

BRECKLAND COUNCIL

At a Meeting of the

AUDIT COMMITTEE

**Held on Friday, 15 February 2013 at 10.00 am in
Norfolk Room, Conference Suite, Elizabeth House, Dereham**

PRESENT

Mr C.R. Jordan (Chairman)
Mrs E. M. Jolly

Mr M J Nairn
Mr C G Carter (Substitute Member)

Also Present

Mr T. Ludlow
Mr K. Stevens

In Attendance

Emma Patchett
Robert Murray
Chris Brooks

- Audit Manager
- District Auditor, Audit Commission
- Governance and Performance Accountant
- Assistant Director of Finance
- Senior Committee Officer
- Standards Officer

Mark Finch
Julie Britton
Susan Allen

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1/13 MINUTES (AGENDA ITEM 1)

The Minutes of the meeting held on 23 November 2012 were confirmed as a correct record and signed by the Chairman subject to the following typographical error being amended at Minute No. 66/12 to read: "adopted" and not "a doped".

2/13 APOLOGIES (AGENDA ITEM 2)

Apologies for absence were received from R Kybird, R Childerhouse and T Jermy.

3/13 STANDARDS ARRANGEMENTS UNDER THE LOCALISM ACT (AGENDA ITEM 6)

The Standards Officer presented the report which sought approval for relevant changes to be made to the Standards Arrangements and to extend the appointment of the current Independent Person.

The Standards Arrangements had previously been approved by Full Council on 5 July 2012, however, since implementation, lessons had been learnt and potential refinements had been identified.

Members were being asked to endorse and recommend these

changes to the next Full Council meeting on 28 February 2013. The recommendation also requested that the appointment of the current Independent Person be extended until the Annual Council meeting in May 2015.

In response to a question about the volume of complaints, Members were informed that thirteen had been received thus far under the new regime since July 2012; three of these had been withdrawn and no further action was being taken on the remainder. A report would be brought to the Audit Committee in June and annually thereafter to highlight the variety of complaints received.

Mr Ludlow asked if the Independent Person had involvement in every complaint. The Standards Officer explained the complaints procedure to Members.

Mr Stevens asked if there was a right of appeal process. Members were informed that there was no such appeal process in place under the new regime but there was nothing to stop the person putting in a further complaint.

RECOMMEND to Council that the following alterations be made to the Standards Arrangements as previously approved by Council on 5th July, 2012:

- (1) the Monitoring Officer be granted the authority to seek further resolution or other action where appropriate to resolve the complaint without a hearing, when an investigation has been conducted and a breach had been found;
- (2) the Monitoring Officer be granted the authority not to pursue a complaint at any stage if it was deemed to no longer merit consideration under the arrangements;
- (3) on receipt of a complaint against all or the majority of a town or parish council members, the Monitoring Officer be granted authority to notify the members named within the complaint and seek their comments as per current arrangements, but be authorised to refer the complaint back to the town / parish council to be dealt with under its own complaints procedure; and
- (4) that the appointment of the current Independent Person, Mrs Fiona Anthony, be extended until the Annual Meeting of Council in May 2015.

4/13 AUDIT PROTOCOL (AGENDA ITEM 7)

The Head of Internal Audit and the Audit Manager (Ernst & Young) had been working together on a new work programme and an agreement had been reached.

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New sampling requirements had been identified and would be taken into account for 2012/13 and a new protocol would be devised from March 2013.

The External Auditor advised that a number of processes and procedures had changed since the inauguration of Ernst & Young.

5/13 ANNUAL AUDIT FEE LETTER (AGENDA ITEM 8)

Emma Patchett, the Audit Manager presented the Audit Commission's Annual Audit Fee Letter to Breckland Council for 2012/13.

The fee reflected the risk-based approach to audit planning as set out in the Code of Audit Practice and the work mandated by the Commission for 2012/13. The Audit fee covered:

- Audit of the financial statements;
- Value for money conclusion; and
- Whole of Government accounts.

When asked about the value of the new auditing arrangements the Assistant Director of Finance pointed out that the charges had decreased considerably compared to the previous year but he would reserve judgement until the final bill had been received.

Mr Ludlow questioned the planned fee for 2011/12. Members were informed that the figure for 2011/12 had not been finalised as yet as the certifications of grant claims had just been completed.

The Annual Audit Fee Letter was noted.

6/13 2012/13 AUDIT PLAN (AGENDA ITEM 9)

The Audit Manager presented the Audit Plan for 2012/13.

The plan outlined two key strategic risks one of which would probably be seen in the vast majority of Audit authorities – pressures from the economic downturn.

The detail of how these risks would be approached was highlighted.

One element of the audit process that was different for this year was the use of analytics. This new methodology should highlight any anomalies that would not have previously been found.

Page 8 of the Audit Plan listed the deliverables that External Audit had agreed to provide the Audit Committee throughout the year in 2013.

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Mr Ludlow asked for the meaning of MTFS quoted under significant risks on page 4 of the Plan. Members were informed that MTFS stood for Medium Term Financial Strategy.

The 2012/13 Audit Plan was otherwise noted.

7/13 QUARTER 3 GOVERNANCE REPORT RISKS (AGENDA ITEM 10)

The Governance & Performance Accountant presented the quarterly Risk Report for Quarter 3 2012/13. The report listed the number of risks that had decreased, new risks and closed risks.

A replacement page for page 27 of the report was circulated and the following points raised by Mr Ludlow were highlighted:

- Page 21 – under BC-F-OR 14 – the score for this risk description should be 3 not 2. A report on the technical changes to increase the tax base and council tax income had been approved at Full Council in January 2013.
- Page 24 – under BC-SR 11 – this risk had not been closed only an element of it had.
- Page 31 – BC/SH-EH-O7 04 should read: BC/SH-EH-OR 04

Mrs Jolly asked how the new risks identified were tracked. She also asked how all the risks featured made their way from this paperwork to senior managers. The Governance & Performance Accountant explained that he met with Managers on a regular basis to identify risks and discuss mitigation plans. Dependent on the nature of the risk, risks were also reported on the new Performance system and were monitored through these Audit Committee meetings.

Mr Nairn asked how a new risk was identified. Members were informed that these would be flagged up by Managers as it was a subjective system. The Assistant Director of Finance explained that there was a quarterly process to review risks and identify new ones. Managers would be mindful of any new risks in their areas, for example, through legislation changes, and would accordingly report to Chris Brooks, the Governance & Performance Accountant.

The Quarterly Risk Report for Quarter 3 was otherwise noted.

8/13 TREASURY MANAGEMENT POLICY AND STRATEGY 2013-14 (AGENDA ITEM 11)

Mr Ludlow had tendered questions and observations on various matters in relation to this report and these had been taken into account. Mr Ludlow was thanked for highlighting the

amendments/changes; however, such changes would be subject to the Audit Committee's agreement.

Copies of the amendments were circulated.

The Assistant Director of Finance presented the Treasury Management Policy and Strategy 2013-14 and he highlighted the following main changes and key issues:

- a) CIPFA had issued an amendment to the Prudential Code 2011 to replace the net debt indicator with a gross debt indicator. However, this did not affect the Council as it currently had no debt.
- b) The Budget report to Cabinet 12th February sets out the key challenges surrounding availability of capital and revenue over the forthcoming budget period. Key challenges for Treasury activities surround the monitoring of Performance Indicators, particularly the availability of capital and monitoring the need to borrow and ensuring that cash was available when needed whilst maximising returns. Audit Committee on 23rd November 2012 approved a wider lending list which was not based purely on credit ratings. This change had been reflected in the 13/14 Strategy and Policy attached to this report.
- c) During 2012/13, the advice was not to place money for more than 3 months (other than with the two part nationalised banks on our lending list). On the 11th January 2013, Sector advised that it was no longer necessary to place such stringent limits on duration; however, the Council's time limits were still guided by their colour coding methodology. Their newsflash also stated that between September 2012 and January 2013, around 40% of counterparties monitored by Sector had their credit ratings reduced to the extent that it would have lowered their standard Sector suggested duration, in other words, the outlook remains mixed.
- d) The 13/14 Strategy and Policy still required counterparties to have an AAA rating by Fitch. Sector advised that there was a distinct possibility that the UK may lose this rating. Sovereign issues would therefore be kept under review and should this occur, advice from Sector would be sought and Audit Committee would be kept updated. In addition, whilst the Treasury Strategy and Policy allowed for investing in non UK banks, at this time no non UK investments were being made.
- e) MRP policy had not changed

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- f) The Council's Treasury advisory contract with Sector was renewed in 2012/13 for one year and expired at the end of November 2013. A new contract for advisory services would be tendered for.
- g) Due to the timing of writing this report, all information on the capital programme had been based on the budget being presented to Council on 28th February 2013 which could be subject to change.

Referring to the first point (section (a) above) Members were informed that the budget report would be subject to approval by Full Council on 28 February 2013.

In relation to (d) above, the Assistant Director of Finance stated that Breckland Council needed to be mindful of the UK possibly losing its AAA rating which would affect some of the banks currently on the counterparties list.

Referring to the Minimum Revenue Provision policy (MRP) at (e) above the MRP policy had not changed as the Council was not forecasting any debt for the next two of years.

As far as section (f) above was concerned, the new contract for advisory services would be tendered for in the coming months.

Appendix A of the report sets out how the Council was going to pay for its assets. Many prudential indicators were superfluous as Breckland Council did not carry any debt.

The Chairman queried the credibility of AAA ratings as he remembered the Council putting monies into the Icelandic banks that had been AAA rated at the time. The Assistant Director of Finance advised that the ratings agencies had all reviewed their counterparty ratings and methodologies and all were now a lot more stringent; therefore, the number of banks that the Council was allowed to invest in had shrunk. In response to a question as to whether the pool of counterparties would diminish if the rating was reduced, Members were informed that a number would ultimately fall off the radar/list.

Mrs Jolly asked about the figures presented in the tables on pages 38 and 41. The Assistant Director of Finance explained that the figures took account of slippage of expenditure in the Capital Programme. Money that the Council had budgeted to spend would not be spent in the current year and would be transferred into next year's Capital Programme and would therefore push up the spend in 2013/14. Investments had reduced from £21m to £11m to reflect this as well as some use of Revenue Reserves.

Mr Ludlow was pleased with the amount of detail within the report

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but felt uncomfortable with the paragraph on page 45 of the report that highlighted the credit ratings particularly with the flippant remark used about counterparty ratings from one rating agency being *marginally lower*. The Assistant Director of Finance advised that counterparty ratings were frequently changing and as they were not assigned to a numerical value it was not possible to assign a more distinct value. There were other factors that were also used to determine whether a counterparty could be used.

Mr Ludlow stated that *marginally lower* to an accountant was a term that did not exist.

It was **RESOLVED** that:

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- (1) the Prudential Indicators and Limits for 2013/14 to 2015/16 contained within Appendix A of the report be approved;
- (2) the Minimum Revenue Provision (MRP) Statement contained within Appendix A which sets out the Council's policy on MRP be approved;
- (3) the Treasury Management Strategy 2013/14 to 2015/16 and the Treasury Prudential Indicators contained within Appendix B be approved;
- (4) the Investment Strategy 2013/14 contained in the Treasury Management Strategy (Appendix B), and the detailed criteria included in Appendix B1 be approved; and
- (5) the Treasury Management Policy at Appendix B2 be approved.

9/13 INTERNAL AUDIT TERMS OF REFERENCE, CODE OF ETHICS, AUDIT STRATEGY, STRATEGIC AND ANNUAL AUDIT PLANS AND SUMMARY OF INTERNAL AUDIT COVERAGE FOR 2013/14 (AGENDA ITEM 12)

The Head of Internal Audit stated that the report served to demonstrate all the linkage between the auditing documents and gave an overview of what Internal Audit was doing to get to the proposals for its Annual Audit Plans next year. However, Members were asked to note that from 1 April 2013 onwards, new Public Sector Internal Audit Standards would come into force that would supersede CIPFA's Code of Practice.

Members' attention was drawn to section 3.2 of the report (on page 75) that highlighted the amount of contact with external and internal suppliers. Internal Audit had been mindful of the financial pressures facing the authority both currently and in future years and had therefore been liaising with its counterparts at St Edmundsbury Borough Council, South Holland's Internal Auditors and External

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Auditors, Ernst & Young. Internal Audit would continue to maintain such dialogues with their aforementioned colleagues with a view to securing future audit cost savings for Breckland Council wherever possible.

Furthermore, the Strategic and Annual Audit Plans had been based on work just completed from the latest audit needs assessment exercise. Such Plans were very much living documents that could be changed; therefore, resources could be re-directed where needed most throughout the year.

Referring to section 3.9 of the report, Members were informed that an Audit Joint Working Protocol was being developed with the new External Audit provider, Ernst & Young and it was anticipated that this Protocol would be brought to the Audit Committee meeting in June.

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There was a need for an Audit Charter going forward. CIPFA was not publishing such a Charter until 1 April 2013, this would mean that working practices would have to be revisited and realigned.

Appendix 2 (pages 90 to 93) highlighted Internal Audit's Code of Ethics for 2013/14. This Code of Ethics set out the minimum standards for the performance and conduct of Breckland Council's Internal Auditor's.

The Internal Audit Strategy, at Appendix 3, sets out how Internal Audit developed and delivered its risk-based Audit Plans. This year, an additional exercise had been undertaken called job budgets. This had been a rationalisation exercise to ensure that Internal Audit was adopting a more standardised approach to the number of planned days required to undertake specific audits at Consortium sites. Further to this, a number of audits had been repackaged; this would be a real plus for all the Consortium sites.

The Strategic Audit Plan and the Annual Audit Plan were also highlighted.

The Audit Plan envisaged a total of 232.5 days to be delivered in 2013/14 this translated into 19 assignments. There was very little difference in the Plan for 2013/14 compared to what had been asked for in 2012/13.

The levels of assurance paper at Appendix 7 had been circulated separately as a coloured document as it was important to be able to view and understand the 'traffic light' system. The appendix highlighted the historical and current position, as well as future coverage being put forward. The colours against the levels of assurance were explained.

The Audit Committee was being asked to approve the range of

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<p>supporting documents.</p> <p>Mr Ludlow asked for the meaning of TIS online service under the heading Other Documentation on page 96 of the report. Members were informed that TIS stood for Technical Information Service. Mr Ludlow was pleased to note that all internal audits referred back to the risk register. The Assistant Director of Finance advised that this would be something that he and the Head of Internal Audit would be looking at to ensure that those risks had been reflected.</p>	
<p><u>RESOLVED</u> that:</p> <ol style="list-style-type: none"> (1) the Internal Audit's Terms of Reference and Performance Indicators for 2013/14 be approved; (2) the Code of Ethics for 2013/14 be approved; (3) the Internal Audit's Strategy for 2013/14 be approved; (4) the Strategic Audit Plan for 2013/14 to 2015/16 be approved; (5) the Annual Audit Plan for 2013/14 be approved; and (6) the summary of Internal Audit Coverage for 2013/14 be approved. 	<p>SK</p>
<p>10/13 <u>TRAINING (STANDING ITEM) (AGENDA ITEM 13)</u></p>	
<p>The Head of Internal Audit was thanked for delivering the training session held recently for new Members.</p>	<p>SK</p>
<p>The Chairman said that training would remain on the agenda as a standing item so that any Member could raise any training issues he or she might have on an as and when basis.</p>	<p>All to Note</p>
<p>The Chairman asked if the Assistant Director of Finance could offer further guidance to Members after the meeting in relation to the questions asked earlier by Mrs Jolly in relation to the Treasury Management Policy & Strategy.</p>	<p>MF</p>
<p>11/13 <u>WORK PROGRAMME (AGENDA ITEM 14)</u></p>	
<p><u>RESOLVED</u> that the following item be added to the Work Programme:</p> <ul style="list-style-type: none"> • Annual report on complaints under the Localism Act 2011 • Audit Joint Working Protocol – Internal Audit <p>Mr Ludlow asked about the review of external contracts that he thought should have been added to the Work Programme. He also asked why the Self Assessment Exercise and Action Plan was on</p>	<p>MF/JB</p>

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<p>the Work Programme twice. In response to the first question, the Committee was informed that such a review was a function covered by the Overview and Scrutiny Commission. In response to the latter, the Head of Internal Audit explained that it would be removed from the 13 December meeting if Members were content with the document in September.</p>	SK
<p>12/13 <u>NEXT MEETING (AGENDA ITEM 15)</u></p> <p>The arrangements for the next meeting on 7 June 2013 at 10.00am in the Norfolk Room were noted.</p>	
<p>13/13 <u>COUNTER FRAUD, CORRUPTION AND BRIBERY POLICY AND WHISTLE BLOWING POLICY (AGENDA ITEM 16)</u></p> <p>The Assistant Director of Finance presented the report which asked Members to review and approve the updated Counter Fraud, Corruption and Bribery Policy and the Whistle Blowing Policy.</p> <p>The reasons for the recommendation were to reflect changes in legislation and changes in working practices with the shared management. The authorities were attempting to align policies where possible and the same Policies had already been approved by South Holland District Council.</p> <p>The Whistle Blowing Policy offered a contact list that could be updated separately to the main Policy by the Monitoring Officer and the S151 Officer, rather than waiting for the main Policy to be reviewed. The Audit Commission also remained on the contact list as it had a dedicated Whistle Blowing hotline.</p> <p>In essence the Policies had not changed except for the Fraud Policy that had been updated to be consistent with the approach outlined in the national Fighting Fraud Locally: the Local Government Fraud Strategy.</p> <p>In response to a question, Members were informed that the Policy was a public document and would be advertised as such and available to all stakeholders. Any investigations uncovering criminal actions taken would be reported to the Police and may end up in the local press.</p> <p>In response to a further question in relation to how these Policies could be enforced with the Council's contractors, the Assistant Director of Finance explained that all contractors were obligated to sign up to the Policies as part of their contractual arrangements.</p> <p>The Chairman did not anticipate any problems with the Policies.</p> <p>Subject to an amendment on page 12 of 19 under the heading Responsibility for the Whistle Blowing Policy, to read: "Prior to any</p>	MF

approval....” instead of “Subsequent to any approval....” it was

RECOMMENDED to Council that:

- (1) the Counter Fraud, Corruption & Bribery Policy be approved;
and
- (2) the Whistle Blowing Policy be approved.

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The meeting closed at 11.15 am

CHAIRMAN