

## **AUDIT COMMITTEE**

### **Minutes of a meeting of the Audit Committee held on Tuesday, 20<sup>th</sup> September 2011 at 6.00 pm in the Scrutiny Meeting Room, Civic Offices, Telford**

**PRESENT:** Councillors D G Davies (Chair), R.K.Austin, I.T.W.Fletcher, R.J.Sloan, W.L.Tomlinson and C.R.Turley.

**Officers:** K Clarke (Head of Finance), J.Eatough (Head of Governance), P.Harris (Corporate Finance Manager), J.Marriott (Audit & Assurance Manager), A Meredith (Customer Services Manager), B Morris (Finance Manager), P Smith and J Clarke (Democratic Services Officers).

**Also Present:** A.Cardoza and A.Bunting – KPMG External Auditors.

#### **AUC-13      MINUTES**

**RESOLVED** – that the minutes of the meeting of the Audit Committee held on 27<sup>th</sup> June 2011 be confirmed and signed by the Chairman.

#### **AUC-14      APOLOGIES FOR ABSENCE**

M McDonagh (KPMG)

#### **AUC-15      DECLARATIONS OF INTEREST**

None

#### **AUC-16      2010/11 STATEMENT OF ACCOUNTS – HEAD OF FINANCE ISA 260 GOVERNANCE STATEMENT AND OPINION ON THE 2010/11 ACCOUNTS – EXTERNAL AUDITORS KPMG**

The Corporate Finance Manager presented a report of the Head of Finance on the outcome of the Audit of the Council's accounts for 2010/11. A copy of the Statement of Accounts was appended to the report.

The 2010/11 Statement of Accounts had been the first financial statements under the International Financial Reporting Standards (IFRS) and the transition to IFRS had been very challenging. It included changes to the financial statements and it had been necessary to re-state the 2009/10 balance sheet to provide comparative information.

In accordance with the Accounts and Audit (England) Regulations 2011, the Chief Financial Officer certified the draft statement of accounts prior to the 30<sup>th</sup> June and then made them available for public inspection and provided to the external auditors, KPMG, to undertake an audit of the accounts.

A number of technical adjustments to the accounts had been made after discussion with KPMG during the course of the final accounts audit. None of the changes had

impacted on the outturn position or on the General Fund Balance position previously reported.

Andy Cardoza reported that KPMG, had substantially completed their work and were in the final phase of the Audit. An unqualified audit opinion was anticipated. The KPMG report before Members provided an overview of the external audit work to date. A total of 11 audit adjustments had been identified, but these had not had any impact upon the General Fund balance for 2010/11 or the previous year. Work was continuing with officers to resolve two technical issues, as identified on page 4 of the report. Mr Cardoza also stated that he would like to see more resources directed at the Accounts production process next year. The key issues and recommendations identified by the external audit were shown at Appendix 1, and Mr Cardoza stated that KPMG were happy with the management response.

The accounts would be published by the 30<sup>th</sup> September and would then be published on the Council's website.

During the ensuing discussion, it was suggested that it would have been beneficial to members if they had received the papers a little sooner in order that they could have looked at them more thoroughly. In the light of the comments of the external Auditor, it was suggested that the Head of Finance review the resources available within the accounting teams for the production of the Statement of Accounts. The Committee were satisfied that they had received a comprehensive set of accounts, taking into account the provisional view of the external Auditor.

**RESOLVED -**

- (a) that the 2010/11 Statement of Accounts be approved**
- (b) that delegated authority be granted to the Head of Finance, in consultation with the Chairman of the Audit Committee, to make any final changes required to the Statement of Accounts prior to publication.**

**AUC-17      CUSTOMER FEEDBACK PERFORMANCE REPORT  
(COMPLIMENTS/COMPLAINTS/FOI'S) 1<sup>ST</sup> APRIL 2010 TO 31<sup>ST</sup>  
MARCH 2011**

The Customer & Registration Services Manager presented a report which outlined customer feedback for the period 1<sup>st</sup> April 2010 to 31<sup>st</sup> March 2011. During the period the Council had received 575 compliments, 709 Freedom of Information Requests, 92 Data Protection requests, 22 Environmental Information Regulations requests and 800 Corporate Complaints. There had also been 126 statutory adult and child care complaints – whilst this is a significant increase on the previous year, the total number of complaints that elements of the complaint upheld had fallen from 551 in 2009 to 495 in 2010/11.

Whilst it was acknowledged that there had been a relatively small number of complaints registered compared with the number of services the Council provided on a daily basis, those complaints that had had elements of the concerns upheld often

led to service improvements being identified. The report detailed service areas where improvements had been made, including Safeguarding Services, Leisure, Environmental Services and Refuse and Recycling. .

A discussion took place regarding Freedom of Information (Fol) requests. The requests had a big impact on officer time and resources and had been increasing quite rapidly. Members suggested that it would be useful to find out the cost to the Council of responding to Fol requests. The Audit & Assurance Manager advised that from the 3<sup>rd</sup> October Audit and Assurance would be taking over FOI requests and they would be collecting information to start quantifying the cost involved with these requests. It was expected that the end of December quarter figures would be available for the meeting due to take place in March. In response to a question, the Customer Services Manager advised that Fol requests could not be treated as vexatious unless they were exactly the same as a previous request.

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

**AUC-18      2010/11 ANNUAL REPORT – CORPORATE ANTI-FRAUD & CORRUPTION ACTIVITY**

The Audit & Assurance r Manager presented a report on the corporate anti-fraud and corruption activity during 2010/11. This was the third annual report which enabled the Audit Committee to monitor the policies in operation (as required in its Terms of Reference).

Indications from the Police had been that fraudulent activity had and would continue to increase during the recession. It was important that the Council continued to maintain vigilance in respect of Council services and the Community.

Information regarding counter fraud and investigation activities within Benefits, Internal Audit and Trading Standards, including Licensing could be found in the report and it was noted the Council's procedures and controls had been designed to minimise the opportunity for fraud and highlight where fraudulent activity may have taken place.

Internal Audit had an important role in the investigation of suspected internal fraud, and assisting managers in ensuring they had appropriate systems and controls in place to prevent fraud. A summary of the fraud risk areas and audit action taken during 2010/11 was appended to the report.

The Council had a statutory responsibility to provide data to the Audit Commission for the prevention and detection of fraud as part of the National Fraud Initiative (NFI). This was an electronic data matching exercise, with completion set for the end of December 2011.

During the ensuing discussion, the view was expressed that training and awareness was very important not just for staff but also for Members. The Audit & Assurance Manager advised that further training for Members had been scheduled for March 2012. It was asked how much of the benefits overpayments mentioned in the report

amounting to £422,565.50 had actually been recouped. The Audit & Assurance Manager said she would find out and provide the information to members of the Committee.

**RESOLVED** – that the 2010/11 Annual Report on Corporate Anti-Fraud and Corruption activity be noted.

#### **AUC-19      INFORMATION GOVERNANCE ANNUAL REPORT 2010/11**

The Audit & Assurance Manager presented the Information Governance Annual Report for the period 2010/11.

This was the first annual Information Governance Report and was a key component of good governance and assurance. It consisted of several aspects including:

- Data Protection & Privacy
- Freedom of Information
- Information Security
- Information Sharing & Confidentiality
- Information & Records Management
- Information Quality & Assurance

Information Governance investigated all instances of alleged data breaches which varied from the loss of a blackberry, to confidential/sensitive information being communicated to an unauthorised and/or incorrect recipient. Of the 18 reported instances between 1 October 2010 and 31 March 2011 9 data breaches had occurred. For each of these breaches Information Governance agreed actions with the relevant management team. None of the confirmed data breaches had been deemed serious enough to be referred to the Information Commissioner's Office.

The report also set out the resources and management arrangements for the Information Governance function.

Members asked a number of questions regarding the security of the Council's data, and access to Council systems. The Audit & Assurance Manager reported that access to certain items of data was restricted and that officers who had been found to be inappropriately using the Council's data would be severely dealt with. In relation to data sticks, only encrypted data sticks should be used for Council data but most officers carried laptops which had been also encrypted. The security of systems was looked at as part of the auditing process, and a Security Group met monthly to consider any issues.

**RESOLVED** – that the Information Governance Annual Report 2010/11 be noted.

#### **AUC-20      AUDIT COMMITTEE ANNUAL REPORT 2010/11**

The Audit & Assurance Manager presented the report of the Head of Governance which would be presented to Full Council in November.

This was the third report to Council on the operations of the Audit Committee. There had been 6 meetings of the Audit Committee during 2010/11. The Committee had reviewed its Terms of Reference at the first meeting of the municipal year, as set out in the Constitution, but no changes had been required at that time and no further changes had been made during the year.

The Committee had some challenging meetings during the year ie Dawley Town Hall lease review, and had continued to seek assurance for Members and the Community on audit, governance, risk management , financial statements, Treasury Management, complaints and anti-fraud and corruption arrangements.

A change to the administration following the elections during May 2011 had meant an increase to the membership of the Audit Committee from six to seven members. General training had been provided to all members and additional more specific training would be ongoing during 2011. At the February 2012 meeting the Committee would be reviewing their knowledge and skills in order to assess further training requirements and the necessity of appointing a suitably skilled/experienced co-optee to enhance the committee's effectiveness. A review of the Terms of Reference during 2011/2012 to reflect the move to a Co-operative Council might be needed.

**RESOLVED – that the Annual Report 2010/11 be noted.**

#### **AUC-21      INTERNAL AUDIT QUARTER 1 2011/12 UPDATE REPORT**

The Audit & Assurance Manager presented the Internal Audit Quarter 1 2011/12 update report for April to June 2011. It focussed on the completion of the audits set out in the Internal Audit Plan.

Due to limited resources, a review of working practice had been undertaken with regard to follow ups. All amber and red reports had been followed up with a visit from audit to ensure that the recommendations had been implemented as agreed by management. Yellow reports had been followed up with a template to the Manager which was completed and returned to Audit Services together with the required evidence. Managers were no longer chased for a response, but the grading of the report would not be changed until the follow up evidence had been provided.

Three reports remained amber. Although responses to two of the reports had been delayed by the organisational restructure, it was hoped improvements would be reported in the next update report. The other report concerned Adams Grammar, which from September 2011 had become an Academy outside the local authority.

In response to a question from Cllr Tomlinson it was confirmed that a report would be provided to a future meeting of this committee that would relate to a procurement undertaken by the Council in 2008

In response to a question, the Audit & Assurance Manager advised that the audit of Children's Placement Costs 2010/11 would be reported at the next meeting of the Committee.

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

Cllr C Turley left the meeting at 7.13pm

**AUC-22      EXCLUSION OF PUBLIC AND PRESS**

**RESOLVED - that the press and public be excluded from the meeting for the following item of business on the grounds that it involved the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.**

**AUC-23      TREASURY MANAGEMENT UPDATE**

The Head of Finance presented a report regarding a Treasury Management investment where the counterparty's credit rating was now below the requirement for new investments.

Given the unprecedented turbulent economic conditions that had been experienced in recent months and the uncertainties that lay ahead, Members were given an update on the situation with regard to the investment, and received advice via a telephone link from the Council's treasury advisors

Members gave careful consideration to the information received and, following a full discussion and confirmation of the monitoring arrangements for investments, it was

**RESOLVED -**

- (a) That in the Committee's view, the Council should continue to hold the investment;**
- (b) That the position should be subject to close monitoring and an update/monitoring report be brought to the next meeting on 1<sup>st</sup> November 2011**

The meeting ended at 7.34 p.m.

**Chairman:**

**Date:**

**TELFORD & WREKIN COUNCIL**

**AUDIT COMMITTEE – 1 NOVEMBER 2011**

**TREASURY MANAGEMENT UPDATE REPORT**

**REPORT OF THE CHIEF FINANCE OFFICER AND HEAD OF FINANCE**

**PART A – SUMMARY REPORT**

**1. SUMMARY**

The report updates members on Treasury Management activities for the first half year.

The Committee may, within their terms of reference, make recommendations to Cabinet.

The treasury portfolio at the end of September shows overall net indebtedness at £59m (borrowing : £134m less investments: £75m). Base rates have been 0.5% all year with the next move expected to be upwards but not until late 2012 at the earliest.

The borrowing strategy is to use maturing investments to reduce the level of additional borrowing required to support the capital programme. This will allow the Council to reduce investment exposure going forward, given the current unprecedented uncertainty in the financial markets, which has recently seen major banks and sovereign states downgraded. Temporary borrowing is used to fund short term cash flow requirements.

Investments are managed internally and are a mixture of shorter temporary investments for cash flow purposes and longer term investments. All investments are closely monitored, taking advice from the Council's specialist Treasury Advisors, Arlingclose. The weighted average return on internal investments at 30 September was 3.27% compared to a benchmark return for the period of 0.42%. A schedule of investments held at 30 September is shown at Appendix 1.

Overall treasury management is generating a net surplus over 2011/12 budget of £0.445m, which was included in the financial monitoring report taken to Cabinet on the 20 October 2011.

Prudential Indicators are set at the beginning of the financial year and the position against these is shown in Appendix 2 which confirms that no limits have been breached.

2. **RECOMMENDATIONS**

Members are asked to note the treasury management activities and the update on prudential indicators.

3. **SUMMARY IMPACT ASSESSMENT**

**COMMUNITY IMPACT** Do these proposals contribute to specific priority plan objectives?

Yes/No Efficient Community Focussed Council

Will the proposals impact on specific groups of people?

Yes/No

**TARGET COMPLETION / DELIVERY DATE**

Part of ongoing Treasury Management Activities within the Treasury Management Strategy and Policy approved by Council.

**FINANCIAL/VALUE FOR MONEY IMPACT**

Yes/No Where appropriate these are detailed in the body of the report.

**LEGAL ISSUES**

Yes/No The Head of Finance and (Section 151 Officer) has responsibility for the administration of the financial affairs of the Council. In providing this report the Head of Finance is meeting one of the responsibilities of the post contained within the Council's Constitution at Part 2, Article 12, paragraph 12.04(f) which states "The Chief financial Officer will contribute to the promotion and maintenance of high standards of governance, audit, probity and propriety, risk management and the approval of the statement of accounts through provision of support to the Audit Committee."

**OTHER IMPACTS, RISKS AND OPPORTUNITIES**

Yes/No The key opportunities and risks associated with treasury management activities are set out in the body of the report and in the Treasury Management Strategy and Policy approved by Council and will be regularly monitored throughout the year.

**IMPACT ON SPECIFIC WARDS**

Yes/No

## PART B – ADDITIONAL INFORMATION

### 4. 2011/12 TREASURY MANAGEMENT UPDATE

#### 4.1 CURRENT PORTFOLIO POSITION

	<i>31 March 2011</i>	<i>30 Sept 2011</i>
	Principal	Principal
	£m	£m
Fixed Rate Borrowing - PWLB	70.905	74.243
Fixed Rate Borrowing - LOBO	55.000	55.000
Variable Rate Borrowing - LOBO	<u>5.000</u>	<u>5.000</u>
<b>Total Debt</b>	<b>130.905</b>	<b>134.243</b>
Investments - in-house	75.678	75.000
- with external managers	<u>0.000</u>	<u>0.000</u>
<b>Total Investments</b>	<b>75.678</b>	<b>75.000</b>
<b>Net Indebtedness</b>	<b>55.227</b>	<b>59.243</b>

#### 4.2 INTEREST RATES

Base rates began the year at 0.5% and have remained there all year. The Bank of England extended its Quantitative Easing programme in October by £75bn to £275bn. The next move in the base rate is expected to be upwards, but not until late 2012 at the earliest.

#### 4.3 BORROWING & RESCHEDULING

The borrowing strategy for the remainder of the current year is to use maturing investments to reduce the level of additional borrowing.

##### **Rescheduling**

During 2011/12 no rescheduling has taken place as market conditions have not been favourable, however the scope for opportunities is regularly monitored.

##### **New Borrowing**

During May one of our short term PWLB loans for £5m matured and in August a new PWLB loan has been taken for £10m for a period of 3 years with repayment of principal at maturity. This was to partially replace the loan that matured in May and the £10m maturity we have in November given the level of capital programme funding required. The borrowing has been undertaken to take advantage of favourable rates.

Between the period 1 June 2011 (previous Member update) and 30 September 2011, £25.5m of temporary loans have been raised in order to fund short-term cash flow requirements at various points. Interest rates have ranged from 0.30% to 0.50% - interest rates have remained fairly low during this time. £2.2m of this temporary borrowing was outstanding at 30 September 2011.

## 4.4 INVESTMENTS

The strategy for the current year is: To gain maximum benefit, subject to risk control parameters, whilst achieving as a minimum target the 7 day deposit rate. As part of the risk strategy we are also now looking to run investment levels down as opportunities arise in order to reduce exposure.

### 4.4.1 Investments

The Council's investments are internally managed - a mix of both temporary investments for cash flow purposes and longer term investments are undertaken:

#### Temporary Investments

A proportion of funds are invested by the Council's own officers in order to maximise returns from day to day cash flows. The target return is to achieve at least the seven day deposit rate.

In total £514.8m of investments were placed between 1 June and 30 September. Interest rates have ranged from 0.25% to 0.80% and periods ranged from overnight deposits to 90 days. £5.0m temporary investments were held at 30 September 2011 in an RBS Call Account.

#### Longer Term Investments

A number of internally managed deposits have been made over recent years. These are as follows.

Fixed or Variable Interest Rate	Duration	£m	%
Fixed Deposit – Dexia	01/10/08 – 01/10/13	5.0	6.62
Fixed Deposit – RBS	02/10/08 – 02/10/13	5.0	6.80
Variable Deposit – RBS	30/07/08 – 30/07/12	10.0	1.08
Fixed Deposit – Barclays	03/08/09 – 01/08/14	5.0	6.32
Fixed Deposit – Barclays	06/03/09 – 06/03/14	5.0	6.31
Fixed Deposit – Barclays	31/03/09 – 31/03/14	5.0	6.37
Fixed Deposit - Barclays	22/04/09 – 22/04/14	5.0	6.35
Fixed Deposit – Lloyds TSB	18/11/10 – 17/11/11	5.0	1.90
Fixed Deposit – Lloyds TSB	27/05/11 – 27/07/12	5.0	2.65
Fixed Deposit – Santander	27/05/11 – 22/11/11	10.0	1.41
Fixed Deposit – Lloyds TSB	08/08/11 – 06/08/12	10.0	2.17
Total		70.0	

The Council employs a firm of specialist Treasury advisers, Arlingclose, whose role is to advise on all treasury management matters and particularly to advise on investments.

In the light of the unprecedented turmoil in financial markets affected particularly by sovereign debt ratings in the euro zone, which has also impacted on the credit ratings of major banks, Arlingclose's current guidance is that new investments should not be placed for longer than 6 months. However they do not generally recommend seeking to withdraw early from existing term deposits. The majority of the Council's term investments were placed before the start of the financial crisis which resulted in recommended periods for maximum duration being shortened. The council is however benefiting from very attractive rates of interest on some of these longer term investments that are no longer available.

Overall the weighted average return on internal investments for the year to date was 3.27% compared to a benchmark return for the period of 0.42% representing a projected annual additional £2.2m generated over what we would have achieved had all the investments been short term.

We have one investment with the Dexia bank which was backed by the governments of Belgium, France and Luxembourg - £5m placed for 5 years at 6.62% pa on 1<sup>st</sup> October 2008 with interest payable at maturity. This bank group has recently come under significant financial pressure due to its exposure to Greek debt and this has resulted in changes to the bank group structure with the Belgium Government taking 100% state ownership of that part of the bank holding our investment. Thus the position on the Council's investment is that it resides with that part of the bank which is now 100% guaranteed by the Belgium Government. The current credit rating of Dexia is Long term F1+, Short term A+, Individual D and Support 1 which falls below the Council's minimum requirement of F1+, A+, C, 1 for new investments. Acting on advice from our treasury advisers the Council has made enquiries about terms for a premature repayment of this existing investment and we are awaiting a response.

#### **4.4.2 Overall Position and Exposure**

Overall treasury is generating a net surplus over 2011/12 budget of £0.445m, which was included in the financial monitoring report taken to Cabinet on the 20 October 2011.

Appendix 1 shows the Council's total investment with each counterparty at 30<sup>th</sup> September. Our current maximum exposure permitted under the Council's Treasury Management Policy is £20.0m with any one counterparty. Counterparty limits will be reviewed when our long term investments mature and in the light of changes to credit ratings. At the end of September the greatest exposure with a single counterparty was £20.0m with both Barclays and Royal Bank of Scotland (£20m represents 26.7% of the total portfolio).

No investments in Supranational Bonds were held at the end of September.

#### **4.5 LEASING**

Each year the Council arranges operating and finance leases for assets such as vehicles, computers and equipment. This helps to spread the cost over a number of years.

The first drawdown for 2011/12 is in progress for completion at the end of the month. It is likely to amount to around £565,000 for minibuses.

#### **4.6 PRUDENTIAL INDICATORS**

Prudential Indicator monitoring. The position against prudential indicators as at the end of September is shown in Appendix 2. As can be seen all indicators are within the limit set, no limits have been breached during the year and no limits have been revised from those set in March.

<b>5.</b>	<b><u>PREVIOUS MINUTES</u></b>
	Audit Committee 1 February 2011 Council 3 March 2011 Audit Committee 27 June 2011

#### **6. BACKGROUND PAPERS**

CIPFA Code of Practice for Treasury Management in Local Authorities  
Temporary Borrowing Records  
PWLB records  
Investment records  
Draft Treasury Strategy provided by Arlingclose  
Local Government Act 2003  
CLG Guidance on Local Authority Investments  
Audit Commission – Risk and Return

Report prepared by  
Bernie Morris, Finance Manager (01952) 383702  
Ken Clarke, Head of Finance (01952) 383100.

<b>SUMMARY OF INVESTMENTS AS AT 30 SEPTEMBER 2011</b>				
	<b>CREDIT</b>	<b>CREDIT</b>		<b>%</b>
	<b>RATING</b>	<b>RATING</b>	<b>TOTAL</b>	
	<b>Sovereign</b>		£'000's	
<b>FIXED TERM DEPOSITS</b>				
Barclays	UK AAA	F1+ AA- B 1	<b>20,000</b>	
Dexia	Belgium AA+	F1 A D 1	<b>5,000</b>	
Lloyds/TSB	UK AAA	F1 A C 1	<b>20,000</b>	
Royal Bank of Scotland	UK AAA	F1 A C 1	<b>10,000</b>	
Santander	UK AAA	F1+ AA- B 1	<b>10,000</b>	
	<b>TOTAL</b>		<b>65,000</b>	<b>86.67</b>
<b><u>VARIABLE DEPOSITS</u></b>				
Royal Bank of Scotland	UK AAA	F1 A C 1	10,000	<b>13.33</b>
	<b><u>TOTAL</u></b>		<b><u>75,000</u></b>	<b><u>100</u></b>
<b>FITCH CURRENT RATINGS</b>				

**2011/12 Prudential Indicators Monitoring**

PRUDENTIAL INDICATOR	2011/12	2011/12
	Budget	Projected
<b>Council Tax</b>	£p	£p
Increase in council tax (band B, in year)	-0.96	-0.96
	£m	£m
<b>Capital Expenditure</b>	105.470	100.190
<b>Ratio of financing costs to net revenue stream</b>	2.60%	2.30%
<b>Capital Financing Requirement (as at 31 March)</b>	284.4	258.6
<b>Authorised limit for external debt</b>		
Borrowing	330	221
Other long term liabilities	6	1
<b>TOTAL AUTHORISED LIMIT</b>	<b>336</b>	<b>222</b>
<b>Operational Boundary</b>		
Borrowing	310	221
Other long term liabilities	4	1
<b>TOTAL</b>	<b>314</b>	<b>222</b>
<b>Upper and lower limit for fixed interest rate exposure</b>		
Expressed as :-		
Upper Limit for Fixed Interest Rate Exposure:	100%	89%
<b>Upper limit for variable rate exposure</b>		
Expressed as -		
Upper Limit for Variable Interest Rate Exposure	30%	11%
<b>Upper limit for variable rate exposure expressed as</b>		
Net principal re gross variable rate borrowing and investments divided gross borrowing plus investments	80%	8%
<b>Upper limit for total principal sums invested for over 364 days</b> (per maturity date)	95%	80%

<b>Maturity structure of fixed rate borrowing</b>	Lower Limit	Upper limit	Projected
Under 12 months	0%	20%	8%
12 months and within 24 months	0%	25%	5%
24 months and within 5 years	0%	50%	18%
5 years and within 10 years	0%	75%	4%
10 years and within 20 years	0%	75%	0%
20 years and within 30 years	0%	75%	0%
30 years and within 40 years	0%	100%	0%
40 years and within 50 years	10%	100%	22%
50 years and above	15%	100%	43%

## **TELFORD & WREKIN COUNCIL**

**AUDIT COMMITTEE 1st NOVEMBER 2011**

### **RESULTS OF THE ASSURANCE REVIEW ON THE 2010/11 ANNUAL GOVERNANCE STATEMENT and HALF YEARLY PROGRESS ON THE 2010/11 AGS ACTION PLAN**

#### **REPORT OF THE INTERIM CHIEF EXECUTIVE**

## **1 PURPOSE**

1.1 For the Audit Committee to note:

- a) the results of the assurance review on the 2010/11 Annual Governance Statement: and
- b) progress against the actions in 2010/11 Annual Governance Statement Action Plan.

## **2 RECOMMENDATIONS**

2.1 That the Audit Committee notes the results of the review in paragraph 5 below and progress against the actions in the 2010/11 Annual Governance Statement Action Plan (Annex 1).

## **3 SUMMARY**

- 3.1 Under the Accounts and Audit (England) Regulations 2011 the Council is required to produce an Annual Governance Statement (AGS) and it is best practice that the statement is signed by the Leader and Chief Executive of the Council. This statement should accompany the Annual Accounts.
- 3.2 The Annual Governance Statement for 2010/11 was agreed by Cabinet and the Audit Committee in June 2011. Included as part of the statement is an action plan which identifies key corporate areas for improvement for the Council.
- 3.3 Audit & Assurance, as part of their annual plan, review the certifications made by senior management to confirm accuracy and identify any operational areas for improvement. The results of this review are incorporated into this report.
- 3.4 The Audit Committee is responsible for monitoring the AGS action plan and this report provides information to assist them to achieve this responsibility.

## **4 PREVIOUS MINUTES**

4.1 Cabinet 21<sup>st</sup> June 2011; Audit Committee 27th June 2011

## **5 RESULTS OF THE ASSURANCE OF THE AGS CERTIFICATION PROCESS**

- 5.1 A review was undertaken during July 2011 of the certification process and verification of a sample of completed certificates to support the 2010/11 annual governance statement.
- 5.2 All Service Delivery Managers completed a certificate and then their Head of Service signed off an overarching certificate. 14 (19%) were examined as part of the review from across all Service Delivery Units. Interviews also took place with these managers.

5.3 The review identified good practice in respect to:

- \*\* Some Service Delivery Teams have dedicated officers dealing with legislative changes with responsibility for cascading these to officers within the team.
- \*\* Savings targets have been met, or are on track to be met, in the majority of teams reviewed.
- \*\* One team puts all key policies and procedures on a cd and staff are given a copy (updated annually) so they can access these wherever they are based.

5.4 The review identified three key issues which are outlined below with recommendations.

- Greater awareness of key corporate policies and procedures is required. *Organisational improvement need to work with appropriate service units to ensure this is addressed as part of induction, the future core training proposals and the use of technology. (Some work is already progressing in respect to this).*
- The measurement of customer satisfaction within the Council was not being measured. This has been due to the restructuring programme and the withdrawal of the corporate support services survey. *The collection of customer feedback should be reviewed as part of 2012/13 service planning.*
- Non-staff savings are affecting training budgets at a time when restructuring is resulting in new personnel with some skills gaps and therefore an increase in demand for training. *Managers, supported by Organisation Development need to be innovative about how training can be provided i.e. through e-learning, webinars, shadowing etc.*

5.5 Other areas where reminders are required are in respect to the use of “Yourself” and complying with the revised PPD process.

5.6 The results of the review were that overall the governance process was reasonable and service areas are addressing the issues identified which will result in improved governance across the Council.

## **6 INFORMATION ON THE ANNUAL GOVERNANCE STATEMENT ACTION PLAN 2010/11**

6.1 The 2010/11 Annual Governance Statement (AGS) Action Plan presented and agreed by Cabinet and the Audit Committee in June 2011 included 5 actions to improve further the key governance arrangements of the Council.

6.2 Attached as Annex 1 is the updated 2010/11 AGS Action Plan with the current position as at 30/09/11 of these actions shown in the right hand side of the appendix.

6.3 Members will note that:

- a) Action 1 – this is progressing as part of the senior management review being undertaken by the Interim Chief Executive.
- b) Action 2 – some areas are complete and others are in progress as per the original target dates. The revised external audit arrangements will be published in Autumn 2011 but the Audit Commission will appoint for the next 3- 5 years.
- c) Action 3 - progressing and updated to incorporate the co-operative council.
- d) Action 4 – implementation of action plans from external assessments progressing according to agreed timetables.

e) Action 5 – part (a) – still in progress with revised target date of 31/01/12. Part (b) complete. Part c – in progress and on target for 31/03/12.

6.4 The Senior Management Team and relevant Heads of Service are confident that the actions are progressing and that the deadlines outlined will be achieved.

6.5 Progress as at 31/03/12 will be incorporated into the 2011/12 Annual Governance Statement.

## **7 OTHER CONSIDERATIONS**

<b>AREA</b>	<b>COMMENTS</b>
Equal Opportunities	Inclusivity is clearly in the Local Code of Good Governance
Environmental Impact	None
Legal Implications	Accounts and Audit (England) Regulations 2011 place a legal obligation upon local authorities to maintain an adequate and effective system of internal audit of its accounting records and internal control in accordance with proper practices. The regulations also have a key aim of strengthening governance and accountability. Providing the half yearly update on the governance action plan to this committee is not a legal requirement. However, it will help the Council to meet the requirements of the legislation as it involves a review of the action plan and helps to ensure that the plan maintains momentum and accordingly addresses the areas for improvement identified in the annual governance statement.
Links with Corporate Priorities	The Local Code of Good Governance should ensure improved links with the community and the delivery of appropriate corporate priorities in an open and accountable manner.
Risks and Opportunities	Demonstrating and operating good corporate governance mitigates some of the risks to the Council, particularly ones that may have an impact on the Council's reputation. The opportunities and risks associated with this report have been identified and action has been put in place to ensure that they are appropriately managed.
Financial Implications	Good corporate governance and internal controls reduces the risk to the Council of financial loss. The majority of costs associated with items arising from the action plan are in the form of officer time and are being met from within existing budgets. MLB 11.10.11
Ward Implications	Failure of the Council to operate to the code of Good Governance could adversely affect all Wards of the Council.

## **8 BACKGROUND PAPERS**

Local Code of Corporate Governance May 2008

Application Note to Delivering Good Governance in Local Government: a Framework March 2010

Annual Governance Statement 2010/11

Report by Jenny Marriott, Audit & Assurance Manager 383101

## ACTION PLAN FOR 2010/11 AGS – HALF YEAR UPDATE 30/09/11

No	Action	Lead Officer	Original Comments	Original Date	Revised Position/Comments and updated target date
1.	Strategic management of organisational change and the development of the new administrations governance requirements. Strategic management of the implementation of the revised governance framework (encompassing the corporate governance structure incorporating information, information technology, partnership and project governance).	SMT (including the Monitoring Officer)	Understanding the revised governance requirements and confirming their legality. Confirming the requirements are incorporated into any changes to the Constitution, strategies and policies. Endorsing an awareness programme for officers and members.	Ongoing 31/03/12	The development and implementation of revised governance arrangements are on going as part of the restructures. However they are also part of the senior management review being undertaken by the Interim Chief Executive On going
2.	Managing Decision making: a) Implementation of the Strong leader model; b) Implementation of the revised governance staff structure; c) Embedding the new administration; d) Clarifying officer/member roles & responsibilities including delegations e) Developing Member/officer relationships including revised standards regime f) Continued development and implementation of transparency agenda. g) Other constitution changes to reflect the revised organisational structures & ways of working h) Preparations for the revised external audit arrangements.	Head of Governance	This action develops further the implementation of previous actions in respect to the Constitution and has been updated to include the implementation or preparation of key governance areas including embedding the new administration, the implementation of the Governance Unit restructure the requirements of the Localism Act and revised external audit arrangements.	Some action will be completed during 2011/12 and others will still be in development and progress by 31/03/12.	a) Complete b) Complete c) to g) On-going h) Audit Commission procuring external auditors for 2012/13 to 2014/15 or 2016/17. However announcement re future arrangements including the Council procuring their own external auditors due by 31/12/11 so planning will then commence.

No	Action	Lead Officer	Original Comments	Original Date	Revised Position/Comments and updated target date
3.	<ul style="list-style-type: none"> <li>• Review of our Workforce Development priorities and delivery</li> <li>• Continue to review and update the management competencies and skills required in the revised organisation. Review of HR policies and processes to support the organisational changes.</li> </ul>	Interim Chief Executive (RP)	Work continues to develop the people aspects of the revised One Council One Team One Vision and appropriate cultures to support good governance.	31/03/12	<p>Work continues to develop the people aspects of the Council including the requirements to support a co-operative Council and to ensure appropriate cultures to good governance. The Safeguarding Children Workforce Strategy refresh has been completed.</p> <p>31/03/12</p>
4.	Implement action plans from external assessments and inspections.	Interim Chief Executive & appropriate Heads of Service.	Action plans to address relevant governance issues from external assessments/ inspections have been and will be included in appropriate priority/service area plans.	Ongoing but by 31/03/12	Implementations of action plans from external assessments are progressing according to the deadlines agreed.
5.	<p>Data and information security:</p> <ul style="list-style-type: none"> <li>a) Continue the development &amp; implementation of ICT service continuity &amp; resilience within the ICT infrastructure.</li> <li>b) Implement the transfer of the administration and management of the Council's information right's legislation to Governance.</li> <li>c) Continue the implementation of revised systems &amp; procedures for safeguarding.</li> </ul>	Head of Property & ICT, Head of Governance and Head of Safeguarding	<p>Deadlines:</p> <ul style="list-style-type: none"> <li>a) Completion of work from 2010/11</li> <li>b) This change has arisen out of a review of the freedom of information arrangements within the Council and will be implemented in the second quarter of 11/12</li> <li>c) This is the continuation and completion of work commenced during 2010/11 which was identified during internal and external reviews.</li> </ul>	<p>Dates:</p> <ul style="list-style-type: none"> <li>a) 31/10/11</li> <li>b) 31/10/11</li> <li>c) 31/03/12</li> </ul>	<ul style="list-style-type: none"> <li>a) Disaster recovery and business continuity plan and resilience are progressing well. Over 70% of systems have now been replicated including key business drivers e.g. mail etc. There are a few systems still to be completed which have been delayed due to the timing of delivery having a major effect on the business and the service to their clients as well as the implications of restructure. ICT and the service areas concerned are working with suppliers to minimise any disruption but for some areas it is critical to plan the implementation of this work so as not to affect the support to clients. All areas should be covered (subject to services being able to accommodate implementation) by January 2012.</li> <li>b) Effective from 03/10/11</li> <li>c) On-going</li> </ul>

## **TELFORD & WREKIN COUNCIL**

**AUDIT COMMITTEE 1<sup>st</sup> NOVEMBER 2011**

**INTERNAL AUDIT QUARTER 2 2011/12 UPDATE REPORT**

**REPORT OF THE AUDIT & ASSURANCE MANAGER**

### **1 PURPOSE**

- 1.1 To update members on the work of Internal Audit during quarter two – July – September 2011.

### **2 RECOMMENDATIONS**

- 2.1 That members of the Audit Committee note the information in the quarter two update report.

### **3 SUMMARY**

- 3.1 The Audit Committee receives a quarterly update of the work of Internal Audit. This report includes the update report for quarter two – July - September 2011.

### **4 PREVIOUS MINUTES**

- 4.1 Audit Committee 22<sup>nd</sup> March 2011 – Internal Audit Annual Plan and Strategy 2011/12  
Audit Committee 20<sup>th</sup> September 2011 Internal Audit Quarter 1 2011/12 Update Report

### **5 INTERNAL AUDIT – QUARTER TWO UPDATE (JULY - SEPTEMBER 2011)**

- 5.1 The report provides information on the work of Internal Audit during July to the end of September 2011 and provides an update on the progress of previous audit reports issued (April 2009 to June 2011).
- 5.2 Internal Audit activity during this period has focussed on the completion of the audits set out in the Internal Audit Plan. Some more work has been undertaken during the quarter to support the new financial management system. In addition work has continued to complete the ICT procurement review. This is near finalisation and will be reported as part of the update to the January 2012 Audit Committee.
- 5.3 This quarter the Internal Audit team became responsible for co-ordinating complaints referred to the Ombudsman. To date this has had a minimal impact on the resources available for Internal Audit work and resources are now identified for this work during planning. However due to the unpredictability of this work this will be kept under review.
- 5.4 The following appendices are attached to the report:
- i) Appendix A – List of final reports issued in quarter two with our grading – red, amber, yellow or green. This report also includes budgeted time, actual time and percentage variance.
  - ii) Appendix B – List of all work undertaken for quarter two of 1 day or more.

- iii) Appendix C - Previous graded reports from April 2009 to June 2011 with their current status. (Members should note that green reports have now been excluded from this report).
- iv) Appendix D – Summary of Amber reports issued quarter 2.

5.5 Appendix A shows that 11 final reports were issued in quarter 2.

5.6 The audit areas shown in the table below were different to their allocated time by more than +/- 5% for the reasons highlighted below:

<b>Area</b>	<b>Variance (&gt; +/- 5%)</b>	<b>Reason</b>
The Place, Oakengates	+162%	The whole area had not been audited for a number of years and so the scope was significantly wider than the original time estimate would have covered. The draft report identified 27 recommendations. 18 were implemented at draft discussion and the remainder implemented September 2011. Now green.
Frozen Meals Contract	+18%	Additional time spent reviewing the contract in detail as larger than anticipated.
Abacus	+13%	Additional testing due to interface and use by Adults and potentially Children's services. Some delays in finalising report due to changes to responsibilities.
Treasury Management	-43%	Time increased previously due to the banking crisis but revised systems in place so reduced time required. Also there were no loans to be sampled.
Travel Link	-26%	Systems and procedures in place which meant easier to undertake the review.
Risk management	-25%	Systems and procedures in place which meant easier to undertake the review.
P2 Net	-6%	Only slightly under.

Future time allocations will be reviewed based on these experiences.

5.7 Areas of more than 10 days in Appendix B are explained below:

- a) Advice and Guidance including organisational change – continuing requests due to organisational and systems/process changes
- b) Cash collection, Council tax, NNDR and Treasury Management – all annual audits where we are required to complete internal assurance but also the external auditors control reviews.
- c) ICT procurement review – the time allocation for this audit was 25 days. Time has been spent this quarter as well as during last quarter.
- d) Performance indicators – covered the carbon reduction indicators as well as those published on the website and Council promises.

5.8 From Appendix C the position on the original red/amber reports that remain amber or require highlighting to members are as follows.

No	Area Audited	Original grade	Revised grade	Current position/comments
1.	Car Parking and enforcement	Amber		See paragraph 5.9 below.
2.	Review of Financial Records in a Care Home	Amber	Green	Satisfactory follow up.
3.	Arthog Complaint	Amber	Green	Satisfactory follow up
4.	Protocol system review	Amber	Yellow	Follow up received but some recommendations still outstanding. Further follow up to be completed in quarter 3.
5.	Children's Placement Costs 2010-11	Amber		Follow up still in progress. Update will appear in future report to members

- 5.9 The table shows that there are two reports that have remained amber. Due to restructuring the Car Parking and enforcement follow up responses have been delayed but we have been advised that new systems and contracts are to be implemented incorporating the Internal Audit recommendations made. We will therefore undertake a full review of these revised arrangements in Spring 2012 and report back to members. We are still chasing the Children's Placements follow up and therefore the grade remains amber. The follow ups for the Review of Financial Records in a Care Home and Arthog Complaint are now satisfactory and graded green. The Protocol system improvements are taking place with a further review to be completed in quarter 3.
- 5.10 There were two amber reports issued in quarter 1 and summary information is provided in Appendix D. These were in respect to the Abacus system and ICT Backup and Recovery. Recommendations have been made and actions and deadlines to implement them have been agreed with management. Follow ups to review implementation will take place in February 2012 and December 2011 respectively.
- 5.11 All other areas previously audited are either improving or the follow ups are in progress or planned. Internal Audit is confident and it has been assured by management that controls have and will continue to improve in all areas where recommendations have been made. There are no other issues to bring to the attention of the Committee at this time.

## **6 OTHER CONSIDERATIONS**

AREA	COMMENTS
Equal Opportunities	All members of Audit & Assurance have attended equal opportunities/ diversity training. If any such issues arose during an audit or risk review they would be notified to the appropriate manager.
Environmental Impact	Such issues would be notified to the appropriate manager during or immediately following the audit review.
Legal Implications	The Accounts and Audit (England) Regulations 2011 states that the Council shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control. There is also a requirement to give consideration to CIPFA's Code of Practice for Internal Audit in Local

	Government. Undertaking the audits as set out in the report and providing an update to this Committee contributes towards meeting these requirements. In the event that an audit reveals an issue which requires a recommendation concerning a legal matter this can also be referred to the Council's Legal Services Team for further advice and assistance.
Links with Corporate Priorities	The audit plan is linked to corporate priorities via the risk management process. Where high risks are identified then Audit Services undertakes work on a more regular basis.
Risks and Opportunities	The role of internal audit includes a review of the controls in place to manage the risks within service areas. The reports produced assist the Council in improving systems and controls (reducing risks) and therefore the delivery of services and achievement of objectives.
Financial Implications	There are no financial implications arising from this report. Where recommendations are made by Audit Services, if possible, cost implications are identified.
Ward Implications	Internal Audit is responsible for the internal audit of all the Council's activities and at all Council locations and therefore operates within all Council Wards.

## **7 BACKGROUND PAPERS**

Annual Audit Plan 2011/12

Report by Jenny Marriott, Audit & Assurance Manager 383101

## FINAL REPORTS ISSUED QUARTER TWO – JULY – SEPTEMBER 2011

Audit Area	Opinion	Follow Up Due	Days allocated	Days Taken	Variance
ICT Back up and Recovery	Amber	December 2011	*		
Server Virtualisation	Yellow	November 2011	*		
The Place Oakengates	Green	N/A	8	21	+162%
Waste management Contract review	Yellow	January 2012	**		
Risk management	Yellow	Annual audit	15	11.3	-25%
Treasury Management	Green	Annual audit	20	11.4	-43%
Travel Link	Yellow	March 2012	10	7.4	-26%
Frozen Meals Contract	Yellow	March 2012	6.75	8	+18%
Website management	Yellow	April 2012	*		
P2 Net	Yellow	Feb 2012	8	7.5	-6%
Abacus system	Amber	Feb 2012	15	17	13%

\* = Work undertaken by Audit Partners Deloitte under ICT Audit Contract

\*\* = Final piece of work undertaken by Haines Watts under 2010/11 supply arrangement for general audit work (now ended).

**QUARTER 2 - AREAS WHERE WORK UNDERTAKEN HAS BEEN FOR MORE THAN 1 DAY**

<b>Areas Reviewed</b>	<b>Days</b>
Abacus system review	2
Adult Complaint work	3
Advice/Consultancy	17
AGS assurance & certification	4
Building Schools for the Future	1
Cash Collection	19
CISP review & update	2
Council Tax / NNDR	43
Direct Payments Query	5
Discharge process - Acute Hospitals & Mental Health Units	2
Donnington Wood Junior School	4
Email & Internet monitoring	3
External Audit Liaison & revised arrangements	3
FMS System development	5
Follow ups	5
Fraud & Compliance Checks	1
Grange Park	7
ICT Procurement	12
IG Audit	1
Lightmoor School	3
Meals on Wheels	3
National Fraud Initiative	5
Newport Junior School	2
P2.net	5
Performance Indicators	12
Review of Costs and Expenditure	7
Risk management	6
Safeguarding Recommendations Follow Up	2
School Funds	1
Social Care Service Improvement Programme	8
Statutory Complaints procedures	2
Supplier Query	5
The Place	3
Transparency Agenda	2
Travel Link	6
Treasury Management	11
Wombridge School	1
Woodlands School	6

STATUS ON FINAL REPORTS ISSUED APRIL 2009 TO JUNE 2011

APPENDIX C

Audit	Original Opinion	Updated Opinion	Comments	Status as at 30.09.11
Business Continuity	Amber	Yellow	Follow up completed in March 2011, Service Area to advise when recs are implemented	Update will appear in future report to members.
Safer Stronger Communities Partnership (SSCP)	Yellow	Yellow	Follow up due in November 11.	Update to appear in future report to members
Children in transition	Yellow		Follow up carried out in October 2010. Where possible actions have been implemented. However the restructure process will have an impact on some of the recommendations made.	A system review will be carried out in 2011-12 following the completion of the reorganisation process.
Section 106 Agreements	Yellow	Yellow	Follow up carried out in October 2010. Where possible actions have been implemented. However some of the recommendations are dependant on the introduction of a new computerised management information system.	Audit will carry out a full review of the system in 2012-13
ICT Release Management	Yellow	Yellow	Follow up of all outstanding ICT recommendations is undertaken on a monthly basis. Recommendations in relation to this audit remain outstanding.	Update will appear in future report to members.
ICT Security of Data Transfer	Amber	Yellow	Information sharing agreement for the Council and major partners has been agreed. Other work such as updating IG intranet page with data sharing advice is still outstanding – due to be completed by end of Dec 11.	Update will appear in future report to members.

STATUS ON FINAL REPORTS ISSUED APRIL 2009 TO JUNE 2011

APPENDIX C

Audit	Original Opinion	Updated Opinion	Comments	Status as at 30.09.11
Email & Internet review	Yellow	Yellow	Follow up of all outstanding ICT recommendations is undertaken on a monthly basis. Recommendations in relation to this audit remain outstanding.	Update will appear in future report to members. An email review is being undertaken in Nov-Dec 2011 as part of a wider ICT infrastructure review.
Confirm System	Amber	Yellow	Follow up of all outstanding ICT recommendations is undertaken on a monthly basis. Some recommendations in relation to this audit remain outstanding.	Update will appear in future report to members
CVS Transport Review	Amber	Yellow	2 <sup>nd</sup> follow up completed grade remains Yellow. Service Area to advise when recommendations have been implemented. Reminders sent Feb & Aug 2011	Update will appear in future report to members
Performance Indicators 2009/10	Amber	Yellow	Audit of PI's and Council promises on Open Page currently being undertaken. This includes a follow up of previous recommendations made in respect to council promises.	This will be incorporated into the 2011/12 report and will appear in future report to members
Jacobs Review	Amber	Green	Follow up complete.	No further action required.
Asset Management Plan & Voids	Yellow	Yellow	Recommendations still outstanding. Recommendations responsibility of management to implement, audit will not be undertaking further follow up as per revised arrangements.	Update will appear in future report to members.

STATUS ON FINAL REPORTS ISSUED APRIL 2009 TO JUNE 2011

APPENDIX C

Audit	Original Opinion	Updated Opinion	Comments	Status as at 30.09.11
ICT Capacity & Performance Management	Amber	Yellow	Follow up of all outstanding ICT recommendations is undertaken on a monthly basis. Some recommendations in relation to this audit remain outstanding.	Update will appear in future report to members
Car Parking and Enforcement	Amber	Refer to comments and status column.	Follow up is still in progress due to restructuring no change to grade. We have been advised that new systems and contracts are being put in place.	Full review of revised arrangements to be undertaken Spring 2012 therefore there will be a new update to members then.
ICT Governance	Amber	Yellow	Follow up of all outstanding ICT recommendations is undertaken on a monthly basis. Some recommendations in relation to this audit remain outstanding.	Update will appear in future report to members
Review of 'I Can 2' Project	Amber	Yellow	Follow up completed September 2011 but further review due in December 2011	Update will appear in future report to members
Review of Financial records at a Care Home	Amber	Green	Satisfactory follow up	Complete
Arthog Complaint Investigation 2010	Amber	Green	Satisfactory follow up	Complete
Protocol System Review	Amber	Yellow	Follow up work completed but some recommendations still outstanding. Further follow up to be completed in quarter 3.	Update will appear in future report to members

STATUS ON FINAL REPORTS ISSUED APRIL 2009 TO JUNE 2011

APPENDIX C

Audit	Original Opinion	Updated Opinion	Comments	Status as at 30.09.11
IT Asset Management	Amber	Yellow	Follow up of all outstanding ICT recommendations is undertaken on a monthly basis. Some recommendations in relation to this audit remain outstanding.	Update will appear in future report to members
Dawley Town Hall	Amber	Yellow	Follow up work undertaken as part of additional work on community centre leases. Subsequent follow up will be incorporated into the Community centre leases follow up – due October 2011.	Update will appear in future report to members
External FMSis Assessment – Charlton Secondary school	Yellow	Yellow	Recommendations still outstanding. Recommendations responsibility of management to implement, audit will not be undertaking further follow up as per revised arrangements.	Update will appear in future report to members
Windmill Primary School	Yellow		Follow up in progress	Update will appear in future report to members
ICT Change management	Amber	Yellow	Follow up of all outstanding ICT recommendations is undertaken on a monthly basis. Some recommendations in relation to this audit remain outstanding.	Update will appear in future report to members
Enterprise & Employment (One Telford)	Yellow	Yellow	Recommendations still outstanding. Recommendations responsibility of management to implement, audit will not be undertaking further follow up as per revised arrangements.	Update will appear in future report to members

STATUS ON FINAL REPORTS ISSUED APRIL 2009 TO JUNE 2011

APPENDIX C

Audit	Original Opinion	Updated Opinion	Comments	Status as at 30.09.11
Review of storage arrangements at Stafford Park 2010-11	Yellow		Follow up due November 2011	Update will appear in future report to members
Children's Placement Costs 2010-11	Amber		Follow up still in progress	Update will appear in future report to members
ICT Procurement – SCC Contract	Yellow	Yellow	Follow up returned. There are a couple of points which have been picked up in ICT Procurement review currently in progress	Update will appear in future report to members.
St George's Primary School	Yellow		Follow up in progress	Update will appear in future report to members
Information Governance	Yellow		Follow up due March 2012	Update will appear in future report to members
Community Centres	Yellow		Follow up due October 2011	Update will appear in future report to members
Absence Management	Yellow		Follow up due June 2012	Update will appear in future report to members
Millbrook Primary school	Yellow		Follow up due December 2011	Update will appear in future report to members
Redundancy payments	Yellow		Follow up due December 2011	Update will appear in future report to members
Putting People First – Mainstreaming & Developing Personalisation	Yellow		Follow up due December 2011	Update will appear in future report to members

STATUS ON FINAL REPORTS ISSUED APRIL 2009 TO JUNE 2011

APPENDIX C

Audit	Original Opinion	Updated Opinion	Comments	Status as at 30.09.11
Taxi Licensing compliance review 2011	Yellow		Follow up due March 2012	Update will appear in future report to members
Newport Pool	Yellow		Follow up due December 2011	Update will appear in future report to members
Children's Statutory Complaints	Yellow		Follow up due December 2011	Update will appear in future report to members
Payment Card Industry Standard	Yellow		Follow up due December 2011	Update will appear in future report to members
Software Licensing	Yellow		Follow up due December 2011	Update will appear in future report to members

## ABACUS SYSTEM REVIEW

### 1. Introduction and Scope

- 1.1 An audit review was undertaken between March – June 2011, to provide an opinion on the control environment and a level of assurance for the administration of the Abacus System.
- 1.2 The scope of the audit was agreed by the Team Leader ICT Application Support and the Assessment & Welfare Team Leader (Finance).
- 1.3 There was a delay in issuing the report due to the availability of key staff and the finance restructure.

### 2. Management Summary and Overall Opinion

- 2.1 This audit has highlighted some major concerns with the Abacus system, specifically around the following:
- a) Clarity of ownership of the system and general roles and responsibility. Key officers in respect to Abacus are due to leave the authority soon so their roles and responsibilities need to be defined and then re-assigned.
  - b) Authorisation – there are currently no formal authorisation limits for the Abacus system.
  - c) Abacus does not distinguish between Children’s and Adult records and as such the system could allow an officer to access or authorise a transaction relating to either service.
  - d) Information Governance (IG) has been consulted with on an adhoc basis with regard to the development of the system. Given the nature of information being processed it seems likely that there may be data protection and data security implications therefore IG should have been more formally involved with the project from the outset.
- 2.2 Out of the 63 controls reviewed during this audit, 36 (57%) were found to be satisfactory. On the basis of the work carried out it is our opinion that the level of assurance provided by controls for this audit area is Limited - whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls. There are a number of legal and/or financial regulation recommendations or recommendations concerning areas of high priority to the Council. The grading of this report was agreed as Amber during the discussions of the draft report.
- 2.3 Recommendations have been made to improve the controls found to be unsatisfactory and these are categorised as shown below.

<b>Recommendation Category &amp; timescale</b>	<b>Number</b>	<b>Percentage</b>
Legal Requirement – immediate implementation	3	15%
Financial Regulation – immediate implementation	2	10%
Policy/Procedure – implementation within a month of agreement to the report.	14	70%
Best Practice – implementation at a mutually agreed date	1	5%
<b>Total</b>	<b>20</b>	<b>100%</b>

- 2.4 The implementation of the recommendations made in this report will further strengthen the controls and processes in your area.
- 

## **IT BACK UP AND RECOVERY**

### **1. Introduction and Scope**

- 1.1 An internal audit was undertaken in April 2011, to provide an opinion on the control environment and a level of assurance on the adequacy of the controls in place to manage risks associated with Corporate ICT backup and recovery arrangements.
- 1.2 The scope of the audit was agreed by the ICT Service Delivery Manager and the Infrastructure Development and Support Team Leader (who has since left the Council).

### **2. Good Practice Areas**

- 2.1 During the internal audit, a number of good practice areas within the arrangements for Backup & Recovery were identified. These included:
- ☼ A Business impact analysis has been carried out with each Service Delivery Team to determine the critical functions, locations and systems within the Council.
  - ☼ Critical functions and systems have been prioritised for recovery, and recovery time objectives have been set per priority.
  - ☼ It is acknowledged that rigorous efforts are being made to implement the disaster recovery arrangement as part of the Infrastructure Project.
  - ☼ Council systems are backed up on a periodic basis and errors in back up are investigated.
  - ☼ Weekly and monthly backup tapes stored at Granville House are stored in a secure fireproof environment.

### **3. Management Summary and Overall Opinion**

- 3.1 Out of the 21 controls tested, (15%) were found to be satisfactory. On the basis of the work carried out, it is our opinion that the level of assurance provided by controls for this audit area is Limited (whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls) and the key weaknesses contributing to this opinion are highlighted in 3.3 and 3.4 below. The grading of this report was discussed and agreed with the Infrastructure Development and Support Team Leader as amber during the discussions of the draft report.
- 3.2 Recommendations have been made to improve the controls found to be unsatisfactory and these are categorised as shown below:

<b>Recommendation Category &amp; timescale</b>	<b>Number</b>	<b>Percentage</b>
Legal Requirement – immediate implementation	2	20%
Financial Regulation – immediate implementation	-	-
Policy/Procedure – implementation within a month of agreement to the report.	8	80%
Best Practice – implementation at a mutually agreed date	-	-
<b>Total</b>	<b>10</b>	<b>100%</b>

- 3.3 One of the main weaknesses of current arrangements is a lack of a documented disaster recovery plan which is pending due to the ongoing implementation of disaster recovery arrangements.
- 3.4 Disaster recovery arrangements involve the virtualisation of all the physical servers within the Council where possible. These servers and the data would then be replicated to another site which would be the disaster recovery hot site to recover all virtual servers. Currently this does not exist and reliance is placed on best endeavours and ability to restore from back-ups to provide recovery for any services during a disaster.
- 3.5 Audit testing of the backup and disaster recovery arrangements were only carried out for the corporate environment. Backup and disaster recovery arrangements provided by the Council for Education Services was outside the scope of this audit.

# TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE 1<sup>st</sup> NOVEMBER 2011

RESULTS OF THE CIPFA BENCHMARKING EXERCISE FOR INTERNAL AUDIT 2011

REPORT OF THE AUDIT & ASSURANCE MANAGER

## 1 PURPOSE

- 1.1 To provide the Committee with the results of the CIPFA Benchmarking exercise for Internal Audit 2011.

## 2 RECOMMENDATIONS

- 2.1 That Members of the Audit Committee note the benchmarking results 2011 contained in this report.

## 3 SUMMARY

- 3.1 The Internal Audit team strives to ensure that it provides value for money to the Council and the community whilst also providing a high quality service. The team regularly compares itself with other local authorities and sharing good practice to ensure that it is adhering to the CIPFA Code of Practice for Internal Audit in Local Government 2006 and other recognised best practice. This occurs through membership of regional and national networking groups<sup>1</sup>, membership of the CIPFA benchmarking club for Internal Audit and continued professional development.
- 3.2 This report sets out the results of the benchmarking exercise for 2011 and compares them to the last 3 years (2008 – 2010) figures previously reported to this committee.
- 3.3 The results demonstrate that T&W Internal Audit generally compares well with other unitary authorities but results for 2010/11 were affected by the temporary arrangements to cover for staff vacancies/maternity leave pending the service restructure which came into effect on 1<sup>st</sup> October 2010. The 2011/12 estimates comparisons reflect the revised structure of Internal Audit and subsequent reduced costs.

## 4 PREVIOUS MINUTES

- 4.1 Audit Committee 3<sup>rd</sup> November 2009  
Audit Committee 2<sup>nd</sup> November 2010

## 5 BENCHMARKING RESULTS 2011

- 5.1 The summary results have been attached to this report as Appendix A. If Members wish to receive more detailed information then this is available on request from the Audit & Assurance Manager.
- 5.2 The results are provided for costs, audit coverage and staffing.

<sup>1</sup> National - CIPFA Audit Panel; Regional - West Midlands Chief Auditors Group, IT Audit Group, Contracts Audit Group, Fraud Group and FMSiS Working Group.

5.3 Information is provided as estimates for 2008/09, 2009/10, 2010/11 and 2011/12. For the cost analysis there are also some actual comparisons available.

## 5.4 Cost Analysis

5.4.1 The cost analysis in Appendix A shows that for **2010/11 actual costs** T&W Internal Audit compares well to unitary averages except for staff costs. Key points for 2010/11 are:

- a) Cost per chargeable day = T&W - £301 compared to £316 for all unitary authorities.
- b) Days per £m = T&W 3.0 compared to 2.8 for all unitary authorities.
- c) Chargeable days = T&W 205 compared to 172 for all unitary authorities
- d) Available days per auditor = T&W 216 compared to 205 for all unitary authorities.
- e) Cost per auditor (in house) = £60,308 compared to £54,859. (NB – this cost represents total costs of the internal audit service i.e. all staff costs, overheads and other costs excluding bought in audit service divided by staff numbers). See 5.4.2 and 5.4.3 below.

5.4.2 As highlighted in the summary (paragraph 3.3) the team staffing structure and resources within the team have been in transition since late 2009 awaiting the re-structure which came into effect on 1<sup>st</sup> October 2010. In addition a team member went on maternity leave in 2010/11 and cover was provided by an external supplier. These exceptional circumstances have adversely affected the actual staff cost figures for 2010/11 compared to other Unitary authorities.

5.4.3 The estimates for 2011/12 show that staff costs are now below the unitary average – T&W cost per auditor in house = £49,464 compared to Unitary average of £55,495. This reflects the full year effects of the restructure and the reduction in staff numbers from 7.3 to 5.6 (31/03/10 compared to 31/03/11).

## 5.5 Audit Coverage

5.5.1 For audit coverage (i.e. audit plans) only estimated information is available.

5.5.2 In Appendix A our estimates for 2008/09, 2009/10, 2010/11 and 2011/12 show variances compared to all unitary authorities. These figures are influenced by how the plans are structured and the requirements of authorities Audit Committees, External Auditors, section 151 officer and other risks being experienced by them.

5.5.3 The three areas where we are over 50% different to other unitary authorities for 2011/12 are fraud, grant certification and other. We will pursue why the fraud figures are so low but an explanation could be that our plan outlines proactive fraud work and other unplanned fraud work is resourced from contingency. Other authorities may allocate more time to fraud (in anticipation of unplanned work) and reduce contingency (see paragraph 5.5.5 below).

5.5.4 The two areas where we are over 80% above other unitary authorities for 2011/12 estimates are fundamental systems (85%) and Audit of IT systems (100%). The former is because the Council implemented a new financial management system on 4<sup>th</sup> July 2011 and therefore additional time is required to seek assurance that the revised system and procedures are working correctly. This additional work should also help to minimise any additional work the External Auditor may wish to undertake if they can rely on our work. In respect to IT audit due to the increased use and reliance on technology and the governance aspects of information/data security the amount of time in the T&W plan does not appear to be unreasonable. Again the differences could be due to in other authorities this work being

integrated into other audits and therefore not being classified separately as IT audit. However we can keep this under review when planning for 2012/13.

5.5.5 The contingency figure of 8.5% for 11/12 has been reduced from the previous target of approximately 10%. However the figures show that consistently the unitary average has been around 6.2% but this has increased in 11/12 to 6.4%. Contingency is included in the plan to accommodate unplanned work undertaken during the year which all authorities recognise is part of the Internal Audit service.

## 5.6 Staffing

5.6.1 The staffing information is analysed over salary bands and qualifications based on fte<sup>2</sup> figures as at 31<sup>st</sup> March 2008 (10.6), 2009 (8.6), 2010 (7.3) and 2011 (5.6).

5.6.2 Due to the reduction in numbers and increases due to increments the profile for salaries has changed. These issues have been addressed through the flatter structure implemented following the re-structure.

5.6.3 The qualification information shows that the Council's and Internal Audit's aim to have appropriately qualified staff has currently been achieved. We have no unqualified staff or any undertaking professional training. We support continued professional and personal development.

## 6 CONCLUSIONS

6.1 Benchmarking is a useful exercise to compare Internal Audit with other unitary audit teams. However we are all unique in our organisation and cultures and must ensure that we are providing the appropriate assurances to our Council's while demonstrating value for money. This can be affected by many things but the team strives to use this information to identify areas for improvement and where we need to make efficiencies.

6.2 T&W is a relatively small unitary authority and the Internal Audit team generally compares well with other unitary authorities. It does provide a high quality Internal Audit service as verified by external review and the External Auditors reliance on our work for the final accounts audit. This reliance on internal resources reduces the cost of external audit.

6.3 The benchmarking figures do overall reflect the contraction of internal audit resources generally across unitary authorities.

## 7 OTHER CONSIDERATIONS

AREA	COMMENTS
Equal Opportunities	All members of Audit Services have attended equal opportunities/diversity training. If any such issues arose during an audit they would be notified to the appropriate manager.
Environmental Impact	Such issues would be notified to the appropriate manager during or immediately following the audit.
Legal Implications	Section 6 of the Accounts and Audit (England) Regulations 2011 state that the Council "must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control". Further it states that the Council "must, at least once in each year, conduct a review of the effectiveness of its

<sup>2</sup> Fte = Full time equivalent

	<p>internal audit”</p> <p>Whilst the benchmarking review does not constitute a full review of the internal audit system it is helpful as it provides comparative data which will inform the internal audit review process.</p>
Links with Corporate Priorities	Audit Services contributes to the governance and assurance framework required by a modern effective Council.
Risks and Opportunities	<p>The role of internal audit includes a review of the controls in place to manage the risks within service areas. The reports produced assist the Council in improving systems and controls (reducing risks) and therefore the delivery of services and achievement of objectives.</p> <p>An adequate Internal Audit function will assist the Council in managing the risk of increasing external audit fees as the external auditor will be able to depend on their work rather than having to do it themselves.</p>
Financial Implications	There are no direct financial implications arising from this report. The annual costs of taking part in the CIPFA benchmarking exercise are met from within the existing budget at a cost of £550.
Ward Implications	Internal Audit is responsible for the internal audit of all the Council’s activities and at all Council locations. They therefore operate within all Council Wards.

## **8 BACKGROUND PAPERS**

CIPFA Benchmarking results 2008, 2009, 2010 and 2011.

Report by Jenny Marriott, Audit & Assurance Manager 383101

## SUMMARY RESULTS CIPFA BENCHMARKING EXERCISE 2011 compared to 2008, 2009 and 2010

## KEY:

**Red highlight** – T&W negative benchmarking result

## 1. COST ANALYSIS

Description of Benchmarking Information	Actual 2008/09 All Unitaries	Actual 2008/09 Telford	Actual 2009/10 All Unitaries	Actual 2009/10 Telford	Actual 2010/11 All Unitaries	Actual 2010/11 Telford	Estimate 2011/12 All Unitaries	Estimate 2011/12 Telford
Audit Cost per £m Turnover (£)*	1,034	1,179	955	1,088	853	915	834	669
Cost per chargeable day (£)	298	287	329	321	316	301	312	244
Days per £m (Days)*	3.56	4.10	3.19	3.5	2.8	3.0	2.8	2.7
Chargeable days per Auditor (Days)	175	181	171	178	172	205	180	210
Available days per Auditor (Days)	206	202	202	208	205	216	209	221
Cost per Auditor (in house) (£)	53,287	53,604	55,569	57,260	54,859	60,308	55,495	49,464
Pay (£k) – including pay, NI, pension & taxable benefits.	41,950	44,186	42,541	46,301	44,726	47,077	44,846	35,714
Overheads (£k) – includes all other costs – travel, training, recruitment, accommodation, equipment, IT, central and establishment charges.	11,337	9,419	13,028	10,959	10,718	13,231	11,539	13,758

\* - Larger authorities are not necessarily more complex to audit as all unitary authorities will deliver a broadly similar pattern of services.

2. AUDIT COVERAGE

KEY:

**Red highlight** – T&W “negative” benchmarking result

Description of Benchmarking Information	Estimate 2008/09 All Unitaries	<b>Estimate 2008/09 Telford</b>	Estimate 2009/10 All Unitaries	<b>Estimate 2009/10 Telford</b>	Estimate 2010/11 All Unitaries	<b>Estimate 2010/11 Telford</b>	Estimate 2011/12 All Unitaries	<b>Estimate 2011/12 Telford</b>	11/12 % difference All v Telford
Fundamental Financial systems (Days per £m)	0.56	<b>0.76</b>	0.51	<b>0.80</b>	0.48	<b>0.64</b>	0.41	<b>0.76</b>	+85%
Strategic Risks (Days per £m)	0.36	<b>0.45</b>	0.36	<b>0.81</b>	0.31	<b>0.34</b>	0.27	<b>0.18</b>	-33%
Operational Risks (Days per £m)	1.47	<b>1.89</b>	1.34	<b>1.48</b>	1.18	<b>0.86</b>	0.98	<b>0.76</b>	-22%
Corporate Governance (Days per £m)	0.22	<b>0.29</b>	0.21	<b>0.45</b>	0.18	<b>0.29</b>	0.13	<b>0.20</b>	+54%
Audit of IT Systems (Days per £m)	0.24	<b>0.47</b>	0.21	<b>0.45</b>	0.18	<b>0.40</b>	0.16	<b>0.32</b>	+100%
Fraud (Days per £m)	0.34	<b>0.13</b>	0.35	<b>0.12</b>	0.30	<b>0.12</b>	0.27	<b>0.09</b>	-66%
Consultancy & Advice (Days per £m)	0.21	<b>0.15</b>	0.16	<b>0.23</b>	0.16	<b>0.10</b>	0.14	<b>0.12</b>	-14%
Grant certification (Days per £m)	0.06	<b>0.01</b>	0.05	<b>0.01</b>	0.04	<b>0.00</b>	0.03	<b>0.01</b>	-66%
Other (Days per £m)	0.13	<b>0.03</b>	0.16	<b>0.00</b>	0.17	<b>0.14</b>	0.18	<b>0.08</b>	-55%
Contingency (Percent)	6.2	<b>10.0</b>	6.0	<b>9.8</b>	6.1	<b>9.4</b>	6.4	<b>8.5</b>	+33%

3. STAFFING

Description of Benchmarking Information	Based on 31/03/08 All Unitaries	<b>Based on 31/03/08 Telford</b>	Based on 31/03/09 All Unitaries	<b>Based on 31/03/09 Telford</b>	Based on 31/03/10 All Unitaries	<b>Based on 31/03/10 Telford</b>	Based on 31/03/11 All Unitaries	<b>Based on 31/03/11 Telford</b>
Salary banding under £20	13%	<b>38%</b>	10%	<b>23%</b>	8%	<b>0%</b>	6%	<b>0%</b>
Salary banding under £20 - 25k	14%	<b>0</b>	13%	<b>0%</b>	13%	<b>8%</b>	12%	<b>0%</b>
Salary banding under £25 - 30k	21%	<b>25%</b>	20%	<b>30%</b>	17%	<b>26%</b>	21%	<b>47%</b>
Salary banding under £30 - 40k	33%	<b>9%</b>	35%	<b>12%</b>	39%	<b>27%</b>	36%	<b>21%</b>
Salary banding over £40k	17%	<b>28%</b>	22%	<b>35%</b>	23%	<b>39%</b>	25%	<b>32%</b>

Qualifications – CCAB/MIIA	29%	<b>38%</b>	31%	<b>49%</b>	34%	<b>60%</b>	38%	<b>68%</b>
Qualifications – CIPFA DPA/PIIA	11%	<b>43%</b>	10%	<b>33%</b>	10%	<b>37%</b>	11%	<b>18%</b>
Qualifications – AAT	27%	<b>9%</b>	29%	<b>17%</b>	27%	<b>3%</b>	28%	<b>14%</b>
Other Specialists	5%	<b>0</b>	7%	<b>0%</b>	7%	<b>0%</b>	7%	<b>0%</b>
Part qualified/Trainees	11%	<b>9%</b>	9%	<b>0%</b>	8%	<b>0%</b>	6%	<b>0%</b>
Non Qualified	16%	<b>0</b>	14%	<b>0%</b>	14%	<b>0%</b>	10%	<b>0%</b>