# BRECKLAND COUNCIL

## At a Meeting of the

## AUDIT COMMITTEE

## Held on Friday, 7 June 2013 at 10.00 am in Norfolk Room, Conference Suite, Elizabeth House, Dereham

**PRESENT**

Mr C.R. Jordan (Chairman)
Mr R.G. Kybird (Vice-Chairman)
Mrs B Canham
Mr R.P. Childerhouse
Mrs E. M. Jolly
Mr M J Nairn

**Also Present**

Mr T. Ludlow
Mr K. Stevens
Mr M. A. Kiddle-Morris

**In Attendance**

| | | |
|---|---|---|
| Robert Murray | - | Director, Ernst & Young |
| Mark Finch | - | Assistant Director of Finance |
| Sandra C. King | - | Internal Audit Consortium Manager |
| Alison Chubbock | - | Accountancy Manager |
| Julie Britton | - | Senior Committee Officer |
| Simon Best | - | REV Active Project Manager |
| Susan Smith | - | Funding Support Officer |
| Mark Stanton | - | Economic Development Manager |
| Mark Stokes | - | Deputy Chief Executive |
| Vicky Thomson | - | Assistant Director - Democratic Services |
| Sue Allen | - | Standards Officer |

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**14/13 MINUTES (AGENDA ITEM 1)**

(1) Annual Audit Fee Letter (Minute No. 5/13)

The Annual Audit Letter should read from Ernst & Young and not the Audit Commission.

(2) Quarter 3 Governance Report Risks (Minute No. 7/13)

Should read: "Page 31 – BC/SH-EH-OP 04 instead of BC/SH-EH-07 04

(3) Minutes

Subject to the above amendments, the Minutes of the meeting held on 15 February 2013 were confirmed as a correct record and signed by the Chairman.

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**15/13 APOLOGIES (AGENDA ITEM 2)**

None.

**16/13 DECLARATION OF INTERESTS (AGENDA ITEM 4)**

None.

**17/13 NON-MEMBERS WISHING TO ADDRESS THE MEETING (AGENDA ITEM 5)**

Mark Kiddle-Morris.

**18/13 TRAINING (STANDING ITEM) (AGENDA ITEM 6)**

Nothing to report.

**19/13 ANNUAL REPORT ON COMPLAINTS UNDER THE LOCALISM ACT 2011 (AGENDA ITEM 7)**

The Assistant Director for Democratic Services/Monitoring Officer and the Standards Officer were in attendance and updated Members on the work undertaken since July 2012 following implementation of the new standards regime. The update provided the number of complaints received and the present position in relation to the receipt of Disclosable Pecuniary Interests (DPIs) forms from Breckland Councillors and Town and Parish Councillors.

Since the new arrangements the number of complaints had reduced; most had been classed as petty complaints and had been quashed. Only thirteen complaints had been received and none had been upheld. The Standards Officer highlighted the fact that out of the thirteen complaints, eight had been in relation to one parish councillor.

There were three outstanding complaints under the old regime and all had been difficult to deal with. All three complaints had been investigated by an independent Investigating Officer; no breach had been found on two of the complaints. A failure to declare an interest had been found on the third complaint and the Subject Member had subsequently issued an apology.

Referring to the DPI forms, 53 were still outstanding and no forms at all had been received from five parish councils. The Chairman asked if there were any penalties in place for non-compliance. Members were informed that upon election the Act stated that forms must be submitted and reminders were still being sent. It was classed as an offence if councillors failed to declare their DPIs which could end up being a Police matter; however, a number of Councils had already been down this route and the Police had shown no interest and had not been willing to pursue. A single

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point of contact with the Police had since been established.

Mr Stevens asked a question in relation to the Code of Conduct. The Monitoring Officer explained that most Parish Councils had adopted Breckland's Code of Conduct; otherwise, it was presumed that the National Association of Local Councils (NALC) Code had been adopted. The Standards Officer had to check which version had been adopted on submission of complaints.

A Member asked if there was anywhere else councillors could submit their complaint. Members were informed that the next course of action would be to contact the Ombudsman who could then challenge the process of the decision.

The Chairman appreciated all the work that had been carried out since the implementation of the new arrangements. He asked if the Independent Person had been involved with any of the thirteen complaints. Members were informed that she had been involved with all of them and the process was explained.

The report was otherwise noted.

**20/13 REVACTIVE PROJECT RISK MONITORING REPORT (AGENDA ITEM 8)**

The Portfolio Holder for Assets & Strategic Development reported that the REV ACTIVE project had proved to be a great success and had more than exceeded its targets. The launch of the Grants4Growth project had ensured that SMEs still had access to support. Breckland Council had engaged directly with the region's LEPs to deliver efficient, responsive services that were aligned to real business demand and need.

Members' attention was drawn to the DCLG Audit email which the Portfolio Holder read aloud, quoting the excellent outcome of REV ACTIVE that represented best practice and governance structures.

The Economic Development Manager highlighted the achievements mentioned under section 3.1.3 on page 17 of the report. He pointed out that beneficiary SMEs had already invested over £2m that had given businesses the confidence to invest in the market.

The reasons for the recommendations and the risk and financial implications were highlighted.

Mr Ludlow asked when the project was expected to end. He also asked about the MCIS system. The Funding Support Officer advised that the practical completion date was September 2013 and March 2014 for the final audit. In response to the latter, Members were informed that MCIS was a recording and payments system.

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Mr Ludlow had noticed that a percentage had been charged for capital and revenue and asked if the ERDF had agreed these figures. He also asked who had paid for internal audit. The Funding Support Officer advised that the figures had been agreed and would be backdated. Referring to the question relating to internal audit, Members were informed that South Norfolk Internal Audit Team had been procured and the fees had been funded through the project.

The Vice-Chairman asked for the Grants4Growth programme timeline. It was noted that the timeline for this programme was approximately 24 months from April 2013.

**RESOLVED** that:

(1) the current internal and external REV ACTIVE monitoring and oversight regime as set out in the report and accompanying documentation be endorsed; and

(2) a further update be provided to the Audit Committee upon completion of the final external audit due to take place in March 2014.

**21/13 LOCAL GOVERNMENT SECTOR UPDATE (AGENDA ITEM 9)**

Rob Murray, Director for Ernst & Young presented the Audit Committee briefing.

It was a succinct report that contained links at the end of the document where Members could find out more detail about any of the articles listed.

It was noted that the Audit Bill update had featured in the Queen's speech.

The Briefing paper was otherwise noted.

**22/13 ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT FOR 2012-13 (AGENDA ITEM 10)**

The Internal Audit Consortium Manager presented the report which primarily sought to confirm that proper arrangements had been made to comply with the statutory requirements and to present evidence to Members that the system of Internal Audit at Breckland Council was effective, and that the assurances provided in the Internal Audit Annual Report and Opinion could be relied on and used to inform the Council's Annual Governance Statement.

The Accounts and Audit Regulations 2011 stated that a Council the size of Breckland must undertake an annual review of the

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effectiveness of its internal audit function, and that this review be undertaken by the same body that reviewed the effectiveness of the system of internal control.

Internal Audit working practices were required to comply with CIPFA's Code of Practice although these arrangements were set to change from 2013/14 and be replaced by new consolidated Public Sector Internal Audit Standards (PSIAS).

The existing working practices predominately met much of the newly introduced PSIAS requirements although there would also be an obligation to arrange for an external assessment of the effectiveness of internal audit at least once every five years.

Internal Audit operated in an 8 point quality assurance, a summary of review outcomes had been attached at Appendix 1 of the report.

Appendix 2 of the report highlighted the additional requirements specified by the PSIAS in relation to future external assessments of the effectiveness of Internal Audit.

The next element, complying with CIPFA's Code of Practice for Internal Audit, had confirmed that full compliance had been achieved in relation to 11 key criteria.

Complying with CIPFA's Statement on the role of the Head of Internal Audit set out 5 principles that defined the core activities and behaviours that applied to the role of the Head of Internal Audit, and the organisational arrangements to support them. Each principle had associated requirements (59 in total); however, 2 of these principles did not apply but the remaining 57 elements had been found to be satisfactory.

Referring to the quality standards applied to the Internal Audit Service, 98.8% of audit recommendations had been achieved against a target of 90%; however, the percentage of high priority recommendations implemented had fallen from 44% to 20% - only two out of the ten high priority recommendations had been completed. The other main aspect of this work were the timescales for completing audits which had been far from satisfactory over the course of the year. It had been established that audit fieldwork had been late for a number of reasons and these had been highlighted at paragraph 3 on page 83 of the agenda. As far as the cause of the lengthy timeframes between draft and final audit reports was concerned, delays had been due to either late receipt of management responses, or problems associated with agreeing the form that the management response should take. The Internal Audit Consortium Manager explained that a number of meetings had been held with Deloittes to ensure that the Audit Plan was completed on time, and moreover, a workshop between the Audit Management Team and Deloittes had been organised in July 2013

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to explore how improvements to working practices and performance could be obtained. Section 151 Officers had also been invited to this workshop to contribute to the proceedings.

Strengthening the Council's Systems of Internal Control was also highlighted and the work had confirmed that assurance levels for individual audits carried out in 2012/13 had been predominantly positive with 10% receiving a good assurance and 70% an adequate assurance. The remaining 20% of assurances had been split between limited at 15% and unsatisfactory at 5%. Procurement had identified that previously adequate working practices had deteriorated to an unsatisfactory level culminating in the raising of 10 recommendations, comprising 5 high, 4 medium and 1 low priority ratings to address control weakness found. On the basis of target dates set for the implementation of these agreed actions, it was further noted that the 8 recommendations to be completed before year end were still found to be outstanding. The year end review of audit recommendations also indicated that when comparing the last 6 months of this financial year with the same period last year, the number of recommendations had risen from 65 to 73, whilst the number of completed and/or superceded recommendations had dropped from 53.8% to 49.3%. In addition, the number of completed high priority recommendations as mentioned above had fallen to an unacceptable level of 20%.

Improving Service Delivery and Adding Value was also confirmed in terms of interaction with other Internal Audit Service providers, i.e. West Suffolk Partnership and Audit Lincolnshire. There was then reference made to Hold Harmless letters prepared by Deloittes to release their ARP Governance audit report to St Edmundsbury, Forest Heath and East Cambridgeshire Councils. The letters were in the process of being circulated to the relevant officers for signing.

Another element highlighted was External Audit's Reliance on Internal Audit's Work. It had since been agreed that an Audit Joint Working Protocol would be presented to the Audit Committee meeting in September. It was also noted that the Internal Audit Consortium Manager had been preparing written submissions to Ernst & Young regarding the Council's response to the Risk and Fraud and the Effectiveness of Internal Audit, details of which had also been copied to the Assistant Director of Finance.

In relation to the support that Internal Audit provided to the Audit Committee, it was acknowledged that induction training had been undertaken in February. It was further recognised that the Annual Report of the Audit Committee was currently under preparation in consultation with the Chairman of the Audit Committee and would be presented for Members' consideration at the next meeting in June.

Mr Stevens raised concerns about the management's response to

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the outstanding high priority recommendations and asked what work went on to ensure these recommendations were actioned. The Deputy Chief Executive explained that a new process was being put in place; all audit recommendations would be added to a monthly tracker and discussed at the Corporate Management Team meetings. The Assistant Director of Finance said that the reasons for not completing them in the designated target times could be found in the next report which would provide some additional explanation for the Committee.

The Vice-Chairman asked if these recommendations would be added to the Corporate Risk Register. Members were informed that these would be tracked through another element of the Council's Performance System.

Mrs Jolly raised concerns about the external risk mentioned on page 104 of the agenda and asked if there was a risk that the Authority could be in breach of the Council's Contract Standing Orders. Members were informed that this would be dealt with in the next report on the agenda.

There was also some discussion concerning Appendix 2 to the report, relating to a new requirement for 5-yearly external audit assessments of the effectiveness of Internal Audit. Mr Ludlow asked if Internal Audit expected Ernst & Young to undertake the external review. The Internal Audit Consortium Manager advised that whoever was assigned to that role would have to be competent in two areas as per the new Public Sector Internal Audit Standards. The S151 Officer, the Chief Executive or an appointed external body satisfying laid down competency criteria could be called upon to carry out this work. However, effectiveness work currently undertaken by Ernst & Young did not constitute an appropriate external assessment.

Mr Ludlow questioned the level of commitment within the authority to implement outstanding audit recommendations. Mr Ludlow also felt that the Audit Committee should be involved in reviewing the awarding of the new Internal Audit Services contract after the Committee was informed that the contract was due to expire in September 2014. The Internal Audit Consortium Manager explained that Section 151 Officers were participating in this process, as well as being invited to explore issues with the current contractor's performance and measures required to improve this at the forthcoming workshop in July. Mr Ludlow felt that there could be an issue between the style of Deloittes and the management of Breckland Council. He thought it appropriate, as a Committee, to scrutinise this contract.

**RESOLVED** that the findings of the review and the evidence gathered in support of the effectiveness of the Internal Audit Service be noted and be taken into consideration when receiving

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the Head of Internal Audit's Annual Report and Opinion, and the Council's Annual Governance Statement.

**23/13 ANNUAL REPORT AND OPINION FOR 2012-13 (AGENDA ITEM 11)**

The Internal Audit Consortium Manager gave a detailed overview of the report which had been developed to satisfy the mandatory requirements of the new Public Sector Internal Audit Standards (PSIAS), effective from April 2013 (specifically Standard 2450), and to satisfy the requirements of the Accounts and Audit (England) Regulations 2011.

The structure of the report had been revised to previous years; a commentary on compliance with new standards must now be prepared in much the same way as the extent of compliance achieved against the CIPFA Code of Practice had to be documented.

It was noted that when considering the report and its attached opinions, the statements made therein should be viewed as key items which need to be used to inform the organisation's Annual Governance Statement.

Internal Audit's service provisions and costs had increased marginally by 2.3% compared with the previous year. This had been due to an expanded Internal Audit Plan being delivered in 2012/13.

In order to provide the Council an overall opinion on its control environment, the Internal Audit Consortium Manager had revisited the assurance levels given to individual audit assignments throughout the year, relating to both financial and non financial systems. These had been highlighted in the tables on page 91 and 92 of the agenda.

Members were asked to note that this year a change of methodology had been applied to work carried out to support the preparation of the Annual Governance Statement.

On the basis of the audit work undertaken in 2012/13, the Internal Audit Consortium Manager's opinion was that the overall adequacy and effectiveness of the Organisation's governance, risk and control framework for the year ended 31 March 2013 were **adequate.** A **good** assurance had been additionally given to Breckland's corporate governance and risk management arrangements, whilst an **adequate** assurance had been awarded to the Anglia Revenues and Benefits Partnership in respect of its governance.

The table of individual audit opinions at paragraph 3.4.1 of the

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report confirmed that there had been 4 audits where less favourable assurances had been given (3 limited assurances and 1 unsatisfactory assurance). This unsatisfactory assurance was in relation to procurement which was still an area of particular concern.

The report also set issues of significance to be considered when compiling the authority's Annual Governance Statement for 2012-13. At paragraph 3.6.1 of the report, the details of eleven high priority recommendations, 5 of these had been earmarked for completion within the financial year and 5 had been carried over from the previous year's audits, 2 of which had since been delivered by management.

A review of audit work delivered in 2012/13 compared with the Annual Audit Plan that had been approved on 3 February 2012 had been highlighted at paragraph 3.7.1 of the report.

An overview of the Audit Plan on pages 101 to 103 of the agenda noted where it had been necessary to reschedule work in year whilst abbreviated management summaries relating to the 12 audits that had been finalised since the progress report on Internal Audit Activity were highlighted at appendices 2, 3 and 4.

In response to a question about the work of the West Suffolk Partnership, Members were informed that the work commissioned from Deloittes had been quite separate from that performed by the Partnership and there had not been any duplication.

Mr Ludlow raised concerns about the number of performance measures applying to procurement. In response, Members were informed that any particular contract would have performance measures set against it and formed part of the approval process.

The Chairman asked if there was a Corporate Procurement department within the Council. The Assistant Director of Finance explained that there was, officers/managers often sought guidance from this department. The procurement process was currently under review and a paper would be brought to the Committee with money saving ideas. A discussion followed about procurement issues and how these could be resolved by the introduction of a corporate resource. The Chairman felt that the report had highlighted procurement concerns and said that he would like to see a whole Norfolk-wide procurement system put in place which would save money for all concerned.

Referring to property management on page 109/110 of the agenda in relation to re-leasing other properties, Mr Ludlow asked about fire risk and who was responsible for carrying out these fire risk assessments. Members were informed that the tenant was responsible as it formed part of the lease.

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It was noted that the word ‘with’ had been omitted from the third sentence under Risk Management on page 111 of the agenda.

Mr Ludlow mentioned the note below the table on page 137 of the agenda in relation to the assurance gradings standards. The Internal Audit Consortium Manager explained that these were linked to CIPFA standards and had been developed in conjunction with Deloittes.

Referring to the questions and concerns raised in the previous report about the non-action of the high recommendations, the Assistant Director of Finance explained that there were a number of recommendations that the Council was unable to confirm the status of as managers had not updated the system because the agreed deadlines had not been reached; however, the message had been reinforced and Managers had been requested to update the Performance system every quarter in future as progress on actions, even if the deadline was not due, was still important for management and committee. The following report on pages 141 onwards provided an extract of the Performance Plus system. Members were informed that the Asset Management Plan had since been approved but had not as yet been signed off and therefore should not be classed as a high risk. Referring to the Maintenance and Street Lighting Contracts on page 151 of the agenda, the Assistant Director of Finance advised that a report would be put forward later in the year which would be recommending a fundamental change to this service so there had been mitigating circumstances as to why this had not been actioned. Mr Ludlow highlighted the fact that street lighting issues had been on-going since 2010 and felt it was rather a long time for it to be left until contract renewal.

The Chairman felt that the process needed to be improved as the dates were not coalescent and there seemed to be no monitoring systems in place.

The Deputy Chief Executive said that he would take all this information back to the managers.

**RESOLVED** that:

1) the Annual Report of the Internal Audit Consortium Manager be received and noted;

2) it be noted that the overall adequacy and effectiveness of the organisation’s governance, risk and control framework (i.e. control environment) were **adequate** for the year ended 31 March 2013;

3) it be noted that a **good** assurance had been given in respect of Corporate Governance and Risk Management

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arrangements for the year ending 31 March 2013;

4) it be noted that an **adequate** assurance had been awarded in respect of the Anglia Revenues and Benefits Partnership Governance arrangements for the year ending 31 March 2013; and

5) note that the opinions expressed together with significant matters arising from internal audit work contained within the report be given due consideration when developing and reviewing the Council's Annual Governance Statement for 2012/13.

## 24/13 END OF YEAR REVIEW OF THE CURRENT STATUS OF AGREED AUDIT RECOMMENDATIONS (AGENDA ITEM 12)

The purpose of the report was to inform Members as to the progress made in implementing audit recommendations falling due between 1 October 2012 and 31 March 2013. The report provided a commentary on management updates provided during this period, the outcomes of recent audit verification work and a year end position regarding recommendations.

Mr Ludlow felt that the dates seemed to be slipping and were not being addressed and asked what the consequences would be for the individuals concerned. The Deputy Chief Executive assured Members that he would report these valid points to the Corporate Management Team. In response to the latter, he explained that these issues would be picked up in managers' performance and indeed would have an affect on their performance related pay. The Deputy Chief Executive said that he would like to see the officers/managers accountable for these areas to be present at these meetings in future.

Mr Ludlow felt that the main issue of concern was that there was no commentary or explanation as to why the dates had been put back or why the recommendations had not been implemented.

The contents of the report were otherwise noted.

## 25/13 ANNUAL REPORT ON TREASURY MANAGEMENT PERFORMANCE (AGENDA ITEM 13)

The Assistant Director of Finance presented the report.

The Council was required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2012/13. The report had met the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

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The first table on page 160 of the agenda highlighted the slippage of the capital expenditure and Appendix A of the report provided Members with a commentary on interest rates and the economy from Sector, the Council's Treasury Management Advisors.

The Committee discussed the options of lending to other Councils to achieve better interest returns.

Mr Ludlow asked why the table on page 166 of the agenda did not show any detail in the first column for March 2012. He also asked if the Council monitored its credit rating. In response to the first question, the Assistant Director of Finance said that he would have to speak to the Senior Accountant, the author of the report and report back. As far as the latter was concerned, the Council did not monitor its own credit rating as, by default, Councils credit ratings were linked to the UK Government's credit rating agency.

**RESOLVED** that:

(1) the actual 2012/13 prudential indicators within the report be approved; and

(2) the Treasury Management stewardship report for 2012/13 at Appendix B and Appendix C of the report be noted.

NB: Following the meeting and in response to Mr Ludlow's question in the final paragraph above, the Senior Accountant for Capital and Treasury advised that, in 2012/13 the net borrowing position had been split to show Breckland money separately ie Icelandic money not yet received and non Breckland cash (TGP) had been shown on a separate line. In 2011/12 everything was shown on one line.

## 26/13 DRAFT STATEMENT OF ACCOUNTS (AGENDA ITEM 14)

The Accountancy Manager provided Members with a short detailed presentation emphasising the main areas of change to the Statement of Accounts. There had not been any technical changes since the previous year but much of the 'clutter' had been removed and therefore the number of pages had been reduced in accordance with latest guidance.

The un-audited Statement of Accounts had to be signed off by no later than the end of June, followed by the Audit Committee's approval of the audited accounts no later than 30 September each year.

In response to a question in relation to the figures on page 48 of the Statement of Accounts, Members were informed that the assumption figures had been provided by the pension fund actuary and had been based on a long term view of the scheme.

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Under Note 11 – Property, Plant and Equipment (PPE), Mr Ludlow asked if the Council carried out a full property valuation every 5 years. The Accountancy Manager explained that an impairment valuation was carried out on all Council-owned properties; valuations were not. The Vice-Chairman felt that there should be a note included on the Statement of Accounts to reflect this.

Mrs Jolly asked what element of the running expenses of the £23m expenditure were contract payments, Members were informed that these figures reflected what had already been provided and approved in the budget presentation earlier in the year.

Referring to the foreword, it was agreed that the wording would be changed to reflect the actual number of Parish Councils. Again under the foreword, but this time under the title of Achievements and Targets in relation to the percentage of household waste for reuse, recycling and composting, Members were informed that the final figures had not, as yet, been received from Norfolk County Council.

With regard to the Notes to the Core Financial Statements under Note 17 – Long Term Debtors on page 56 of the document, Mr Ludlow questioned the long-term benefit overpayments that had increased every year for the past four years. The Assistant Director of Finance explained that this question had been put to the Anglia Revenues Partnership and the response had shown that the caseloads had increased along with changes in circumstances which took some time to be reflected in the benefits claims. Mr Ludlow said that he would be interested to see sight of the percentages to these figures.

Mr Ludlow had also noticed that the note on page 71 of the document had changed dramatically in comparison to the previous year.

It was pointed out that this meeting had been convened one week earlier than last year making it quite a tight turnaround to produce the accounts and it was agreed that the date of the 2014 meeting would be set in the second week of June.

**RESOLVED** that subject to the aforementioned amendments/additions the draft un-audited Statement of Accounts for 2012/13 be noted.

**27/13 WORK PROGRAMME (AGENDA ITEM 15)**

It was agreed that the following items would be added/removed to the work programme for the next meeting in June:

- Breckland Training Services (to add)
- Annual Report on Complaints under the Localism Act (to

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remove)

It was further agreed that the following item would be moved from the June meeting to the September meeting:

- Audit Joint Working Protocol

**28/13 NEXT MEETING (AGENDA ITEM 16)**

The arrangements for the next meeting on Friday, 28 June 2013 at 10.00am in the Norfolk Room were noted.

The meeting closed at 12.00 pm

CHAIRMAN