

BRECKLAND COUNCIL

At a Meeting of the

AUDIT COMMITTEE

**Held on Friday, 11 September 2009 at 10.00 am in
Anglia Room, Conference Suite, Elizabeth House, Dereham**

PRESENT

Mr G.P. Balaam
Mr C.R. Jordan (Chairman)

Mr. L. Peacock
Mrs L.H. Monument

Also Present

Mr P.J. Duigan

In Attendance

Chris Brooks - Governance and Performance Accountant
Robert Davies - External Auditor, Audit Commission
Mark Finch - Finance Manager
Sandra C. King - Head of Internal Audit
Robert Murray - External Auditor, Audit Commission
Elaine Wilkes - Senior Member Services Officer

45/09 WELCOME AND INTRODUCTIONS

The Chairman welcomed Mr. Leslie Peacock to his first meeting as newly appointed independent, non-voting member of the Committee.

Introductions were made and Messrs. Rob Murray and Rob Davies, the Council's external Auditors were welcomed to the meeting.

46/09 MINUTES

The minutes of the meeting held on 25 June 2009 were confirmed as a correct record and signed by the Chairman.

47/09 APOLOGIES

Apologies were received from Messrs. R. Childerhouse, P. Hewett, R. Kybird, D. Myers and R. Duffield (substitute member).

48/09 URGENT BUSINESS

There was none but the Chairman sought agreement to convene a special meeting of the Committee to consider a commercial property issue.

Suggested dates for the meeting were the morning of Friday, 25 September or the afternoon of Tuesday, 29 September.

The Auditors were invited to attend the special meeting.

RESOLVED that, subject to members' availability on the suggested dates, a special meeting of the Committee be convened as requested by the Chairman.

Action By

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49/09 DECLARATION OF INTEREST

No declarations were made.

50/09 NON-MEMBERS WISHING TO ADDRESS THE MEETING

Mr. P.J. Duigan, Executive Support Member for Governance and Corporate Development.

51/09 UPDATE ON TREASURY MANAGEMENT STRATEGY, POLICY AND PRUDENTIAL INDICATORS (AGENDA ITEM 6)

The Head of Finance presented the report and explained that following the cautious approach adopted when this matter was previously considered and bearing in mind the further changes in the market since then, it was felt timely to review the policies again before the end of the year. Advice had been taken from the Council's treasury management advisers, Butlers, and the changes recommended in the report should be considered as more in the way of a 'fine tuning' process rather than any substantial change of direction.

The Council's advisers, Butlers, were offering to provide training to Council members on investment matters to expand their knowledge and understanding of what was quite a complex subject. This could be arranged through the Member Development Programme if members wished to take up the offer.

The Head of Finance went on to give an update on the Icelandic Bank situation and the latest accounting treatments and referred to the latest guidance issued by CIPFA. Any changes might not be material to the Council's Accounts position but would need to be agreed with the Auditor.

The latest position on estimates on the recovery rates was noted and considered prudent. Members were aware that there was a lot of general speculation being expressed about recovery rates. Lawyers acting for the Local Government Association were continuing the process of submitting claims on behalf of UK local authorities and a further update would be able to be given following further creditors' meetings later in the autumn.

The Committee then went on to consider Appendix A of the report, which outlined the main issues explored with the Council's treasury management advisers.

As a first point of principle on the Council's approach to treasury management, the Committee was asked whether it wanted the Council to continue to place funds with financial institutions, or whether an ultra-cautious approach should be adopted by only investing in the UK Debt Management Office (DMO). The latter option would come at a price because there was a difference of some £250,000 between what could be earned from the best money market rates and current DMO rates at the present time.

Members felt that the Council could still get better returns through the money markets while continuing with its cautious approach and that it was not the best option for the Council to restrict investment to the DMO, which would be like "burying its money in the garden".

Action By

The recommended changes to the Treasury Management Policy were then considered.

TMP1[8]: Market Risk Management – It was proposed to amend the policy to specifically state that the Council only uses Money Market Funds with a constant net asset value, which means that the principal sum should remain equal to that invested (compared to a variable net asset value where the principal sum could potentially, though unlikely, be affected by small variations). This was the Council's present practice but it was not stated as such in the policy.

TMP 2[1]: Performance Measurement – Treasury Management Bulletins suggested that there could be better benchmarking in the area of treasury performance management. The proposed change to this policy introduced the use of yield and liquidity indicators as benchmarks for future measurement of performance of investment earnings.

TMP 4[4]: Approved Organisations for Cash Deposits – It was proposed to revise the current investment criteria to take account of the changing market circumstances but without compromising risk. The options gave the Council scope to place investments whilst maintaining a cautious approach.

So far as the option to consider the use of external fund managers was concerned, a member drew attention to the point that this could be more costly. This was recognised and any proposal to use this option would be explored and brought to the Committee but it was felt it was useful to make provision in the policy.

With regard to the parameters within which the Council could use its own bank, the Cooperative Bank, members had been previously informed of the bank's rating downgrading below those generally used. This had been discussed with the Council's advisers, Butlers. The downgrading of the bank's rating was as a result of its merger with the Britannia Building Society but it was felt that the bank was no more risky in operational terms than before and there was not felt to be any immediate threat as a result. However, to ensure any risk was reduced, overnight funds held by the bank and other balances had been minimised and no term deposits were being placed. The current position suggested there was no need to change the Council's daily banking arrangements.

The position in regard to sovereign ratings was highlighted. While the UK sovereign rating had not changed, it was noted that, in the present economic climate, there was speculation about whether or not the rating would be downgraded at some point. It was reported that following the downgrading of the Irish sovereign rating, investments had been removed from there and reinvested in UK institutions.

TMP 4[7]: Group, Maturity and Sector Limits – For reasons of clarity, the proportions on long term investments had been removed and the limits realigned to fit with the proposed counterparty limit in the preceding policy, which would improve monitoring.

Corrections to spellings in paragraphs (ii) ('it's' to 'its') and (iii) ('principal' to 'principle') were noted.

Action By

Margaret
Bailey

RECOMMEND TO THE COUNCIL that

- (1) the following changes to the Treasury Management Strategy and Policy be approved:
- (i) Amend TMP 4[4] - Approved Organisations for Cash Deposits - to read:
 - (a) Money Market Funds – AAA rated and those operated on a Constant Net Asset Value basis.
 - (ii) Amend TMP 2[1] – Performance Measurement – to read:

The performance of investment earnings will be measured (and the results verified by Butlers) against the following benchmarks:

 - a) Maintain liquidity of £5m for less than one month maturity.
 - b) The three-month LIBID (London Interbank Bid Rate).
 - c) The yield/liquidity security indicator be trialed and monitored in 2009/10 and used to inform the parameters for setting a firm security indicator for 2010/11.
 - (iii) Amend TMP 4[4] and TMP 4[7] – current investment criteria – to take account of the changing market circumstances by:
 - a) Increasing the maximum dealing size to £5m to enable the Council potentially to access better credit quality counterparties.
 - b) Updating the ratings to standardise the equivalent ratings between the three rating agencies being used.
 - c) Including Eligible Institutions on the HM Treasury Credit Guarantee Scheme with a minimum short term rating of F1, a long term rating of A and a support rating of 1.
 - d) Providing the option for funds to be placed with an external cash and gilt fund manager to allow officers to consider this option in more detail and if appropriate refer to committee for approval.
 - e) Undertaking direct dealing where appropriate.
 - f) Allowing investment in foreign banks that meet the criteria, subject to a maximum limit of £5,000,000 with any one counterparty.

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- g) The policy for long term investments being changed to:

The time limits for institutions on the Council's Counterparty List are as follows (these will cover both Specified and non-Specified Investments):

	Fitch	Moody's	Standard & Poors	Money Limit	Time Limit
Upper Limit Category	F1+ / AA	P-1 / Aa2	A-1+ / AA	£5m	3 years
Middle Limit	F1/AA-	P-1/Aa3	A1/AA-	£3m	2 years
Eligible Institutions	F1/A	P-1/A2	A-1/A	£5m	1 year
Council's Banker	-	-	-	Minimise	Minimise

- (2) the offer from Butlers for Member training be taken up through the Member Development Programme.

Mark
Finch

**52/09 GOVERNANCE REPORT AND USE OF RESOURCES
(AGENDA ITEM 7)**

Mr. R. Murray advised Members that he was the District Auditor for the Audit Commission covering authorities in Norfolk and other parts of the East of England, including a number of Health bodies.

Mr. Murray went on to explain that he would normally about this time bring a written report advising the Committee of progress on audit work and the use of resources score. However, the audit was not yet complete and the use of resources was in the final assurance process. If the Committee was to have an extra meeting as requested above (minute 48/09), it was hoped the Governance Report could be brought to that meeting.

So far as auditing of commercial property was concerned, this would be included in the Use of Resources report and would be commented on in the annual Governance Report and in the annual Inspection Letter to the Council. Mr. Murray explained that he did not expect to have to do anything further than was already being done as part of the normal audit process but should there be a requirement for anything more substantial than this, it would be discussed with the Council.

Mr. Davies then gave a brief update on the audit work undertaken during the year, from which it was noted that, subject to completion of the Audit Report, it was anticipated that the Council would be given an unqualified opinion.

The question of the timing of meetings of the Committee to accommodate the audit reporting timetable was raised and it was noted that provision was already being made in the calendar for 2010-11.

The report was noted.

53/09 FOLLOW-UP OF AGREED ACTIONS ARISING FROM FINAL AUDIT REPORTS (AGENDA ITEM 8)

Action By

The report was presented by the Head of Finance, who updated the Committee on the latest position regarding outstanding actions from the last internal audit report. In those cases not yet completed, revised targets were given.

The two main reasons for lack of responses reported previously were the fact that duties had not been re-assigned quickly enough from an officer on long-term sickness and following the departure of an interim manager. These had now been addressed.

Additionally, Audit recommendations had now been incorporated into the Council's performance management system (the TEN system), with the result that all actions would be reported and monitored through the system and at the quarterly Performance Clinics.

The Governance and Performance Accountant added that a meeting was to be held in October at which a number of these items would be dealt with.

The Chairman advised the Committee of concerns passed to him by Mr. Hewett, who felt that matters had not progressed sufficiently since the previous report, particularly so far as ICT items were concerned.

The Head of Finance replied that the amended deadlines were as proposed by the officers and suggested that, unless the Committee wished to override them, they be taken forward to the next Performance Clinic, who would consider whether they were acceptable.

The Committee was also advised that the Council had now appointed a new Emergency Planning Officer who had commenced a programme on disaster recovery, which was planned to be reported in Quarter 3 this year.

The Committee was concerned to ensure that actions were not allowed to slip further and that some target dates appeared to be generous. They felt they were right to raise questions and that Performance Clinic needed to look at these targets.

The Head of Finance assured members that the revisions to the following up of actions through the performance management system meant that issues would now be addressed in a timely fashion and not be allowed to slip. But it was also reasonable to take account of the responsibilities of the new officers in the setting of targets.

The Head of Internal Audit pointed out that, under her half-year reporting programme, responses to recommendations would be verified in the first week of October and an update on the status of recommendations provided to the Committee thereafter. It was thus important to ensure that the special meeting of the Performance Clinic be held in early October to feed into the process and, hopefully, enable a more positive picture to be reported to members in November 2009. The Governance and Performance Accountant undertook to confirm the meeting date.

Action By

RESOLVED that the report be noted.

54/09 AUDIT COMMITTEE SELF-ASSESSMENT CHECKLIST (AGENDA ITEM 9)

The Head of Internal Audit presented the report, which provided Members with an opportunity to self-assess the Committee against a checklist provided by the CIPFA Better Governance Forum in their publication "A Toolkit for Local Authority Audit Committees".

The Committee was invited to complete the self-assessment checklist as a means of confirming how far in accordance the Committee was with best practice and to identify where there were gaps in development, so that an action plan could be drawn up to address those gaps.

The Committee then went through the checklist.

The majority of the items listed in the checklist were answered in the positive. Areas identified for further action included the following:

- Induction & other audit training
- Periodic private discussions with internal audit – in progress
- Cooperation between internal and external auditors – existing joint working protocol being further developed
- External audit plans and strategy to be brought to the Committee in future
- Periodic private discussions with external audit – in progress
- External auditor's Governance Report – to be presented to the next meeting of the Committee
- Performance assessment of external audit – Audit Commission has no process for this as such but Quality Reviews are published on its website, which could be made available to the Committee if wished.
- Consideration of external audit fee – details to be submitted with external audit plans
- Inclusion of a standing work programme item on future agenda showing the cycle of reporting in relation to internal and external audit matters, risk management updates, financial reporting updates, statement of accounts, etc. in addition to noting member requests for ad-hoc reports.

RESOLVED that the Head of Internal Audit be asked to collate the replies from the checklist as given and to present overall findings to the November meeting of the Committee, commenting on any non-compliance with best practice and considering what appropriate action needs to be taken as a consequence.

Sandra C.
King

55/09 PARTNERSHIP REVIEW ACTION PLANS (AGENDA ITEM 10)

The Governance and Performance Accountant presented the report, which was the last of the action plans as previously requested by the Committee as part of its review of partnerships.

It was reported that a report would be made to the next meeting on the outcome of proposals to restructure the Crime and Disorder Reduction

Action By

Partnerships (CDRP); currently, the Breckland and King's Lynn and West Norfolk Borough Council CDRP were operated jointly but were to split.

The Chairman felt that a wider review of the value for money of partnerships generally was needed and it was noted that the County Council was conducting a similar exercise with its partnerships.

The Head of Internal Audit advised that an internal audit review on that topic had been carried out last year and recommendations made. There was provision in the Strategic Audit Plan for future review. The last review had highlighted deficiencies in regard to:

- Register of partnerships
- Procedures for resolving partnership disputes
- Financial procedures for partnerships
- Delivery of partnership objectives/outcomes
- Performance targets for projects
- Performance validation and reporting through the performance management system

The need to monitor completion of agreed audit recommendations arising from the original partnership review was noted.

56/09 QUARTER 1 GOVERNANCE REPORT - RISKS (AGENDA ITEM 11)

The Governance and Performance Accountant presented the report.

A new section had been added to cover top level risks to ensure they were addressed.

Comments submitted by Mr. Hewett were noted which suggested that rather than deleting the three risks listed under strategic and operation risk (R-ICT 02, R-ICT 05 and R-ICT 08), these should be downgraded, since they were all issues which could arise again in some form in the future. Comments on the writing style of some of the sections in the report were also noted.

The Performance and Management Accountant confirmed these points would be taken into account in future reports.

RESOLVED that the report be noted.

57/09 NEXT MEETING (AGENDA ITEM 13)

Arrangements for the next ordinary meeting on 13 November 2009 were noted.

It was further agreed that an item be included on future agenda to enable the submission of topics for future debate by members to be agreed.

58/09 PERFORMANCE MANAGEMENT SYSTEM - DEMONSTRATION (AGENDA ITEM 12)

The meeting concluded with a demonstration of the use of the performance management system.

The Chairman suggested it would be useful if the system could provide a link for members to be able to submit comments on line.

It was noted that work was taking place on introducing an email alert function into the system to flag up items which had missed their target dates.

Action By

The meeting closed at 11.35 am

CHAIRMAN