

AUDIT COMMITTEE

Minutes of a meeting of the Audit Committee held on Tuesday, 30 June 2015 at 6.00pm in Meeting Rooms G3 and G4, Addenbrooke House, Ironmasters Way, Telford, Shropshire

PRESENT: Councillors R Sloan (Chair), C F Smith (Vice Chair), I T W Fletcher, A Lawrence, W L Tomlinson and D G Wright.

IN ATTENDANCE: Mr Ian Pennington (Director at KPMG).

OFFICERS: K Clarke (Assistant Director: Finance, Audit & Information Governance), P Harris (Finance Manager - Corporate Finance & Customer Services), J Marriott (Audit & Information Governance Manager), B Morris (Finance Team Leader) and D Moseley (Democratic Services Support Officer).

The Chair welcomed new and returning Members to the Committee's first meeting of the 2015/16 municipal year.

AUC-01 APOLOGIES FOR ABSENCE

Councillors K R Guy and S A W Reynolds

AUC-02 DECLARATIONS OF INTEREST

None.

AUC-03 MINUTES

The Chair noted on page four of the minutes re: Financial Controls Review that he had suggested the Interim Director of Care, Health & Wellbeing and Interim Assistant Director: Adult Social Care provide an update on IT Systems and Unbilled Income. He considered that a wider update was required and would request the Cabinet Member for Adult Social Care to attend. He understood that a similar item appeared in the Scrutiny Work Programme but since the budget was a large percentage of the Council's overall budget, he felt that it was important that the Audit Committee take an overview.

RESOLVED – that the minutes of the meeting of the Audit Committee held on 27 January 2015 be confirmed and signed by the Chair.

AUC-04 REVIEW OF THE AUDIT COMMITTEE TERMS OF REFERENCE

The Audit & Information Governance Manager informed the Committee that it was good practice to review the Terms of Reference on an annual basis to ensure that the work of the Committee assisted the Council in meeting its statutory obligations. The report suggested two amendments: that the Committee meet privately with the external auditor as required, rather than annually, and that the Committee received the Caldicott Guardian's annual report. The profile of the Caldicott Guardian had

been raised within the Authority and the Interim Director of Care, Health & Wellbeing had, therefore, requested to bring this report to Audit Committee.

It was also noted that it was proposed that the terms of reference would be reported direct to Council as part of the report on the "Implementation of New Legislation and Changes to the Constitution – Statutory Officers" which would prevent delay in the presentation of the Caldicott Guardian's report.

RECOMMENDED that the terms of reference attached to the report at Appendix A be adopted by Council at its meeting on 9 July 2015.

AUC-05 KPMG INTERIM REPORT 2014/15

Mr I Pennington, Director at KPMG advised the Committee that this was the second report in a suite of four. The first had reported on planning for the audit work and the report before the Committee was the first update after the interim visit. Mr Pennington highlighted specific areas of the report:-

- Organisational Control Environment – Focussing on the culture and discipline among senior managers, this area had been judged "sound".
- Review of Internal Audit – Some recommendations were made regarding sampling and file review processes.
- Controls over key financial systems – This section included two provisional scores, as the majority of work which would form the final score would be done in the final update. Some weakness had been identified with regard to bank reconciliation and leaver controls.

The Committee asked whether timely clearance of reconciling items on bank reconciliation had been an ongoing issue. The Assistant Director: Finance, Audit & Information Governance indicated that there were over 430K transactions totalling £2.1b and it was very difficult to reconcile every transaction. Mr Pennington appreciated it was difficult to pin down cash in transit and the Audit & Information Governance Manager mentioned that the amounts would vary on a month by month basis. The Assistant Director: Finance, Audit & Information Governance added that the discrepancy related to additional income and did not raise concerns that any cash had gone missing. A lot of the Council's management systems were electronic and matches were made within the system. It was intended to carry out a manual check in April to attempt to pinpoint which areas were potentially causing the discrepancy. Mr Pennington considered that it was probably a glitch in one particular system but noted that such incidents required a judgement call to be made: the figures involved were relatively small and may be unwound the following month so was it worth spending time and money on a solution? He would be concerned if the figures were mounting month on month, but that was not the case. The Finance Manager noted that whilst the figure quoted in February was £30K, by 31 March it had reduced to £11K, so there was evidence that sums were being found. The Assistant Director: Finance, Audit & Information Governance felt that it was doubtful the manual check would create a completely balanced reconciliation but, whilst the Service was looking at ways to reduce the imbalance, they were limited by how much resource was available to allocate to cash reconciliation.

- Specific Audit Risks – Group Accounting was no longer a key audit risk as the set up of the Council's the subsidiary company, Nuplace, had sensibly been delayed. This risk would reappear in next year's audit. Rules relating to the accounting for local authority maintained schools had been agreed and were relatively straightforward. The Finance Team Leader confirmed that school balances were a separate part of the accounts.
- VFM – Key risks identified were the savings plans and commercial projects. It was important to ascertain whether these projects had been properly accounted for and this work would be finalised over the next few weeks.
- Key issues and recommendations. The Auditor had taken the unusual step of highlighting an issue already identified and prioritised by Internal Audit: leaver controls. It was very important that notification of leavers was given in a timely manner to avoid the risk of overpayments.

The Audit & Information Governance Manager pointed out that the overpayments mentioned in the report had all been recovered in full. The detail of how many employees were involved was not available. Mr Pennington impressed upon the Committee the importance of having satisfactory controls to remove individuals leaving employment from all Council systems. The Audit & Information Governance Manager noted that a 'leavers checklist' procedure was operated, which included removal of individuals' access to ICT applications. A report highlighting this issue had been made to the Senior Management Team; an update would be made at half-year in order to keep this important issue high on the radar and improve the situation. The Chair was concerned to identify whether it was specific services which were not operating satisfactory leaver controls so that messages could be targeted in those areas, rather than across the board.

AUC-06 KPMG ANNUAL AUDIT FEE LETTER 2015/16

Mr Ian Pennington, Director at KPMG reported on the annual audit fee for 2015/16 which was based on the Audit Commission's Scale of Fees for 2015/16. However, the closure of the Audit Commission had resulted in a decrease as no fees were payable to them. Some decrease in the scope and scale of the work required by the Auditor had also had a downward impact on the fee.

AUC-07 TREASURY MANAGEMENT OUTTURN 2014/15 AND UPDATE 2015/16

The Finance Manager gave an overview of the report which set out Treasury Management activities for 2014/15 and details of the position for 2015/16 to date. Overall the report delivered very good news.

Cllr W L Tomlinson asked, with the creation of Nuplace, would borrowing be placed in the new company or would the Council lend after borrowing from the PWLB? The Assistant Director: Finance, Audit & Information Governance advised the latter option. Cllr W L Tomlinson asked about the age of mature borrowing. The length of borrowing varied, and the Assistant Director would be looking to smooth the maturity profile of the overall debt portfolio and would not take one loan maturing in 30 years time as this would expose the council to a high level of exposure to whatever interest rates were at that time. Some temporary borrowing was currently available quite

cheaply but this could lead to a requirement to constantly look for the best rates, especially as rates were fluctuating and funds were not always available in the market. The Finance Manager advised PWLB rates were: 10 years - 2.55%, 20 years 3.12% and 40 years 3.67%. Cllr A Lawrence referred to the borrowing levels mentioned in paragraph 7 of the report and was advised that there had been some changes made by Central Government to the way in which repayments worked and the Assistant Director: Finance, Audit & Information Governance confirmed that regular monitoring of loans took place, as well as opportunities to take a discount. Cllr W L Tomlinson also asked how changes in interest rate would affect Nuplace and was advised that public accounting would be very important to demonstrate that the company was being charged a commercial rate and that the return was used to support the delivery of services.

RESOLVED – that the contents of the report and the performance against Prudential Indicators be noted

AUC-08 **2014/15 INTERNAL AUDIT QUARTER 4 UPDATE REPORT AND THE INTERNAL AUDIT & INFORMATION GOVERNANCE ANNUAL REPORT**

The Audit & Information Governance Manager presented the Internal Audit Quarter Four update report 2014/15 which gave details of the work undertaken in this period and the Internal Audit and Information Governance Annual Report. Referring to the RAG report, it was noted that a greater focus had been spent on Red and Amber rated reports as set out on page 54 of the agenda pack:-

- Moorfield Primary – Follow up work expected to complete in July 2015
- Unstructured Data Storage – This work had now been superseded
- Shared Lives – This work was complete
- BRJ School – This work had been reassessed Yellow and would become an Academy in September. Members noted that although the school would change its name to an Academy, it would remain the responsibility of the Local Authority for some time. The new Head had received a copy of the follow up report and would visit in September; it was important to ensure that the correct governance for the new school was in place.

The Audit & Information Governance Manager also commented on the number of recommendations made by type in 2014/15. Fewer reports had been issued in this period due to reduced resource and the late award of the external audit contract. The trend towards an increase in policy and procedure recommendations followed continued restructure and loss of staff with limited succession planning in place.

The Audit & Information Governance Manager also drew attention to sections of the report which provided an update on Public Sector Internal Audit Standards (PSIAA), Performance, Performance Against External Review, Improvement Activity and Customer Feedback.

The report also included the 2014/15 Information Governance Annual Report. The Audit & Information Governance Manager highlighted the section of the report relating to Information Rights and pointed out the significant decrease in data security incidents, demonstrating the success of training across the organisation.

The Information Governance Work Programme was included as an appendix to the report.

The Committee welcomed the report and extended their thanks to the Audit & Information Governance Manager and her team, noting the limited resources available and the time which had been devoted to Adult Social Care.

The Committee queried whether the Internal Audit team would provide support to Nuplace. The Audit & Information Governance Manager stated that the Team had not been approached to provide this service but she would take a cautious approach and explore whether a conflict of interest existed. Mr Pennington (KPMG) indicated that in his opinion, there would not be a conflict but the Audit & Information Governance Manager noted that the involvement of Internal Audit would need to be formalised.

RESOLVED – that:

- (a) the Internal Audit update information for quarter four 2014/15 be noted; and**
- (b) the Internal Audit & Information Governance Annual Report for 2014/15 be noted.**

AUC-09 THE ANNUAL GOVERNANCE STATEMENT 2014/15

The Audit & Information Governance Manager presented the Annual Governance Statement for 2014/15 which outlined whether the Council had been adhering to its Local Code of Corporate Governance. She particularly referred Members to paragraphs 5 (The Governance Framework) and 6 (Review of Effectiveness) and noted the Action Plan at Annex 1 to Appendix A of the report including six recommendations related to governance, encompassing continued restructures and changes in regulations.

RESOLVED – that the Annual Governance Statement 2014/15 be approved and that the information in the report be noted.

AUC-10 CORPORATE ANTI-FRAUD & CORRUPTION POLICY – 2014/15 ANNUAL REPORT & POLICY UPDATE

The Audit & Information Governance Manager presented the Annual report on Corporate Anti-Fraud and Corruption activity and sought the Committee's endorsement of an updated policy for approval by Council. The report included a comprehensive update on the benefits caseload and an appendix detailing the internal audit work undertaken for fraud and corruption risk areas. The updated policy included some minor changes to reflect the new Single Fraud Investigation Service, the extension of the 'Everyday Telford' App to include fraud reporting, organisational changes and to ensure consistency with the Council's Constitution.

Some discussion took place regarding data matching and access to third party government information, eg DVLA. The Audit & Information Governance Manager advised that some joint work took place and noted the agreements in place as part of

the National Fraud Initiative as set out at paragraph 7.4 of the report. Members also noted that the retention of the Benefits Investigation Team was subject to an Invest to Save bid which offset salaries against recovered Council Tax.

RESOLVED –

- (a) that the Annual report on Corporate Anti-Fraud and Corruption Activity be noted
- (b) to agree the updated Corporate Anti-Fraud & Corruption Policy and to **RECOMMEND** its adoption by the Council.

AUC-11 DRAFT STATEMENT OF ACCOUNTS 2014/15

Members of the Audit Committee had attended at a training session on the Accounts prior to the Committee Meeting.

Members were advised of the timetable to the production of the final accounts. It was acknowledged that the draft Statement of Accounts had been published later than the main agenda and it was **AGREED** that Members should review the paperwork and forward any queries to the Finance Manager, Pauline Harris, so that these could be addressed before the next meeting.

Comments at this stage included:-

- An explanatory footnote to be added to the Workforce Analysis
- Pension provision negative equity
- Addition of schools in the balance sheet to reflect all assets
- Addition of fixed assets from 2016/17

AUC-12 INTERNAL AUDIT PLAN AND INFORMATION GOVERNANCE WORK PROGRAMME 2015/16

The Audit & Information Governance Manager reported on the proposed Internal Audit Plan and Information Governance Work Programme for 2015/16. Following queries, Members noted the requirement to include work regarding the Subsidiary Company, Nuplaces, and that the proposed loan to the MOD had not been taken up as part of the Defence Gateway bid - it had been subject to a separate negotiation and the MOD had not taken up the option.

RESOLVED – that the Internal Audit Plan 2015/16 be approved and the Information Governance Work Programme for 2015/16 be noted.

AUC-13 OUTLINE OF BUSINESS FOR FUTURE MEETINGS 2015/16

The Committee noted the business to be transacted at meetings during the forthcoming year.

The meeting ended at 7.17pm

Chairman:

Date: