

## **AUDIT COMMITTEE**

### **Minutes of a meeting of the Audit Committee held on Tuesday, 28<sup>th</sup> January 2014 at 6.00 pm in Meeting Room 7, Ground Floor, Darby House, Telford**

**PRESENT:** Councillors R Sloan (Chair), K Austin, D Davies, I T W Fletcher, A Lawrence, S A W Reynolds, W L Tomlinson

**Officers:** P Taylor (Statutory Director of Adult Social Services) J Eatough (Assistant Director: Law, Democracy & People Services), J Marriott (Audit & Information Governance Manager), P Harris (Finance Manager), B Morris (Finance Team Leader) and J Clarke (Democratic Services Support Officer).

#### **IN ATTENDANCE:**

A Bunting – KPMG  
I Pennington – KPMG

The Chair informed the members that Item 10 on the Agenda – Draft Treasury Management Strategy 2014/15 and update 13/14 would move up the Agenda to follow Item 6 – External Audit Plan 2013/14.

#### **AUC-26      MINUTES**

**RESOLVED** – that the minutes of the meeting of the Audit Committee held on 17<sup>th</sup> September 2013 be confirmed and signed by the Chairman.

#### **AUC-27      APOLOGIES FOR ABSENCE**

None

#### **AUC-28      DECLARATIONS OF INTEREST**

None

#### **AUC-29      KPMG ANNUAL AUDIT LETTER 2012/13**

I Pennington from KPMG presented the Annual Audit Letter 2012/13.

An unqualified Value for Money (VFM) conclusion for 2012/13 was issued on the 24<sup>th</sup> September 2013 meaning that the Council had the proper arrangements for securing financial resilience and challenging how the Council secures economy, efficiency and effectiveness.

KPMG identified one significant risk to VFM regarding the Authority's future savings plans, although the arrangements the Council had put in place would mitigate this risk.

There needed to be one adjustment in relation to an error in the prior period which resulted from a change in accounting policy for trust schools. There was no impact on the General Fund Balance as a result of this adjustment.

The majority of the information contained in the Annual Audit Letter had been with the information on the Audit of the accounts at the previous meeting of the Audit Committee which had been presented by H Garrett. Members were asked if they had any further questions. No further questions or comments from the Committee were forthcoming.

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

**AUC-30      KPMG CERTIFICATION OF GRANTS AND RETURNS 2012/13**

A Bunting from KPMG presented the Certification of Grants and Returns 2012/13.

KPMG had identified a number of inaccuracies in the information report on the Teachers' Pension return. The Council had been able to correct some of the inaccuracies but some remained unresolved. These were around the salary contributions reported against the contribution rate bands applicable to the Local Government Pension Scheme and arose due to the format of the system reports which differed from the new reporting requirements of the scheme. A correction to the classifications needed to be in place for the next report on the 2013/14 return. Changes to the system were due to take place but in the meantime officers were carrying out manual adjustments. KPMG commented that this issue was not isolated to Telford & Wrekin Council and many Council's were facing the same problem.

The audit fee for 2012/13 was £155,088 excluding VAT this was down by 40% on the previous year due to the change in the fees by the Audit Commission. Additional work undertaken during the year in relation to an elector query resulted in a fee of £9,216. The NNDR grant work, which was done on a cyclical basis, had resulted in a reduction for the grant fee from £16,850 to £16,399. A refund was to be issued.

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

**AUC-31      EXTERNAL AUDIT PLAN 2012/13**

I Pennington from KPMG presented a report on the External Audit Plan 2012/13.

The overall audit approach was unchanged from last year. The work would be carried out in four stages. The audit strategy and plan remained flexible as risks and issues would change throughout the process.

The following areas had been identified as significant risks:

- Accounting policies and estimates
- LGPS triennial valuation

KPMG would assess the Authority's progress in addressing the risk areas as part of the interim work with conclusions being given at year end.

The triennial valuation of the Local Government Pension Scheme for Shropshire took place from the 31<sup>st</sup> March 2013 in line with the Local Government Pensions Scheme (Administration) Regulations 2008.

There was an audit risk that the data provided to the actuary for this exercise was inaccurate which could lead to errors in the actuarial figures in the accounts. Most of the data was provided to the actuary by Shropshire County Council as they administer the Pension Fund.

As part of the audit KPMG would need to agree the data provided to the actuary and the reports used. The data would also need to be tested for accuracy. KPMG would liaise with the auditors of the Pension Fund on the Authority's behalf. The Pension Fund may seek to recharge any additional costs arising from this work but this would be discussed with the Assistant Director: Finance, Audit & Information Governance.

KPMG were required to carry out their work with independence and objectivity and to exercise their professional judgment and act independently of both the Commission and the Council. KPMG did not have any conflicts with the Council and this maintained the quality of the Audit.

A discussion took place including:

- Valued judgment
- Pension scheme – valuation and auto-enrolment
- Timescales of VFM approach

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

**AUC-32      DRAFT TREASURY MANAGEMENT STRATEGY 2014/15 AND UPDATE**  
**13/14**

The Finance Manager presented the draft Treasury Management Strategy 2014/15 and the 13/14 Treasury Update.

A training session on the Strategy had been held prior to the Audit Committee meeting for members of the Audit Committee.

The Strategy, if approved by the Audit Committee, would then go on to Cabinet and Full Council as part of the suite of Service & Financial Planning Reports.

The treasury portfolio at the end of December showed overall net indebtedness of £102.8m. Base rates had remained at 0.5% all year with the next move expected to be upwards but not for some time, 2016/17.

The borrowing strategy for 2013/14 was to use maturing investments to reduce borrowing where possible. To date two PWLB loans had matured and no new loans had been taken out. Short term borrowing had been used to fund short term cash flow requirements.

The average return on internal investments at the end of December 2013 was 3.31% compared to a benchmark return for the period of 0.42%. This was an outstanding over-achievement against the benchmark and reflected decisions taken some years ago to place investment funds in longer-term fixed rates when interest was considerably higher than today. It was noted that this level of return was not sustainable as a number of investments yielding high returns mature during the first part of 2014/15 and given the current context of low interest rates returns are likely to be lower next year.

The Council's Treasury Management Strategy was set within the parameters of the relevant statute, guidance and accounting standards.

The Council was currently expected to be required to borrow up to £1.0m in 2014/15 based on the current capital programme and would adopt a flexible approach to borrowing. The borrowing may be increased if the Council proceeds with large commercial projects such as investment in a solar farm or housing for rent at commercial rent levels. Audit Committee

Members would be notified of any changes to Prudential Indicators Affordability, maturity profile of existing debt, interest rates, refinancing risk and borrowing source would be discussed with the Council's treasury management advisors.

Where possible maturing investments would be used to reduce the level of additional borrowing which would reduce investment exposure going forward. The strategy for new investments would be to lengthen investment periods, where cash flow permitted, to achieve higher interest rates within acceptable risk parameters.

The report also included the Council's Minimum Revenue Provisions Statement (MRPS) which remained unchanged from 2013/14 although there was an amendment to how the provisions would be calculated from a straight line to an annuity basis. KPMG confirmed that they had agreed this approach.

Economic information would be updated with the latest data released prior to Cabinet.

A discussion took place including:

- MRPS figures and savings
- Prudential Indicators
- Risks of current projections
- Capital receipts

**RESOLVED – that:**

- a) the treasury management activities for the first half of the year be noted;**
- b) that the Treasury Management Policy Statement be noted;**
- c) the Treasury Strategy, including the Annual Investment Strategy, for 2014/15 together with the associated treasury Prudential Indicators and the Minimum Revenue Provision Statement be approved.**

**AUC-33      ABACUS UPDATE**

The Statutory Director for Adult Social Services presented a verbal report on Abacus.

There had been Amber reports in both March and July 2013, but due to the actions put in place not being robust enough the report had not moved forward and further work had been undertaken and a new report issued which was now Red.

The Statutory Director reported that, to move Abacus forward, changes to the system, processes and culture were needed. There had been a number of management changes which had taken place and dedicated additional resource had been brought in from another service area as project manager.

There was a formal meeting of the Project Group to take place on 31<sup>st</sup> January 2014 and they were confident that some of the concerns highlighted had been dealt with.

Processes had been put in place to deal with potential overpayments, financial assessments and the correct invoicing of service users.

The Statutory Director had accepted all of the recommendations and had drawn up an action plan to deliver against the recommendations. There had been some improvement but there was still a lot of work to do.

Adult Social Care was taking the lead on the project with input from other service areas within the Council.

A discussion took place including:

- Overpayments
- Invoicing Suppliers
- Opening and Closing cases
- Historical payments
- Review of Brokerage and Commissioning

It was suggested that the Chair and Vice Chair of the Audit Committee, together with the Cabinet Member for Adult Social Care, hold a meeting with the Statutory Director and the Project Manager in April/May 2014 in order to discuss the position. A further report would come back to the Audit Committee in June 2014.

**RESOLVED – that:**

- a) a meeting would take place with the Chair and Vice-Chair of the Audit Committee, together with the Cabinet Member for Adult Social Care, Statutory Director of Adult Social Care and the Project Manager in April/May 2014;**
- b) a further report be brought back to Audit Committee in June 2014.**

**AUC-34      ICT UPDATE**

The Assistant Director: Law, Democracy & People Services presented an update on the Council's ICT on behalf of the Assistant Director: Customer Services.

The Audit Committee were made aware of the significant problems the Council were experiencing with ICT at the last meeting of the Committee in September 2013.

The problems with the system had been escalated to international level. It was reported that the problems had arisen following power interruptions to the system which in turn affected the servers.

A fix had now been applied and the Council was confident that the problems were now resolved.

There had been a power outage on Monday 27<sup>th</sup> January at the Madeley Data Centre but this was a fault of the energy supplier, not the Council's systems. This had caused a slight disruption because the system had to be re-booted. The systems were now back up and running and it was business as usual.

The Council were currently in negotiations regarding compensation.

A discussion took place including:

- Keeping the confidence of the School Community

- Compensation for the inconvenience to the Schools
- Back-up power for the servers

The Chair and the Audit & Information Governance Manager would speak to the Assistant Director: Customer Services and greed the best timing for a report back to the Audit Committee.

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

**AUC-35      PUBLICATION OF INFORMATION ON COUNCILLORS WHO TRADED WITH THE COUNCIL DURING 2012/13**

The Audit & Information Governance Manager presented a report on the publication of information on Councillors who traded with the Council during 2012/13.

To improve transparency the Council, through its Constitution Committee, agreed that details of the Councillors who have an interest in companies that receive a payment from the Council should be reported separately to the Council through the Audit Committee.

The information was collected as part of the 2012/13 final accounts process and this report represents information for 2012/13.

The Information was also available in the Declaration of Interests and through the Council's Accounts.

This report would come to the Audit Committee annually in June. The next report would be received at the June 2014 meeting and would cover the 2013/14 period.

**RESOLVED** – that

- a) the Audit Committee note that the report would be published on the Council's website; and
- b) the report be noted.

**AUC-36      INTERNAL AUDIT UPDATE REPORT – QUARTERS TWO & THREE 2013/14**

The Audit and Information Governance Manager presented a report on the Internal Audit update report – quarters two and three 2013/14.

The report provided an update on the work that had been undertaken between 1<sup>st</sup> July and 31<sup>st</sup> December 2013 and gave an update on progress on work previously undertaken.

The key focus during quarters 2 and 3 had been on the fundamental audits and completion of work identified from the 13/14 annual plan. A restructure of the service had been launched on the 26<sup>th</sup> November 2013 and which closed on the 14<sup>th</sup> January 2014 and resources had been used developing saving proposals. The restructure would commence from 1<sup>st</sup> April 2014 and the team were currently recruiting to the positions.

The Audit Committee's Terms of Reference was updated in November 2013 to include "oversight of the Commercial Board". A report from the Managing Director and the Co-operative & Commercial Projects Service Delivery Manager would be brought to the June 2014 Audit Committee meeting.

The report showed that there had been 29 reports issued in quarters 2 and 3. There were 7 amber reports and 2 red reports during quarters 2 and 3. The red reports were in respect of concerns around Abacus and Moorfield Primary School.

The William Reynolds School audit, which was amber, had now been followed up and upgraded to Green. The Back Up and Disaster Recovery review had also been followed up and the grading improved to Yellow. Recommendations and management actions had been agreed in other audit areas and Internal Audit was confident that management would implement these recommendations which would provide the appropriate reassurance and improve their gradings.

A discussion took place including:

- Commercial Board
- Audit supplying services/training to other Councils/Companies

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

**AUC-37      UPDATE ON THE ANNUAL GOVERNANCE STATEMENT 2012/13 ACTION PLAN**

The Audit & Information Governance Manager presented a report on the Annual Governance Statement 2012/13 Action Plan.

The Council was required to produce an Annual Governance Statement which should include an action plan for further improvement. The report set out the progress made up to the end of December 2013 against the agreed action plan from June 2013.

The Committee were asked to note the progress on the actions contained in the 2012/13 Annual Governance Statement (AGS) Action plan which was due to be implemented during 2013/14.

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

**AUC-38      CHANGES TO THE INTERNAL AUDIT CHARTER 2014/15 AND PUBLIC SECTOR INTERNAL AUDIT STANDARDS – ACTION PLAN FOR COMPLIANCE**

The Audit and Information Governance Manager presented a report on the changes to the Internal Audit Charter 2014/15 and Public Sector Internal Audit Standards – Action Plan for Compliance.

From 1<sup>st</sup> April 2013 the Public Sector Internal Audit Standards (PSIAS) replaced the existing Code of Practice. The team had undertaken a detailed review of operations against the requirements of the Standard and had identified some actions required in order to ensure compliance. The Action Plan was attached to the Report at Appendix B.

The Audit and Information Governance Manager noted that the action in respect of the development of a Quality Assurance and Improvement Programme (QIAP) had been delayed due to the restructure but was scheduled to be completed by end March 2014. Implementation of the actions would demonstrate compliance with the PSIAS.

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

**AUC-39      REVIEW OF THE EFFECTIVENESS OF THE AUDIT COMMITTEE**

The Chair of the Committee, together with the Audit and Information Governance Manager, presented a verbal update on the Review of the Effectiveness of the Audit Committee.

The Audit Committee was a group of Members who had been on the Committee for some time and the Committee had good attendance. An annual survey had been undertaken for the last 4-5 years in respect to measuring the effectiveness of the Audit Committee and following the survey in 2013 a skills audit had been undertaken to develop the training programme.

As a training programme for Members was currently in place it was suggested that a further skills and training review take place following the 2015 Election as there was a possibility that there may be new Members on the Committee.

It was further suggested that the next review of the effectiveness of the Audit Committee take place in January 2016.

A discussion took place including:

- Paper exercise
- Induction for new members
- Independent members

**RESOLVED** – that the next Review of the Effectiveness of the Audit Committee takes place in January 2016.

The meeting ended at 7.38 p.m.

**Chairman:**

**Date:**