



WOKINGHAM BOROUGH COUNCIL

MEETING OF THE AUDIT COMMITTEE

ON

TUESDAY 9 DECEMBER 2014

AT

7PM

AGENDA

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**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 **Tuesday 9 December 2014** at 7pm

Andy Couldrick
Chief Executive
1 December 2014

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

ITEM NO.	WARD	SUBJECT	PAGE NO.
29.00	None Specific	MINUTES To confirm the Minutes of the Meeting of the Committee held on 23 September 2014.	1-6
30.00	None Specific	APOLOGIES To receive any apologies for absence	
31.00	None Specific	DECLARATIONS OF INTEREST To receive any declarations of interest	
32.00		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

33.00		MEMBER QUESTION TIME To answer any Member questions	
34.00	None Specific	ANNUAL AUDIT LETTER 2013/14 To receive the Annual Audit Letter 2013/14	7-17
35.00	None Specific	2013/14 AUDIT SCALE FEE – LATE VARIATION To consider a report regarding the Late Variation to the 2013/14 Audit Scale Fee.	18-21
36.00	None Specific	TREASURY MANAGEMENT MID-YEAR REPORT 2014/15 To receive the Treasury Management Mid-Year Report 2014/15.	22-44
37.00	None Specific	UPDATE ON RETROSPECTIVE PURCHASE ORDERS To receive an update on Retrospective Purchase Orders.	To follow
38.00	None Specific	INTERNAL AUDIT AND INVESTIGATIONS Q2 PROGRESS REPORT 2014/15 To receive the Internal Audit and Investigations Q2 Progress Report 2014/15	45-63
39.00	None Specific	CORPORATE RISK REGISTER REFRESH – NOVEMBER 2014 To receive the Corporate Risk Register refresh – November 2014	64-75
40.00	None Specific	RISK MANAGEMENT POLICIES AND GUIDANCE To receive the Enterprise Risk Management Policy and Guidance.	76-104
41.00	None Specific	REVIEW OF THE COUNCIL’S ANTI-FRAUD POLICIES To receive a policy update on the Anti-Fraud and Anti-Corruption Policy, the Whistleblowing Policy, Anti-Money Laundering Policy, Prosecution and Sanction Policy and Anti-Bribery Policy.	105-135
42.00	None Specific	SFIS TRANSFER UPDATE To receive an update on transfer of benefit fraud investigations data to Department for Work and	136-138

Pensions.

43.00 None Specific **WORK PROGRAMME 2014/15** **139-140**

To receive the Work Programme 2014/15.

44.00 **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 TUESDAY 23 SEPTEMBER 2014 FROM 7PM TO 8.40PM**

Present:- Guy Grandison (Chairman), Beth Rowland, Chris Smith, Rob Stanton and Paul Swaddle

Also present:-

<i>Maria Grindley</i>	<i>Audit Director, Ernst & Young</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>Stephen McGrail</i>	<i>Group Finance Manager (until Item 23)</i>
<i>Andrew Moulton</i>	<i>Head of Governance and Improvement Services</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>
<i>Adam Swain</i>	<i>Principal Auditor, Ernst & Young</i>

PART I

14. MINUTES

The Minutes of the meeting of the Committee held on 1 July 2014 were confirmed as a correct record and signed by the Chairman.

15. APOLOGIES

An apology for absence was submitted from Alistair Auty.

16. DECLARATION OF INTEREST

There were no declarations of interest received.

17. PUBLIC QUESTION TIME

There were no public questions.

18. MEMBER QUESTION TIME

There were no Member questions.

19. ERNST AND YOUNG AUDIT RESULTS REPORT 31 MARCH 2014

The Committee received the Ernst and Young Audit Results Report 31 March 2014. This summarised the findings from the 2013/14 external audit which was now substantially complete and included the results of work that Ernst & Young had undertaken to assess the Council's arrangements to secure value for money in its use of resources.

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

- As of 23 September 2014 Ernst & Young expected to issue an unqualified opinion on the financial statements.
- The new system of local retention of business rates assumed that councils would receive their baseline funding level as income. As successful rating appeals were now settled partly from local authority funds the Council needed to establish arrangements to properly estimate and account for liability. Ernst & Young had concluded that the Council had complied with the requirements of the Code of Accounting practice in determining its provision for NDR appeals recorded in the financial statements. One

error had been identified in the calculation of the provision. The percentage of successful appeals had been calculated incorrectly as it was based on the full population of appeals, whereas Ernst & Young would have expected outstanding appeals to have been excluded. Recalculating the provision to adjust for this indicates the NDR provision was potentially under estimated £504k. The Council's general fund share of this would be £252k. This adjustment had been included as an uncorrected audit misstatement.

RESOLVED That the Ernst & Young Audit Results Report 31 March 2014 be noted.

20. FINANCIAL STATEMENTS 2013/14

Stephen McGrail, Group Finance Manager took Members through the key points of the Financial Statements 2013/14.

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

- The deficit on the provision of services, including the Housing Revenue Account (HRA) was £30.433m which, after the required accounting adjustments (including capital financing and the transfer of a school to an academy) becomes a surplus of £1.124m on the General Fund and £140,000 for the HRA.
- The General Fund balance at 31 March 2014 was £11.04m and for the HRA £1.766m.
- The Council had underspent its budget by £189,000 after carry forward requests.
- Members were informed that the introduction in 2013/14 of the Retained Business rates system required local authorities to calculate a provision of appeals for business rate appeals.
- Short term borrowing was £5.0m at 31 March 2014 compared to £4.7m at 31 March 2013. Long term borrowing had increased slightly to £132.1m at 31 March 2014 from £131.9m the previous year due to an interest adjustment.
- This was the fourth time the Council had had to prepare Group Financial statements to account for its interests in subsidiary companies. The accounts had consolidated those of Wokingham Housing Ltd, Wokingham Enterprises Ltd (WEL) and Optalis Ltd.
- Note 32 provided information on the Icelandic banks loans.
- In response to a question regarding flood support, the Group Finance Manager commented that the Council had provided a sum of £0.5m in 2013/14 to help householders and businesses affected by the severe weather in spring 2014. This was in addition to government funded support of £68k already awarded in 2013/14 to support businesses affected by the bad weather.
- Members noted that the deficit on the Council's pension funds had increased by £8.6m to £168.2m at 31 March 2014 due to actuarial losses on the scheme's assets and liabilities. The Committee discussed the pension deficit in some detail. The Head of Finance confirmed that employees of Wokingham Housing Ltd were not part of the Council's pension scheme.
- The Audit Director, Ernst & Young, drew Members' attention to the Letter of Representation. This Letter was signed by the Chairman.

RESOLVED That the financial statements and letter of representation for 2013/14 be approved.

22. RETROSPECTIVE PURCHASE ORDERS

Rob Stubbs, the Head of Finance updated Members on retrospective purchase orders.

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

- Monitoring undertaken since the beginning of the calendar year had shown that the percentage of retrospective purchase orders raised had varied between 8% and 13% monthly.
- Tables within the report detailed for August the level of retrospective purchased orders raised, by department and by value banding.
- The Head of Finance proposed writing to suppliers to indicate that the Council would not pay invoices unless a purchase order was received. Councillor Smith stated that the onus should not only be on suppliers and that it was vital that the Council continued to reduce the number of retrospective purchase orders.
- Councillor Swaddle commented that the information provided did not give a clear picture and that the bandings provided were unhelpful. There had been 44 purchase orders over £1001 which had been authorised retrospectively during August but information on the individual values had not been provided. Members felt that narrower bandings would be more helpful. It was noted that Capital Projects did not appear in the pie chart.
- Councillor Rowland expressed concern that Children's Services had had the highest percentage of retrospective requisitions in August. She suggested that the relevant Executive Members be informed of the areas under their responsibility where retrospective purchase orders had been raised and that they be requested to provide information on how this would be improved.
- Councillor Stanton proposed that the Committee receive further, more detailed information. The Committee agreed that it wished to receive more detailed information on the retrospective purchase orders including the value and the reason why they had been retrospectively approved. The Head of Finance indicated that he would circulate this information to Members by the end of the week.
- The Committee also requested a written update regarding retrospective purchase orders at the December Committee meeting.

RESOLVED That

- 1) the Head of Finance circulate more detailed information regarding the retrospective purchase orders to the Committee within 10 working days;
- 2) the relevant Executive Members be informed of the areas under their responsibility where retrospective purchase orders had been raised and that they be requested to provide information on how this would be improved;
- 3) a written update on retrospective purchase orders be provided at the Committee's December meeting.

23. INTERNAL AUDIT AND INVESTIGATIONS PROGRESS REPORT

The Committee considered the Internal Audit and Investigations Progress Report. The report detailed the Internal Audit and Investigations activity between the 1 April 2014 and 30 June 2014.

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

- The development of a shared Internal Audit service with the Royal Borough of Windsor and Maidenhead was progressing well and was due to go-live on 1 October 2014. Catherine Hickman had been appointed as the Head of Internal Audit. Members were reminded that the shared service would be hosted by Wokingham Borough Council.

- Benefit fraud investigation work would transfer to the Department of Work and Pensions from 1 November 2014. Wokingham was one of the first authorities to undergo this transfer and the other Berkshire local authorities would transfer from 1 December 2014.
- Following the decision to implement a shared Internal Audit service, Executive was being asked to confirm the inclusion of the Investigations team with the shared service. The team would focus on continuing the counter fraud work in new areas and a bid has also been submitted to access funding from the Counter Fraud fund. The prospective date of implementation was 1 December 2014.
- 14 audit reports were finalised between 1 April and 30 June 2014.
- Internal audit have been working closely with the WISER project team including attendance at the project board, User Acceptance Testing, reconciliation of data between WISE and WISER and access controls to the new system. There would be significant work to map the new system and provide assurance on the key financial systems this year.
- KPI 1 - Client Satisfaction Score and KPI 2 - Improvements to the Control Environment continued to perform well.
- It was noted that there had been a slight shortfall in KP1 4 - Delivery of Internal Audit Days. At the end of July there were 30 days less delivered than required to complete the plan. Additional resources (around 50 days) were planned to be utilised from Investigations in Q2/3 to narrow the gap between available resources and required days but this would remain an area to be monitored given the pressures on delivery and lack of contingency within the plan.
- With regards to KPI 5 – Benefit Overpayment, a total of £37k of overpaid benefits has been identified by the team, against a Q1 target of £50k. The Investigations Team was refocusing its work as benefit investigations work was due to transfer to the Department of Work and Pensions.
- The Investigations Team was currently following their Counter Fraud Plan for the year; therefore results of individual drives would be seen later in the financial year.
- In response to a question regarding the number of staff within the Investigations Team, the Team Manager - Investigations, Insurance & Risk indicated that there were four in total.
- It was suggested that the Committee receive training on counter fraud and investigations prior to the February meeting.
- The Committee discussed how benefit fraud investigation data would be transferred to the Department of Works and Pensions. Members had concerns regarding how this would be done safely. The Committee requested that senior Officers took extreme care to ensure the safe transfer of benefits fraud investigation data to the Department of Works and Pensions and that consideration be given to not transferring this data should Officers not be satisfied that data protection requirements had been met. Members were assured that an instruction list had been requested and extra supervision and oversight would be put in place. The Committee requested that they be kept informed and receive an update on how the transfer had gone, at its December meeting.
- 8 sanctions had been applied against a target of 6 (KPI 7 - Sanctions Applied in Q1). Councillor Swaddle commented that no one, including councillors were outside the remit of the Investigations Team. Members commented that they backed and fully appreciated the seriousness of the Investigations Team's work.
- With regards to the Counter Fraud Proactive Plan, Councillor Grandison asked whether Blue Badge fraud would also be focused on. He was informed that a drive had been carried out in Woodley the previous year. Blue Badge fraud was considered

a low-medium risk and resources and cost effectiveness had to be taken into account when planning work.

RESOLVED That

- 1) the Internal Audit and Investigations Progress Report be noted;
- 2) the Committee requests that senior Officers take extreme care to ensure the safe transfer of benefits fraud investigation data to the Department of Works and Pensions and that consideration be given to not transferring this data should Officers not be satisfied that data protection requirements have been met

24. CORPORATE RISK REGISTER REFRESH – SEPTEMBER 2014

Andrew Moulton, Head of Governance and Improvement Services presented the refreshed Corporate Register.

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

- Risk 14 - *Risk that the Council fails to deliver key objectives through insufficient project resources* had been updated and amended to read *Risk that the Council fails to deliver key investment priorities through insufficient resources or adequate planning* so as to reflect the current and ongoing financial climate regarding the Council's key investment opportunities focusing on the delivery of the capital programme.
- Risk 23 - *Risk of Corporate Manslaughter case and conviction* had been updated and amended to read *Risk of Health and Safety failure leading to death or serious injury* in order to reflect recommendations of the Internal Audit, Corporate Manslaughter risk review.
- Risk 26 - *Risk that Change and Improvement does not deliver intended outcomes* had been removed following the implementation of the restructure across the authority.
- A new risk, Risk 28 - *Risk that Council is unable to cope with increased burdens associated with the implementation of the Social Care Act* had been added to reflect the commencement of the Social Care Act from April 2015.

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

25. INTERNAL AUDIT CHARTER

The Committee examined the Internal Audit Charter review.

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

- The Internal Audit Charter provided the authority for the practice of Internal Audit in the council and is a key governance document in this respect. It covered matters such as independence and standards.
- The Charter was reviewed annually and was largely unchanged from the previous year. The changes from last year reflected the introduction of a shared service with Royal Borough of Windsor and Maidenhead.

RESOLVED That the Internal Audit Charter be considered and approved.

26. REVISED INTERNAL AUDIT AND INVESTIGATIONS PLAN 2014/15

The revised Internal Audit and Investigations Plan 2014/15 was presented to the Committee.

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

- The Committee had approved the Internal Audit and Investigations Plan 2014/15 in February 2014. Since then there had been changes, including the forthcoming introduction of a shared service with the Royal Borough of Windsor and Maidenhead and it had been confirmed that benefit fraud investigation work would transfer to the Department of Work and Pensions from 1 November 2014. Consequently, the Plan had been revised and the focus of work reconsidered.
- A number of days had been removed from the plan, in particular for Internal Audit Consultancy & Advisory Work.
- Resources was a risk and it would still be a challenge to deliver the plan, although it was noted that there would be a pooling of resources with the Royal Borough of Windsor and Maidenhead.
- It was noted that there was no spare capacity to deal with any emerging issues.

RESOLVED That the revised Internal Audit and Investigations Plan for 2014/15 be approved.

27. 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 December meeting.
- Members requested an update on the transfer of benefit fraud investigations data to the Department of Work and Pensions at its December meeting.
- Councillor Grandison updated the Committee on his meeting with the Chairman of the Overview and Scrutiny Management Committee on 1 September. They had discussed the roles of the Committees and how to avoid duplication. In future the Chairman of the Audit Committee would be invited to the meeting of the Overview and Scrutiny Management Committee at the start of the municipal year, at which the Committee discussed its work programme for the forthcoming year. Members of the Audit Committee and the Overview and Scrutiny Management Committee could be invited to the meeting of the other Committee if it was considering items of potential joint interest. Scrutiny members would also be invited to training prior to Audit Committee meetings, where appropriate, and vice versa.

RESOLVED That the Work Programme 2014/15 be noted.

These are the Minutes of a Meeting of the Audit Committee

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