

**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
HELD ON TUESDAY 1 JULY 2014 FROM 7PM TO 8.20PM**

Present:- Guy Grandison (Chairman), Alistair Auty (Vice Chairman), Beth Rowland, Chris Smith and Paul Swaddle

Also present:-

<i>Mark Catlow</i>	<i>Senior Manager, Ernst & Young (until item 8)</i>
<i>Andy Couldrick</i>	<i>Chief Executive</i>
<i>Julie Holland</i>	<i>Service Manager, Business Improvement (and Head of Internal Audit)</i>
<i>Vicky Jackson</i>	<i>Team Manager - Investigations, Insurance & Risk</i>
<i>Martin Jones</i>	<i>Planning Accountant – Corporate Finance (until item 8)</i>
<i>Paul Ohsan Ellis</i>	<i>Team Manager - Internal Audit</i>
<i>Madeleine Shopland</i>	<i>Principal Democratic Services Officer</i>
<i>Rob Stubbs</i>	<i>Head of Finance</i>

PART I

1. MINUTES

The Minutes of the meeting of the Committee held on 4 February 2014 were confirmed as a correct record and signed by the Chairman.

2. APOLOGIES

There were no apologies for absence.

3. DECLARATION OF INTEREST

There were no declarations of interest made.

4. PUBLIC QUESTION TIME

There were no public questions received.

5. MEMBER QUESTION TIME

There were no Member questions received.

6. ERNST & YOUNG EXTERNAL AUDIT ANNUAL AUDIT PLAN 2013/14

Members received the Ernst & Young External Audit Plan 2013-2014 which was presented by the Senior Manager, Ernst & Young.

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

- The Plan detailed the external audit work Ernst & Young proposed to undertake for the audit of financial statements for 2013/14 and outlined the focus of Ernst & Young's work that needed to be carried out to enable a Value for Money Conclusion to be reached.
- Two significant risks in relation to the audit of the financial statements had been identified; Accounting for local retention of business rates and Management override. The Committee would be updated on the results of work in these areas in September. An 'Other risk' identified related to Managing Finances.
- The indicative fee scale for the audit of the Council was £139, 752.
- There were no breaches of ethical standards which needed to be brought to the Committee's attention.

- With regards to materiality, it was noted that Ernst & Young proposed to communicate uncorrected audit misstatements greater than £328k. Councillor Rowland questioned whether this was figure was too high. Councillor Swaddle proposed that the Committee be informed of the number of uncorrected audit misstatements lower than £300k and that if there were a large number of these, to consider looking into them further.
- Councillor Smith asked how many errors had been identified in the previous year and was informed that there had been no material errors, no uncorrected minor errors and very few minor errors.

RESOLVED That the Ernst & Young External Audit Plan for 2013/14 be approved.

7. TREASURY MANAGEMENT OUTTURN REPORT 2013/14

The Committee received the Treasury Management Outturn Report 2013/14 which was a requirement of the Council's reporting procedures. The report detailed the treasury management activity during 2013/14 and the actual Prudential Indicators for 2013/14. The Planning Accountant – Corporate Finance provided a presentation on the report.

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

- The Council had complied with its Treasury Management Strategy and the prudential indicators that had been set in February 2013.
- Capital expenditure was the main driver of treasury management. Capital expenditure could be financed either through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which had no resultant impact on the Council's borrowing need, or funded by borrowing (Internal or External).
- With regards to the General Fund, it was noted that the variance between the actual and budget was due in the main to slippage in the Town Centre Regeneration Project, adjustment to the profile of Bulmershe School improvement project, re-profiling of a major highway project and Schools managed programmes being re-phased during the year.
- With regards to the Housing Revenue Account (HRA) Members were informed that the variance between actual and budget was the result of a major contractor on the Decent Homes Scheme failing during the year and a delay in awarding contracts for Housing Revenue Account projects. The HRA in 2013/14 had been financed by a Decent Homes backlog grant, a revenue contribution from the HRA and the major repair reserve.
- The Council's underlying need to borrow for capital expenditure was termed the Capital Financing Requirement. The Planning Accountant – Corporate Finance explained that the Capital Financing Requirement could not continually rise and was reduced by the Minimum Revenue Provision. The variance between the actual and budget was the result of good financial management with schemes which were originally planned to be funded by borrowing being funded by other sources of funding such as Section 106 contributions and new grants. Slippage in the Town Centre Regeneration project had also had an impact.
- Members were reminded that the Council had to set boundaries on borrowing; the operational boundary which could be broken but only for a short period and the authorised limit which could not be exceeded. The variance between the actual and the operational boundary was due to anticipated loans for the Town Centre Regeneration which had not been required as per original phasing and a buffer for any short term borrowing if needed.
- There had been a small new interest free external loan of £120,000 from the Local Enterprise Partnership taken in 2013/14 in relation to the Carnival Pool Car Park.

- Whilst the actual investment performance was lower than budgeted internal balances had been used to reduce borrowing which more than offset this shortfall.
- Councillor Grandison commented that it was good to see how much of the Icelandic bank investments the Council had received back.

RESOLVED That the Audit Committee note the treasury management annual report for 2013/14 and the actual 2013/14 prudential indicators within the report.

8. DRAFT ANNUAL GOVERNANCE STATEMENT

Members considered the Draft Annual Governance Statement (AGS) which had been produced by the Extended Corporate Leadership Team (ECLT) following consideration of a number of Management Assurance Statements (MAS) produced by the Council's 4 Directors and 2 Heads of Services.

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

- The AGS covered the following key aspects of the governance environment in place at the Council during 2013/14: establishing and monitoring the achievement of the Council's objectives, facilitation of Policy and Decision-making, Financial Management, Performance Management and Risk Management.
- The AGS also identified areas of significant governance weaknesses that the Council intended to address to further improve the governance framework in place, demonstrating the Council's commitment to openness and transparency.
- The Chief Executive stated that each directorate also had assurance statements which reflected directorate risks. He went on to outline the Significant Governance Issues identified. Councillor Smith asked how the number of key issues identified compared with the previous year and was informed that one had been identified in the previous year.

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

9. RETROSPECTIVE PURCHASE ORDERS UPDATE

Rob Stubbs, Head of Finance, provided an update on retrospective purchase orders.

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

- The Committee was reminded that the 2012/13 Creditors Internal audit report had highlighted a large number of retrospective Purchase Orders raised during sample testing.
- Finance monitored the practice of retrospective purchase orders and business partners were working with departments to reduce the number issued. Nevertheless in April 135 retrospective purchase orders had been raised out of 1857 purchase orders and in May 177 retrospective purchase orders had been raised out of 1655 purchase orders. The Committee felt that this was still too high and requested an update at its next meeting on the number of retrospective purchase orders per department and the values involved.

RESOLVED That

- 1) the retrospective Purchase Orders update be noted;
- 2) an update on retrospective purchase orders broken down by department and value, be provided at the September Audit Committee meeting.

10. INTERNAL AUDIT AND INVESTIGATIONS ANNUAL REPORT 2013/14

Members examined the Internal Audit and Investigations Annual Report 2013/14. The report detailed the Head of Internal Audit's opinion on the Council's governance, risk management and internal control. It also set out the work of Internal Audit and Investigations during 2013/14 and reported on the teams Key Performance Indicators.

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

- The Head of Internal Audit's opinion was unqualified and provided reasonable assurance over the internal control system in operation. It was also noted that Internal Audit had assessed that the Council had Reasonable assurance that risk management was effective and that the overall Governance arrangements had been assessed by Internal Audit as reasonable.
- Members' attention was drawn to the significant control weaknesses identified. There had been relatively few significant control weaknesses identified during 2013/14. These included two significant information security breaches relating to the potential unauthorised disclosure of data.
- In addition to the action taken by senior management to address the significant control weaknesses, Internal Audit had identified a number of areas where other improvements had strengthened the control environment. These included a follow up of financial management in Optalis verifying that controls had improved in a number of key areas.
- The controls surrounding the Council's key financial systems remained robust despite the delay to the implementation of the new financial management system (WISER) that had impacted on a number of short term improvement opportunities. There was significant change planned in 2014/15 with the introduction of new financial management and accounting software. This would require considerable work to safeguard the transition to the system.
- During the 2013/14 financial year, there was one Limited and no Nil assurance Internal Audit opinions out of a total of 33 Internal Audit assurance reports. Three remained to be completed.
- During the year there had been staff turnover within the Internal Audit team and some vacancies. Nevertheless, client satisfaction scores had remained steady. In terms of Internal Audit days delivered, additional agency staff had been recruited to help deliver these between January and March.
- The Service Manager, Business Improvement (and Head of Internal Audit) informed the Committee that 92% of the areas audited in 2013/14 had been assessed as Reasonable or Good assurance levels, in comparison with 90% in 2012/13.
- Five Very High priority recommendations had been raised by Internal Audit during 2013/14 (Adult Social Care Personal Budgets 4) and 11% of the recommendations raised in 2013/14 had been categorised as High priority. This compared to 18% in 2012/13.
- Councillor Grandison asked for further information regarding the Debtors audit. The Team Manager – Internal Audit explained that the audit had identified occasions where authorisations related to refunds, credits and write offs had not been evidenced sufficiently. This was not restricted to one particular department.
- Members noted that there had been 80 2012/2013 recommendations followed up and that 22 of these recommendations had not been verified as implemented. The relevant Directors had been requested to write to the Audit Committee to explain. The Chairman agreed to follow this up.
- The Investigations Team had identified a total of £388k of overpaid benefits against a target of £200k for 2013/14 (KPI 5 'Benefit Overpayments'). Councillor Auty asked

whether the £388k had been identified or identified and recovered and was informed that it had been identified and gone into the debtors process.

- The Team Manager - Investigations, Insurance & Risk stated that with regards to KPI 6 'Value of Proactive work' the year's gross target for identifying non-benefit overpayments detected (due to either fraud or error) had been £80,000. This would be increased to £100,000 in 2014/15. Councillor Swaddle asked whether more work could have been carried out in this area and was informed that this target had been achieved late in the year.
- With regard to KPI 7 'Sanctions Applied' the target for sanctions had not been achieved due to a number of cases which were investigated during 2013/14 that were pending sanction. There were currently 12 cases investigated that were pending legal action and 5 cases awaiting a decision. 16 sanctions had been applied against a target of 23. Councillor Swaddle asked what type of sanctions the 16 sanctions applied had been. The Team Manager - Investigations, Insurance & Risk commented that a number had been prosecutions and others had been administrative penalties and cautions.
- During 2013/14 98 referrals for Corporate Investigations had been received in the following areas; Housing, Direct Payments, Council Tax Single Person Discount, Council Tax Student Discount and Attendance Allowance. Included in the above figure were nine whistleblowing referrals one of which passed the risk assessment and were investigated.
- Members received information regarding the Investigations Team's Counter Fraud Work and the Counter Fraud Proactive Plan.
- The Committee congratulated the Investigations Team on their good work.
- The Service Manager, Business Improvement (and Head of Internal Audit) notified Members that the Executive had agreed to create a shared Internal Audit service with the Royal Borough of Windsor and Maidenhead. The Internal Audit Plan would be relooked at as a result and brought back to the September meeting. Members were also reminded of the Single Fraud Investigation Service and the fact that housing benefit fraud investigations would be coming under the Department of Work of Pensions from 1 November. Work was being undertaken to facilitate the transfer of investigations and staff.

RESOLVED That the Internal Audit and Investigations Annual Report 2013/14 be noted.

11. EFFECTIVENESS OF INTERNAL AUDIT AND COUNTER FRAUD ARRANGEMENTS REPORT

The Committee received the Effectiveness of Internal Audit and Counter Fraud Arrangements Report. The review had been an assessment of Internal Audit's compliance against the Public Sector Internal Audit Standards (PSIAS) and of the controls in place for the prevention, detection and investigation of fraud and corruption.

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

- Internal Audit was, with the exception of Standard 2050, broadly complying with the Public Sector Internal Audit Standards (PSIAS) and satisfying the professional standards laid down by the Chartered Institute of Internal Auditors. Standard 2050 related to coordination of activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts. Nevertheless, a strong relationship with External Audit had been highlighted.
- There had been two areas where, because of factors obtaining at the time of the review, compliance could not be confirmed. These included the revision of role

specifications for the audit manager and team members, which meant that the review therefore had no definitive role specifications to evaluate against the Standards.

- Whilst the team's "IT Lead" auditor had recently left when the review was conducted, Members were assured that there had been sufficient evidence to support the 2013-14 Internal Audit Assurance over the Council's IT-related risks.
- The arrangements of the Council's Investigations Team to ensure that its work complied with all relevant legislation had been considered effective.

RESOLVED That the Effectiveness of Internal Audit and Counter Fraud Arrangements report be noted.

12. CORPORATE RISK REGISTER REFRESH – MAY 2014

Members considered the Corporate Register Refresh – May 2014 which was presented by the Chief Executive.

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

- Risk 2 - *Risk of inability to match supply and demand for school places* had been updated to add a further mitigating action; renew primary school provision strategy.
- With regards to Risk 7 - *Risk of serious or significant harm to a vulnerable child or young person with whom the Council is working* a mitigating action had been updated and a New Recruitment and Retention Strategy would be proposed to the Corporate Leadership Team in the summer.
- Risk 12 - *Risk that a bridge/ road needs a significant short term investment for repairs* had been updated to add further mitigating actions including a formalised program of inspections and forward plan of capital works, both of which would be reviewed at the point of the next refresh.
- Risk 18 - *Risk of a significant fine and reputational damage due to loss of confidential / sensitive data* had been updated as the risk cause was around the roll out of EDRMS and this had been completed last year. This risk now reflected the ongoing information security risk being that the Council held information of a confidential and sensitive nature. There had been past breaches of information security and it was an area under intensive scrutiny from the Information Commissioner. It was noted that the primary risk was likely to concern paper based documents.
- Risk 25 *Transition to New System of Governance* had been removed from the Corporate Risk Register. It had been proposed that the risk continue to be managed at service level through inclusion on the appropriate service risk register.

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

13. WORK PROGRAMME 2014/15

Members received the Work Programme 2014/15.

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

- The Committee requested that an update on Retrospective Purchase Orders be taken to the September meeting.
- The Internal Audit and Investigations Progress Report would include an update on the new service.
- Members wished to hold training prior to Committee meetings and that a session on risk be held prior to the September meeting.

- Councillor Smith asked whether the creation of a shared Internal Audit service would have an impact on the Internal Audit Charter which was due to be taken to the September meeting and was informed that this was unlikely.
- Councillor Grandison requested an update on the performance of the new shared service be provided at the February Committee meeting.

RESOLVED That the Work Programme 2014/15 be noted.

These are the Minutes of a Meeting of the Audit Committee

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