

## AUDIT COMMITTEE

### Minutes of a meeting of the Audit Committee held on Tuesday, 28 June 2016 at 6.00pm in Meeting Room G3-G4, Addenbrooke House, Ironmasters Way, Telford

**Present:** Councillors R J Sloan (Chair), C F Smith (Vice Chair), A Lawrence, K S Sahota (until 6.58pm), W L Tomlinson and D G Wright

**In Attendance:** A Bunting (Manager KPMG), K Clarke (Assistant Director Finance and Human Resources), P Harris (Finance Manager: Corporate & Capital) (until 6.58pm), J Marriott (Service Delivery Manager: Internal Audit, Information Governance & Insurance), R Montgomery (Information Governance & Insurance Team Leader), B Morris (Finance Team Leader) (until 6.58pm), I Pennington (Director KPMG),

#### **AUC 01      Apologies for Absence**

Councillors I T W Fletcher and K R Guy.

#### **AUC 02      Declarations of Interest**

None.

#### **AUC 03      Minutes**

It was noted that the Chair and Vice Chair of the committee had met with the Assistant Director: Early Help & Support and the Service Delivery Manager: Service Improvement & Efficiency (AUC 34) to discuss progress with the changes to adult social care systems and financial controls. The Chair reported that progress continued and a comprehensive written report would be prepared for the September Audit Committee meeting to provide committee members with an update and opportunity to question Officers.

**Resolved** – that the minutes of the meeting of the Audit Committee held on 26 January 2016 be confirmed and signed by the Chairman.

#### **AUC 04      REVIEW OF THE AUDIT COMMITTEE TERMS OF REFERENCE**

The Committee received the updated Terms of Reference outlining the responsibility of the Committee on behalf of the Council to oversee the Council's audit, governance and financial processes. The Internal Audit, Information Governance and Insurance Services Manager highlighted a key change at point five of the Terms of Reference, which was acknowledged by the Committee. The change reflected the future requirements of the Council under the Local Audit & Accountability Act 2014 in respect of the appointment of external auditors.

It was noted that a sector-led audit service would most likely be recommended for the future appointment of the external auditors to ensure legal obligations were met as cost-effectively as possible. Questions were raised about the tendering process and the frequency of appointment, which would be addressed in the report to be prepared for the Audit Committee meeting in September. It was acknowledged that the external auditors would need to be in place at the start of 2018 for audit of the municipal year 2018/19.

**Recommended – that the changes to the Terms of Reference attached to the report at Appendix 1 be adopted by Council at its meeting on 14 July 2016.**

#### **AUC 05      KPMG REPORTS: AUDIT PLAN 2015-16**

The Committee received the Audit Plan reporting on the Council's financial statements and the arrangements in place for securing economy, efficiency and effectiveness in use of resources. The Audit plan was one of the key deliverables of the audit. It was noted that there had been no significant changes to the Code of Practice on Local Authority Accounting in 2015/16, which provided stability in the accounting standards that the Council was required to comply with.

The report covered materiality, significant risks, value for money arrangements work and other areas of audit focus including Better Care Fund accounting and Group accounting. Group accounting had added a level of complexity to the accounting and audit due to the inclusion of Nuplace for 2015/16 and it was therefore necessary to look at processes being developed by the Council to consolidate the accounts.

New guidance had been issued on value for money arrangements (VFM) by the National Audit Office which applied from 2015/16. It was reported that the approach was broadly similar in concept to the previous VFM audit regime, but some notable changes were highlighted. The risk assessment regarding the Council's arrangements to secure value for money identified a significant risk in terms of Better Care Fund governance and Budget Delivery. The members discussed the following points in relation to the audit approach which enabled a full and comprehensive picture for the audit:

- 'other inspectorates and review agencies' included information from external reviews including Ofsted reports, any reports that provided insight into risks, expert information and advice;
- responses from the Council to inspectorate reports.

It was noted that the auditing planning process and risk assessment would be an on-going assessment and the assessment and fees in the plan would be kept under review and updated where necessary.

#### **AUC 06      KPMG REPORTS: INTERIM REPORT 2015-16**

A letter had been provided by KPMG on audit progress. It was acknowledged that the planning and interim audit work had been completed in line with the timetable set out in the detailed External Audit Plan, dated January 2016. The Committee noted

that KPMG had not identified any significant issues and therefore did not consider it necessary to make a formal report to the Audit Committee at this stage.

#### **AUC 07      KPMG REPORTS: FEE LETTER 2016-17**

The Fee Letter outlined KPMGs proposals based on a risk-based approach to audit planning as set out in the Code of Audit Practice and Public Sector Audit Appointments Ltd.'s published work programme and fee scales. The planned audit and certification fees for 2016/17 had been presented in comparison with the prior year's fee. It was noted that additional fees for 2015/16 and 2016/17 were expected in relation to the audit of consolidated financial statements; this being the first year that such accounts had been produced.

#### **AUC 08      TREASURY MANAGEMENT 2015/16 ANNUAL REPORT AND 2016/17 UPDATE**

The Committee received the Annual Report that provided an update on the outcome of Treasury Management activities for 2015-16 and detailed the 2016-17 position.

A good outturn position was reported; the treasury portfolio ended the year with net indebtedness of £158.9m. Overall the treasury had delivered a net over-achievement of £7.095m against the budget set for 2015/16. The majority of savings related to the benefit of extending the change in the calculation of the Minimum Revenue provision applied in 2013/14 and 2014/15 to include historic debt (government allocations) and Private Finance Initiative. It also included £0.089m generated as a one-off saving in 2015/16 as a result of capitalisation of interest on capital projects pending their completion.

An update was provided on the strategy for 2016/17, which remained consistent with that of the previous year. Every effort would be made to gain maximum benefit from investment opportunities and they would be reviewed as they arose. It was reported that there were no long-term investments which reduced the counter-party risk and the net interest costs; longer term borrowing costs were normally greater than the Council was able to earn on new investments. Borrowing would be required during the year and consideration would be given to the maturity profile of current debt, interest rates and refinancing risks as well as the source, which primarily expected to be the Public Work Loans Board. Temporary borrowing was £75.6m at 31 March 2016 and had reduced slightly to £71.5m as at 31 May 2016. Investments were £8.5m at 31 May 2016.

The Council had agreed its required indicators at Council on 3<sup>rd</sup> March 2016. There had not been any breaches of or amendments to the indicators. An Operational limit had been set for external debt of £370m for 2016/17 and an Authorised limit of £392m. Total borrowing outstanding at 31 May 2016 was £217, noted as within both limits.

An update was provided on the potential impact of the result of the EU referendum on security. It was noted that a strategy was in place to ensure the Council was

working with low risk institutions; a cautious line had been taken following guidance from the Council's Treasury Advisors. It was suggested that the Treasury Advisors would be invited to the next Audit Committee meeting in September.

**Resolved that –**

- a) the content of the Treasury Management Annual Report 2015-16 and 2016-17 Update be noted.**
- b) the performance against Prudential Indicators be noted.**

**AUC 09      UNAUDITED STATEMENT OF ACCOUNTS 2015/16**

The Committee received the Unaudited Statement of Accounts 2015/16 for approval, certified by the Chief Finance Officer as complying with the requirements of the Accounts and Audit Regulations 2015. This was consistent with the delegated responsibility of the Committee. The Unaudited Statement of Accounts showed:

- the movement in reserves
- the comprehensive income and expenditure account with a deficit of £30.955m compared with the outturn report which showed an underspend of £0.121m. The reason for the difference related to technical transactions for the purposes of IFRS;
- the balance sheet – a 'snapshot' of the Council's financial position as on 31 March 2016, showing net assets of £99.217m, a decrease from £106.457m for the previous year
- the cash flow statement – a net increase in Cash and Cash equivalents of £2.6m
- notes to the core Financial Statement
- the collection fund showing an increase on the council tax fund balance of £0.128m for the year and the Council's £3.7m share of the surplus at 31 March 2016, and the business rates, which showed an increase in the balance on the account for the year of £1.9m and the Council's £1.7m share of the surplus as at 31 March 2016;
- Group accounts which consolidated the Council's account with those of NuPlace Ltd providing an overall picture of the Council's activities.

A query was raised in relation to the detail included for Nuplace in the Council's Accounts. It was explained that the Group Accounts show the combined financial position of Nuplace and the Council, as required by Accounting Regulation and the Directors of Nuplace would have responsibility for signing off their separate Statement of Accounts. It was also noted that the financial position of Nuplace was taken into account as part of the Council's budget setting process.

It was noted that for 2016/17 the funding settlement had been significantly reduced with a requirement for further savings of over £16m. The agreed strategy for 2016/17 to meet the savings requirement and to continue to invest in the area to support both the community and businesses was outlined:

- a savings package delivering an additional £18.1m for general fund budgets;
- funding for unavoidable service pressures totalling £8.4m including £5.4m for Early Help & Support and £1.9m for Children's Safeguarding;
- a commitment to work with partner organisations to seek new solutions to deliver service;
- to continue to deliver jobs and investment and provide additional income business rates, council tax and New Homes Bonus.

The Committee acknowledged the significant financial challenge of the financial climate ahead with inevitable further cuts to local government finance and a high degree of uncertainty in projections beyond 2016/17. It was anticipated that the Council would need to identify a further £20m savings by the end of 2019/20 in addition to the £23m savings required in 2016/17 and 2017/18.

**Resolved to note the unaudited Statement of Account and questions to be raised during the period with the Audited Accounts to be presented for approval in September 2016.**

Cllr K S Sahota, P Harris and B Morris left the meeting at 6.58pm.

#### **AUC 10      ANNUAL GOVERNANCE STATEMENT 2015-16**

As required under the Accounts and Audit Regulations 2015 the Annual Governance Statement for 2015/16 had been produced. The statement included an action plan to ensure improvements to existing governance arrangements continued. Additionally, the updated action plan attached to the 2014/15 Annual Governance Statement had been provided for information, to reflect the position as at 31/03/16.

**Resolved that –**

- a) the Annual Governance Statement 2015/16, attached at Appendix 1 to the report be approved;**
- b) the information in the report be noted.**

#### **AUC 11      INTERNAL AUDIT QUARTER 4 UPDATE REPORT 2015-16; INTERNAL AUDIT PLAN 2016-17; AND INFORMATION GOVERNANCE WORK PROGRAMME 2016-17**

The Internal Audit Quarter 4 report was received by the Committee. It provided an update on the progress against the Internal Audit Charter and Plan, which included an update on the progress of the previous audit reports issued April 2013 to December 2015. The key focus during the quarter had been the completion of the fundamental audits for External Audit visit at the end of March and the completion of audits set out in the quarters plan to conclude the work for 2015/16.

The Committee noted that management actions and time scales had been agreed in order to implement the recommendations for the two Red and six Amber reports issued and that follow ups had been scheduled. However, the Chair raised a concern

about issues highlighted by Internal Audit previously, as far back as 2011, for Town Park and The Place, which had not been addressed and safeguards had not been put in place. It was suggested that a letter would be drafted from the Chair of the Committee to raise the concern with the relevant Assistant Director, the Managing Director and the Leader.

The Committee received the Internal Audit Plan 2016/17 attached at Appendix E to the report, which had been informed by internal and external sources. The plan had been based on the internal and external resources available for 2016/17. It also included the work identified by the external auditor for Internal Audit to meet external audit requirements.

The Information Governance work programme attached at Appendix F of the report was provided for the Committee to consider the effectiveness of the Council's information governance processes and compliance with legislation and best practice including the Council's information security framework. The Members noted that updates on progress would be provided to the September Audit Committee and in the 2016/17 Annual Report.

**Resolved that –**

- a) the Internal Audit update information for quarter four 2015/16 be noted.**
- b) the Internal Audit Plan attached at Appendix E of the report be approved**
- c) the Information Governance work programme attached at Appendix F of the report be noted.**

**AUC 12      INTERNAL AUDIT, INFORMATION GOVERNANCE & CALDICOTT  
GUARDIAN ANNUAL REPORT 2015/16**

The Committee received the report which provided an annual internal audit opinion and report informing the governance statement and the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. The annual report incorporated

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

Despite limited resources and adhoc requests for work the Internal Audit & IG Team had performed well and a positive contribution had been made to the governance arrangements within the Council.

It was acknowledged that the statutory responsibilities of the Council's Chief Financial Officer (section 151 officer) in respect to internal audit and internal control had been met and Internal Audit had provided reasonable assurance to the Council on the Council's internal controls, governance and risk management processes for the areas reviewed in 2015/16.

The report also included annual information in respect to Information Rights legislation (Freedom of information and data protection requests) and security incidents including data breaches.

The report also included annual information from the Caldicott Guardian in respect to the activities of the Council and progress against the action plan.

It was noted that the Internal Audit & IG Team had also continued to provide advice and guidance on governance, procedures, controls, information security and risk management. However, it was reported that major changes occurring both within and outside the Council during 2016/17 could affect the team's activities, such as:

- The continued pressure on the Council's budget strategy for 2016/17 and beyond which could result in further changes to the service and resources
- Additional service restructures and re-engineering across the Council, revised governance arrangements and reduced supervisory levels;
- The continued development of relationships with revised service delivery areas to ensure support continued for the authority in achieving its objectives.
- Consideration of future changes to the external audit and inspection regime;
- Changes in information rights legislation and guidance particularly the preparations for the General Data Protection Regulations (GDPR) which would come fully into force in 2018 (replacing the 1998 Data protection Act);
- Additional support required by the new Caldicott Guardian until they are more familiar with their role;
- The transfer of key Council projects including Adult Social Services, Children's Safeguarding to other providers, introduction of a new HR/Payroll system from 1st April 2017 and development of further commercial activities.

**Resolved that the Internal Audit, Information Governance & Caldicott Guardian Annual Report for 2015/16 be noted.**

**AUC 13      CORPORATE ANTI-FRAUD & CORRUPTION 2015-16 ANNUAL REPORT AND POLICY UPDATE**

The Committee received the report which included annual information in respect of the Corporate Anti-Fraud and Corruption activity for 2015/16 to enable monitoring of the policies operation. The report provided information for 2015/16 on counter fraud and investigation activities within the Investigation Team (Revenues), Internal Audit and Public Protection. The report also included the requirements of the Local Government Transparency Code on publication of data regarding fraud arrangements. The following points were noted in the report:

- proposed improvements to the benefits investigations process would be taking place in 2016/17 to facilitate an on-line intent to claim form. The Committee was assured that telephone services would still be accessible even though there was a drive towards educating and supporting people to use electronic services.

- the Department for Work & Pensions (DWP) “securing the gateway” initiative had been adopted by the Benefits team. The aim of the scheme was about ensuring only those properly entitled were granted and paid benefit. As part of its targeted review exercise 4,996 review forms had been issued in 2015/16. The projected results showed an annual saving of £271,952 and benefit reductions would produce an annual saving of £1,582,443. These figures were counted towards the Department for Work and Pensions Fraud and Error Reduction Incentive Scheme (FERIS) - a financial reward based on reductions in Housing Benefit. Overpaid Housing Benefit totalling £443,114 was identified during the exercise. The Committee requested a written response as to how the Housing Benefit subsidy was calculated.

The Committee noted that the Anti-Fraud and Corruption Policy supports the Council’s high standards of good Corporate Governance. It was agreed that the policy was fit for purpose at the present time in continuing to ensure the Council maintained its vigilance of Council services and the Community.

**Resolved that –**

- a) **the 2015/16 Annual Report on Corporate Anti-Fraud and Corruption activity be noted; and**
- b) **the updated Corporate Anti-Fraud & Corruption policy be agreed and to RECOMMEND its adoption by Council.**

**AUC 14      RESULTS OF THE SURVEY OF EFFECIVENESS OF THE AUDIT COMMITTEE**

The Committee received the report on the results of the survey which had been completed to review the effectiveness of the activities of the Audit Committee. It was noted that the survey had been undertaken to demonstrate good governance, best practice and to inform any training requirements of the committee. The report set out the results of the 2016 survey in comparison with the 2013 survey for members to review and consider any action to be taken.

Areas highlighted for improvement were acknowledged, which included:

- information about anti-fraud and corruption and speak up procedures- identified as a possible area of training;
- focus on the right questions, not getting involved in minutia and the quality of debate/depth (probing) of discussions.

The response rate of 41% was noted and it was suggested that the list of participants should be reviewed to address the lack of engagement. The next survey would be 2018.

**Resolved –the results of the effectiveness survey be noted**

**AUC 15      OUTLINE OF BUSINESS FOR FUTURE MEETINGS 2016-17**

The Committee noted the outline of business for future meetings..

The meeting ended at 7.40pm

**Chairman:** .....

**Date:** .....