

BRECKLAND COUNCIL

At a Meeting of the

AUDIT COMMITTEE

**Held on Friday, 11 June 2010 at 10.00 am in
Norfolk Room, Conference Suite, Elizabeth House, Dereham**

PRESENT

Mr G.P. Balaam

Mr C.R. Jordan (Chairman)

Mr R.G. Kybird (Vice-Chairman)

Mr. L. Peacock

In Attendance

Chris Brooks

Mark Finch

Sandra C. King

Robert Davies

Julie Britton

Alison Chubbock

- Governance and Performance Accountant

- Head of Finance

- Head of Internal Audit

- Senior Audit Manager, External Auditor,
Audit Commission

- Senior Committee Officer

- Accountancy Manager

26/10 MINUTES (AGENDA ITEM 1)

a) Annual Audit Letter 2008-09 (Minute No. 14/10(1))

Members were informed that the Performance Manager was still awaiting feedback from the Audit Commission about the request from this Committee to formally remove or change the wording contained in the Annual Audit Letter.

The External Auditor explained that the Audit update refresh which normally took place in June was now not going ahead. The Audit Commission; however, would respond to the aforementioned request in due course.

b) Minutes (Minute No. 14/10)

The Minutes of the meeting held on 12 March 2010 were confirmed as a correct record and signed by the Chairman.

27/10 APOLOGIES (AGENDA ITEM 2)

Apologies for absence were received from Mr R. Childerhouse, Mr. P Hewett and both substitutes, Mrs L. Monument and Mr R. Duffield.

Apologies had also been received from Members for the next meeting of the Audit Committee on 25th June. The Chairman asked that the substitutes be contacted to attend.

A list containing notes and comments from Mr P Hewett was circulated.

28/10 DECLARATION OF INTEREST (AGENDA ITEM 4)

Mr L. Peacock declared an interest in the item that made reference to the

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Citizens Advice Bureau as he had connections with this organisation.

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29/10 DRAFT STATEMENT OF ACCOUNTS (AGENDA ITEM 6)

Revised copies of the draft Statement of Accounts were circulated.

The Head of Finance and the Accountancy Manager presented the draft report.

The Accountancy Manager had carried out a tremendous amount of work over the year to bring this Statement of Accounts to the Committee.

As the next Audit Committee meeting was on the 25th June, there was not much time to make many changes to the document; therefore it was recommended that the final document would not be issued as a hard copy with the Agenda papers but would be published on the website in advance of the meeting. Hard copies would then be circulated at the meeting on 25th June.

The Accountancy Manager summarised the explanatory foreword.

The Head of Finance, together with the Accountancy Manager, explained the various statements included in the document, drawing attention to the key figures and the variances over the previous year. This covered accounting changes to the Collection Fund, particularly in relation to PFI Schemes, the Income and Expenditure Account, the Statement of Movement on the General Fund balance, the Statement of Total Recognised Gains and Losses the Balance Sheet and the notes to the Core Financial Statements.

Referring to one of Councillor Hewett's written questions, with regard to the increase in the pension deficit and whether this would be a future cash flow liability to the Council, Members were informed that the pension reserve had been based on FRS17 requirements and was an accountancy treatment rather than a cash flow. It was noted that the Income and Expenditure account FRS17 entries had been reversed out in the Statement of Movement on the General Fund balance.

Another question related to Mr Hewett's understanding on why the capitalisation amount of £3,883k was effectively a debit in the Income and Expenditure account. The Head of Finance explained that this was a reversal of the entries posted to the Financial Instruments Adjustment Account which the Council had adopted (in line with CIPFA Guidance) to defer the impact of the impairments on the General Fund.

With regard to Note 15 – Fixed Assets (page 148 of the report), Mr Hewett wished to know if the columns marked £'000 for Council dwellings and Community assets were necessary. It was noted that this had been shown in this way to demonstrate to the public that the Council did not own any council houses or community assets. A Member felt that this would be very useful for the public when comparing authorities.

Further questions/observations made by Councillor Hewett relating to the Statement of Accounts were answered.

The wording relating to the lease notes would be tidied up to make it

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clearer to the reader.

The pension liability and movement in the Statement of Total Recognised Gains and Losses was confirmed as being correct.

The overall reduction in employee remuneration above £50k was a result of headcount for staff in this category reduced from 14 to 12.

ARP was taking steps to recover NDR debts, while the amounts owing from the Government department would be paid in accordance with established repayment timetables. The Head of Finance confirmed that the financial instrument tables had been presented in accordance with CIPFA Guidance and had been verified with the Council's Treasury Management Advisors.

Referring to the notes to the Core Financial Statements with regard to the Capitalisation Directive, it was pointed out that the decision to agree the accounting treatment in relation to the Capitalisation, following the meeting of the Council in February, had been agreed that the decision be delegated to the S151 Officer in consultation with the Chairman of Audit and the Portfolio Holder. A meeting would be arranged prior to the formal sign off of the Accounts.

RESOLVED that:

- 1) the final accounts be submitted for the Audit Committee's approval; and
- 2) a meeting be held prior to the formal sign off of the Statement Accounts with the S151 Officer in consultation with the Chairman of Audit and the Portfolio Holder to discuss the Capitalisation Directive arrangements.

30/10 ANNUAL GOVERNANCE STATEMENT FOR 2009/10 (AGENDA ITEM 7)

The purpose of the report was to inform Members of any action taken to develop and comply with a local code on corporate governance and sought approval for the Annual Governance Statement for inclusion into the Council's published financial accounts for 2009/10.

The Statement drew on the work of Internal and External Auditors. The Committee had already received reports from the Head of Internal Audit which had recognised the overall standards of internal control to be **adequate** and the Council's Governance and Risk arrangements to be **good**.

The Management Team had regularly reviewed governance arrangements throughout the year, including risk management arrangements, service manager internal control assurance statements, finance and performance reports, as well as the Code of Governance Annual Assessment (shown at Appendix A of the report). A quarterly governance report had been used during the year to pull together the fundamental elements of the authority's governance arrangements into a single report to ensure that the committees responsible for reviewing the Council's corporate management arrangements were kept well informed.

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This had been presented to the Corporate Management Team, performance Clinic as well as the Overview & Scrutiny Commission and Cabinet, with the risk management arrangements regularly forming part of the Audit Committee's agenda.

The Annual Governance Statement had been set out on page 181 of the draft Statement of Accounts.

There were no significant governance issues to report.

The Committee was requested to review Appendix A, in order to raise issues on any areas where they felt further work was required to improve governance arrangements or where they would like further explanation. If Members felt it necessary, they should highlight any significant weaknesses which required to be reported in the Annual Governance Statement.

In response to questions about the content of the Code of Governance Self Assessment Review, this was a document that evolved over the year so it was not put together quickly. Evidence which demonstrated compliance with the adopted Code of Governance was added to over the year, with a final review prior to a formal review and testing by Internal Audit.

Individual partnerships would have different owners and different areas of management within the Council. There was a Lead Officer attached to each partnership in accordance with the Council's Partnership guidelines.

RESOLVED that the Self Assessment Review be noted and the Annual Governance Statement, incorporating the amendments as noted above, be approved for inclusion in the Council's financial accounts for 2009/10.

a Appendix A - Self-assurance checklist and improvement plan

See Minute No. 30/10 above.

b Appendix B - Annual Governance Statement

See Minute No. 30/10 above.

31/10 ANNUAL REPORT ON INTERNAL AUDIT ACTIVITY 2009-10
(AGENDA ITEM 8)

The Head of Internal Audit presented the report, which was required to be made under the Accounts and Audit Regulations 2003, the Accounts and Audit Regulations (Amendment) 2006 and the Head of Internal Audit's annual reporting requirements as set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

The report was required to:

- 1) Include an opinion on the overall adequacy and effectiveness of the organisation's control environment.
- 2) Disclose any qualifications to that opinion, together with the reasons for the qualification.
- 3) Present a summary of the audit work from which the opinion

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was derived, including reliance placed on work by other assurance bodies.

- 4) Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement.
- 5) Compare the actual work undertaken with the planned work and summarise the performance of the internal audit function against its performance measures and targets.
- 6) Comment on compliance with the Standards of the Code.
- 7) Communicate the results of the internal audit quality assurance programme.

The report gave opinions in three key areas – systems of internal control and risk management, and arrangements in relation to corporate governance. Added to this, Internal Audit cost information had been documented and cumulative performance data had been provided which analysed the quality of service provision operating throughout the year.

In response to a question, Members were informed that the cost of the Internal Audit Service for the previous year had been higher. This year, even though the costs had been lower, more audit assignments had been delivered (20 reviews in 2009/10 compared with 17 reviews in 2008/09). Both the Head of Finance and the Head of Internal Audit indicated, however, that it was not strictly appropriate to compare costs year-on-year, because the number of planned audit days varied considerably each year e.g. Annual Audit Plans encompassed 250 days in 2008/09, 237 days in 2009/10 and 256 days in 2010/11. The Head of Internal Audit did confirm that the actual audit costs for 2009/10 had been marginally lower than originally estimated.

Opinion of the Head of Internal Audit on the Overall Adequacy of the Internal Control Environment at Breckland Council

On the basis of internal audit work undertaken in 2009/10, the Head of Internal Audit's opinion was that the overall standards of internal control for the year ended 31 March 2010 were **adequate** and hence accorded with proper practice. This opinion was derived from separate opinions applying to financial systems and non financial / operational systems as recorded in Appendix 4. Referring to the last column of the table at Appendix 4, Members were pleased to note that in terms of the consortium (Breckland, Broadland & South Norfolk District Councils), Breckland Council had been the only authority to gain two good assurances for the year. In the course of the year, the majority of audits had culminated in an adequate assurance level being applied to the systems of internal control under evaluation, whilst Treasury Management arrangements had stood out in best practice terms and merited receipt of a '**good**' audit opinion. The Management Summary contained the key findings and conclusions arising from this particular review and had been attached at Appendix 2(6) of the report for Members' information.

However, it must also be noted, as highlighted at Appendix 2 (2) of the report that a limited assurance had been given in year to Environmental Health. A limited assurance had been identified, based on a substantial number of internal control issues needing to be addressed, one of which warranted the raising of a high priority recommendation to correct a significant weakness found. Upon finalising audit work in the area of Environmental Health, a total of 12 recommendations had been proposed

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and subsequently agreed with management, comprising 1 high, 10 medium and 1 low priority. At year-end, 8 of those 12 agreed actions had been completed, which included the high priority recommendation, whilst the remaining 4 (all carrying medium priority ratings) had yet to reach their due implementation dates.

This year, for the first time, the Annual Report also contained an analysis of assurance levels given in respect of individual audit assignments, looking back over the last 3 financial years. In the course of comparing year-on-year, how the internal control environment had been developing, audit findings for 2009/10 indicated a much improved situation at the authority in the last 12 months, based on the number of positive assurances arising from audits conducted on-site.

The basis of assurance was set out in paragraph 3.3 of the report.

The report also contained some cross referencing to a separate report on the annual review of the Effectiveness of Internal Audit and issues relevant to the Annual Governance Statement. The outcomes of key control testing were also noted with two medium priority recommendations arising in relation to Council Tax and National Non-Domestic Rates. The Head of Finance pointed out that audit findings here applied to Anglia Revenues Partnership's work undertaken on behalf of Breckland Council whilst Forest Heath and East Cambridgeshire Councils were responsible for their own auditing arrangements in relation to Revenues and Benefits caseloads processed for their organisations.

Opinion of the Head of Internal Audit on the Overall Adequacy of Corporate Governance Arrangements and Systems of Risk Management at Breckland Council

The Head of Internal Audit gave a good assurance in regard to this area. This opinion had been based on the outcomes of an audit assignment conducted in Quarter 4 of 2009/10 (see Appendix 2 (9) of the report).

The planned audit work for 2009/10 was now 100% complete.

Members were asked to note the report but also to take into account the opinions when discussing the Annual Governance Statement.

The percentage of recommendations accepted by management was 96.4%, which was pleasing to note.

Of 39 High Priority recommendations made during the year, 37 had actually been implemented and delivered. This was a considerable improvement on last year's position. The remaining two applying to the financial year 2009/10 related to recommendations that were in the process of being actioned and were essentially partially complete.

The Chairman had found the report difficult to follow particularly with regard to having to flick backwards and forwards to the relevant appendices.

The questions/comments from Councillor Hewett were answered as follows:

- *Has this conclusion been passed over to the external auditors?*

Answer: Yes.

- *Page.35, paragraph 3.8.4 - There are a few notes about this point. I cannot understand what is happening, and why it is so important.*

Answer: The query related to average time elapsing between the issue of

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audit briefs and commencement of audit fieldwork. A target of 10 days operated but during 2009/10, the contractor achieved a longer lead-in time of 20-35 days. This was good practice in terms of the auditee being properly advised in advance of the audit work commencing on site.

- *Page 35, paragraph 3.9.1* - Any reason why two high priority recommendations have not yet been implemented?

Answer: A full explanation was provided in an accompanying report – The Status of Agreed Actions arising from Final Audit Reports at 31 March 2010.

- *Page 38, Appendix 1: Broadly, how do we get from “adequate” to “good” overall?*

Answer: Comprehensive systems of internal control requiring no further enhancements in all areas audited within a given financial year.

RESOLVED that

- 1) the Annual Report of the Head of Internal Audit be received and noted;
- 2) it be noted that the overall standards of internal control were **adequate** during 2009/10;
- 3) it be noted that a **good** assurance has been given in respect of Corporate Governance and Risk Management arrangements for the year ended 31 March 2010; and
- 4) it be noted that the opinions provided in respect of the overall standards of internal control and arrangements concerning corporate governance and risk management, are reflected in the Council’s Annual Governance Statement for 2009/10, to be subsequently presented to the Audit Committee.

32/10 END OF YEAR REVIEW OF THE CURRENT STATUS OF AGREED AUDIT RECOMMENDATIONS (AGENDA ITEM 9)

The report informed Members as to the progress made in implementing recommendations arising from final audit reports, as at 31 March 2010.

The new arrangements introduced to monitor internal audit recommendations were now operating well, with the significant majority of recommendations, due to be actioned, having now been implemented.

The holding of a Special Performance Clinic on 10 March 2010 had subsequently led to a significant reduction in the levels of recommendations that were found to be outstanding.

Overall, when combining those recommendations that were brought forward as outstanding, and of those subsequently raised as a result of the finalisation of new audit reports, management was expected to have implemented a total of 112 systems audit recommendations during the year. As highlighted in Appendix 1 of the report, just four recommendations remained outstanding, and only one of those was high priority.

As far as the 54 computer audit recommendations were concerned, of these, a total of eleven remained outstanding; full details of these

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recommendations were provided at Appendix 3 of the report. Although this still continued to be of a higher proportion than anticipated, it was noted that the IT Security Policy had recently been reviewed by the Business Improvement Sub-Committee, and upon its finalisation and roll out to staff, a further six recommendations could be speedily completed.

Overall, 151 recommendations from a total of 166 had been delivered in 2009/10 with just 15 (9%) remaining outstanding. This was excellent progress, and was by far the best performance achieved by a member authority in the Norfolk Internal Audit Consortium.

RESOLVED that the progress made by the management in implementing internal audit recommendations be noted.

33/10 AUDIT OPINION PLAN 2009/10 (AGENDA ITEM 10)

The Senior Audit Manager presented the report and drew Members' attention to the key points which were:

- The fee for the audit of financial statements
- The identification of specific risks
- Key milestones and deadlines (table 2)
- The planned outputs at table 4
- Appendices 1 to 4 which supported the detail of the report.

In response to Councillor Hewett's questions, the Senior Audit Manager confirmed that there had been a £1700 increase over the previous year, an increase resulting from the introduction of IFRS that had been offset by a rebate this year.

The Head of Finance asked if the Council would be given a rebate in future years. In response, the Senior Audit Manager advised that there would not be an on-going rebate.

RESOLVED that the Audit Opinion Plan be noted.

34/10 ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT FOR 2009/10 (AGENDA ITEM 11)

The Head of Internal Audit 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.

The Accounts and Audit (Amendment) Regulations 2006 stated at paragraph 6(3) that the relevant body shall at least once in each year conduct a review of the effectiveness of its system of internal audit.

This was the first time that this detailed report had been presented to the Audit Committee. This year marked a departure from previous arrangements in so far as a separate report had now been developed to enable a more detailed evaluation of the effectiveness of the system of Internal Audit to be undertaken, involving Members in this process which was felt to be transparent and robust.

The Head of Internal Audit had in place a performance and quality

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assurance framework to demonstrate that the Internal Audit Service was:

- Meeting its aims and objectives;
- Compliant with the CIPFA Code of Practice for Internal Audit in Local Government;
- Meeting internal quality standards, confirmed through performance indicators and post audit feedback received;
- Putting forward practical audit recommendations that were agreed with senior management and led to ongoing improvements to the internal control environment at the Council, as evidenced by the subsequent implementation of agreed actions.
- Continually seeking to improve service delivery whilst also adding value and assisting the Council in achieving its objectives;
- Producing work which the External Auditor was able to place reliance upon; and,
- Supporting an effective Audit Committee.

The aims and objectives of the Internal Audit Service had been established in Internal Audit's Terms of Reference, Internal Audit's Strategy, Annual Audit Needs Assessment and Strategic/Annual Audit Plans, which were updated each year and submitted to the Audit Committee for formal approval.

It had been confirmed that there had been full compliance with best practice guidance in all areas this year.

The Quality Standards applying to the Internal Audit Service were explained.

Referring to one of Councillor Hewett's questions with regard to paragraph 3.8.2 of the report, it was noted that following completion of audit fieldwork it had taken 26.9 days on average to issue a final audit report in 2009/10 compared with the 25 day target set. This was a much improved position on 2008/09 where it had taken 62.4 days.

The Independent Member asked if it was possible for Breckland Council employees to 'cover up' risks given that audits were announced prior to fieldwork commencing and questioned the need for surprise visits. The Head of Internal Audit explained that the scope of audit work and the random sampling undertaken precluded the opportunity for covering up risks.

A Member had concerns that the report was too technical for the public to understand. The Chairman and the Head of Finance reminded the Committee that the majority of reports taken forward were technical given the topics that were covered.

The Senior Audit Manager pointed out that the Annual Audit letter was much more accessible and readable to the wider audience as a style writer was used. There was also an increased emphasis on the Audit Commission to make the Annual Governance report more comprehensible to the public.

Referring to paragraph 3.6.1 of the report, a Member pointed out that

there was no reference as to where these mentioned documents could be found. He felt that some signposting would be beneficial.

RESOLVED that the findings of this report and the evidence given in support of the effectiveness of the Internal Audit Service be noted, taking this into consideration when receiving the Head of Internal Audit's Annual Report and Opinion, and the Council's Annual Governance Statement.

35/10 WORK PROGRAMME (AGENDA ITEM 12)

RESOLVED that the following items be added to the schedule:

- 1) 25th June – 2010/11 Fee Letter
- 2) 24th September - Update on the Government Transparency Agenda;
- 3) the updated Audit Plan be moved to 25 March 2011; and
- 4) the Rev Active project risk monitoring report be discussed at six monthly intervals and not quarterly – to be moved to the September meeting.

36/10 NEXT MEETING (AGENDA ITEM 12)

Arrangements for the next meeting on 25th June 2010 were noted.

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The meeting closed at 12.05 pm

CHAIRMAN