09 should be combined into one action plan. This request ensured that all issues were monitored and that duplications were erased.

Members were referred to Appendix A attached to the report that provided details of the 2008/09 consolidated governance action plan with 29 areas identified for improvement. The current position as at 30th September 2009 of these actions was shown in the right hand side of the appendix. The Committee were requested to note that 11 actions had been completed, 8 actions were on target and a further 10 actions had revised implementation dates with the latest date being 30th April 2010.

The Committee were informed CMT and the responsible Heads of Service were confident that the revised deadlines as detailed would be achieved. The

progress against the Governance Statement at 31st March 2010 would be incorporated into the 2009/10 Annual Governance Statement.

Councillor Tomlinson commented that the future relocation from the present Civic Offices would impact on the ICT business continuity plan and that there was a need to ensure that the ICT infrastructure supported the corporate and service continuity plans. Members were informed by the Audit & Risk Manager that as part of the planned re-location the Council would appoint a comprehensive project board which would ensure that the process was properly and effectively managed to ensure that all ongoing risks were identified and dealt with.

Councillor Tomlinson also raised an enquiry in relation to Catering and the implementation of a trial cashless system within two schools. He stated that this position had not been expressed at a recent Value for Money Scrutiny Group where it was stated that there had been no immediate plans to introduce such a system. He requested as to whether the Head of Resources, BSF and Social Regeneration could attend at the next Audit Committee to confirm the present position. The Committee agreed to this invitation being sent in order to update the Committee on the position in relation to schools catering.

There was a further question raised in connection with the review of the operation and effectiveness of the revised scrutiny arrangements. Reference was made to the proposed timetable for the completion of the review by the end of May 2010. It was pointed out that if any further changes to the scrutiny structure were proposed that they could not be put into operation at the next Annual Council meeting. Accordingly it was requested as to whether the timetable could be concluded by the end of March in order that any changes could be taken into account and dealt with at the forthcoming Annual Council meeting. It was agreed by the Committee that the report in relation to the review of the revised scrutiny arrangements should be submitted to the March 2010 meeting of the Committee. It was also agreed that Councillor D White should also be invited to this meeting as Chairman of the Scrutiny Leadership Board.

Councillor Lomax enquired about the item contained within the attached appendix in relation to the Terms of Reference for Standards and Audit Committees and their annual review and whether this should be extended to external partnerships. The Audit & Risk Manager confirmed that the process had already been established in relation to a number of Committees within the Council. In connection with external partnerships it was confirmed that the existing partnership protocol published by the Council makes reference to annual reviews being highlighted as examples of best practice.

The Committee agreed that the appropriate Corporate Director and Cabinet Member be invited to the next meeting to update the Committee on the progress of the actions in respect to Business Continuity as it was outlined in the Internal Audit update report as remaining as Amber and in the Governance action plan with delayed/changed implementation dates.

**RESOLVED** – that the progress against the actions contained within the 2008/09 Consolidated Governance Action Plan be noted.

**AUC-40      RESULTS OF THE CIPFA BENCHMARKING EXERCISE FOR INTERNAL AUDIT 2009**

The purpose of the report of the Audit & Risk Manager was to provide the Committee with the results of the CIPFA Benchmarking exercise for Internal Audit 2009.

The Internal Audit team strived to ensure that it provided value for money to the Council and the community whilst also providing a high quality service. Members were reminded that the team regularly compared itself with other local authorities and continued to share good practice to ensure that it was adhering to the CIPFA Code of Practice for Internal Audit in Local Government 2006 and other recognised best practice. This occurred through membership of regional and national networking groups, membership of the CIPFA benchmarking club for Internal Audit and continued professional development.

The report set out the results of the benchmarking exercise for 2009 together with the comparative results for 2008 that had previously been reported. The results demonstrated that T&W Internal Audit generally compared well with other unitary authorities but results had been affected by the additional costs and unplanned reduction in days due to 3 members of staff being on maternity leave during the year. Members were referred to the summary results that had been attached to the report at Appendix A.

As highlighted in the summary (paragraph 3.3) 2 members of the team went on maternity leave in July 2008 and another in October 2008. The plan was adjusted once the maternity arrangements were confirmed but this had resulted in some gaps of coverage. It was noted that additional cover had been provided by an external provider at a very competitive rate but there had still been additional payments for 6 months of the year.

The estimates for 2009/10 reflected that these cost issues had worked themselves through the system as one team member had commenced part time hours and another had left which was currently only being partly covered.

The Committee were also referred to the stated contingency figure of 10% which had always been the target for the Council which was accepted good practice. The unitary average was noted as being around 6%. This rate was to accommodate unplanned work required during the year, and reference was made to the several high profile pieces of unplanned work that had occurred during 2007/08 and 2008/09. It was further reported that to the end of September 2009 the service were meeting unplanned demands from within contingency but during October there had been several requests for unplanned assistance.

Councillor Lomax enquired as to whether the Council should reduce the contingency figure to align the rate nearer to the unitary average. The Head of

Finance & Audit stated that the Council was content with the 10% rate as this figure allowed greater flexibility.

The 2009/10 estimates for fraud, grant certification continued to be below unitary averages. Although it had been reported that the area that possibly required attention was fraud as the Audit Commission in CAA Use of Resources and their recent publication "Protecting the Public Purse – Fighting Fraud in Local Government" had outlined that local authorities should promote a zero tolerance culture and ensure appropriate resources were allocated to the prevention and detection of fraud.

Members attention was also referred to the staffing information that had been analysed over salary bands and qualifications based on figures as at 31<sup>st</sup> March 2007, 2008 and 2009. The Committee were requested to note that the figures as at 31<sup>st</sup> March 2008 were based on 10.6 fte whereas the figure at 31<sup>st</sup> March 2009 was based on 8.6 due to maternity leave. Due to the reduction in numbers and increases due to qualifications and increments the profile for salaries had also changed.

The qualification information shows that the Council's and Internal Audit's aim to have appropriately qualified staff had currently been achieved – with no unqualified staff or any undertaking professional training. The Council continued to support professional and personal development and benchmarking figures on this showed the Council to be slightly above the unitary average. In conclusion it was recognised that Benchmarking was considered to be a useful exercise to compare Internal Audit with other unitary audit teams.

**RESOLVED – that the CIPFA Benchmarking Exercise results for Internal Audit 2009 be noted.**

**AUC-41      DISCUSSION ON THE ROLE OF THE AUDIT COMMITTEE AND VALUE FOR MONEY SCRUTINY GROUP IN RESPECT TO TREASURY MANAGEMENT**

The Head of Finance & Audit tabled a paper in order to initiate a discussion in relation to clarifying the roles of the Audit Committee and the Value for Money Scrutiny Group in relation to Treasury Management.

Members were reminded that from the end of September 2009 the Audit Committee terms of reference had been extended to include responsibility for the Committee to review the Council's Treasury Management arrangements etc as outlined within the discussion paper. The Committee was further advised that at a training session that was held for the Committee members and the Cabinet Member: Resources on the 6th October it was agreed that there would be future discussion in connection with the respective role(s) in relation to Treasury Management activity with particular emphasis in order to clarify and confirm the respective responsibilities of both the Audit Committee and the Value for Money Scrutiny Group. The Head of Finance & Audit confirmed that it was for Council to decide on the overall risk appetite of the Council's exposure on Treasury Management. The initial proposal would be

that the overall Treasury Management Strategy should be submitted to the Audit Committee prior to formal approval by Full Council.

Councillor Tomlinson considered that the Audit Committee should consider all aspects of Treasury Management rather than for training to be provided for the Members of the VfM Scrutiny Group on value for money aspects of treasury management as this had to be looked at alongside the risks that the Council was willing to take as risk and reward were integrally linked. If the Audit Committee took responsibility for scrutinising all matters relating to Treasury Management it would avoid duplication with the Value for Money Scrutiny Group and ensure that no areas got over-looked

Councillor Fletcher referred to the paragraph 4.3 of the Head of Finance & Audit's briefing paper which provided adequate regular monitoring of Treasury Management activities. The Head of Finance & Audit agreed that he would circulate the minutes of the recent Treasury Management Board to the Committee.

The Audit & Risk Manager sought clarification of the agreed reporting mechanisms that the Committee wished to introduce in relation to Treasury Management. It was agreed that the Audit Committee would receive a précis of the Council's Treasury Management activities at Audit Committee meetings on a quarterly basis. It was also agreed that the meeting to be held on the 2nd February 2010 would receive an annual review report together with proposals in order to agree the overall strategy for the ensuing Civic Year.

It was also suggested that it should be considered to invite the Council's external advisors in order to provide further information to the Audit Committee prior to the meeting to be held in February. The Committee also considered that further detailed training should be provided by both the appropriate Council officers together with the external experts.

By way of conclusion it was;

The Audit Committee would take the lead role on the scrutiny of treasury management rather than VfM Scrutiny Group who would only consider the impact of variations from budget as part of financial monitoring. The Committee also accepted that they would review security, yield and liquidity as a package and decided not to try and split aspects of these between the Audit Committee and the VfM Scrutiny Group and also wished to avoid duplication between themselves and the VfM Scrutiny Group.

The Audit Committee agreed that they would like the minutes of the Treasury Management Board meetings e mailed to them after the meetings had been held – starting from next month. This would enable the receipt of regular monitoring reports in relation to treasury management activity.

On a quarterly basis the Committee agreed that a treasury management item should be included on the Audit Committee agenda that would summarise the key points from the minutes of the Treasury Management Board meetings since they last considered treasury management.

The Committee agreed that there should be a further training session to which the Council's treasury management advisors would be invited to attend which would enable the Committee members to question and challenge and review the proposed Treasury Management Strategy for 2010/11, a provisional date of the 26th January 2010 was agreed for this session.

#### **AUC-42      NATIONAL FRAUD INITIATIVE 2008/09 – UPDATE**

The report of the Corporate Director: Resources was received which sought to update the Committee on the requirements of the Audit Commission National Fraud Initiative (NFI) 2008/09 and the progress that had been achieved to date on the exercise.

Members were informed that the Audit Commission's NFI exercise was part of Central Government's national recognition that taxpayers had a right to expect public bodies to put in place every possible measure to protect their money from fraud. The national public bodies included in this exercise were police authorities, local probation boards, fire and rescue authorities and all upper tier and district councils, with the exercise being undertaken every two years.

The council had a statutory responsibility to provide data to the Audit Commission for the prevention and detection of fraud as part of the National Fraud Initiative (NFI). NFI was an exercise that matched electronic data within and between audited bodies to prevent and detect fraud. From 2008, the Commission had conducted data matching exercises under its new statutory powers in the Audit Commission Act 1998, Part 2 A. The processing of data by the Commission in a data matching exercise was carried out with statutory authority. It did not require the consent of the individuals concerned under the Data Protection Act 1998. From 6 October 2008 the Council was required to upload various data sets (see section 5) to the Audit Commission website via a secure link.

From 28 January 2009 the Council's data matches were available through a secure link from the Audit Commission's website. Investigations into these matches had been concluded in the relevant service areas with the deadline for completion being 31st December 2009.

Since 1996, the Audit Commission had run the NFI once every 2 years. In the 2006/07 exercise only payroll, benefits and creditor datasets had been required. During the 2006/07 exercise an Audit Commission pilot was undertaken matching Council Tax and Electoral Registration information, this was due to be repeated in 2009/10. Data matches for all previous exercises had been investigated by the relevant service area. The Councils arrangements for the last NFI exercise in 2006/07 were reviewed as part of the CPA Use of Resources inspection with the results of this review included in the Annual Audit letter. It was noted that the External Auditor would be visiting the Council this autumn to review progress on the 2008/09 exercise and this would be reported as part of CAA Use of Resources.

The Audit Commission had published a Code of Data Matching on 21st July 2008 which governed how the NFI exercise should operate. This code required the Council to send its datasets to the Audit Commission by 6th

October 2008. The Code of Data Matching Practice was a statutory code, and all organisations that participated in the Commission's data matching exercises, including the Commission itself, were required to have regard to it.

Members were informed that the code required the Council to nominate responsible person(s) to undertake specified duties in relation to NFI, with the following officers being nominated – Senior Responsible Officer – Corporate Director: Resources and Key Contact – Group Auditor. The key contact was also responsible for data handling and the co-ordination of data matches and followed up investigations that were undertaken by service areas.

The Council was required to provide a number of datasets to specifications that had been set by the Audit Commission in October 2008. Members were referred to the report which confirmed the data that had been included.

The Council also had a responsibility to ensure an adequate fair processing notice was given to participants. This was a statutory requirement of the Data Protection Act 1998 and it was confirmed that this requirement had been undertaken where appropriate by the Council.

Members were referred to the table that contained details of the NFI data matches that had been received in February 2009. The number of matches split across the datasets was shown together with details of the numbers of matches that had been investigated by the Council to date.

**RESOLVED** – that the information on the National Fraud Initiative and the Council's progress made to date on the National Fraud Initiative exercise be noted.

**AUC-43      UPDATE OF OUTLINE BUSINESS FOR FUTURE MEETINGS**

Members were referred to the updated outline of business for consideration by the Committee for the remainder of the 2009/10 Civic Year.

**AUC-44      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 but that the start times for the February and March meetings would be 6.00 pm.

The meeting ended at 6.45 pm.

**Chairman:**

**Date:**