

AUDIT COMMITTEE

Minutes of a meeting of the Audit Committee held on Tuesday, 26th June 2012 at 6.00 pm in the Scrutiny Meeting Room, Civic Offices, Telford

PRESENT: Councillors R J Sloan (Chair), A A Meredith, S A W Reynolds, W L Tomlinson and C R Turley.

Officers: K Clarke (Assistant Director: Finance, Audit and Information Governance and s151 Officer), J Eatough (Assistant Director: Law, Democracy and Public Protection and Monitoring Officer) K King (ICT Service Delivery Manager), (J Marriott (Audit & Assurance Manager), B Morris (Finance Manager) and J Clarke (Democratic Services Officer).

KPMG: A Cardoza and M McDonagh

The Chair welcomed the new Members of the Committee and thanked the Vice-Chair for his hard work during the 2011/2012 municipal year and wished him a speedy recovery.

AUC-1 MINUTES

RESOLVED – that the minutes of the meeting of the Audit Committee held on 27th March 2012 be confirmed and signed by the Chairman.

AUC-2 APOLOGIES FOR ABSENCE

K Austin (Vice-Chair), I T W Fletcher

AUC-3 DECLARATIONS OF INTEREST

Cllr R Sloan declared a personal interest in Appendix G and the reference to the DWP as he is employed by the DWP.

AUC-4 REVIEW OF THE TERMS OF REFERENCE FOR THE COMMITTEE

The Audit and Assurance Manager gave a report on the Terms of Reference for the Audit Committee which are reviewed at the first meeting of each municipal year with any changes being taken to the Council Constitution Committee.

The current Terms of Reference would need to be changed in order to reflect the changes to governance and risk management and to include information governance.

A discussion took place regarding the changes shown at Appendix A to the report.

RESOLVED – that the changes to the terms of reference as attached at Appendix A be recommended to the Council's Constitution Committee for adoption by the Council in September 2012.

AUC-5 KPMG INTERIM AUDIT REPORT 2011/12

A Cardoza presented the Interim Audit Report for the year 2011/12 during which the following key areas had been considered:

- Planning

- Control Evaluation
- Substantive Procedures
- Completion
-

During February to April the planning and control environment evaluation work was completed covering the Authority's IT systems, a review of the Internal Audit functions and the production of the Accounts. The findings were favourable and included:

- Effective overall and IT generally sound
- Key financial systems generally sound
- Accounts production – work ongoing but there have been improvements with regard to layout on from last year

Accounts for the 1st quarter are on course. Value for money was appropriate. There had been a review with senior officers in February and KPMG had met with Lead Members in May. It was found that the financial plan was robust. The audit would begin w/b 2nd July 2012. A further report would be received in September 2012.

M McDonagh had visited various sites with the Managing Director, Richard Partington, which involved talking to staff within the organisation. Within periods 1-12 no concerns had been raised. Period 13 was due to take place and manual adjustments and presentations were due to be disclosed and this presented more risk.

KPMG had a robust relationship with the Authority and both of the team worked well together.

A discussion took place including:

- Cuts to services including front line services and the need for continued savings
- The visit to the sites and independent surveys and their results
- The current, very different, economic situation
- Increasing pressures for the Local Authority

AUC-6 UPDATE ON ICT BACK UP AND RECOVERY

The ICT Service Delivery Manager gave a brief update on the Business Continuity. All of the areas had now been replicated with the exception of Carefirst which was behind schedule due to the restructure. The system was currently being tested and it was expected that this would go live in September.

During the upcoming moves to new premises the data would be replicated in several different locations and it was confirmed that both Priority 1 systems together with all of the Council's data had some form of back up.

A discussion took place including:

- Monitoring of Data during the moves
- Power Outages
- Business Continuity

AUC-7 UPDATE OF CHILDREN'S PLACEMENT COSTS

Due to the current ongoing Ofsted Inspection this item was deferred until the September Meeting.

AUC-8 DRAFT ACCOUNTS 11/12

The Assistant Director: Finance, Audit & Information Governance gave a verbal report on the Draft Accounts for 2011/12.

A report would be going to Cabinet on Thursday 28th June regarding the out-turn position for the year 2011/12. There had been a net underspend of £1.8m due to tight financial control and this had been transferred into balances with a number of other transfers in to reserves. The accounts were 100 pages long and were currently being finalised and would be sent to KPMG by the end of the week. A copy of the Statement of Accounts would also be e-mailed to members of the Audit Committee for information, although the audited statement of accounts would be considered at the September meeting of the Committee and a training session would be held before the meeting to go through the accounts in details and to explain the key aspects of them.

AUC-9 TREASURY MANAGEMENT OUTTURN 2011/12

The Finance Manager presented an update report on the Treasury Management Outturn for 2011/12 and the year to date. The year ended with a net indebtedness of £94.6m which was an increase of £39.4m due to a combination of funding capital expenditure and use of revenue reserves. During the year two PWLB Loans had matured and one had been entered into to take advantage of the favourable interest rates. The investment which the Council had with Dexia Bank had been repaid and the principal amount together with all interest due was received in November 2011. The Royal Bank of Scotland had been downgraded and no further short-term investments would be taken out with them due to their rating now being below the standard acceptable to the Council. Several investments were due to mature this year totalling approximately £25m. There had been no breaches or amendments to the Prudential Indicators.

A discussion took place including:

- Individual Ratings and advice from Treasury Advisors
- Balancing capital expenditure and borrowings
- Investments

Officers were congratulated on the report, specifically the achievement of investment returns averaging 3.46% for 2011/12 compared to benchmark returns of only 0.52%.

RESOLVED – that

- (a) the contents of the report be noted;**
- (b) the change to counterparty selection criteria in 16.5 be noted; and**
- (c) the performance against Prudential Indicators be noted.**

AUC10 INTERNAL AUDIT 2011/12 QUARTER 4 UPDATE REPORT

The Audit and Assurance Manager presented a report on the work undertaken by the Internal Audit team during quarter four for 2011/12.

Internal Audit activity mainly focussed on completion of the audits and the final areas of work on the key financial systems for the External Auditor. Eight final reports had been issued during quarter 4. Purchase Ledger had implemented a new financial system which had taken longer than estimated due to the additional training and testing needed. A review on Newport Pool and Planning Applications had also been completed together with a review of the ICT infrastructure project and contract. This had been unplanned work which had taken over 10 days to complete. There was currently only one original amber report outstanding - the Abacus review. Further work was required obtaining evidence and confirming the implementation of the recommendations. The results would be reported to the Committee in the next update. One amber report was issued during the quarter - Sales ledger and summary information. Management had implemented the recommendations and actions and a follow up would be undertaken at the end of June.

Following a complaint a review was taken into the ICT Infrastructure contract and project in December 2010. This review had taken some time to complete due to restructure, the complex nature of the case and the collection of some evidence to support the investigation. The outcome of the review was that although the project manager had acted in the Council's best interest resulting in a £200,000 saving, they had not followed the appropriate governance procedures. The review had identified 8 recommendations that the Senior Management Team (SMT) had agreed to implement. Agreed actions included a revised project governance process for significant projects with monitoring by SMT and the Managing Director and Directors. In addition to this revised payment authorisation levels had been introduced which included counter authorisations for all payments over £50,000.

A discussion took place regarding the report which the Committee considered was a balanced report showing the lessons to be learnt.

RESOLVED – that the report be noted.

AUC11 AUDIT & ASSURANCE ANNUAL REPORT 2011/12

The Audit & Assurance Manager presented the annual report for 2011/12 which supported the Annual Governance Statement (AGS). This showed the recommendations and reports issued for the three years 2009/10 through to 2011/12. A total of 44 reports were issued during 2011/12 which was less than in previous years due to a reduction in resources and the additional work required on testing the new financial system. There had been no indication from KPMG of any adverse findings on the performance against the external review but any actions required would be incorporated into the Internal Audit 12/13 key tasks list. Positive results had been received from CIPFA in November 2011 and also from customer feedback. Although the results were averaging 4.5 out of 5 and above, the team would not get complacent. Where necessary changes had been made from additional feedback given.

Risk Management had supported some of the Council's major projects during the year including the Co-operative Council project and continues to participate and contribute to external benchmarking exercises. Proposals were currently out for consultation on the re-structure of the risk management and this would be reported back to the Committee at a future meeting.

The Information Governance Team took over the responsibility for the administration of all information requests on behalf of the Council, including subject access requests. The ICO had sent a benchmark of 80% for responding to the FOI requests within a 20 day statutory deadline. The Council answered 909 FOI requests during the year with 85% of these requests being answered within the 20 day working day deadline. There had been 41

Environmental Information requests of which 51% had been responded to within 20 working days and 95 subject access requests of which 68% had been answered within 40 days.

During the year there had been 77 possible data breaches. After investigations it was confirmed that 40 data breaches had occurred. The Council encouraged the reporting of any data breaches as soon as possible as this clearly assists with reducing the impact. The reporting process was very important and two of the confirmed breaches had met the Information Commissioners Office's (ICO) notification rationale and these were referred to the ICO. The ICO had imposed a fine of £90,000 (reduced to £72,000 for early repayment). Although the Council were not in agreement with the decision and had argued strenuously for a number of months that the fine was out of proportion, the fine would be paid to take advantage of the reduced rate.

Despite reduced resources and the change in responsibilities the Audit and Assurance Team had achieved good results and contributed to ensuring good governance arrangements throughout the Council.

A discussion took place including:

- Data Breaches reported to the ICO and the fines
- Restructure and cuts to the Audit and Assurance Service and statutory responsibilities

RESOLVED – that the report be noted.

AUC12 2011/12 ANNUAL REPORT – CORPORATE ANTI-FRAUD & CORRUPTION ACTIVITY

The Audit & Assurance Manager presented a report on the 2011/12 Annual Report and Corporate Anti-Fraud & Corruption Policy.

Despite there being reduced resources within the Investigation Team and although fraud was increasing the team were continuing to provide pro-active fraud work. The total number of referrals were significantly less than last due to the reduction in the service following the restructure and any cases looked at were on a risk based approach with the appropriate action taken. The Investigation Team had investigated matches through the National Fraud Initiative (NFI) which had resulted in 46 incorrect awards of benefit and 7 frauds totalling £77,519 in overpayments. Both Revenues and Benefits and Trading Standards had used publicity as a deterrent in order to lessen fraudulent activity. Scambusters continued to be a very import tool with scams being reported daily. A Loan Shark Team had been set up in order to identify, investigate and if necessary prosecute loan sharks and to work with victims. Due to the reduced resources the Authority faces significant challenges for the year 2012/13.

A discussion took place including:

- The importance of Scambusters
- HB Overpayments
- Benefits Joint Working
- Real Time Reporting
- Administrative Costs
- Rogue Trading
- Data Cleansing
- Pension Scheme

RESOLVED – that the report be noted.

AUC13 ANNUAL GOVERNANCE STATEMENT 2011/12

The Audit and Assurance Manager presented a report on the Annual Governance Statement 2011/12 which would accompany the 2011/12 annual accounts and would be reviewed and signed by the Leader and Director. The key elements of the Governance Framework were listed on Appendix A to the Report. The review of effectiveness was conducted annually by senior managers, internal and external audit and Ofsted. The Audit Committee and the Scrutiny process also tested and challenged the effectiveness of the framework. The action plan for 12/13 was set out at Annex 1 and Appendix B to the report. The Council would be facing challenges during the coming year with service reviews and the merging of Organisational Improvement and Human Resources and the governance arrangements for the Health and Wellbeing Board.

RESOLVED – that the report be noted.

AUC14 OUTLINE OF BUSINESS FOR 12/13

The outline of business for future meetings 12/13 was discussed. The verbal update on Children's Placement Costs would be deferred to the September meeting.

RESOLVED – that the outline of the business for future meetings 12/13 be noted.

The meeting ended at 7.42 p.m.

Chairman:

Date: