BRECKLAND COUNCIL

At a Meeting of the

AUDIT COMMITTEE

Held on Friday, 23 March 2012 at 10.00 am in Norfolk Room, Conference Suite, Elizabeth House, Dereham

PRESENT

Mr R.P. Childerhouse
Lady Fisher
Mr C.R. Jordan (Chairman)

Also Present

Mr K. Stevens
Mr T. Ludlow
Mrs S.C. King
Mr. R. Murray

In Attendance

Mark Finch	-	Assistant Director of Finance
Sandra C. King	-	Head of Internal Audit
Helen McAleer	-	Senior Committee Officer
Robert Murray	-	District Auditor, Audit Commission

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12/12 MINUTES (AGENDA ITEM 1)	
The Minutes of the meeting held on 3 February 2012 were confirmed as a correct record and signed by the Chairman.	
The following matters were noted:	
• Mr Childerhouse referred to previous discussions about the Capita Contract. This would be added to the work programme for consideration at the 15 June meeting. A copy of the contract would be circulated to Members before that date.	Mark Finch
• Information on the financial impact on the General Reserve Fund from the Breckland Leisure Centre and the square footage and income received relating to commercial properties were outstanding actions from the previous meeting and the information would be reported to the next meeting.	Chris Brooks, Ralph Burton
13/12 APOLOGIES (AGENDA ITEM 2)	
Apologies had been received from Mr Jermy, Mr Kybird, Mr Rogers and Emma Patchett.	
14/12 URGENT BUSINESS (AGENDA ITEM 3)	
None.	

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15/12 DECLARATION OF INTEREST (AGENDA ITEM 4)

None.

16/12 NON-MEMBERS WISHING TO ADDRESS THE MEETING (AGENDA ITEM 5)

None.

17/12 AUDIT OPINION PLAN 2011/12 (AGENDA ITEM 6)

Mr Rob Murray presented the Audit Opinion Plan.

The Plan set out the auditor's responsibilities and covered all the required areas. It ensured shared understanding of the scope of the audit. No significant risks had been identified.

With regard to fees Mr Murray noted that the fees had decreased since the previous year and in light of recent outsourcing and changes to the regime, further reductions were expected in the future.

Mr Childerhouse asked for the definition of 'significant risk' and how it was assessed.

The definition was set out on page four of the Plan. External and internal risks were considered and an assessment was made of how they would be managed. The concept of materiality was flagged. Another aspect taken into account was how normal audit procedures covered risk.

Mr Ludlow sought clarification on whether the Plan had relied on the work of the internal auditors as page five contained inconsistencies. Mr Murray agreed to check the details on that.

Mr Stevens asked about the 'assumptions' referred to on page 11 of the Plan. Mr Murray advised that if the Council did not agree that additional work was required there were various methods that could be used to come to an agreement, including having a Qualification of Opinion or asking the Internal Auditors to do additional work.

Lady Fisher asked what sort of cushion was used in valuing the property portfolio and Mr Murray advised that materiality was not an easy definition and that Auditors used a rule of thumb, balancing public perception and officer opinions. Generally speaking it was based on 1% of gross revenue expenditure. The same difficulty applied to gauging value for money. He noted that Ernst & Young might apply a different principle.

Mr Childerhouse was pleased to hear that fees could be reduced by up to 40%. He referred to page 11 of the report and was surprised

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that no actions had been identified to reduce the fees. He challenged that.

Mr Murray explained that nothing had been identified at this stage. He was required to report on actions that could be taken. Some organisations of similar size to the Council had much larger fees and could be advised on how to reduce them. The Council however, was approaching the base level of fee required to produce the audit.

The Director of Finance noted that over the years the Council had improved the quality of working papers provided to the auditors and now provided many electronically which reduced the amount of on-site work required.

The Head of Internal Audit added that they worked closely with the External Auditor and were very open in sharing reports.

The Chairman thanked Mr Murray for his presentation.

18/12 2010/11 CERTIFICATE OF CLAIMS AND RETURNS - ANNUAL REPORT (AGENDA ITEM 7)

Mr Murray also presented the Certificate of Claims and Returns on behalf of Emma Patchett who was not able to attend.

The regime for dealing with claims was set out on page three of the report. Only three claims had needed work out of the £66million expenditure. Of those, one had had issues requiring a minor amendment and a qualification letter which was referred to in the fees section on page seven of the report.

Mr Stevens asked if a sampling process was used. Mr Murray advised that they looked at one in 40 claims. Even one error required a large amount of work and if an error was found another 40 claims would be looked at.

The report was noted.

19/12 TREASURY MANAGEMENT POLICY & STRATEGY (AGENDA ITEM 8)

The Assistant Director – Finance presented the Treasury Management Policy & Strategy.

He advised that the Treasury Management Strategy set out the expected Capital activities for the following year and included the Prudential Indicators which the Committee had delegated authority to approve. A review would be brought back to Committee mid-year (on the work programme for November).

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Many of the Prudential Indicators were set at nil as the Council was a debt-free authority. Borrowing needs were reported as zero as the only money required would be for the bank overdraft to cover unexpected cashflow problems.

Two options were offered to Members in respect of counterparty selection. The current method was solely based on credit ratings and since the Icelandic Bank failures investments had only been placed with UK based banks.

The other option would be to look at a broader counterparty structure which took other market conditions into account which would add to the list of available counterparty organisations and provided the potential to look beyond UK based banks.

Lady Fisher was not happy about investing in banks. The rate of inflation was eroding income as interest rates were so low. She thought that money should be kept out of Europe and opportunities should be sought for commercial management of money. Some Government Bonds were yielding more attractive returns. She referred to the figures in the report which showed that the Council was losing money on bank deposits.

Mr Ludlow pointed out that that would be against current Policy.

The Chairman thought that it was reasonable to look into alternatives to try to increase returns. If the opportunity was there it might mean that a change of policy was required.

The Assistant Director – Finance noted that the key criteria had always been security. He agreed to explore the matter further with Sector and check the legality of other potential investments and bring the details back to Committee.

Mark Finch

Mr Stevens referred to the table on page 45 and asked who Sector was? The Assistant Director – Finance advised that they were the Council's external Treasury Management advisors.

He agreed that there were a number of Bonds with higher yields, but some did not meet the Council's criteria and others limited the amount of investment and might require additional resources to manage.

Mr Ludlow then raised a number of questions. He pointed out some typographical and cross-referencing errors. The following amendments were agreed:

- All references to the CLG should be amended to DCLG for consistency
- Point 26 (page 47 of the agenda) the final sentence should read "… criteria will *result in a counterparty being* suspended

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from use…"
- Point 44 (page 51 of the agenda) should refer to paragraph *35* not 36.
- Annex B1 (page 53 of the agenda) at point 4 under Specified Investments – move the sentence commencing 'For category 5 …' to be the second sentence of point 5.
- Page 54 – the TMP 4 table headings to be brought into line with those of the table on page 66 to allow cross referencing.
- Page 65 – final sentence to be clarified.
- Page 67 – add heading to clarify what points 1 and 2 are referring to.
- Page 68 – remove **Article II** between 5th and 6th paragraphs.
- Page 74 – amend second sentence to read "… ensure it does so *f*or reasons …"

The following points were also noted:

- MMFs were Money Market Funds
- the PFI was being paid off over 33 years
- the reduction in expected investments in the table on page 41 of the agenda was due to money being used to fund projects
- Members were notified of the current position regarding the Icelandic banks investments.

It was **RESOLVED** that, subject to the amendments noted above, the following items were approved:

(1) the Prudential Indicators and Limits for 2012/13 to 2014/15 contained within Appendix A of the report;
(2) the Minimum Revenue Provision (MRP) Statement contained within Appendix A which set out the Council's policy on MRP;
(3) the Treasury Management Strategy 2012/13 to 2014/15 and the Treasury Prudential Indicators contained within Appendix B;
(4) the Investment Strategy 2012/13 contained in the Treasury Management Strategy (Appendix B), and the detailed criteria included in Appendix B1;
(5) the Treasury Management Policy at Appendix B2;
(6) to continue with Option 2, the current approach to counterparty selection based solely on credit rating criteria (see (a) below);
(7) to continue NOT to use non-UK banks even though the Treasury Strategy allows (see (b) below).

(a) The Assistant Director – Finance was asked to look into Option 1 and explore other possible investment opportunities and bring details back to the Committee. — Mark Finch
(b) The Assistant Director – Finance to provide the Committee with more information on the use of non-UK banks. — Mark Finch

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20/12 APPOINTMENT OF EXTERNAL AUDITOR (AGENDA ITEM 9)

The Assistant Director – Finance advised that this item had been included on the agenda to provide an update on the current situation.

The Chairman noted that Members had had an interesting discussion with the auditors at a pre-meeting. He suggested that there should be a standing item on the Agenda – Monitoring of the External Audit Situation.

Mr Murray advised that Ernst & Young would be holding an introductory event to which a representative of the Audit Committee would be invited. He expected invitations to be received before the next meeting.

21/12 WORK PROGRAMME (AGENDA ITEM 10)

An updated programme was tabled.

The Review of the Capita Contract would be added to the 15 June meeting. A copy or summary of the contract would be circulated to Members before the meeting.

Mr Ludlow and Mr Stevens would be invited to the training session in September. — Julie Britton

22/12 NEXT MEETING (AGENDA ITEM 11)

The arrangements for the next meeting on 15 June 2012 were noted.

The meeting closed at 11.15 am

CHAIRMAN