

**BRECKLAND COUNCIL**

**At a Meeting of the**

**AUDIT COMMITTEE**

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

**PRESENT**

Mr C.R. Jordan (Chairman)                      Mrs E. M. Jolly  
Mr R.G. Kybird (Vice-Chairman)              Mr M J Nairn  
Mr T. J. Jermy

**Also Present**

Mr T. Ludlow    Mrs B Canham  
Mr K. Stevens

**In Attendance**

Emma Patchett                                      - Audit Manager  
Chris Brooks                                        - Governance and Performance Accountant  
Mark Finch                                         - Assistant Director of Finance  
Sandra C. King                                    - Head of Internal Audit  
Alison Chubbock                                 - Accountancy Manager  
Julie Britton                                        - Senior Committee Officer

**60/12 MINUTES (AGENDA ITEM 1)**

a) Breckland Training Services Proposal (Minute No. 55/12)

Mr Ludlow asked if the comments raised by the Audit Committee had been mentioned at the Full Council meeting on 25 October 2012. Members were informed that nothing had been said but the Chairman ensured the Committee that the performance of the training service would come back to the Audit Committee in due course and be added to the Work Programme accordingly.

b) Minutes

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

**61/12 APOLOGIES (AGENDA ITEM 2)**

Apologies for absence were received from Mr R Childerhouse and Mr R Murray.

**62/12 DECLARATION OF INTERESTS (AGENDA ITEM 4)**

None.

**Action By**

**MF**

|  | <u>Action By</u>                             |
|--|--|
| <p><b>63/12 <u>MONITORING OF THE EXTERNAL AUDIT SITUATION (STANDING ITEM) (AGENDA ITEM 6)</u></b></p> <p>The Assistance Director of Finance introduced Emma Patchett as the Council's new external Auditor who now worked for Ernst &amp; Young since the closure of the Audit Commission.</p> <p>Ms Patchett advised that the move to Ernst Young took place on 1 November 2012 as planned.</p> <p>It was agreed that the monitoring of the External Audit situation could be removed from the agenda. Mr Ludlow asked if this could be replaced with the draft local Audit Bill consultation, it was agreed that this could be added once something positive came forward.</p> <p><b><u>RESOLVED</u></b> that the Monitoring of the External Audit situation be removed from the agenda as it was no longer required.</p>  | <p></p> <p><b>MF</b></p> <p><b>MF/JB</b></p> |
| <p><b>64/12 <u>ANNUAL AUDIT LETTER 2011/12 (AGENDA ITEM 7)</u></b></p> <p>The Annual Audit Letter that reflected the Audit Committee's work in 2011/12 was for information only.</p> <p>The Annual Audit Letter was noted.</p>   |  |
| <p><b>65/12 <u>QUARTER 2 GOVERNANCE REPORT RISKS (AGENDA ITEM 8)</u></b></p> <p>The Governance &amp; Performance Accountant presented the Quarterly Risk Governance Report for Quarter 2 2012/13.</p> <p>There had been a number of new and revised risks identified during the quarter which could be seen from pages 10 to 12 of the agenda.</p> <p>Members' attention was drawn to the omission of two risks from Quarter 1 that had decreased but had not been included in this report.</p> <p>Mr Stevens asked what ATT stood for under risk ID No. BC-CD-OR 12, the Governance &amp; Performance Accountant did not know what this stood for but informed Members that it was basically the company that would be taking over the school. Mr Stevens then asked what level of influence Breckland Council would have on this matter. In response, Members were informed that Breckland Council would have a strong level of influence. In response to a concern about the lack of a risk score for the Swaffham High School, the Governance &amp; Performance Accountant said that he would look into this.</p> <p>Referring to page 12 of the agenda, Mr Stevens asked for clarification with regard to risk BC-IT-OR 07. The Governance &amp; Performance Accountant explained that this risk related to the transfer of IT staff to Norfolk County Council. It was noted;</p> | <p><b>CB</b></p> <p><b>CB</b></p>            |

|   | <u>Action By</u> |
|---|------------------|
| however, that any potential issues would be escalated to Norfolk County Council.  |                  |
| Page 18 of the agenda under R-SR 01 in relation to rental income, Mr Ludlow mentioned the fact that the Audit Committee had asked for the occupancy rate figure to be included in the chart. The Governance & Performance Accountant agreed to amend the chart accordingly for the next report.   | <b>CB</b>        |
| Referring to the aforementioned chart, Mr Stevens thought that the space currently let for the Dereham Business Centre was quite low. Members were informed that there was a low demand for office space at this time. The Vice-Chairman pointed out that Norfolk County Council's Children's Services closed its office in Thetford and had transferred to the Dereham Business Centre.  |                  |
| In the light of the Government's relaxation on S106 Agreements Mr Ludlow asked if the risk under BC-SR 05 had been reviewed. The Vice-Chairman stated that he was aware of some on-going re-negotiations in relation to stalled contracts. The Assistant Director of Finance pointed out that the Council was mindful of the need to encourage affordable and market value housing. This query would be followed up with the Housing Manager.   | <b>MF</b>        |
| Referring to BC-SR 07, in relation to whether the cost of the advisory service provided by Norfolk County Council could increase, the Assistant Director of Finance stated that such costs would not be governed by this level of agreement. However, it was agreed that this question should be put to Norfolk County Council.   | <b>MF</b>        |
| The report was otherwise noted.   |                  |
| <b>66/12 <u>UPDATING OF STRATEGIC AND ANNUAL AUDIT PLANS FOR 2012/13 (AGENDA ITEM 9)</u></b>  |                  |
| In a response to a request from the Corporate Management Team to revisit the computer audit needs assessment from 2010/11, the Head of Internal Audit confirmed that this work had now been completed and the strategic and annual audit plans updated in consequence. The new assessment had adopted a slightly revised approach. The auditable areas had been split into two separate analyses. The first analysis reviewed 36 potential discrete auditable areas, whilst the second focused on the authority's key applications and upcoming projects. Further to this, a new methodology for IT back up arrangements had been incorporated. |                  |
| In reference to the reviews for the cash receipting applications and the Revenues and Benefits Electronic Document Record Management System, there had been an acceptance that these reviews should still go ahead, but that the remaining 21 planned days should be allocated to a review of Network Infrastructure and Security. This work would commence in early March 2013.  |                  |

**Action By**

The latest Computer Audit Needs Assessment covered the period 2012/13 to 2015/16 and this contained a suggested programme of work for two financial years - 2014/15 and 2015/16 which extended past the term of the Internal Audit Services Contract which expired in September 2014; therefore, future audits could change dependent on the service delivery model that the Council adopted from that point forward.

Mr Ludlow queried Table 1 under Section 6 of Appendix 1 (page 35 of the agenda) and asked why the Council had three very high risk items last audited in 2009 that were not going to be audited again until 2015/16. He was of the opinion that high risk items should be monitored every year. The Head of Internal Audit explained that Deloitte's cycle of review was such that very high risk items were earmarked for two yearly reviews, high risk systems should be subject to three year examination and medium risk areas warranted a four yearly scrutiny. Further to this, the assessment had been based on current risks and hence, when previously audited, the auditable areas might well have carried a different risk rating at that time, which explained why some of the intervals between reviews were longer than one might have expected. Computer audit coverage was also subject to financial constraints i.e. funding available to sanction delivery of the relevant audits put forward and this factor also played a key part in the scheduling of work. Mr Ludlow felt that the high risks should be swapped to the timeframe of the medium risks. Members were informed that the Director of Commissioning, the Assistant Director of Finance and the Head of Internal Audit had considered Deloitte's computer audit proposals and collectively agreed that they represented a reasonable balance of computer audits for completion in the next four years.

Mrs Jolly asked if these assessments would be affected by the move to Norfolk County Council. The Head of Internal Audit explained that the move had been taken into account when developing the coverage, and there had also been discussion with the Principal Audit Client Manager at Norfolk County Council regarding the scoping of Breckland audits to avoid any duplication of work.

In conclusion the Chairman was well aware of how shared services could affect the way that these assessments would be reported in future; in his opinion it was going to be much more difficult.

**RESOLVED** that:

- 1) the findings of the Computer Audits Needs Assessment be noted; and
- 2) the amended Strategic Audit Plan for 2012/13 to 2014/15, the reworked Annual Audit Plan for 2012/13 and the

Action By

updated Summary of Internal Audit Coverage for 2012/13 be approved.

**67/12 PROGRESS REPORT OF INTERNAL AUDIT ACTIVITY, 1 APRIL TO 5 NOVEMBER 2012 (AGENDA ITEM 10)**

The report examined progress made between April and early November 2012 in relation to delivery of the Annual Audit Plan for 2012/13 and included abbreviated management summaries in respect of the audit reviews that had been finalised in the course of this period.

The Head of Internal Audit commented on the status of the Plan and provided further updates, e.g. a final audit report had now been issued for BRK/13/03 for Asset Management, a draft report had been generated for BRK/13/02, Procurement with management responses were awaited, the field work on BRK/13/04 for Payroll and Human Resources had since been completed and the fieldwork relating to BRK/13/05 Environmental Health had commenced.

Members' attention was also drawn to the outcomes of the audit of BRK/13/01, the Environmental Services Contract and the fact that a **Good** assurance had been given on the conclusion of the work.

The Vice-Chairman was aware that Environmental Health was undergoing a management structure change and asked if Internal Audit had taken this into consideration moving forward, particularly if new procedures and new ways of working were being developed. Members were informed that with all audits, the primary focus was on key controls and although operations spanning up to the previous 12 months might be evaluated, at the same time, current developments within the Service area and their impact on the internal control environment were also taken into account. Members of the Corporate Management Team were consulted over the timing of reviews before their sequencing was finalised, and wherever possible, internal developments in service areas would be recognised in the proposed Summary of Audit Coverage prepared each year in conjunction with new Audit Plans. Members were referred to page 61 of the agenda as to what aspects of Environmental Health had been suggested for inspection in 2012/13 and that when later setting the audit brief, the Environmental Health Manager had requested some changes to the original focus, hence senior management input was always taken into account before starting any audit.

Referring to the Document Imaging Process under BRK/13/12, Mr Ludlow drew attention to the weak compliance in relation to the three month retention rule for scanned hard copy documentation. He asked if any documentation was being kept after the three months or being destroyed before. The Head of Internal Audit explained the rationale for the recommendation which had been linked to the weak compliance and pointed out that management

Action By

had now agreed to implement and document relevant procedures that would ensure full compliance with the Policy in the future.

In response to a question, Members were informed that daily exception reports were generated for cash receipting.

**RESOLVED** that the outcomes of the audits completed between April and the first week of November 2012, together with recent amendments made to the Annual Audit Plan for 2012/13 be noted.

**68/12 REPORT OF THE STATUS OF AUDIT RECOMMENDATIONS DUE FOR IMPLEMENTATION BY 30 SEPTEMBER 2012 (AGENDA ITEM 11)**

The purpose of the report was to inform Members of the progress made in implementing audit recommendations due between 1 April and 30 September 2012. The report thus provided a commentary on management updates provided during this period and the outcomes of recent audit verification work.

In the intervening period, the process used to monitor the implementation of audit recommendations had remained broadly similar, whilst the latest verification work had been carried out by the Deloitte Auditors during w/c 22 October 2012.

The table at 3.2.1 of the report crystallised the current and previously reported position showing the improvements that had been made in the first part 2011/12 compared to the latter; whilst there had been a sudden rise in the number of recommendations where it had not been possible to confirm their status in the first half of 2012/13. Additionally, it was noted that revised deadlines had been set for the two high priority recommendations arising from the 2010/11 Asset Management audit and progress with their implementation would continue to be monitored.

The audit follow up work had also highlighted that control weaknesses concerning procurement still remained unsolved of which there were five outstanding recommendations. A further review of this area was currently underway and a fuller update on the system of internal control operating over procurement would be brought back to the Committee in due course.

Members were also made aware that where **limited** assurance had been given to Planning and Building Control in 2011/12; all eight recommendations had yet to be satisfactorily cleared although two had not as yet reached the deadline dates agreed for delivery.

Internal Audit had not been able to comment on the position with regard to the implementation of the 15 computer audit recommendations. Deloitte had been unable to carry out any validation work as no response had been provided by the relevant responsible Directors. No advice had been received from Deloitte

SK

on any action being taken.

Members' attention was drawn to Appendix 1 of the report which listed the summary of agreed Internal Audit recommendations as at 30 September 2012.

Referring to the table at paragraph 3.2.1 of the report, Mr Jermy thought that it had previously been agreed that the Completed/Superseded recommendations would be shown separately. The Head of Internal Audit said that she would have to check with Deloitte if this could be done and once this information was to hand, she would update the report and provide a response for circulation to all Members of the Audit Committee.

Referring to paragraph 3.2.4, Mr Stevens was astonished about the lack of action from Management which he felt was a terrible indictment. There seemed to be a culture of non response and he felt that a strong message should be sent to the Chief Executive. In defence, the Assistant Director of Finance explained that the lack of updates was primarily due to the introduction of the new Performance Management System. Further updated reports from the Management had since been received and the next report to Committee would shed a different light on the matter. The message of concern would still be conveyed to the Managers and would also be included on the Corporate Management Team's agenda. The Chairman endorsed the concern and requested that an update be brought to the next meeting.

In reference to the summary of agreed internal audit recommendations on page 84 of the agenda and the detail behind these recommendations on pages 85 to 96, Mr Ludlow pointed out that in the summary, on page 84 for Computer Audit BRK/11/16, it stated that there was one medium risk in the column 'unable to confirm status' but in the detail on page 95 for BRK/11.16.09, it stated that that this was 'outstanding' and 'not able to confirm status,' this had been identified by a cross instead of a question mark in the second to last column. Then again in the summary on page 84 for Audit BRK/12/17, it stated that there were six medium risks in the column 'unable to confirm status', but again in the detail on page 96 for BRK/12.17.06 it stated that one of these was 'outstanding' and not 'unable to confirm status' – this had been identified once again by a cross instead of a question mark in the second to last column. The Head of Internal Audit was asked to find out whether the summary or the detail was correct.

Referring to page 89 of the agenda, it was agreed that a report should be produced to verify whether the data collected for changes to the Land Charges Register were being met.

In response to a question in relation to CCTV, Members were informed that there were arrangements in place with Kings Lynn &

**Action By**

**MF**

**SK**

**MF**

**Action By**

West Norfolk Council to continue the service.

Subject to the aforementioned concerns, the contents of the report were noted.

**69/12 AUDIT COMMITTEE SELF ASSESSMENT EXERCISE 2012/13  
(AGENDA ITEM 12)**

The report sought to revisit CIPFA's Audit Committee Self-Assessment Checklist in accordance with the annual cycle set for reviewing operational arrangements, the outcomes of which could also feed into the annual review of the effectiveness of Internal Audit.

The last time that the Audit Committee worked through the Checklist was in September 2011 where upon completion, it had been recognised that there had been full compliance with the 66 aspects queried over the six fundamental areas as detailed in the report. The same fundamental areas applied this year; however, Members were made aware that there was currently a national move to introduce consolidated Public Sector Internal Audit Standards with effect from 2013/14. These standards would not be introduced until 1 April 2013 and it had been advised that the Audit Committee should continue to carry on mirroring best practice operational arrangements wherever possible whilst the service repositions itself to meet the obligations of the incoming amalgamated standards.

The checklist had been provided at Appendix 1 of the report.

No questions were asked; therefore, it was assumed that Members were accepting compliance unless they raised concerns in the meeting. One Member, being a new Member of the Committee, noted that she had not been provided with an appropriate induction. It was agreed that the Senior Committee Officer would liaise with the Head of Internal Audit to make arrangements for an induction session to take place for all the new Committee Members. Mr Ludlow also raised the point about whether the Terms of Reference set out the frequency of the meetings. The Chairman advised that the Audit Committee met as scheduled in the Calendar of Meetings that accorded with the Work Programme. Further to the above, and referring to checklist item 4.4 under Internal Audit, a Member asked whether the Committee should follow up with further action when advised that there had been issues with the implementation of audit recommendations. The Head of Internal Audit explained that regular reporting on audit recommendations was keeping the Committee appropriately informed.

**SK/JB**

The External Auditor asked if the Audit Committee held pre-meetings. The Assistant Director of Finance advised that the Audit Committee had two scheduled a year but could have more if it so

|   | <u>Action By</u> |
|---|------------------|
| <p>wished. The Vice-Chairman pointed out that the Auditors could be pro-active if they wanted a pre-meeting to take place.</p> <p>It was agreed that a standard item on training should be added to the agenda. The External Auditor said that she would be very happy to extend her knowledge on external audit to the Committee.</p> <p><b><u>RESOLVED</u></b> that full compliance to the Self Assessment Checklist be confirmed; subject to appropriate induction training being provided to the new Members of the Committee.</p>  | <p>MF/JB</p>     |
| <p><b>70/12 <u>DRAFT ESTIMATES 2013/14 AND MEDIUM TERM PLAN (AGENDA ITEM 13)</u></b></p> <p>A detailed presentation on the Draft Estimates 2013/14 and Medium Term Plan was provided.</p> <p>The presentation covered the overall revenue budget position, the capital budget, risks, sensitivity of major variables and the settlement dates.</p> <p>The Council had had to deal with a great deal of uncertainty this year as far as budgetary issues were concerned; even recent activity included a headline received from CIPFA that read: "Councils could bust their budgets" (a link to this headline would be sent via email to all Audit Committee Members).</p> <p>The Accountancy Manager highlighted the main areas within the presentation which included the efficiencies that needed to be found in 2013/14, Government Funding and how it was being reduced, the New Homes Bonus that had been based on estimates, benefits reduction, and one of the biggest risks, business rates. A chart showing the Business Rates trend against the New Homes Bonus was shown and explained.</p> <p>Mrs Jolly queried the net cost of services and asked if this budget was set in stone, if it was, how did the Council track the identified efficiencies of new decisions against this budget. The Assistant Director of Finance explained that the Council was legally required to set the budget for the Council Tax; once this had been done, quarterly reports then went through to Cabinet and then Council and the budget would then be adjusted accordingly. Mr Ludlow likened it to a forecast rather than a budget. Members were informed that a copy of the original budget was retained.</p> <p>As far as settlement dates were concerned, the settlement announcement was not expected until 19 December 2012 and the local Council Tax Scheme was not due to be put in place until the end of January 2013. Further to this the "Could We Should We" results had not been factored into the budget at this stage. The budget would not be approved until the February meetings of Cabinet and Council.</p> | <p>MF</p>        |

**Action By**

This initial draft budget, if approved, would be put out to consultation on the website where hopefully comments would be received from council tax payers, business rate payers and key stakeholders. Mr Ludlow asked how much came out of the consultation process. The Assistant Director of Finance explained that the Council was obliged, under the regulations, to have Business Rate Payers' meetings; however, last year, in 2011, such a meeting did take place but only one person attended. Any feedback from the consultation process would be considered by Cabinet.

The draft Estimates 2013/14 and Medium Term Plan were noted.

**71/12 TREASURY MANAGEMENT- MID YEAR REPORT (AGENDA ITEM 14)**

The Assistant Director of Finance presented the mid-year report which had been structured to highlight the key changes to the Council's capital activity (the prudential indicators (PIs)), the economic outlook and the actual and proposed treasury management activity (borrowing and investment).

The key matter for Members to consider was in relation to the approach to counterparty selection either based on the current credit rating criteria, of which there were only two banks, or to adopt the colour coding methodology which would allow other UK banks (10 or more) to come back onto the Council's counterparty list.

The Vice-Chairman said that he would be content to have a broader base to work with. Mrs Jolly asked if this would come with any guarantees and if there would be any difference to the terms. In response, the Assistant Director of Finance advised that since the Icelandic crisis the Government would not now support local authorities. In terms of the latter question, the colour coding methodology would just allow more choice. Mrs Jolly further asked if there was anything in place if any of these banks happened to drop off the secure list. Members were informed that the Council would receive notification if this occurred.

The Prudential Indicators demonstrated that in 2012/13 there was no requirement to borrow.

Appendix B set out the figures against the Council's Investment Strategy. The Assistant Director of Finance advised that £7.9m of Icelandic monies had been received to date. Further to this, £89m Krona was being held in an Icelandic Escrow account – regulations to allow the Council access to this money was awaited. There was a great deal of uncertainty on the value of the monies when converted to sterling and the interest rate was unknown.

**RESOLVED** that the colour coding methodology be adopted and the Strategy and Policy be updated accordingly.

**72/12 WORK PROGRAMME (AGENDA ITEM 15)**

**RESOLVED** that the following items be added to the Work Programme:

- 1) External Audit report - since the change to Ernst & Young it was agreed that a report be brought to the next Audit Committee meeting in February 2013.
- 2) Audit Joint Working Protocol - it was agreed that a report would be brought to the next Audit Committee meeting in February 2013.
- 3) Breckland Training Services performance update – to be added to the Work Programme in September 2013.

It was noted that training on the new Standards regime would be arranged before a Hearing took place.

**73/12 NEXT MEETING (AGENDA ITEM 16)**

The arrangements for the next meeting on 15 February 2013 were noted.

**Action By**

**MF/JB**

The meeting closed at 11.45 am

CHAIRMAN