

AUDIT COMMITTEE

Minutes of a meeting of the Audit Committee held on Tuesday, 26 January 2016 at 6.00pm in Meeting Room G3, Addenbrooke House, Ironmasters Way, Telford, Shropshire

PRESENT: Councillors R Sloan (Chair), C F Smith (Vice Chair), I T W Fletcher, K Guy, W Tomlinson and D Wright.

IN ATTENDANCE: Mr I Pennington (Director at KPMG) and Ms P Katrak (Arlingclose).

OFFICERS: R Partington (Managing Director), K Woodhouse (Senior Business Systems Support Officer), C Jones (Director of Children's and Adult Services), J Eatough (Assistant Director: Legal, Procurement & Commissioning), R Smith (Interim Assistant Director: Early Help & Support), J Middleton (Housing Investment Programme Manager), K Clarke (Assistant Director: Finance & Human Resources), P Harris (Finance Manager - Corporate Finance & Customer Services), J Marriott (Service Delivery Manager: Internal Audit, Information Governance & Insurance Services), B Morris (Finance Team Leader), and J Clarke (Democratic Services Support Officer).

AUC-28 APOLOGIES FOR ABSENCE

Councillor S Reynolds

AUC-29 DECLARATIONS OF INTEREST

None.

AUC-30 MINUTES

RESOLVED – that the minutes of the meeting of the Audit Committee held on 15 September 2015 be confirmed and signed by the Chair.

The Chair asked the Members of the Committee if they would be willing to move item 8 of the Agenda – Draft Treasury Management Strategy 2016/17 and update 15/16 to follow items 4 and 5 of the Agenda following the Treasury Management Training that had taken place prior to the meeting and the attendance of P Katrak from Arlingclose.

AGREED – that the Draft Treasury Management Strategy 2016/17 and update 15/16 be moved to follow items 4 and 5 on the Agenda.

AUC-31 KPMG ANNUAL AUDIT LETTER 2014/15

Mr I Pennington, KPMG, gave brief overview of the report which summarised the key findings from the 2014/15 audit of the Authority.

All of the information contained within the report had previously been to the Audit Committee and there was nothing new to report. Appendix 1 to the report summarised the report which had been issued since the last Annual Audit Letter.

A discussion took place which included:

- Adequate controls and value for money (vfm) opinion
- The work being undertaken around the question raised by an elector regarding Station Road, Newport

The Chair thanked KPMG for the report which the Committee had noted.

AUC-32 GRANTS REPORT 2014/15

Mr I Pennington, KPMG, gave a brief summary of the results of the work which had been carried out on the Council's 2014/15 grants claims and returns.

The Certification results on the Council's Housing Benefit Subsidy claim resulted in an unqualified certificate and a reasonable assurance report was issued in relation to the Teachers' Pension Contributions return. This had been a good report for the Council with no issues to report.

A discussion took place around the criteria used for determining which grants would be audited. Mr Pennington confirmed that it was the grant givers who requested that an audit took place. These requests had been received from:

- DWP – Housing Benefit Subsidy
- Teachers' Pension Agency – Teachers Pension Contributions Return

The Chair, on behalf of the Committee, thanked all officers involved with the audits for their hard work which had put the Council in a good position.

The Chair asked that the Committee note the report.

AUC-33 DRAFT TREASURY MANAGEMENT STRATEGY 2016/17

The Finance Manager - Corporate Finance & Customer Services presented the 2016/17 Treasury Strategy and Treasury Update Report which listed activities undertaken during 2015/16 and detailed the Treasury Strategy which was recommended for adoption during 2016/17. Any changes through the budget consultation would be made and a copy of the final report would be circulated to the Committee. She also thanked Ms Katrak, from Arlingclose, for the training that was delivered to Members prior to the Committee Meeting.

The treasury portfolio showed an overall net indebtedness of £130.4m at the end of December. Base Rates had remained at 0.5% all year with the next move expected to be upwards towards the end of 2016 or early 2017, but this was unknown at this stage.

The borrowing strategy for 2015/16 was to use maturing investments to reduce borrowing and then take up new borrowing with shorter maturity dates before gradually lengthening maturities. Part of the EIP PWLB loans had matured but no new loans had been taken out. Short term borrowing had been used to fund short term cash flow requirements and to take advantage of low interest rates. The investment strategy for 2015/16 was to gain maximum benefit with security of the principal sum invested being the primary consideration and the return on internal investments at the end of December 2015 was 0.43% compared to the benchmark return of 0.30%.

The Treasury Management Strategy had been set within the parameters of statute and adhered to the guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management and the Prudential Code.

The Council was expected to borrow up to £53.1m in 2016/17 based on the current capital programme plans but would adopt a flexible approach to borrowing following consultation with Arlingclose, the Council's Treasury Management Advisors and taking into consideration affordability, maturity profile of existing debt, interest rate and refinancing risks and borrowing sources. It was expected that the strategy would be kept to short-term investments and costs kept to a minimum.

Maximum investment levels with counterparties would be set to ensure prudent diversification was achieved whilst recognising strict investment criteria that the Council applied to severely reduce the number of suitable available counterparties and sums with individual counterparties had been reduced from £20m to £15m at any one time in order to spread the risk.

The Council's Minimum Revenue Provision Statement had been updated to state the exact policy for each borrowing type and would apply from 2015/16. Although this policy was broadly in line with that previously agreed, it was being extended to include the Public Finance Initiative (PFI) Agreement and changed the way that MRP was charged in respect of historic borrowing. This included backdating the adjustments to the start of the prudential regime and would produce a net saving of £5.3m in 2015/16, £5.7m in 2016/17 and £5.3m in 2017/18. These savings would then remain broadly at £2.4m until 2033/34 before ultimately becoming a cost. This saving was calculated using the government's green book discount rates and present a value of saving of £50m.

A discussion took place including:

- Maturing/Long term investments
- Short term cash flow
- Investments
- HIP/PIP figures

As the Treasury Management Strategy was due for final approval at Council on 3rd March it was suggested that recommendation 3 of the report be "noted". Members unanimously agreed that this amendment be made.

RESOLVED – that:

- a) the Treasury Management activities for the first half of the year be noted;
- b) the Treasury Management Policy Statement be noted; and
- c) the Treasury Strategy, including the Annual Investment Strategy for 2016/17 together with the associated treasury Prudential Indicators and the Minimum Revenue Provision Statement, which would apply from 2015/15 onwards be noted.

AUC-34 ADULT SOCIAL CARE SYSTEMS UPDATE

R Smith (Interim Assistant Director: Early Help & Support) and K Woodhouse (Senior Business Systems Support Officer) gave a verbal update on the current position with regard to the adult social care systems.

The Interim Assistant Director: Early Help & Support gave the Members some background regarding the need for changes to the system. In April 2015 there were changes to Part 1 of the Care Act 2014 which required adult social care to develop work streams for the funding programme and deferred payments which meant that older people would not have to sell their homes to fund their care and that they were given information and guidance, together with being assessed for their eligibility and level of need for help. A Telford and Wrekin Care Act Implementation Board was set up to oversee the implementation programme for the delivery of these requirements and the work streams which included:

- Funding reform & Deferred payments
- Commissioning
- Information and Advice
- Assessment & Eligibility
- Safeguarding
- Workforce Development
- Infrastructure
- Communication & Engagement

These work streams ensured that there was an efficient service for health and wellbeing which would reduce the delays in delivering adult social care and set up a first point of contact for adult social care needs in order to deliver a person led service. It would also ensure that financial assessments were undertaken and people charged appropriately. The planning of services would need to be integrated and become partnership working.

A Telford and Wrekin Safeguarding Board was set up in order to support transition arrangements between authorities and ensure that robust care and support was in place. It was also important to meet the Care Act responsibilities towards carers and meet family needs.

The Care Act Board had now been stepped down but a number of Director's Challenges had taken place with officers in order to give reassurance that the Act had been implemented appropriately. The Care Act also required the Council to complete a quarterly stocktake and undertake benchmarking exercises. A new target operated model had been implemented in order to meet the Care Act responsibilities.

Part 2 of the Care Act 2014 postponed the funding reforms until 2020. These reforms had included a cap on care costs. This work would need to be looked at in the near future in order to have work streams and infrastructure in place to give reassurance to the Committee.

The Interim Assistant Director: Early Help & Support updated the Committee on the current position with regards to the Abacus system and the improvements made since the last report on 15th September 2015.

In order to be Care Act 2014 compliant the following requirements needed to be met:

- Improve financial controls
- Accurate recording of client expenditure and income
- Improved process efficiency (via an interface between CareFirst and Abacus)
- Statutory reporting requirements SALT (Short and Long Term Care return) and ASC-FR (Adult Social Care Finance Return)

The Senior Business Systems Support Officer informed the Committee that Abacus had been upgraded to version 170R1 on 1st December 2015. The upgrade had facilitated the implementation of the deferred payments module which enabled the Council to provide service users with the facility to defer payments for care against their capital, with automated calculations identifying when a service user reached their equity limits. The module reduced the margin for error and made the process more efficient and to allow for closer monitoring and ensure the Council is Care Act Compliant.

It was intended to interface CareFirst and Abacus in order to remove duplication and to allow information input into Carefirst to be transferred through to the Abacus system automatically. Further scoping work had identified the need to commission the system suppliers to assist with a partial re-build and this work would begin imminently and continue until March. Once this work had been completed and thoroughly tested it would deliver the direct payments module and a timeframe of April/May 2016 was envisaged for completion.

The Interim Assistant Director: Early Help & Support would circulate a briefing note to the Committee following the meeting. The Committee's role was to look at the size of the budget and assesses where the Council were with the ICT issues. He looked forward to the time when the Committee could discharge the Abacus system, but unfortunately they were not quite in this position yet.

A discussion took place including:

- The size of the IT system
- The interface
- Overall control of the system
- Testing of the systems, including non-scheduled testing and sample testing
- Efficiency of the system once completed
- Quality Assurance processes
- Financial confidence in the interim period and ensuring the system was accurate, on time and that checks and balances were in place
- Final sign off of system and the expected date for completion

The Service Delivery Manager: Internal Audit, Information Governance & Insurance Services confirmed that regular meetings took place with the Care Act Lead Officer and that a formal review would take place as part of the audit process next year.

It was expected that the sign off would be July 2016, but that this may be an optimistic date, given the unknown findings and testing and the reliance on supplies providing a fix for any errors, if found. New releases to the system would be expected year on year to reflect the changes to the Care Act and there would be a regular sign off programme.

The Chair suggested that he meet with the Vice-Chair and the Assistant Director: Early Help & Support and Service Delivery Manager: Service Improvement & Efficiency in late March in order to discuss progress and the Chair bring a verbal update to the June meeting of the Committee with a formal update in September 2016.

It was also requested that reports come to the Committee in writing rather than verbal reports.

AUC-35 SIGNIFICANT PROJECTS RISK REGISTER AND ASSURANCE OF RISK MANAGEMENT

Better Care Fund, Care Act and Social Care Change Board

The Director of Children's and Adult Services gave a verbal report on the Better Care Fund and with regard to the Care Act and Social Care Change Board.

The Better Care Fund (BCF) now had a S75 Agreement for the pooled budget of £10m for the 2015/16 in place and had reached moderate success on the plan and spending was within budget. This was a foundation year for the fund and enabled the Council to build a relationship with the Clinical Commissioning Group (CCG) which would continue into 2016/17. The Council had reached a reasonable outturn within 2015/16 but had not moved funding around within the pooled budget. The Council was working with the CCG to identify a shared narrative based upon "Being the Change" in particular the building of community resilience capable of managing inappropriate demand away from health and social care services.

The Council and CCG were currently working to establish the pooled BCF budget for 2016/17. This was likely to include a larger contribution from the CCG and the continuing protection of spending on social care.

The Service Delivery Manager: Internal Audit, Information Governance & Insurance Services confirmed that the Better Care Fund has its own risk and issues log. There was a BCF Strategic Group who met to discuss finances and although there had been successful meetings there were still things to tease out due to the substantial sums of money involved and the need to establish the risks.

A discussion took place including:

- Pooled budgets and the uncertainty around continuing health care (CHC)
- The Council's engagement with SaTH
- Different BCF Models in other areas and looking at the options via the Health and Wellbeing Board, the Council's Cabinet and the CCG Board.

A question was raised with regard to who was responsible for health services provided for a non-Telford resident who needs health care whilst visiting Telford. As the Director of Children's and Adult Services did not have the answer to hand a written answer would be supplied to answer the question.

Single Status

The Assistant Director: Legal, Procurement & Commissioning gave a verbal report on the current position with regard to Single Status.

Single Status was progressing well and a Job Evaluation Scheme was being developed.

As far as governance was concerned the Single Status Implementation Team met monthly to discuss progress against a project plan.

There was now a joined up approach to how the project was being managed alongside a linked project to implement a new payroll system prior to Single Status being implemented.

With regard to affordability, money had been set aside to meet single status liabilities. The Budget had been reduced pro rata due to the reduction in the size of the Council workforce.

A discussion took place including:

- Problems with the existing scheme
- Evaluations within the new scheme
- Budget set aside including claims/protection costs/one-off funding costs and appeals
- Data cleansing

Housing Investment Programme

The Managing Director and the Housing Investment Programme Manager presented a verbal report on the Housing Investment Programme.

In January 2015 the Council took its Business Case to Cabinet, following external advice from Savills, to deliver 425 private and affordable rented properties following earlier approval from Cabinet and Council in 2014. The Business case contained an extensive risk register and the Council was mindful of the risks when investing £45m. Clear aims were requested by Cabinet that the Council set the standard for a quality private rented offer and a private landlord. Cabinet also requested that the council diversify in order to reduce the risk.

The Project Team met 4 weekly and consisted of some officers from the Senior Management Team, the Service Delivery Manager: Housing Investment Programme Manager, and officers from Finance, Legal and members of Telford Homefinder. A Project Board meeting was held every 6 weeks and consisted of the Managing Director and 2 Cabinet Members who had been given delegated powers through the business case and the strategic risk register was reviewed as the projects moved forward.

The Service Delivery Manager: Internal Audit, Information Governance & Insurance Services confirmed that there was a governance structure in place and decision making arrangements were made through the Business Case and required Cabinet approval. External Solicitors had drawn up a set of Agreements in order to operate the business case and to take into consideration the business case for Nuplace and respond to its requirements.

A discussion took place regarding the business case and plans and Members asked how many units had been built so far.

The Housing Investment Programme Manager confirmed that they were currently working on Phase 1. There were 3 phases with approximately 400 units in total. Phase 1 was on site and construction was underway on:

- Woodlands (former Woodland Primary School) – 101 market rental units of which 33 had been built and let which were one third of the properties with very little marketing. The remaining properties would be advertised on “Right Move”

Phase 2 was currently at the stage of processing planning applications for the sites which included:

- Matlock Avenue, Malinslee (former Malinslee Primary School)
- Madeley Court (former Madeley Court and Leisure site)
- Newport (Springfields)

Phase 3 was at the discussion stage.

The Managing Director confirmed that there would be a further report to Cabinet at the end of March.

A discussion took place regarding the project and included:

- Assurance that the Board was looking after the Project at arm's length
- Right to Acquire properties rather than rental
- Affordable rents or Private market rents
- The rules surrounding the spending of the Company and the Management Charges
- Accounts – Telford & Wrekin stand-alone accounts and the Group Accounts

**AUC-36 2015/16 INTERNAL AUDIT QUARTERS 2 AND 3 UPDATE REPORT;
UPDATE OF THE INTERNAL AUDIT CHARTER FOR 2016/17;
EXTERNAL ASSESSMENT IN RESPECT TO THE PUBLIC SECTOR
INTERNAL AUDIT STANDARDS**

The Service Delivery Manager: Internal Audit, Information Government & Insurance Services updated Members on the work of Internal Audit during quarters two and three, July to December 2015 together with an update on the Internal Audit Charter for 2016/17 and the External Assessment against the Public Sector Internal Audit Standards.

There were 9 Amber reports issued during quarters two and three details of which could be found at Appendix D to the report, together with one part of the opinion for Cash Collection. Variances in the timescales allocated by +/- 10% could be found at 5.4 to the report and the Team as a whole were to look at time allocations across the areas.

Reports that remained Amber could be found at 5.7 to the report. The Abacus system concerns had already been reported earlier in the meeting. With regards to Moorfield Primary School, this had moved from Amber to Yellow and it was hoped to move this forward at the next audit. Direct Payments had been delayed due to the implementation of the new system and a full review was due to take place in 2016/17 following the restructures. Charlton School was due to have a visit during the forthcoming week. Section 17 payments was still currently rated Amber but a further follow up visit was due in April 2016.

A discussion took place regarding:

- Amber/Yellow reports regarding Abacus Systems
- St Matthews School – due to a new head and business manager being in place extra time had been given prior to the next audit taking place
- Multi Storey Car Park – 121% variance

The Public Sector Internal Audit Standards required that the Council's Internal Audit have a Charter which sets out the purpose, resources, reporting and other information important to the provision of services. The Council's draft Internal Audit Charter 1st April 2016 – 31st March 2017 could be found at Appendix E to the report and had been reviewed and updated to reflect:

- The Internal Professional Practices Framework – the 10 core principles for the Professional Practice of Internal Auditing;
- The resources available for 2016/17;
- The revised title of the Service Delivery Manager to Internal Audit, Information Governance and Insurance Services as she took over responsibility for Insurance on 17th November 2015 (although the current retender is being completed by Finance colleagues); and
- Other minor changes to reflect the changing organisation.

Members were asked to approve the Internal Audit Charter.

The PSIAS in Standard 1310 of the Quality Review and Improvement Programme (QAIP) set out the requirement for internal and external assessments of the Internal Audit activity. Standard 1312 stated that an external assessment must be conducted at least once every 5 years and therefore all Councils would need to have completed an external review prior to the 31st March 2018. Given the likely demand for reviews in the financial year 2017/18 together the scheduled restructure within Finance & Human Resources within this period, it was suggested that it would be prudent to have an external review during 2016/17. It was felt that although an external peer review could be a cost effective approach, independence criteria would need to be met. A collaborative approach had been taken by Staffordshire Chief Auditors Group (SCAG – made up from Staffordshire County Council and the shire districts plus High Peak BC and Staffordshire Fire and Rescue) led by Newcastle BC had undertaken work during 2015 in order to confirm to the standards but keep down time and costs for respective authorities. Shropshire Council and Telford & Wrekin Council had been invited to join these arrangements subject to Audit Committee approval. These costs were expected to be in the region of £2-£3K and were a one-off cost that could be taken from the budget.

The Committee were asked to endorse these collaborative arrangements.

RESOLVED – that

- a) the Internal Audit update information for quarters 2 and 3 2015/15 be noted;
- b) the 2016/17 Internal Audit Charter attached as Appendix E be approved; and
- c) the procurement route for an external assessment of Internal Audit against the PSIAS as set out in Section 7 with final details to be agreed by the Service Delivery Manager: Internal Audit, Information Governance & Insurance Services in consultation with the Chair of the Audit Committee and Chief Financial Officer be agreed.

**AUC-37 UPDATE ON THE ANNUAL GOVERNANCE STATEMENT 2014/15
ACTION PLAN**

The Service Delivery Manager: Internal Audit, Information Government & Insurance Services reported on the Annual Governance Statement 2014/15 Action Plan which

the Council was required to produce and best practice was that the statement should include an action plan for further improvement. The report set out the progress made to the end of November 2015 against the actions agreed in this action plan in June 2015.

A discussion took place including:

- Governance changes within the last 3 years and the resources to undertake the work
- Ensuring the Council was legally and financially covered for risks
- Members being prepared to challenge officers

RESOLVED – that progress made against the actions in the AGS Action Plan (Appendix A) be noted.

AUC-38 REVIEW OF THE EFFECTIVENESS OF THE AUDIT COMMITTEE 2015/16

The Service Delivery Manager: Internal Audit, Information Government & Insurance Services reported to Members that the last survey to review the effectiveness of the Audit Committee had been undertaken in February 2013. A decision was made by Audit Committee in January 2014 to undertake surveys bi-annually but to postpone the next survey until after the Council’s elections in May 2015.

It was good practice for the Council and the Committee to review its effectiveness as it helped to demonstrate good governance by measuring and reporting on its effectiveness, including identification of any improvement areas.

Members were asked to approve the draft Survey which could be found at Appendix A to the report and that the result of the survey be brought to the June 2016 meeting.

RESOLVED – that

- a) the survey attached to the report at Appendix A be agreed and that it be issued to those outlined in paragraph 5.2 to measure the effectiveness of the Audit Committee; and
- b) that the results of the effectiveness survey will be presented to the June 2016 Audit Committee be agreed.

The meeting ended at 8.16 pm

Chairman:

Date: