

AUDIT COMMITTEE

**Minutes of a meeting of the Audit Committee held on Tuesday,
27th January 2015 at 6.00 pm in Meeting Room G3, Ground Floor, Addenbrooke House,
Ironmasters Way, Telford TF3 4NT**

PRESENT: Councillors R Sloan (Chair), K Austin, I T W Fletcher, C Mason,
S A W Reynolds and W L Tomlinson

Officers: K Clarke (Assistant Director: Finance, Audit & Information Governance), J Marriott (Audit & Information Governance Manager), P Harris (Finance Manager), P Taylor (Interim Director of Care, Health & Wellbeing); R Smith (Interim Assistant Director: Adult Social Services) and J Clarke (Democratic Services Support Officer).

IN ATTENDANCE:

I Pennington – KPMG

As this was the last meeting of the Audit Committee prior to the elections in May 2015 the Chair thanked Cllr K Austin who was due to retire at the end of the municipal year. The Chair also thanked both Officers and Members for their hard work and support during his time as Chair of the Audit Committee.

AUC-31 MINUTES

RESOLVED – that the minutes of the meeting of the Audit Committee held on 30th June 2014 be confirmed and signed by the Chairman.

AUC-32 APOLOGIES FOR ABSENCE

Cllr A Lawrence

AUC-33 DECLARATIONS OF INTEREST

None

AUC-34 KPMG ANNUAL AUDIT LETTER 2013/14

I Pennington, KPMG, gave a brief update on the Annual Audit Letter for 2013/14. This report was a brief summary of the work undertaken last year. The Certification of the Audit had now closed but unfortunately the work had not yet been completed regarding the objection from the member of the public. It was hoped that this would be completed shortly and the Certificate issued.

AUC-35 GRANTS REPORT 2013/14

I Pennington, KPMG, confirmed to the Committee that, there was a requirement by the Audit Commission for an annual report be circulated to each Client following work undertaken in 2013/14. During 2013/14 KPMG undertook certification work regarding the Housing Benefit Subsidy Claim (BEN01) which had a certified value of £71,229,693. The certification work did not identify any issues with the claim and the claim was certified as unqualified without amendment.

The Audit Commission set out an indicative fee for KPMG's certification work was £12,319. The actual fees were the same as the indicative fee.

A recommendation was raised within the 2012/13 Certification Annual Report relating to the reconciliation of pension contribution bandings for the Teachers' Pension Pay. Although this was no longer under the Audit Commission's regime, it had been considered and had been undertaken by KPMG under alternative arrangements in order to confirm that the 2013/14 claim was certified and the Council had dealt with the recommendation correctly.

AUC-36 EXTERNAL AUDIT PLAN 2014/15

I Pennington, KPMG, reported to the Committee that the External Audit Plan remained on a similar approach to last year. An outline plan had been established with officers which appeared to work well.

I Pennington highlighted that the Local Authority may need to produce Group Accounts for the year end 31 March 2015. KPMG would liaise with key officers to make the necessary arrangements and work with any appointed auditors for the subsidiary company. The subsidiary company would create its own set of accounts which would then be consolidated with the Local Authority Accounts to form a set of Group Accounts.

A discussion took place regarding the Group Accounts and on what basis they would be produced. The Accounts would be produced following Local Authority rules and it was hoped that the subsidiary company would have similar policies and procedures to that of the Local Authority. The Group Accounts would need to go to Cabinet and to Council and would be made publically available. The accounts would also come to Audit Committee. The subsidiary company accounts would be available from Companies House.

A question was raised as to whether KPMG would be the Auditors for the Wholly Owned Company (WOC). It was confirmed that the WOC must appoint their own Auditors, although there would be advantages if the WOC appointed the same Auditors as the Local Authority.

I Pennington informed the Committee that there was an ongoing debate as to whether Schools should be included within the Accounts. As there were many different types of schools, which were governed/managed in different ways, it was difficult to treat them all the same. This was a huge piece of work to be undertaken and the main issues were around technicalities and accounting.

With regard to Value for Money there would be 2 areas for consideration:

- Savings Plan (the budgets and savings going forward)
- Commercial Projects (those already underway or in the process of being started)

I Pennington reported that there had been a slight increase in the fee of £1,070 as a result of additional work required in relation to the accounting entries for Non-Domestic Rates. This was as a result of the related return being removed from the Audit Commission's certification regime and had been a common occurrence nationally.

The Audit timetable was set out in the report in the form of a pictorial diagram which members felt was very clear and helpful.

The material assessment was based on value, nature and context and was considered to be generally correct.

In relation to the Whole Government Accounts (WGA) the Local Authority were the first to receive the plan and there was a slight error in the report (P11) where it refers to “. . . and issue an opinion . . .” which should have read “. . . and undertake specific tests . . .”.

I Pennington informed the Board that professional standards required auditors to have integrity, objectivity and independence.

A discussion took place around the deadlines for the Local Authority accounts and the WOC accounts and bringing these accounts together to form the Group Accounts. Due to the new Audit Regulations, the Local Authority's deadline for the accounts would be moving forward to end of July in 2017. This would mean that work would need to be undertaken to re-schedule the Audit Committee meetings, together with any training/briefings that were required.

AUC-37 FINANCIAL CONTROLS REVIEW

P Taylor and R Smith presented a joint update regarding the review of financial controls.

P Taylor explained that there had now been progress on two of the areas within the report:

- (a) Potential Overpayments to providers
- (b) Whether the Council was suffering a financial loss as a result of the unassessed clients in respect to financial assessments

As these areas were no longer of concern, the update would concentrate of the remaining third area:

- (c) Unbilled income – from clients in respect to their assessed contribution.

R Smith reassured the Committee on the following 3 areas:

- 1 Overpayments to providers
 - Overpayments of significant amounts had previously occurred. This was now no longer possible as there was a zero tolerance within the system which suspended any payment that did not match with an invoice. The reasons for the mis-match could have been from eg fluidity of care (ie bank holidays), mileage, uplift. Once a mis-match had occurred further investigations were undertaken to confirm what payment should be made.
- 2 Assessments within Care and Support (Social Care)
 - This related to the means tested financial assessment of Clients whose contribution could be between £0 and full cost. It was considered that any delay in issuing financial assessments may mean a loss of income for the Local Authority. Upon any new initial contact, basic information was collected in order for a financial assessment to be undertaken. A declaration form needed to be completed by all Clients who were informed that if the relevant declaration form was not returned then they would be liable for the full contribution to their care until the information was sent back for assessment. Re-assurance was also given relating to time delays.
- 3 Unbilled income from Clients
 - There was a range of issues around the 2 IT systems:
 - Carefirst – Client Record System

○ Abacus – Finance System

- There had been some human errors when manual information had been entered into the two systems and there was currently no guarantee that 100% of human error had been eliminated. A range of work and practices had been designed in order to eliminate double entries and was currently being overseen by the Project Manager. The two separate IT systems were to be interfaced which would improve the process and tighten up controls. An upgrade to the Abacus system was needed before the interface could be introduced. This would then need to be tested on direct payments, invoices and accessibility to the providers' portal. It was envisaged that the timescale for this project would be 6 months but this was a very tight timescale. The improvements introduced had already made a positive impact on efficiency and budgets. With regards to validation controls in place, once the upgrade had taken place, the IT system would ensure that less human error would take place. The processes were currently being reviewed and the IT systems allocated to a single point of contact. Regular weekly performance meetings took place regarding the financial process. Update reports highlighted if there were issues with matching invoices and data. Where issues arose the Service Delivery Managers were asked to account for the issues. There had been some team leader/supervision issues.

In the ensuing discussion Members raised questions regarding checks on the person receiving care:

- Did the person still exist
- Had their condition improved/worsened
- How often were Clients assessed

P Taylor confirmed that the minimum rule on checks was that a check took place annually. The Local Authority dealt with a wide range of people from younger people, adults, disability, the frail and elderly and end of life care a flexible system needed to be in place. The Clients received the care when it was needed and controls were in place. Reviews took place depending on the individuals needs and sometimes weekly depending on the situation, the person's capacity and if there was support of family members.

A further question was raised as to whether we should be providing services if clients were not paying their costs.

It was confirmed that there was occasionally a need to override the system in order for care to continue whilst financial assessments were being undertaken, eg clients from Hospital. During the first 12 weeks and initial assessment took place in order to establish the correct enablement services, reviews then followed the normal process or were reviewed again after 3 months.

The Adult Social Care Financial Case Management Team undertook finance checks on client by client, case by case nature. This was very labour intensive but useful and helpful work. It was an area that was under a lot of pressure due to the overall savings that needed to be made.

The Chair suggested that a further report be brought back in September 2015 regarding the IT Systems and the unbilled income (Item 3).

AUC-38 2015/16 STRATEGY AND TREASURY UPDATE REPORT

P Harris gave updated the Committee on Treasury Management activities during 2014/15 and gave details of the Treasury Strategy which was recommended for adoption in 2015/16.

Since the report had been written budget consultation had taken place. The figures may alter from this report, but a final report would be brought to Full Council. The Strategy would be circulated to Members once it had been received.

The Treasury Portfolio at the end of December showed overall net indebtedness of £100.2m (borrowing of £124.1m less investments of £23.9m). Base rates had remained at 0.5% all year with the next move expected to be upwards but this was not expected until the second half of 2015.

The borrowing strategy for 2014/15 was to use maturing investments to reduce the borrowing and then taking new shorter borrowing maturities before gradually lengthening them. One PWLB loan had matured but no new loans had been taken out. Short term borrowing had been used to fund short term cash flow requirements.

The Housing investment Programme Business Case, which was approved at Cabinet on 8th January 2015, included PWLB borrowing of £59.3m. It was anticipated that approximately £3m would be required during 2014/15.

The investment strategy was to gain maximum benefit but the security of the principal sum was the primary consideration. No new long term investments had been taken out and details regarding the short-term investments could be found at Appendix F to the report.

The Council was currently expecting to borrow up to £45m in 2015/16 based on the current capital programme but would adopt a flexible approach to borrowing. If projects came forward ie Ministry of Defence, the requirement for borrowing may increase. This had been built into the approved borrowing scheme and would be within the maximum levels for counterparties of £20m at one time.

During 2014/15 the Council had amended the way in which calculations within the Minimum Revenue Provision Statement were made from straight line to annuity. This had also been extended to Government Borrowing Approvals and would produce a one-off saving in 2014/15 of £1.420m and savings in 2015/16 of £0.290m.

Details of the in-year portfolio position could be found at 4.1 to the report and details of investments at 4.4 of the report.

LGA Bond Agency, a Local Capital Finance Company was established in 2014 by the Local Government Association. This was an alternative to the PWLB and planned to issue bonds on the capital markets and lend the proceeds to local authorities. This was considered to be a more complicated source of finance than the PWLB for the following reasons:

- Bond investors may be required to provide a joint and several guarantee
- A lead time of several months between committing to borrow and knowing the interest rate payable
- 5% of the loan proceeds would be withheld from the Authority and used to bolster the Agency's capital strength

Any borrowing through this method would be the subject of a report to full Council.

Page 69 of the report showed a full list of Approved Investment Counterparties. This list covered all of the different types of investment which strengthened and already robust list and gave clear guidance. The Council always took advice from Arlingclose, the Council's advisors before making any investment.

Details of the projected borrowing could be found at Appendix B to the report and Prudential Indicators at Appendix C.

Page 85 to the report showed the maturity structure of the fixed rate borrowing. Some of the upper limit figures had increased.

A discussion took place including:

- Borrowing
- Wholly Owned Company
- Capital Expenditure
- Refinancing needs

RESOLVED – that:

- a) the treasury management activities for the first half year be noted;
- b) the Treasury Management Policy Statement (Appendix A) be noted; and
- c) the Treasury Strategy, including the Annual Investment Strategy for 2015/16 together with associated treasury Prudential Indicators and the Minimum Revenue Provision Statement be approved.

AUC-39 INTERNAL AUDIT UPDATE QUARTERS TWO AND THREE 2014/15 AND UPDATE OF THE INTERNAL AUDIT CHARTER FOR 2015/16

J Marriott presented the Quarter Two and Three 2014/15 update together with the update to the Internal Audit Charter 2015/16.

The Audit Charter 2015/16 could be found at Appendix A to the report and included very minor changes to the resources available.

With regards to the Quarter Two and Three Report, this was the 2nd update and covered the work of Internal Audit during July to December 2014 and information relating to the work could be found within the Appendices to the report as follows:

- Appendix B
 - List of final reports issues in quarters two and three with grading red, amber, yellow or green and also included budget time, actual time and percentage variance.
- Appendix C
 - List of all work undertaken for quarters two and three for a period of one day or more.
- Appendix D
 - Previous graded reports from April 2012 to June 2014 with their current status

- Appendix E
 - Summary of red and amber reports issues in quarters two and three.

Appendix B showed there had been 19 reports issued in quarters two and three with five of these reports being Amber and three Red.

Some of the areas had received significantly more support than had originally been scheduled. The team had engaged in a training session in order to improve their processes and time management. It was also felt that the team should require the audited areas to identify resolutions to issues themselves rather than resolution by Audit and this would then allow the team to carry out more assurance work and balance out their time.

The follow up for Queenswood School was now complete and the grading had moved from Amber to Green. With regard to the Shared Lives follow up, the work undertaken to date had demonstrated a good improvement. Other follow work was due to be commenced or had been planned. The Audit Team were confident that management would implement the remaining recommendations and provide the appropriate assurance and improve the controls.

With regard to Appendix D, an update had already been received earlier in the meeting on the Abacus system. The Transport Review was no longer an issue. Moorfield Primary School had received a follow up during November 2014 and although this remained amber a further follow up had been planned for February 2015. The Committee were re-assured that the issues were moving forward.

A discussion took place including:

- The Charter
 - Including schools within the report
 - Contingency plans with regard to liability of the Pension Scheme
 - Assets and liability of Schools
- Blessed Robert Johnson Report
 - School closing in the Summer and re-opening as an Academy in September 2015
 - The deficit and the re-assurance and work being undertaken by the temporary Headteacher to reduce this deficit.
 - The poor governance of the IT but the good service provided to other schools
 - Further work to be undertaken in June/July 2015 before the school closes.

RESOLVED – that:

- a) the Internal Audit Charter 2015/16 be approved; and
- b) the Internal Audit update information for quarters two and three 2014/15 be noted.

AUC-40 UPDATE ON THE ANNUAL GOVERNANCE STATEMENT 2014/15 ACTION PLAN

J Marriott updated the Committee on the Annual Government Statement and 2014/15 Action Plan.

Under the Accounts and Audit (England) Regulations 2011 the Council was required to produce an Annual Governance Statement regarding best practice and an action plan for further improvement. The report set out the progress made up to the end of November 2014 against the actions agreed in June 2014, details of which could be found at Appendix A to the report.

The report showed that the Local Authority had good governance and supported the identification and management of risks and had robust control arrangements in place.

A discussion took place including:

- Scrutiny
- Joint working across Committees in order not to duplicate work
- Children and Young People Scrutiny Committee Work

J Marriott suggested that a copy of the Scrutiny Work Programme be circulated to the members of Audit Committee for their information.

RESOLVED – that progress made against the actions in the AGS Action Plan be noted.

AUC-41 AUDIT COMMISSION/KPMG FRAUD REPORT 2013/14

The Audit Commission/KPMG Fraud Report 2013/14 had been circulated to the Audit Committee for information purposes only.

The meeting ended at 7.18 p.m.

Chairman:

Date: