

**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
HELD ON THURSDAY 28 JUNE 2012 FROM 7PM TO 8.20PM**

Present:- Philip Mirfin (Chairman), Guy Grandison, Beth Rowland and Paul Swaddle

Also present:-

James Anderson (Trainee Internal Auditor)

Rupert Bamberger (Principal Internal Auditor)

Julie Holland (Investigations Manager)

Kelly Knapman (Senior Internal Auditor)

Penny Knowles (Senior Internal Auditor)

Muir Laurie (Director of Business Assurance and Democratic Services)

Paul Ohsan Ellis (Internal Audit Manager)

Madeleine Shopland (Principal Democratic Services Officer)

Rob Stubbs (Head of Corporate Finance)

Adam Swain (Principal Auditor – Audit Commission)

Claire Williams Morris (Group Finance Manager)

PART I

1. MINUTES

The Minutes of the meeting of the Committee held on 28 March 2012 were confirmed as a correct record and signed by the Chairman.

2. APOLOGIES

Apologies for absence were submitted from John Halsall and Barrie Patman.

3. DECLARATION OF INTEREST

There were no declarations of interest made.

4. PUBLIC QUESTION TIME

There were no public questions

5. MEMBER QUESTION TIME

There were no Member questions

6. UPDATE TO THE 2012/13 TREASURY MANAGEMENT STRATEGY

The Group Finance Manager presented the update 2012/13 Treasury Management Strategy.

During the discussion of this item the following points were made:

- The Chairman expressed disappointment that the Treasury Management Annual Report would not be presented at the meeting as the Committee had received it in the past. The Group Finance Manager indicated that it would be taken to the Executive meeting in July and the update before the Committee would form part of this report.
- A change in legislation in April 2012 granted local authorities the ability to invest in Corporate Bonds meaning that the Council was now able to diversify its investment portfolio away from the volatile financial sector. However, the Council's Treasury Management Strategy needed to be amended to allow this. At present the Council invested safely in government gilts and money market funds.

- The financial sector in which the Council currently invested was becoming increasingly volatile. In addition the number of counter parties that the Council could invest in safely was decreasing. The Council would only invest in Corporate Bonds through its fund managers, following the backing of its treasury advisers and having consulted the Executive Member for Finance.
- Members questioned whether Corporate Bonds were long term investments and were informed that whilst this was primarily the case they could also be short term.
- Members asked that they be informed when the Council invested in Corporate Bonds. The Group Finance Manager stated that they would be included in the mid term report and also future annual strategies.
- The Group Finance Manager indicated that she would circulate the draft accounts to the Committee prior to its September meeting. The Chairman commented that it would be helpful to also have a one page summary identifying the key points and messages in the accounts.

RESOLVED That the Committee approves and recommends to the Executive and Council the following suggested amendments to the Treasury Strategy for 2012/13

- 1) To include the use of corporate bond funds as counterparties.
- 2) To revise the prudential indicator for the maturity structure of borrowing for 2012/13. This is due to the indicator requiring revision in the 12/13 strategy to take account of HRA Self financing.

7. ANNUAL GOVERNANCE STATEMENT 2011/12

Kelly Knapman, Senior Internal Auditor presented the Annual Governance Statement 2011/12. The AGS has been produced by the Corporate Governance Group following consideration of Management Assurance Statements (MAS) produced by Strategic Directors and Directors. All MAS's were signed by the relevant Strategic Director/Director and Executive Lead Member to provide accountability and assurance to the Chief Executive and Leader of the Council, who were legally required to sign the AGS once it had been approved by the Audit Committee.

During the discussion of this item the following points were made:

- Internal Audit would be reviewing the makeup of the Corporate Governance Group (CGG) in the future to ensure fuller coverage across the Council as some directorates were not currently represented. The Committee felt that it should be mandatory for each directorate to send at least one representative to the CGG to ensure a greater level of representation. .
- The Leader and the Chief Executive had been involved much earlier in the process.
- The AGS covered the following key aspects of the governance environment in place at the Council during 2011/12: establishing and monitoring the achievement of the Council's objectives, facilitation of Policy and Decision-making, Financial Management, Performance Management and Risk Management.
- Five corporate risk and issues had been identified. These related to uncertainty created by the departure of the Chief Executive, significant organisational and structural change during the Transformation Programme, presenting a weakness around clarity of roles and responsibilities, gaps in the Council's Performance Management Framework, a lack of a standardised competitive dialogue procedure and increased risk of confidentiality issues and data security breaches following the implementation of smart working. The actions that were or would be taken to mitigate these risks were detailed in the report.

- Four service risk and issues had been identified for the period relating to the scrutiny function, Members' training, control issues and weaknesses in Programme and Project Management. The actions that were or would be taken to mitigate these risks were detailed in the report.
- Councillor Swaddle commented that there was a difference between a training session and a briefing and that it needed to be made clear to Members which was being offered.
- Overall the internal controls were considered to be robust.

RESOLVED That the Annual Governance Statement 2011/12 be approved.

8. BUSINESS ASSURANCE PLAN Q2 2012/13 JULY-SEPTEMBER

The Principal Internal Auditor presented the Business Assurance Plan Q2 2012/13 July-September. Members were informed that the plan detailed the planned Internal Audit and Investigations activity that would commence during the period 1 July 2012 to 30 September 2012.

During the discussion of this item the following points were made:

- Review 17 Consultancy on Fosters Project Governance had been postponed from Q1. Reviews 26 (Service Planning), 29 (Organisational Change Programme Board), 30 (Performance Management Project Board) and 34 (WISE Replacement Project) were also consultancy reviews.
- The Chief Executive had requested that a review on the implementation of the waste service be undertaken as a priority. This had not been included in the Business Assurance Plan Q2 2012/13 but approximately 10-15 audit days had been allowed for the review. The Shared Legal Services review had been moved to early Q3 to allow sufficient time and resources to undertake the implementation of the waste service review.
- With regards to review 20, ICT Management of Joiners and Leavers, Councillor Grandison questioned whether Members would be included in the review and were informed that they could be included in the scope. Members felt that systems needed to be linked so that when staff came off the payroll system Managers were sent an email detailing what they needed to collect back from staff who were leaving, for example equipment and crypto cards.

RESOLVED That the Business Assurance Quarter 2 Plan: July - September 2012/13 be approved.

9. CORPORATE RISK REGISTER REFRESH JUNE 2012

Penny Knowles, Senior Internal Auditor presented the Corporate Risk Register Refresh June 2012.

During the discussion of this item the following points were made:

- There were two proposed new risks; Risk 20 – *the Council does not have buy-in to successfully implement the corporate vision and priorities* and Risk 21 - *changes to the Standards regime cause confusion over statutory requirements*.
- Two risks had been closed; Risk 4 – *Risk of Partnership working stagnating due to changes at a national level* and Risk 1 – *Risk of the organisation not buying into the shared Transformation agenda*. Risk 1 was removed as it similar to the new risk 20. Changes were being made to partnership working as the result of new legislation and emerging partners such as the Health and Wellbeing Board.

- The impact of Risk 7 – *Risk of serious or significant harm to a vulnerable child or young person with whom the council is working* had been increased from critical to catastrophic at the request of the Interim Strategic Director Children’s Services, to reflect the impact it would have on the continuity of the service.
- The Officer Lead of Risk 15 - *Risk of proposed changes to services, policies or contracts becoming subject to Judicial Review* had changed to reflect that the risk of judicial review was corporate wide and not just restricted to Planning.
- Risk 16 – *Risk of potential loss of economies of scale from the use of alternative delivery vehicles* had been updated to reflect that alternative delivery models were in operation as opposed to the Council moving towards them.
- Councillor Swaddle expressed surprise that Risk 21 had been scored as being of medium risk and felt that this was perhaps too high. Some of the Committee felt that Members could have been informed of the forthcoming changes at an earlier date. Members were reminded that the scoring was proposed by the risk owner and that guidance from central government on the new standards regime had been frequently updated.
- In relation to Risk 18 - *Risk of a significant fine and reputational damage due to loss of confidential/ sensitive data*, Councillor Grandison commented that the fining of companies for data compliance breaches was becoming more prevalent.

RESOLVED That the Corporate Risk Register refresh – June 2012 be noted.

10. BUSINESS ASSURANCE ANNUAL REPORT 2011/12

The Director of Business Assurance and Democratic Services presented the Business Assurance Annual Report 2011/12.

- It was the Head of Internal Audit’s opinion that Business Assurance could provide Reasonable assurance on the effectiveness of internal control for the year ended 31 March 2012.
- The overall governance arrangements were assessed by Internal Audit as Reasonable.
- Relatively few significant control weaknesses had been identified during 2011/12. These related to internal control failures in Property Services, accountability and performance management, effectiveness of Member and Officer relations, controls over the security of confidential and sensitive data, management of and transparency of Section 106 monies and weakness in the controls around the monitoring of internet and email usage.
- During the 2011/12 financial year, only three limited assurance opinions and no nil assurance had been issued out of a total of 41 Internal Audit assurance reports.
- Of the Council’s key financial systems reviewed, Main Accounting, Budgetary Control, Cashiers, Creditors, Reconciliations and BACS had Good assurance and Debtors and Capital Accounting (including Fixed Assets) were both rated as Reasonable. Overall a good level of assurance could be provided that the Council’s key financial systems are operating effectively. This had been achieved against the backdrop of a reorganisation.
- The Council was considered to be Risk Managed and there was Reasonable assurance over the governance framework in operation. There was potentially a cost attached to the Council moving to being Risk Enabled.
- Only one very high priority recommendation had been raised during 2011/12, which had now been implemented. Less than 20% in total of the recommendations during the period in question had been categorised as High priority.
- The Committee noted the 2011/12 Internal Audit Key Performance Indicators. It was noted that IA2 Draft IA reports issued within 15 working days of exit meeting and IA3

Draft IA reports issued within 50 working days from the commencement of audit testing had been rated red. Members questioned whether the KPI targets were too ambitious and were informed that they were under review.

- The annual target of identifying overpaid benefits was increased from £200k to £250k for 2011/12. Members were pleased to note that £413k of overpaid benefits had been identified during the period. The Director of Business Assurance and Democratic Services commented that the target would remain at £250k for 2012/13 as the Investigations Team was taking on more corporate work.
- 35 sanctions had been issued, including 8 cautions, 15 administrative penalties and 12 prosecutions, against a target of 30.
- 17 corporate investigations had been completed and a further 4 were ongoing. Members were informed that a new Senior Investigations Officer was due to join the Investigations team shortly.
- Performance indicator Inv5 Benefit cases completed within 8 weeks following acceptance (except Living Together cases – see Inv4) was rated as red. Members were informed that the majority of cases had been dealt with within 11 weeks. Members felt that some context could be given to this indicator in future and accepted that some of the larger benefit fraud cases in particular took longer.
- The Committee congratulated the Internal Audit and Investigations teams for their hard work and their achievements across the year.
- The Chairman questioned whether Business Assurance were selling their services to other local authorities. The Director of Business Assurance and Democratic Services commented that Business Assurance provided an investigation service with Oxfordshire County Council and offered a range of Internal Audit Services to Bracknell Forest Council as part of a joint working arrangement with Reading Borough Council. The Chairman asked what would happen if another local authority asked for assistance whilst Investigations or Business Assurance were particularly busy. The Director of Business Assurance and Democratic Services indicated that this had occurred when Oxfordshire County Council had approached the team and work had been covered by making of the whole Business Assurance team and a temp.
- In response to a Member question the Committee were informed a follow up on the recommendations of the internet and email usage review was being carried out and that the Audit Committee and the relevant Executive Member would be informed of the outcome.
- Councillor Grandison raised the issue of Members accessing confidential information on their home computers and taking documents home. The Committee were notified that Members could request white sacks from the Building Support Officers to put confidential documents in and return them to the Council Offices to be disposed of.

RESOLVED That the Business Assurance Annual Report 2011/12 be noted.

11. AUDIT COMMITTEE WORK PROGRAMME 2012/13

The Committee considered the Audit Committee Work Programme 2012/13.

During the discussion of this item the following points were made:

- The Business Assurance Internal Audit Charter – review would be moved from the September to the November meeting.
- It was likely that the new external auditors would be in place by the November meeting.
- The Committee were informed that the audit fees had been set for the next 5 years. The Chairman asked how they differed from the current fees and were informed that they were approximately 45% lower.

- It was unclear whether the Annual Audit Letter would be circulated or presented at the November committee meeting. The Director of Business Assurance and Democratic Services commented that external audit's requirements of internal audit were unclear at this stage.
- It was suggested that a Q3-Q4 Business Assurance Plan be taken to the September meeting. An update could be provided at the January 2013 meeting if required.
- The Committee agreed that the Member Development and Training Programme 2011/12 be circulated. The Chairman requested that consideration be given to inviting the parish councils to attend training sessions.
- It was likely that the Certification of Claims and Returns – Annual Report 2010/11 would be taken to the November meeting.
- The Director of Business Assurance and Democratic Services suggested that meetings be held in February and March as opposed to January and March.

RESOLVED That the Audit Committee Work Programme 2012/13 be noted.

These are the Minutes of a Meeting of the Audit Committee

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