



**WOKINGHAM
BOROUGH COUNCIL**

**MEETING OF THE
AUDIT COMMITTEE**

ON

WEDNESDAY 28 NOVEMBER 2012

AT

7PM

AGENDA

**Civic Offices
Shute End
Wokingham
Berkshire**

**Andy Couldrick
Chief Executive**



WOKINGHAM BOROUGH COUNCIL

Our Vision

A great place to live, an even better place to do business

Our Priorities

Improve educational attainment and focus on every child achieving their potential

Invest in regenerating towns and villages, support social and economic prosperity, whilst encouraging business growth

Ensure strong sustainable communities that are vibrant and supported by well designed development

Tackle traffic congestion in specific areas of the Borough

Improve the customer experience when accessing Council services

The Underpinning Principles

Offer excellent value for your Council Tax

Provide affordable homes

Look after the vulnerable

Improve health, wellbeing and quality of life

Maintain and improve the waste collection, recycling and fuel efficiency

Deliver quality in all that we do

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WOKINGHAM BOROUGH COUNCIL

To: The Chairman and Members of the Audit Committee

A Meeting of the **AUDIT COMMITTEE** will be held at the Civic Offices, Shute End, Wokingham on **Wednesday 28 November 2012 at 7pm**

Andy Couldrick
Chief Executive
20 November 2012

Members:- Philip Mirfin (Chairman), Barrie Patman (Vice Chairman), Guy Grandison, John Halsall, Beth Rowland and Paul Swaddle

ITEM NO.	WARD	SUBJECT	PAGE NO.
28.00	None Specific	MINUTES To confirm the Minutes of the Meeting of the Committee held on 26 September 2012	1
29.00	None Specific	APOLOGIES To receive any apologies for absence	
30.00	None Specific	DECLARATIONS OF INTEREST To receive any declarations of interest	
31.00		PUBLIC QUESTION TIME To answer any public questions The Council welcomes questions from members of the public about the work of this Committee	

Subject to meeting certain timescales, questions can relate to general issues concerned with the work of the Committee or an item which is on the Agenda for this meeting. For full details of the procedure for submitting questions please contact the Democratic Services Section on the numbers given below or go to www.wokingham.gov.uk/publicquestions

32.00		MEMBER QUESTION TIME To answer any member questions	
33.00	None Specific	EXTERNAL AUDIT ANNUAL AUDIT LETTER 2011/12 (AUDIT COMMISSION) To receive the External Audit Annual Audit Letter 2011/12 (Audit Commission).	7
34.00	None Specific	TREASURY MANAGEMENT MID YEAR REPORT 2012/13 To receive the Treasury Management Mid Year Report 2012/13.	10
35.00	None Specific	RISK MANAGEMENT STRATEGY AND POLICY To receive the Risk Management Strategy and Policy.	33
36.00	None Specific	REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT AND COUNTER FRAUD ARRANGEMENTS 2012 To receive the Review of the Effectiveness of Business Assurance – Internal Audit and Counter Fraud Arrangements 2012.	59
37.00	None Specific	BUSINESS ASSURANCE DRAFT STRATEGY 2013 TO 2018 To receive a presentation on the Draft Business Assurance Strategy 2013 and 2018 and receive feedback from the Committee to inform the final report.	
38.00	None Specific	BUSINESS ASSURANCE PROGRESS REPORT: QUARTER 2 2012/13 To receive the Business Assurance Progress Report Quarter 2 2012/13 from 23 August until 26 October 2012.	74
39.00	None Specific	WORK PROGRAMME 2012/13 To consider the Audit Committee Work Programme for the remainder of the 2012/13 Municipal Year	95
40.00		ANY OTHER ITEMS WHICH THE CHAIRMAN DECIDES ARE URGENT A Supplementary Agenda will be issued by the Chief Executive if there are any other items to consider under this heading	

This is an agenda for a meeting of the Audit Committee

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**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
HELD ON WEDNESDAY 26 SEPTEMBER 2012 FROM 7PM TO 8.15PM**

Present:- Barrie Patman (Vice Chairman in the Chair), Guy Grandison, John Halsall, Beth Rowland and Paul Swaddle

Also present:-

<i>James Anderson</i>	<i>Trainee Internal Auditor</i>
<i>Rupert Bamberger</i>	<i>Principal Internal Auditor</i>
<i>Sarah Hydrie</i>	<i>Senior Internal Auditor</i>
<i>Penny Knowles</i>	<i>Senior Internal Auditor</i>
<i>Vicky Jackson</i>	<i>Senior Investigations Officer</i>
<i>Muir Laurie</i>	<i>Director of Business Assurance and Democratic Services</i>
<i>Iain Murray</i>	<i>Audit Manager - Audit Commission (item 12-18)</i>
<i>Debra Palmer</i>	<i>Senior Financial Accountant (item 12-19)</i>
<i>Madeleine Shopland</i>	<i>Principal Democratic Services Officer</i>
<i>Rob Stubbs</i>	<i>Head of Corporate Finance</i>
<i>Adam Swain</i>	<i>Principal Auditor – Audit Commission (item 12-18)</i>
<i>Stephen Taylor</i>	<i>District Auditor - Audit Commission (item 12-18)</i>
<i>Claire Williams Morris</i>	<i>Group Finance Manager (item 12-19)</i>

PART I

12. MINUTES

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

The Director of Business Assurance and Democratic Services indicated that he had discussed the difference between a training session and briefing session with Ella Hutchings, Senior Democratic Services Officer, who was responsible for organising the Member Training Programme.

13. APOLOGIES

An apology for absence was submitted from Philip Mirfin and Graham Ebers, Strategic Director of Resources, Julie Holland, Investigations Manager and Paul Ohsan Ellis (Internal Audit Manager).

14. DECLARATION OF INTEREST

There were no declarations of interest made.

15. PUBLIC QUESTION TIME

There were no public questions

16. MEMBER QUESTION TIME

There were no Member questions

17. AUDIT COMMISSION AUDIT ANNUAL GOVERNANCE REPORT 2011/12

The Committee considered the Audit Commission Annual Governance Report 2011/12.

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

- At the time of writing the report the District Auditor had been unable to give an opinion on the Council's Financial Statements as there had been matters outstanding including the receipt, and review, of information requested from the auditors of Optalis and the receipt of the final financial statements for Optalis and Wokingham Enterprises Ltd. These financial statements had now been received. Information about systems and controls relating to Optalis was tabled at the meeting. Whilst there were still some outstanding issues the District Auditor could complete the audit by the 30 September deadline.
- There were no uncorrected errors. Corrected errors were detailed in Appendix 2 of the report. Only one material error had been identified; the draft financial statements had included an impairment of the buildings on the Waingels College site which were demolished as part of the site's redevelopment. However as the buildings were demolished in the first two years of the project, the events that led to the £18.2 million impairment occurred in previous account periods and should have been accounted for at that time. This had since been corrected.
- No weaknesses had been identified in the Council's internal control arrangements.
- The District Auditor took the Committee through the risks identified, relating to the inclusion of the Council owned companies accounts into the Group Accounts, the valuation of property assets and housing finance reform.
- Councillor Halsall questioned whether the Audit Commission had received a letter from the directors of the local authority trading companies indicating no liabilities. The District Auditor stated that they had received a letter confirming this on behalf of the companies from the Strategic Director of Resources.
- The District Auditor intended to issue an unqualified conclusion stating that the Authority had proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. The Medium Term Financial Plan was robust, efficiency targets clear and the Council's reserves adequate.

RESOLVED That

- 1) the Audit Commission's Annual Governance Report 2011/12 be noted;
- 2) approve the letter of representation be approved on behalf of the Authority before the District Auditor issues his opinion and conclusion; and
- 3) the Council's response contained within the proposed action plan be agreed.

18. ANNUAL GOVERNANCE STATEMENT 2011/12

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

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

- Members were reminded that the draft Annual Governance Statement had been taken to the Committee's June meeting. There had been minor amendments to paragraph 5.2.4 which related to the implementation of smart working across the Council and increased risk of confidentiality issues and data security breaches, and paragraph 5.3.1 which related to control review and investigation conducted in Property Services. Amendments had been made to reflect management action taken to mitigate the issues and risks.

RESOLVED That the revised draft AGS on behalf of the Council, be approved prior to it being signed by the Leader of the Council and the Chief Executive and included in the final Statement of Accounts.

19. FINANCIAL STATEMENTS 2011/12

The Group Finance Manager presented the Financial Statements 2011/12.

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

- A summary of the accounts for 2011-12 was tabled at the meeting. These were designed to be more user friendly. The Group Finance Manager indicated that very recently minor errors had been identified in the Group Financial Statements. These were not material, had been corrected and were also tabled at the meeting.
- The Housing Revenue Account (HRA) and General Fund were healthy. The General Fund balance as at the 31st March 2012 was £9.243m and the HRA balance was £1.273m.
- The Council underspent against its budget by £1.433m after carry forward requests.
- The useable capital receipts reserve as at 31st March 2012 stood at £7.3m and the useable grants and contributions reserve stood at £22.4m. Again this was healthy.
- The HRA deficit was £94.9m due to the self financing settlement paid to central government for the Council to buy itself out of the Housing Subsidy system. However, this was adjusted for through the movement on reserves statement which left a balance of £1.273m after adjustments.
- Members noted that the Dedicated Schools Grant central reserve had a significant increase to a surplus of £1.75m as at 31st March 2012.
- It was the second year that the Council had had to prepare Group Financial statements to account for its interests in subsidiary companies. Wokingham Housing Ltd would form part of the Authority's group accounts in 2012/13 as it had not made any transactions in the financial period in question.
- The Icelandic Supreme Court had decided to grant UK local authorities priority status in relation to the return of investments in the Icelandic banks. The Council expected to receive 100% of its investment from Landsbanki by December 2018 and 88% of its investment from Heritable Bank by April 2013.
- The Committee learnt that the deficit on the pension fund had significantly increased during the year as a result of actuarial losses on the scheme's assets and liabilities.
- With regards to the Council's Fixed Assets a prior period adjustment has been made to plant, property and equipment to recognise the demolition of Waingels college over the last two years prior to rebuilding and completion of the project in 11/12. A further £66m of disposals took place during 2011/12 which related to three secondary schools that had become Academies.
- The Council had changed its Fund Manager from Investec to Royal London Asset Management at the end of 2010/11. Investments had increased significantly.
- Long term borrowing greatly increased in 2011/12.
- The Committee thanked the Group Finance Manager and her team for their hard work in the production of the Financial Statements.

RESOLVED That the Financial Statements for 2011-12 and summary accounts for 2011-12 be approved.

20. TREASURY MANAGEMENT ANNUAL REPORT 2011/12

The Head of Corporate Finance presented the Treasury Management Annual Report 2011/12.

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

- The 'Treasury Management Annual Report' was a requirement of the Council's reporting procedures and covered the treasury activity during 2011/12 and the actual Prudential Indicators for 2011/12.
- The financial year 2011/12 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk. This was expected to continue in 2012/13.

RESOLVED That

- 1) the Treasury Management Annual Report for 2011/12 be noted; and
- 2 the 2011/12 performance against the prudential indicators be noted.

21. CORPORATE RISK REGISTER UPDATE SEPTEMBER 2012

Members received the Corporate Risk Register Update September 2012.

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

- There were two proposed new risks: Risk 22 – *risk that the public health transition fails* and Risk 23 – *risk of a corporate manslaughter case and conviction*.
- One risk; Risk 16 – *risk of potential loss of economies of scale from the use of alternative delivery vehicles*, had been closed during this quarter.
- Two risks had been revised by the appropriate Strategic Director to reflect recent changes or developments. The appetite of Risk 8 - *Risk of serious harm or death of a vulnerable adult for whom the Borough has a responsibility for* had been reduced from medium to low. Also the risk rating of Risk 21 – *Risk that changes to the Standards regime cause confusion over statutory requirements* had been amended to reflect the implementation of a new local code.
- Members were informed that the Corporate Leadership Team was considering the Committee's suggestion of adding the potential cost of the risk and actions to the risk register. They believed that it could be appropriate for some risks but not all.
- Penny Knowles, Senior Internal Auditor explained how risk came to be included on the Corporate Risk Register. She met with the Strategic Directors and asked for their views on risks in their areas. Some risks might be risks which had first appeared on a service risk register and which had been elevated to the corporate risk register at the suggestion of the relevant Strategic Director. Councillor Halsall asked whether the Audit Committee could propose new risks. He suggested that *consideration be given to the inclusion of the unlimited guarantee of wholly owned companies, the town centre regeneration and contracts*. It was noted that the Committee had requested that it be recorded when a risk was removed from the register.

RESOLVED That the risks and mitigating actions of the Council's corporate risks as detailed in the Corporate Risk Register be noted.

22. BUSINESS ASSURANCE INTERNAL AUDIT CHARTER SEPTEMBER 2012

Sarah Hydrie, Senior Internal Auditor presented the Business Assurance Internal Audit Charter September 2012.

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

- The Business Assurance Internal Audit Charter set out the purpose, authority, responsibilities and other relationships of the councils' Internal Audit Service.

- The Committee had agreed to review the Charter on an annual basis. Minor changes had been made following the review. This included information relating to the work Business Assurance carried out on behalf of third parties and the fact that Internal Audit would follow up all but low priority recommendations from audits to establish if management had taken action to address weaknesses identified.
- In response a Member question regarding work carried on behalf of third parties, the Director of Business Assurance and Democratic Services commented that they were actively carrying out work for other authorities such as Oxfordshire County Council but this was balanced with the work that Business Assurance carried out on behalf of the Council, which assumed priority.

RESOLVED That the Business Assurance Internal Audit Charter be approved.

23. BUSINESS ASSURANCE PLAN: Q3 & Q4 2012/13

The Committee received the Business Assurance Plan Q3 & Q4 2012/13.

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

- The BA Plan for Quarter 3 and Quarter 4 detailed the planned Internal Audit and Investigations activity that would commence during the period 1 October 2012 to 31 March 2013.
- A number of key financial audits which Business Assurance was required to undertake would be carried out during this period. There was also a number of consultancy related audits due to take place, including those on information security awareness, procurement model, WISE replacement project and the Performance Management Project Board. Councillor Halsall indicated that he would be interested to receive the final audit reports.
- Councillor Rowland asked that the impact of the localisation of the benefits system next year could be looked at in the future.

RESOLVED That the proposed Business Assurance Plan for Quarter 3 and Quarter 4 2012/13 be approved.

24. BUSINESS ASSURANCE PROGRESS REPORT: AUGUST 2012

Members examined the Business Assurance Progress Report: August 2012. The report detailed the Business Assurance activity between the period 1 April to 22 August 2012.

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

- 16 residual 2011/12 Internal Audit reviews had been completed to final report stage, none of which had achieved limited or nil assurance.
- It was noted that the Corporate Governance and Payment Kiosk audits had received 'Reasonable' assurance ratings.
- Members were pleased to note that proactive fraud work in relation to blue badge usage had lead to the detection of one alleged case of fraud. This had involved joint working between the Investigation team, the blue badge team, the highways team, the Police and a neighbouring authority.
- Members noted that there had been one successful prosecution for benefit fraud during the period.
- There had been five corporate investigation referrals during the period, which was relatively low in comparison to the previous year. Councillor Halsall asked what constituted corporate investigations. The Director of Business Assurance indicated that it was essentially non benefit fraud investigations such as those relating to staff or contractors.

- Referrals for investigation were received via the whistleblowing hotline or email. Data matching exercises also highlighted areas of interest.
- Business Assurance had carried out a fundamental review of its KPIs. The six new KPI areas were; Client Satisfaction Score, improvements to the Control Environment, where the work of the BA team is focused, the Delivery of Internal Audit days, the Value of Benefit Overpayments identified and the Number of Sanctions Applied.
- With regards to KPI 1 Client Satisfaction Score, a 76.2% satisfaction rating had been achieved against a target of 66%. The Director of Business Assurance and Democratic Services commented that most clients were very honest with their feedback.
- With regards to KPI 2 Improvement to the Control Environment, 103 recommendations had been made in reports that were finalised in the period from 1 April to 22 August 2012, 100% of which had been accepted by management. Business Assurance would establish how many of these had been implemented within the agreed timescale and report back at the November meeting.
- With regards to KPI 5 Benefit Overpayments, the Investigations Team were currently exceeding annual target of identifying overpaid benefits (which can be due to either fraud or error) of £250,000.
- When discussing KPI 6 Sanctions Applied, the Senior Investigations Officer explained what options were available to the Sanctions Panel. As at 22 August, Business Assurance had achieved slightly below its target for sanctions. However, this was expected to improve. A new Investigations Officer had been appointed who would be focusing primarily on benefit fraud.
- Members received an update on additional Business Assurance work, key developments and future work. It was suggested that the Committee might wish to receive a copy of the report of the Town Centre Regeneration Project audit report. Key findings from this report would be presented at the November meeting.

RESOLVED That the Business Assurance Progress report as at 22 August 2012 be noted.

25. WORK PROGRAMME 2012/13

The Committee considered the Work Programme 2012/13.

It was proposed that the Strategic Director of Resources present the Certification of Claims and Returns – Annual Report 2011/12 and the External Audit Annual Audit Letter 2011/12 at the November meeting.

RESOLVED That the Work Programme 2012/13 be noted.

These are the Minutes of a Meeting of the Audit Committee

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