

BRECKLAND COUNCIL

At a Meeting of the

AUDIT COMMITTEE

**Held on Friday, 12 December 2014 at 10.00 am in
Norfolk Room, Conference Suite, Elizabeth House, Dereham**

PRESENT

Mr C.R. Jordan (Chairman)	Mr M J Nairn
Mr J.W. Nunn (Vice-Chairman)	Mr T. Ludlow
Councillor C Bowes	Mr K. Stevens

In Attendance

Emma Hodds	- Internal Audit Consortium Manager (IACM)
Alison Riglar	- Assistant Manager, Ernst & Young
Robert Murray	- Director, Ernst & Young
Mark Finch	- Finance Manager
Julie Britton	- Senior Democratic Services Officer
Christopher Dean	- Business Improvement Officer
Richard Wills	- Managing Director, Breckland Training Services
Jessica Woodhouse	- Joint Corporate Improvement and Performance Team Leader

61/14 MINUTES (AGENDA ITEM 1)

Councillor Bowes was welcomed to her first meeting as a new Member of the Audit Committee who had replaced Councillor Robert Childerhouse.

The Minutes of the meeting held on 26 September 2014 were agreed as a correct record and signed by the Chairman.

62/14 APOLOGIES (AGENDA ITEM 2)

Apologies for absence were received from Councillors Canham, Kybird and Jolly. The Executive Director of Place also sent her apologies.

63/14 URGENT BUSINESS (AGENDA ITEM 3)

None.

64/14 DECLARATION OF INTERESTS (AGENDA ITEM 4)

None.

65/14 NON-MEMBERS WISHING TO ADDRESS THE MEETING (AGENDA ITEM 5)

None.

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66/14 QUARTERLY RISK REPORT QUARTER 2 2014/15 (AGENDA ITEM 6)

The Business Improvement Officer presented the quarterly Risk Report for Quarter 2 2014/15.

No changes had been made to the strategic risks and therefore the existing risks remained. Under the operational risks in Section 2 of the report there were a number of existing high risks and none of these had decreased or closed.

There were a number of increased risks that had been identified during the quarter which could be seen on pages 14 and 15 of the agenda in relation to Housing, Human Resources with regard to the pay scheme, and ICT.

The Business Improvement Officer was happy to answer any questions.

In response to a question about the scoring table on page 16 of the agenda, Members were informed that these were net risks; gross and net risks had never been shown together. The Finance Manager pointed out that historically, net and gross risks were reported. Mr Ludlow was surprised that the scores of the net risks were not above 6.

Under Risk No IT-OR 02, Mr Ludlow queried the hardware and software solution which had a target date of 31 March 2012. The Internal Audit Consortium Manager explained that this work was now 80% complete and would be finalised early next year. Members were informed that Breckland Council was working very hard to improve relationships with Norfolk County Council, the Council's ICT Provider, and the structure was much more stable now.

The Quarterly Risk Report for Quarter 2 2014/14 was otherwise noted.

67/14 ANNUAL AUDIT FEE LETTER 2013/14 (AGENDA ITEM 7)

Rob Murray, Director for Ernst & Young presented the Annual Audit Fee Letter for 2013/14 and drew Members' attention to the additional information in relation to the variation of £900 to the base scale fee. This reflected the additional audit procedures required to gain sufficient audit assurance around business rate income and expenditure within the Collection Fund as this area was no longer under grant audits. Councillor Nunn queried the fees as he was not aware of the baseline figure. Members were informed that between 2012/13 Breckland Council had seen a 40% reduction in fees and next year a further 25% reduction would be applied. The £900 additional fees did not seem, in his opinion, particularly significant. The Assistant Manager for Ernst & Young explained that at the time the report was written, the Housing Benefit work was still underway but had since been completed. She thanked the Finance Manager and his Team for another smooth audit.

68/14 PROGRESS REPORT - LOCAL GOVERNMENT SECTOR UPDATE (AGENDA ITEM 8)

The Local Government Sector update was for information only and was noted.

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69/14 INTERNAL AUDIT PROCUREMENT PROCESS (AGENDA ITEM 9)

The Internal Audit Consortium Manager presented the report and was pleased to announce that the Audit procurement had been concluded and a new contract had been awarded to TIAA Ltd. The background to the procurement process was explained.

The new contract would commence on 1 April 2015 and would for five years with an option to extend to seven years. In addition, all current members of the Consortium would remain with the Head of Internal Audit role and contract management provided by South Norfolk Council. Initial meetings with TIAA Ltd had commenced to ensure that everything was in place prior to the contracting starting in April 2015.

A snapshot of the history of TIAA Ltd was provided. This company had been in operation for over eighteen years and was now considered to be one of the largest specialist internal audit providers in the UK with staff being the majority shareholders.

Mr Ludlow asked if the internal audit work undertaken by South Norfolk would be moved to TIAA Ltd. Members were informed that a very competitive day rate had been secured for TIAA to do this work.

Another question asked was in relation to any TUPE issues. The Internal Audit Consortium Manager stated that there could possibly be some with regard to the Mazaars contract but a watching brief would be kept on this.

The report was otherwise noted.

70/14 PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY (AGENDA ITEM 10)

The Internal Audit Consortium Manager presented the report that examined the progress made between 1 April 2014 and 26 November 2014 in relation to delivery of the Annual Audit Plan for 2014/15. Abbreviated executive summaries in respect of the audit reviews had also been included which had been finalised in the course of this period.

Members' attention was drawn to section 2.1 of the report which highlighted two significant changes to the approved Audit Plan. Due to the work load within Breckland Council the audit of BRK 1509, Performance Management, Corporate Policy and Business Planning, had been postponed to 2015/16. The other significant change was in relation to issues surrounding procurement. There was currently a temporary Manager in post who was undertaking a great deal of work in this area and with this in mind it had been decided not to conduct an audit now as it was likely to raise similar issues as before and would not add value at this time. However, the scope of this audit had been re-focused to review the delegated decision process (made via the "blue form") to gain assurance that this process complied with the Council's Constitution and the transparency agenda. No major issues had been raised and the budgeted days had been amended accordingly.

Members' attention was also drawn to the outcomes of the audit of BRK1501, Private Sector Housing, BRK1502, Data Protection, Freedom of Information and Complaints, BRK1503, Localism and Communities, BRK1514

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Virtualisation and BRK1515, BACS Transfer System. Members were informed that in relation to the latter, one of the two medium priority recommendations was disagreed and one of the three low priority recommendations was disagreed.

Performance Indicators were on track and to date five final reports had been issued, with 22 of the 24 recommendations being agreed with management. The disagreed recommendations had been reported within section 4 of the report and were in relation to IT; however, these had been flagged up with Norfolk County Council and Simon Stubbs, the newly appointed ICT Contract Manager was working on these matters.

Mr Ludlow asked if Internal Audit was happy with the level of internal control in relation to the segregation of duties in relation to BACS transfers. The Finance Manager stated that there were suitable controls in place within the feeder systems and the actual transfer end was signed of by himself or the Accountancy Manager.

Mr Ludlow had noticed that the test environment for the BACS changes were largely cosmetic. The Internal Audit Consortium Manager said that she had raised this with management as the lack of user testing before being uploaded onto the "live" system was unusual and it had been established that if any future changes were considered to be more cosmetic a test environment would be incorporated. This had also been discussed with the ICT Contract Manager.

The reason for the adequate assurance for Localism & Communities was mentioned. Members were informed that an adequate assurance had been awarded due to the lack of activity.

In response to a question in relation to the terminology under the management responses in Appendix 2, Members were informed that this signified that management had agreed that the recommendations were correct.

RESOLVED that the outcomes of the five completed audits finalised in the period covered by the report, and the progress made in relation to the delivery of the 2014/15 Annual Audit Plan be noted.

**71/14 FOLLOW UP REPORT ON INTERNAL AUDIT RECOMMENDATIONS
(AGENDA ITEM 11)**

The Internal Audit Consortium Manager presented the report which provided Member with a mid year position on the progress made by management in implementing agreed Internal Audit recommendations.

The Internal Audit Consortium Manager was pleased to report that the end result of this review enabled a further 38 recommendations to be closed down – Appendix 2 of the report provided the detailed commentary and action taken.

Work was progressing with the new ICT Project Manager together with Norfolk County Council in relation to the 16 IT audit recommendations that had been formally recorded as closed.

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The Executive Director of Place had asked Internal Audit to undertake a specific review in relation to three specific recommendations: BRK12.01.02, Performance Standards, BRK12.01.05, KPI Monitoring and BRK14.03.06, Land Charges PIs. This review would take place towards the end of 2014/15 or at the beginning of 2015/15 and was in relation to performance information reported into the Contract Monitoring Board by Capita.

As a result of all the work undertaken, in the first half of 2014/15 management had successfully closed down 59 audit recommendations representing 85%, with only 7 currently remaining outstanding. However, out of those outstanding recommendations, the Internal Audit Consortium Manager was pleased to announce that a number of these had since been closed. The detail and an explanation behind each one was provided. She felt that overall this had been quite a positive report and she would continue to work with senior management as good steps had been made.

RESOLVED that the report be noted.

**72/14 TREASURY MANAGEMENT MID YEAR REVIEW REPORT 2014-15
(AGENDA ITEM 12)**

The Finance Manager presented the report which updated Members on the Treasury Management Strategy, Policy and Prudential Indicators.

This mid year report had been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covered the following:

- An economic update for the first part of the 2014/15 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2014/15;
- A review of the Council's borrowing strategy for 2014/15;
- A review of any debt rescheduling undertaken during 2014/15;
- A review of compliance with Treasury and Prudential Limits for 2014/15.

Attention was drawn to section 1.3 of the report. A new contract for bank services had been awarded to Barclays Bank for all the Norfolk authority's after a joint procurement exercise. The implementation of Barclays as the Council's bank was currently in progress, with a view to change over in January 2015, although it was envisaged that the Council's existing Co-Op accounts would remain open until March/April 2015.

The Council's overdraft limit had previously been set at £1 million but was very rarely used. In October 2014 the Co-Op charging mechanism changed and as a result overdraft limit was amended to £250k to reduce the charges to the Council. This was an interim measure and the overdraft limit would return to £1 million when the Barclays contract begins; Barclays do not charge an overdraft fee in year 1 of the contract. The level of overdraft required would be reviewed during year 1 and an appropriate level set for year 2 of the Barclays contract.

From October 2014 a change to the senior management structure amended

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<p>some roles and job titles and as a result the Assistant Director Finance role has changed to the Shared Manager Finance role. The Treasury Management Practices (TMP's) had been updated to reflect this change.</p> <p>The credit rating agency changes were likely to make changes to their methodologies, removing sovereign uplift from the way they set their ratings. Therefore, Capita Asset Services colour coding methodology would focus solely on the Short and Long Term ratings of on an institution.</p> <p>The Finance Manager explained the appendices to the report.</p> <p>Referring to page 74 of the agenda under section 1.3, Mr Ludlow asked if these rating agency changes signify a change of policy for approval. Members were informed that the Council would still continue to use the Capita Asset Services colour coding system therefore, the same policy would continue.</p> <p><u>RESOLVED</u> to note:</p> <ol style="list-style-type: none">1) the report and information on treasury activity; and2) that the changes to the credit methodology whereby viability, financial strength and support rating would not be considered as key criteria in the choice of creditworthy investment counterparties.	
<p>73/14 <u>WORK PROGRAMME (AGENDA ITEM 13)</u></p> <p>The Finance Manager would be having a discussion with the Director and Assistant Manager of Ernst & Young in relation to bringing the auditing of the accounts forward which could require a change to the meeting dates for approval of the audited accounts. This matter would be brought back to the next meeting.</p> <p>The Internal Audit Consortium Manager stated that the Annual Report to the Audit Committee needed to be added to the Work Programme for the 12 June 2015 meeting and the Annual Report & Opinion Plan to the 26 June 2015 meeting.</p>	MF JB
<p>74/14 <u>NEXT MEETING (AGENDA ITEM 14)</u></p> <p>The arrangements for the next meeting on 13 February 2015 at 10.00am in the Norfolk Room were noted.</p>	All
<p>75/14 <u>EXCLUSION OF PRESS AND PUBLIC (AGENDA ITEM 15)</u></p> <p><u>RESOLVED</u> 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 likely disclosure of exempt information as defined in paragraph 3 of Schedule 12A to the Act.</p>	
<p>76/14 <u>BRECKLAND TRAINING SERVICES ANNUAL REVIEW (AGENDA ITEM 16)</u></p> <p>The Managing Director of Breckland Training Services (BTS) provided Members with a detailed overview of BTS after being in two calendar years of</p>	

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operation. As the service was launched mid financial year, it had been agreed that future BTS years would be reported based on the financial year to align with the Council's financial reporting; therefore, a further report would be brought back to the Audit Committee at the end of the next financial year.

The work for year 1 and year 2 was highlighted as well as the strong customer base.

The second full year of BTS (Oct to Oct) had been completed. In financial terms the service was just 75% through year 2; however, performance had been very strong and a list of the key achievements was highlighted.

Members were informed of the proposal to increase the establishment which would be funded entirely by the income of BTS. A report had already been through the Local Joint Consultative Committee and would be reported accordingly to the General Purposes Committee on 17 December 2015.

Following a number of questions, Members congratulated the BTS Team as they were very impressed with how BTS had developed.

RESOLVED that the progress made by Breckland Training Services be noted.

The meeting closed at 11.00 am

CHAIRMAN