

**BRECKLAND COUNCIL**

**At a Meeting of the**

**AUDIT COMMITTEE**

**Held on Friday, 14 January 2011 at 10.30 am in  
Norfolk Room, Conference Suite, Elizabeth House, Dereham**

**PRESENT**

Mr C.R. Jordan (Chairman)                      Mr D.S. Myers  
Mr R.G. Kybird (Vice-Chairman)

**Also Present**

Mrs L.H. Monument

**In Attendance**

Chris Brooks	- Governance and Performance Accountant
Sandra C. King	- Head of Internal Audit
Julie Britton	- Senior Committee Officer
Alison Chubbock	- Accountancy Manager
Kevin Sharman	- Audit Manager

**1/11 MINUTES (AGENDA ITEM 1)**

**a) 24 September 2010**

The Minutes of the meeting held on 24 September 2010 were confirmed as a correct record and signed by the Chairman.

**b) 5 November 2010**

The Minutes of the Special meeting held on 5 November 2010 were confirmed as a correct record and signed by the Chairman.

**c) 19 November 2010**

The Minutes of the Special meeting held on 19 November 2010 were confirmed as a correct record and signed by the Chairman.

**2/11 APOLOGIES (AGENDA ITEM 2)**

Apologies for absence were received from Mr P. Balaam, Mr R. Childerhouse, Mr P. Hewett and Mr M. Finch.

**3/11 TREASURY MANAGEMENT STRATEGY REPORT 2011/12 (AGENDA ITEM 6)**

The Accountancy Manager presented the report which outlined the Council's prudential indicators for 2011/12 – 2013/14 and set out the expected treasury options for this period.

The following key points were highlighted:

- Although the local government settlement did not directly impact

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the authority's treasury management activities and capital programme, it served to focus the mind on the importance of sound treasury practices to achieve a reasonable level of return to support the budget requirement without putting the Council at risk. Capital grant funding opportunities were likely to reduce from the levels the Council had experienced in the past, making the prudential management of limited capital resources more important than ever.

- The lending criteria had not changed, therefore the Council's current counterparty and lending limits would remain the same.
- MRP Policy had not changed.
- The CIPFA Prudential Code and CIPFA Treasury Management Code of Practice had been revised in November 2009. The revised guidance arising from these Codes had been incorporated within the report and appendices.
- An update on the latest Icelandic Bank situation had been attached at Appendix C of the report.
- The Treasury Management contract had been novated to Sector who had taken over from Butlers but services received would remain unchanged (see Appendix B of the report at paragraph 9)
- Sovereign issues were being kept under review and whilst the Treasury Strategy and Policy allowed for investing in non UK banks, at this time no non UK investments were being made.
- Changes had been made to the non specified limits (amounts over 1yr) to reflect the reducing cash balance available (Appendix B of the report at paragraphs 35 and 46)
- Due to the timing of this report, the forecasts for capital spend and cash available did not take into account of (1) the investment property purchase of £3.5m (2) spend in respect of the ARP partnership being considered separately by Council and (3) capital costs arising from the shared management structure.

The Accountancy Manager answered some questions of detail, from which the following points were noted:

- the treasury management contract, although novated to Sector, Butler's staff had been moved to Sector and exactly the same service would be provided.
- Referring to page 21 of the report at the end of section 12, the wording to the sentence: to undertake additional voluntary payments would be amended to "if the Council chose to".
- Members were being asked to approve the whole statement.

**RECOMMEND** to Council that approval is given to:

- 1) the Prudential Indicators and Limits for 2011/12 to 2013/14 contained within Appendix A of the report, including the Authorised Limit Prudential Indicator for 2010/11 – 2013/14;
- 2) the statement setting out the Council's Policy on the Minimum

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- Reserve Provision (MRP) contained within Appendix A to the report;
- 3) the Treasury Management Strategy 2011/12 to 2013/14 and the Prudential Indicators contained within Appendix B to the report;
  - 4) the Investment Strategy for 2011/12 contained in the Treasury Management Strategy (Appendix B) and the detailed criteria included in Annex B1 and B2 of the report; and
  - 5) the Treasury Management Policy at Appendix B3 of the report.

**4/11 ANNUAL AUDIT LETTER 2009-10 (AGENDA ITEM 7)**

Mr Kevin Sharman presented the Audit Commission's Annual Audit Letter to Breckland Council for the year 2009-10.

The two primary findings from the 2009-10 audit work related to Financial Statements and Use of Resources; unqualified opinions had been issued in both cases meaning that the Auditor had not identified any significant issues from the audit.

Over the last five months, since the implementation of the new International Financial Reporting Standards ((IFRS), the Council's progress was presently on track in preparing for its first IFRS compliant accounts. The Audit Committee would be playing a key role in this process.

Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission had been reviewing its work programme for 2010/11 onwards. Changes were ahead, and a new approach towards local value for money (VFM) audit work would be introduced. This work would be based on a reduce number of reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

The audit of the financial statements delivered by the Commission, were governed by a framework established by International Standards on Auditing (ISAs). These standards prescribed basic principles and essential procedures. As with all guidance and frameworks, auditing standards were often changed and updated. However, in 2009, the auditing profession completed a comprehensive project to improve the clarity of all the ISAs. This was known as the Clarity Project. The new clarified framework would apply to the audit in 2010/11 financial statements and the main changes and how they would impact on the Council were highlighted and explained (see page 80 – 82 of the report). Every Auditor would have to follow these changes.

The Annual Audit Letter had been discussed and agreed with the Chief Executive and the Head of Finance and full detailed findings, conclusions and recommendations in the areas covered by the Auditors had been included in the reports issued to the Council during the year.

Audit fees had been higher than expected because of extra audit work required to ensure the accounting treatment of the Private Finance Initiative (PFI) scheme followed the Statement of Recommended Practice.

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The changes to the Statement of Recommended Practice for PFI and similar contracts were not known at the time the audit fees had been proposed in April 2009.

The Annual Audit Letter 2009/10 was otherwise noted.

**5/11 PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY 2010/11 - COVERING THE PERIOD UP TO 16 DECEMBER 2010 (AGENDA ITEM 8)**

The Head of Internal Audit presented the report which sought to inform Members of the current progress made and performance achieved in delivering the Annual Audit Plan in the first 8½ months of the financial year to 16 December 2010 (170 days).

In seeking to draw comparisons with the previous financial year, the table at 3.2.1 of the report confirmed that planned work was progressing well. The days originally planned for 2010/11 had been revised and reduced to 247 and the Audit Services contractor was confident that the Plan would be substantially advanced by 31 March 2011 and audit opinions would be available in May/June as required for inclusion in the Council's Annual Governance Statement.

At the time the report was written, 69% of the Annual Audit Plan had been delivered, resulting in 7 completed audit assignments, the formal issue of 2 draft audit reports, the receipt and processing of an initial draft audit report which would be issued to management in due course, the fieldwork in progress or nearing completion in respect of 3 reviews, and the planning work underway with reference to a further 3 assignments. Some grant certification work, originally unforeseen, had also been processed in year and had been noted in the Activity Report.

One piece of work, in respect of the Homelessness audit, had been deferred as a result of the issues identified in the failure of the contractor to deliver Choice Base Lettings, and the current concerns that the Council had with respect to the management of the Housing Register provided by the contractor.

The number of assignments had been reduced from 18 to 17 and, of those, 16 were subject to action.

Appendix 2 of the report contained the abridged Management Summaries of the seven individual assignments completed at this stage in the financial year, of which, two "good" assurances had been given following a review of both Waste Management and Exchequer Services.

Given the on-going successful delivery of the Annual Audit Plan, and in full consultation and agreement with the Council's Section 151 Officer, it had been agreed that Internal Audit would not be exercising an element within the Code of Ethics for Internal Audit staff to rotate on a three yearly basis. This requirement had originally been formulated to ensure that the Council received an innovative service, and suitable independence of audit staff was maintained. However, the Auditing Practices Board now reflected a five year period of rotation, with up to seven years. To enforce this now could result in much greater levels of disruption and the auditors have since provided an explanation to the Board as to why it was felt in

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appropriate at this stage.

Referring to Capita Symonds, a Member felt that the contract was not going quite according to plan and asked for feedback on contract monitoring to be reported. Members were informed by the Chairman and the Chief Executive that this matter was already being dealt with. Accordingly, it was noted that a report would be produced by the Head of Internal Audit for a future meeting. Members were reminded that the Internal Audit Activity report being discussed only included activity till the end of September 2010.

It was agreed that the assigned Officer for Capita Symonds be asked to attend the next meeting in March 2011.

A minor numerical correction was noted.

**RESOLVED** that the contents of the report and the progress that had been made in delivering the Annual Audit Plan for 2010/11 be noted.

**6/11 REPORT ON THE STATUS OF OUTSTANDING AUDIT  
RECOMMENDATIONS AT 30 SEPTEMBER 2010 (AGENDA ITEM 9)**

The Head of Internal Audit presented the report which informed Member of the progress made in relation to the implementation of audit recommendations that had arisen from final audit reports.

Due to the quarterly reporting requirements of the TEN performance management system, and the reporting timetable subsequently agreed for presenting the outcomes of audit follow up verification work to this Audit Committee meeting, the position statement provided, reflected the period from 1 April to 30 September 2010. A further status update to 31 March 2011 would be presented the Audit Committee in June 2011, alongside the Annual Report and Opinion of the Head of Internal Audit.

Appendix 1 of the report provided Members with an overview of the number of recommendations that had been raised in respect of individual audits, together with an indication as to the extent of management action initiated.

Appendix 2 and Appendix 3 of the report provided further information as to those systems and computer audit recommendations that remained outstanding.

**Systems Audit Recommendations**

As at 30 September 2010, of the 35 recommendations listed, only seven (20%) remained outstanding of which four related to one particular audit. However, Internal Audit had been satisfied with the rationale provided by the management as to why this was the case.

**Computer Audit Recommendations**

There had again been limited progress in implementing computer audit recommendations; disappointingly, only one of the 15 recommendations due by 30 September 2010 had now been implemented. The Head of ICT had explained the reasons as to why there had been setbacks.

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Given the ICT contract was being transferred in-house at the end of March, a Member expected there would be great improvement.

**RESOLVED** that the progress made by management with reference to the completion of agreed audit recommendations that had arisen from final audit reports, and the positive impact that these developments would be having on the Council's internal control environment be noted.

**7/11 INTERNAL AUDIT'S TERMS OF REFERENCE, CODE OF ETHICS, AUDIT STRATEGY, STRATEGIC AND ANNUAL AUDIT PLANS, AND SUMMARY OF INTERNAL AUDIT COVERAGE FOR 2011/12 (AGENDA ITEM 10)**

This report provided an overview of the stages followed prior to the formulation of the Strategic Audit Plan for 2011/12 to 2015/16 and the Annual Audit Plan for 2011/12. Internal Audit's Annual Audit Plan would then serve as the work programme and initial terms of reference for the Council's Internal Audit Services Contractor, Deloitte Public Sector Internal Audit Ltd, and provide the basis upon which the Head of Internal Audit would subsequently provide an Audit Opinion on the systems of internal control at Breckland Council for the year 2011/12.

The report additionally seeks to demonstrate that there was clear linkage between Internal Audit's Terms of Reference, Internal Audit Strategy, and its Strategic and Annual Audit Plans, which collectively specify the way in which Internal Audit will operate at the Council in the year ahead, and in doing so, satisfy the CIPFA Code of Practice for Internal Audit in Local Government and CIPFA's recently published Statement on the Role of the Head of Internal Audit in Public Service Organisations.

In reviewing and approving Internal Audit's Terms of Reference, Internal Audit Strategy, Work Plans and Summary of Internal Audit Coverage, the Audit Committee would be effectively ensuring that the Internal Audit requirements as stated in the Accounts and Audit Regulations 2003, and Accounts and Audit (Amendment) (England) Regulations 2006, were being properly met, and due support was being given to securing an Internal Audit Service, which was compliant with CIPFA guidance on the subject.

Financial constraints had been recognised and a 'business as usual' ethic had been adopted.

The Plan was very much a living document and would be revised accordingly. One key issue drawn to the attention of the Audit Committee was the change in approach to the Head of Internal Audit's Opinion, that had arisen from the revisions suggested within the Strategic Audit Plan. As set out in the Internal Audit Strategy, three opinions had previously been awarded, in respect of systems of internal control, corporate governance and risk management. In light of the positive assurances provided, the audit coverage in this area would be now reduced as these opinions were not required by statute, and CIPFA, in its recent statement of the role of the Head of Internal Audit, endorsed an approach whereby one annual audit opinion was awarded.

The Terms of Reference had been attached at Appendix 1 of the report and had been subsequently revised to include the proposed management

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structure that will soon be in operation.

The Code of Ethics sets out the expected behaviours of Internal Audit staff had been reported in Agenda item 8.

It had been identified that the Council had assessed strategic and operational risks which Internal Audit did not intend to scrutinise and would not now be providing assurances. The reasons why these assurances would not be provided were highlighted in section 6 of Appendix 3 of the report.

It was reported that Internal Audit would not be able to provide the Council with a final view on the Computer Audit Needs Assessment; therefore, a revised Strategic and Annual Audit Plan would be presented to the Audit Committee in March 2011 for approval.

The number of days to undertake audit projects was being reviewed, and could possibly be reduced from 40 to 30 days year on year.

**RESOLVED** that approval be given to:

- 1) the Internal Audit's terms of Reference for 2011/12;
- 2) the Internal Audit's Code of Ethics for 2011/12;
- 3) the Internal Audit's Strategy for 2011/12;
- 4) the Strategic Audit Plan for 2011/12 to 2015/16;
- 5) the Annual Audit Plan for 2011/12; and
- 6) the Summary of Internal Audit Coverage for 2011/12.

**8/11 GOVERNANCE & PERFORMANCE MONITORING - QUARTERLY RISK REPORT (QUARTER 2 2010/11) (AGENDA ITEM 11)**

The Governance & Performance Accountant presented the Quarterly Risk Performance Monitoring Report for Quarter 2 2010/11.

There had been a number of new risks identified during the quarter which could be seen from pages 164 to 168 of the agenda.

Members' attention was drawn to Risk R-SR17 in relation to the Coalition Government's transparency agenda. This matter had been discussed at a previous meeting and it had now been included on the Strategic Risk Register.

Risks R-SR18 to R-SR24 had been added in the last quarter. These risks considered the transfer of the existing Steria ICT Support Service back as an "in-house" function. These risks covered operational, staffing and technological issues and had been identified by the Head of ICT and would be owned by the Director of Corporate Resources.

Another area of significant risk to the Council was the current Shared Management project. This had not been covered in the report; however, the Governance & Performance Accountant had been working with the Project Team to develop a Project Risk Register which could be regularly updated and reviewed by the Project Board. Risks would be continually monitored and new risks would be identified as the Council moved towards implementation of the new structure and into phase 2 of the project.

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The Medium Term Financial Strategy risk score had been increased from 6 to 9 due to the recent announcements regarding the Comprehensive Spending Review and budget cuts.

A number of risks in Quarter 2 had been closed (these could be found on pages 171-172 of the agenda). However, these risks would still remain visible within the Performance Management System for future reference.

Pages 173 to 178 of the agenda covered the risks that were rated as "outside the Council's agreed tolerance level" for risk.

Risk R-SR03 was highlighted as a good news example - given the current economic climate the investment property portfolio continued to perform well.

The current occupancy target of 90% had been exceeded and currently stood at 96% and the forecast income for year was just over £2m.

A Member queried Risk R-SC06 (Sustainable Communities) with regard to the lack of resources available. Members were informed that this had been due to long term sickness absence which had since been resolved.

**RESOLVED** that the report be noted.

**9/11 WORK PROGRAMME (AGENDA ITEM 12)**

An updated work programme had been attached to the agenda.

It was agreed that the following two items would be added to the work programme for the meeting in March:

- Capita Symonds Contract Monitoring
- Match Funding Applications in relation to Diss Rugby Club

It was further agreed that:

- the Annual Audit Fee Letter 2011/12 be brought forward a committee cycle to the 10 June meeting.
- the Audit Opinion Plan 2010/11 be brought forward to the 25 March meeting; and
- the Updated Audit Plan 2011/12 due to come forward to the 25 March meeting be removed.

**10/11 EXCLUSION OF PRESS AND PUBLIC (AGENDA ITEM 13)**

**RESOLVED** that under Section 100(a)(4) of the Local Government Act 1972, the press and the public be excluded from the meeting for the following item of business on the grounds that it involves the disclosure of exempt information as defined in paragraph 1 of Part 1 of Schedule 12A to the Act.

**11/11 APPOINTMENT OF INDEPENDENT MEMBER OF THE COMMITTEE (AGENDA ITEM 14)**

The Chairman reported on the results of the interviews for the selection of

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an independent (non-voting) member of the Committee which had taken place prior to the meeting.

Four candidates had applied for the position, all of whom were of a high calibre, and the Chairman was pleased to announce that two applicants had been chosen. However, to appoint a further independent member would require a change to Standing Orders and agreement at Full Council.

The Senior Committee Officer was asked to put the necessary procedures in place and respond to the unsuccessful and successful applicants.

**RECOMMEND** to Council that the constitution of the Audit Committee be increased by one to allow for the appointment of an additional independent person co-opted onto the Committee as a non-voting member (6 members & two substitutes – politically balanced, plus 2 non-voting lay advisers appointed by the Committee)

**RESOLVED** that:

- 1) the appointment of one independent non-voting member to replace Mr L Peacock (former independent member) be confirmed; and
- 2) subject to the recommendation being agreed at Full Council on 27 January 2011, the appointment of a second independent member be confirmed.

**12/11 NEXT MEETING (AGENDA ITEM 15)**

Arrangements for the next meeting on 25<sup>th</sup> March 2011 were noted.

The meeting closed at 11.30 am

CHAIRMAN