

## **AUDIT COMMITTEE**

### **Minutes of a meeting of the Audit Committee held on Tuesday, 1st February 2011 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 L.Lomax.

**OTHER MEMBER PRESENT:** Councillor A.G.P.Williams

**Officers:** K.Clarke (Head of Finance), J.Eatough (Head of Governance), J.Marriott (Audit & Assurance Manager), B.Morris (Finance Manager) and A.Roberts (Democratic Services Officer).

**Also Present:** P.Evans and A.Cardozza – KPMG External Auditors.

#### **AUC-48      MINUTES**

**RESOLVED** – that the minutes of the meeting of the Audit Committee held on 2nd November 2010 be confirmed and signed by the Chairman.

Councillor D.G.Allen requested that his view be noted that he considered that the minute contained within AUC-29 as amended remained incorrect.

#### **AUC-49      APOLOGIES FOR ABSENCE**

Councillor J.A.Dixon

#### **AUC-50      DECLARATIONS OF INTEREST**

Councillor R.K.Austin declared a personal interest (as a governor of Sutherland School and of the Hadley Learning Community) in connection with Agenda item 6 – Internal Audit Quarter 3 – 2010/11 Update Report.

#### **AUC-51      ANNUAL AUDIT LETTER – 2009/10**

The Committee received the report of KPMG which summarised the audit work that had been undertaken by KPMG within the Council in their role as external auditors for the 2009/10 Council Year. Members were reminded that although the letter was addressed to Members of the Council, it was also intended to communicate any issues arising from the Audit to key external stakeholders including members of the public.

The letter highlighted areas of good performance together with recommendations which if utilised could lead to further improved performance. Members were referred to Appendix A which recorded a summary of their key recommendations and a list of the reports of identified issues were outlined in Appendix B.

KPMG were required to undertake the audit in accordance with the provisions contained within the Audit Commission Act 1998, which further detailed that the audit was required to be undertaken in accordance with the requirements of the Audit Commission's Code of Audit Practice. This Code required the external auditor to

report on the Use of resources and the Council's Financial Statements. In connection with the audit fee the Committee was informed that the total fee for 2009/10 for the audit was £255,000, although the audit fee could not be finalised at this stage as a result of additional audit work required following the receipt of four questions/objections that had been received from local residents. The work on these questions was still being continued with the additional fee to date totalling £17,330.

In connection with the Use of Resources Assessment, it was noted that in May 2010 the government had announced that the Comprehensive Area Assessment (CAA) would be abolished. The Audit Commission had confirmed that the audit work in connection with CAA would cease with immediate effect. Although this included work in relation to Use of Resources scored assessments, there was no change for the requirement for auditors to issue a Value for Money conclusion. Members were advised that the vast majority of Use of Resources work for 2010 had already been completed which had informed the overall Value for Money conclusion.

The Committee was informed that an unqualified value for money conclusion had been issued.

Members were also informed of KPMG's conclusion following completion of audit of the Financial Statements with it being noted that the Council had produced a good quality set of accounts. One material adjustment had been identified with a total value of £12.5m, with this adjustment relating to accounting for fixed assets and did not impact on the General Fund. The auditors reported that they had received two objections from local residents, which were still being investigated. This had resulted in KPMG being unable to issue the certificate confirming completion until these objections had been dealt with.

KPMG had also reviewed the Council's Annual Governance Statement and concluded that it was consistent with the council and their operation. The Committee were informed that an unqualified opinion on the accounts had been issued on 30th September 2010, which indicated that the Council's accounts provided a true and fair view of the financial affairs of the Council and of the income and expenditure recorded during the year.

The report also indicated the high risk recommendations, which centred on the implementation of single status and the continuing implementation delay that was being experienced. The report also highlighted the high profile issues that would affect the Council which included the economic downturn and the impact that this would have on the Council and the introduction from 2010/11 of the International Financial Reporting Standards, which contained a number significant differences from the current financial reporting regime.

Members were informed of the changes to next year's value for work programme, which would result in a more targeted and better value approach to local VFM audit work. This would see a reduction in the number of reporting criteria specified by the Audit Commission which would concentrate on securing financial resilience; and prioritising resources within tighter budgets.

The Committee were further reminded that the Government had announced proposals to abolish the Audit Commission, with the proposed abolition being from

2012, although it was anticipated that the abolition date would likely to be during 2012/13.

Councillor Allen enquired about the elector's question that had been raised in relation to Dawley Town Hall and as to when the details of the final KPMG report would be submitted to the Committee. By way of response KPMG advised the Committee that a private and confidential endorsed letter had only recently been sent to the Chief Executive and the local elector. It was pointed out that the decision rested with the Chief Executive as to whether the letter would subsequently be submitted to the Audit Committee. The Head of Governance confirmed that the letter would be an agenda item at the forthcoming meeting of the Committee that was scheduled for the 28th March 2011.

Councillor Lomax enquired about the latest position concerning Single Status particularly in view of the fact that implementation had been further delayed and any legal implications that might arise. The Audit & Assurance Manager informed the Committee that KPMG were aware of the current position and that there would be a further meeting between the Council and KPMG.

**RESOLVED** – that the contents and conclusions contained within the KPMG Annual Audit Letter 2009/10 be noted.

**AUC-52      2011/12 TREASURY MANAGEMENT STRATEGY AND TREASURY UPDATE REPORT**

The joint report of the Chief Finance Officer and Head of Finance was received prior to its consideration by Cabinet, by the Committee which sought approval to a recommendation to approve the Treasury Management Strategy for 2011/12 for adoption. The report also informed the Committee of the updated position in connection with the Council's Treasury Management activities for the current year.

In connection with the development of the Management Strategy the Committee was reminded that the Strategy was based on the principles contained within the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services and the Prudential Code which further required local authorities to determine the Treasury Management Strategy Statement (TMSS) on an annual basis. The TMSS also incorporated the Investment Strategy as required under the CLG's Investment Guidance.

Members were reminded that the Council was responsible for its treasury decisions and activity, although the Committee was further reminded that no treasury management activity was without risk. The successful identification, monitoring and control of risk were integral elements to treasury management activities and include Credit and Counterparty Risk, Liquidity Risk, Market or Interest Rate Risk, Refinancing Risk and Legal and Regulatory Risk.

The Committee was further advised that the TMSS took into account the impact of the Council's Revenue Budget and Capital Programme on the Balance Sheet position. Members were referred to the current and projected Treasury position at Appendix A to the report, the Prudential Indicators and the outlook for interest rates as outlined in Appendix B.

The purpose of this TMSS was to approve the Treasury Management Strategy for 2011-12, the Prudential Indicators, the MRP Statement and the Use of Specified and Non-Specified Investments. The Committee received further details on the Balance Sheet and Treasury Provision, Estimates of Capital Expenditure, Incremental Impact of Capital Investment Decisions, the Borrowing and Rescheduling Strategy, Investment Policy and Strategy, the predicted Outlook for Interest Rates, the Balanced Budget Requirement, the 2011/12 MRP Statement and the details of how the monitoring and reporting on the Treasury Management Outturn and the Prudential Indicators would be dealt with.

The report also highlighted the present position in connection with the Council's Treasury Management activities with Members being referred to the current portfolio position as outlined within the report. The current portfolio position as at 31st December 2010 recording a reduction in the net indebtedness totalling £45.184m.

In relation to new borrowing it was noted that during May and November 2010 two PWLB loans of £5m had matured, with two new PWLB loans being taken out in August 2010 both for £5m over a ten year period. These were completed at a lower interest rate, as PWLB interest rates were increased as a result of the Comprehensive Spending Review announcement that was made in October 2010 by 0.5%.

In relation to investments it was reported that it had been very difficult for the appointed Fund Managers to achieve reasonable rates of return in the current climate. The Council had only one appointed Fund Manager between April and December 2010 and it was noted that they had only achieved a return of 0.98%. As a result all funds had now been withdrawn given the return rate together with the limited prospects for improvement in the short and medium term. Further details were outlined within the report of the performance of the Council's investments that had been handled by the internal investment team. The Committee was advised that the weighted average return on all internal investments for the year to date was 3.74% compared to the benchmark return for the period being 0.40%. Members of the Committee commented that the reported return was at a higher level than had been achieved by the external Fund Managers. A full analysis of all the Council's investments at the end of December 2010 was outlined in Appendix E of the report.

**RESOLVED – that the Treasury Management activities for the 2010/11 Council Year be noted and the proposed Draft Management Strategy for 2011/12 be approved for recommendation to the Cabinet and Council be approved.**

#### **AUC-53      INTERNAL AUDIT QUARTER 3 2010/11 – UPDATE REPORT**

The Audit & Assurance Manager presented a report which detailed the work that Internal Audit had undertaken between October – December 2010. The report also included an update on the progress of previous audit reports that had been issued between January 2009 to September 2010.

Members were informed that Internal Audit activity had focussed on the completion of the audits that had been set out in the Internal Audit Plan which also included the commencement of the final areas of work for the external auditor. There had been further unplanned work during the period for the co-ordination of the requirements for

the publication of information in respect of the government's transparency agenda in respect to the publication of expenditure over £500 and senior officer's salaries.

The Committee were referred to the appendices attached to the report with Appendix A listing all of the final reports that had been issued within Quarter 3, Appendix B detailing the work that had been undertaken that lasted for a period of more than one day or more. Finally Appendix C detailed the previously issued reports from January 2009 to September 2010 indicating their current graded status.

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

**AUC-54      REVIEW OF THE EFFECTIVENESS OF THE AUDIT COMMITTEE**

The Audit & Assurance Manager reported that normally a review of the effectiveness of the Audit Committee took place through the completion of a survey by Committee Members.

The Committee was informed that following consultation with the Chairman of the Audit Committee it was proposed to defer the circulation of the survey until after the Borough elections due to be held in May 2011.

**RESOLVED** – that the verbal report of the Audit & Assurance Manager be noted.

The meeting ended at 7.05 p.m.

**Chairman:**

**Date:**