

BRECKLAND COUNCIL

At a Meeting of the

AUDIT COMMITTEE

**Held on Friday, 10 June 2016 at 10.00 am in
Norfolk Room, Conference Suite, Elizabeth House, Dereham**

PRESENT

Mr W.P. Borrett (Chairman)	Mr M J Nairn
Mr P S Wilkinson (Vice-Chairman)	Mr M Taylor
Mr P.J. Hewett	Mr T. Ludlow
Mrs L.H. Monument	Mr K. Stevens

In Attendance

Julie Britton	- Senior Democratic Services Officer
Alison Chubbock	- Chief Accountant (Deputy Section 151 Officer) (BDC)
Emma Hodds	- Internal Audit Consortium Manager (IACM)
Julie Kennealy	- Executive Director (Commercialisation)(S151 Officer)
Alison Riglar	- Assistant Manager, Ernst & Young
Kevin Suter	- Executive Director, Ernst & Young
Susan Allen	- Democratic Services Officer
Mandy Chenery	- Senior Accountant Revenue and Projects
Rory Ringer	- Democratic Services Manager
Tim Rogers	- Performance & Change Manager

Action By

18/16 MINUTES (AGENDA ITEM 1)

The Minutes of the meeting held on 19 February 2016 were confirmed as a correct record and signed by the Chairman.

19/16 ACTIONS ARISING FROM THE MINUTES (IF ANY) (STANDING ITEM) (AGENDA ITEM 2)

None.

20/16 APOLOGIES (AGENDA ITEM 3)

None.

21/16 URGENT BUSINESS (AGENDA ITEM 4)

None.

22/16 DECLARATION OF INTERESTS (AGENDA ITEM 5)

Councillor Hewett declared an interest in agenda item 7 in relation to the alleged complaint made against him that he believed could have been within the dates of 1 April 2015 and 31 March 2016. Councillor Hewett left the room whilst this item was being discussed.

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The Independent Members declared an interest in agenda item 21 and left the room whilst this item was being discussed.

23/16 NON-MEMBERS WISHING TO ADDRESS THE MEETING (AGENDA ITEM 6)

None.

24/16 ANNUAL REPORT ON STANDARDS ARRANGEMENTS (AGENDA ITEM 7)

Councillor Hewett excluded himself from the meeting whilst this item was being discussed as he believed that the alleged complaint that had been made against him could have been within the dates of 1 April 2015 and 31 March 2016.

The Committee was reminded that under the Breckland Council arrangements standards issues had been delegated to the Audit Committee and reported to Members in the form of an annual report.

The Standards Officer presented the report and updated Members on the work undertaken on standards complaints received and the present position regarding Disclosable Pecuniary Interests forms received from Breckland Councillors and Town and Parish Councillors as well as Code of Conduct notifications from 1 April 2015 to 31 March 2016.

In total 26 complaints had been received by Breckland Council in relation to alleged breaches of the Code of Conduct against District, Town and Parish Councillors. Ten of these related to Breckland Council Members, 12 were against Town Councillors and the remaining 4 were against Parish Councillors. Contrary to the report, the Committee was made aware that one complaint had been referred to the Police in accordance with the Localism Act but no further action had been taken.

The Monitoring Officer had consulted with the Independent Person (IP) on 10 of the complaints, 8 had been considered by the IP and 2 had been referred to the IP for South Holland District Council due to a conflict of interest. The complaints related to failure to treat with respect, positions on charities and Councillors not attending Breckland Council meetings on behalf of residents.

Also, under the Localism Act 2011, all District, Town and Parish Councils had to submit their Disclosable Pecuniary Interest (DPI) forms to Breckland Council for publication on the website; all had been received. Mr Ludlow was pleased to hear that all DPI forms were now up to date.

The Chairman asked if any of the complaints would be brought before the Hearing Panel. In response, the Committee was informed that there was only one complaint going forward for investigation which could possibly be brought to the Audit Committee for a Hearing.

The content of the report was otherwise noted.

25/16 QUARTERLY RISK REPORT (AGENDA ITEM 8)

The Performance & Change Manager presented the report that informed

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Members on the current status of the Council's strategic risks for Quarter 4, 2015/16.

The most significant risk to the Council was in relation to ICT security issues.

Members' attention was drawn to the supplementary agenda pack that contained an updated version of Appendix A which highlighted the strategic risks in greater detail (page 131).

Referring to the latest position in relation to ICT, heightened security measures had been put in place; however, this had led to an increasing amount of emails being quarantined which had proved inconvenient for users. Taking these problems into account Mimecast, a new security provider, was being rolled out to all shared Breckland/South Holland Managers, followed by, so the Performance & Change Manager had been informed, all Breckland users in the near future. This would enable users to unlock their own quarantined emails once they had been checked.

Councillor Nairn asked if the Anglia Revenues & Benefits Partnership (ARP) was just as vulnerable and also asked if there was a link between their systems and Breckland's. The S151 Officer explained that due to the fact that ARP dealt with Revenues & Benefits the main IT support came from one of the partners and not from Norfolk County Council; there was also a special security protocol that had to be adhered to. In response to the latter, the Committee was assured that there was not a direct link with Breckland Council and the S151 Officer was completely satisfied with the arrangements in place due to the fact that ARP had been awarded Code of Connection status (CoCo).

In terms of impact, the Chairman asked if Breckland Council was taking measures to mitigate the aforementioned risks. The Performance & Change Manager advised that the systems would be shut down until the problem was removed; this would be of a shorter duration than a breach. The Internal Audit Consortium Manager pointed out that the length of time would in fact be quite similar due to the investigative work that would have to follow. Members were assured; however, that the disaster recovery measures that the Council had in place were much better now.

Councillor Hewett felt that although the score had been reduced considerably it did not make the risk go away. The Performance & Change Manager stated that the perpetuity of the risk was more.

Mr Ludlow had noticed that the target scores were missing from the matrix and felt that it would be helpful to have such scores for all. The Committee was informed that target scores were being discussed.

The Chairman reminded the Committee that this document was still work in progress.

It was agreed that the progress of risks would be discussed with Councillor Hewett prior to being reported to the next meeting.

Referring to the risk in relation to staff recruitment, Mr Ludlow asked if recruitment within the organisation had taken place. Members were informed that the staffing gap was less. The Chairman asked if the

Tim
Rogers

Action By

Senior Management Team had seen sight of this document. The S151 Officer advised that the Senior Managers did utilise the risk register and their role was to a) to ensure that all risks were recorded and b) to ensure that the risks were mitigated.

The remaining risks were discussed whereby Mr Ludlow noticed that the report mentioned 12 strategic risks but the appendix only described 11. The Committee was informed that the latter was the correct number.

The report was otherwise noted.

26/16 BRECKLAND AUDIT UPDATE REPORT - MAY 2016 (AGENDA ITEM 9)

This report summarised the work that External Audit had undertaken to date and provided an update to the Audit Plan dated 3 February 2016 in relation to group arrangements for 2015/16. It also ensured that the audit was aligned with the Committee's service expectations.

Section 2 of the report set out the additional planned scope of work in relation to group accounts which were being prepared for the first time this year.

There were no issues to discuss.

The report was otherwise noted.

27/16 ANNUAL REPORT OF THE AUDIT COMMITTEE (AGENDA ITEM 10)

The Internal Audit Consortium Manager presented the annual report of the Audit Committee of which the contents, if approved, would be recommended to Full Council for approval on 28 June 2016.

The report highlighted the work undertaken by the Audit Committee throughout the year.

The Chairman drew attention to the issue of low attendance which he felt had been caused by the change of membership during the year and he hoped that all would be well going forward.

Mr Ludlow mentioned the lack of quarterly risk updates; the Committee was informed that the missing quarter had been due to the risk management process being redesigned.

RECOMMEND to Full Council that the content of the Annual report be approved.

28/16 SELF ASSESSMENT OF THE AUDIT COMMITTEE (AGENDA ITEM 11)

This self-assessment had been due to be completed in February 2016; however, as a result of the low response received in advance of that meeting, and the actual meeting just reaching quorate, it had been agreed to postpone the item in order to receive fuller responses by all Members.

It was very important to regularly re-examine the Committee's Terms of Reference and business activities to ensure that existing provisions

	<u>Action By</u>
<p>continue to fully comply with best practice requirements. The Internal Audit Consortium Manager was disappointed in the lack of responses received since the February meeting; therefore, it was agreed that the self-assessment questionnaire would be completed forthwith. The Committee then went through the Checklist page by page until all 12 remaining questions had been answered.</p> <p>RESOLVED that full compliance to the Self-Assessment Checklist be confirmed; subject to:</p> <ol style="list-style-type: none">1. (1.1) - the date in relation to the Terms of Reference review being checked and accordingly updated;2. (1.12) - appropriate induction training being provided to the recently appointed Member of the Committee;3. (1.13) – a refresher training session to be carried out for all Committee Members prior to the next meeting;4. (2.6) – the date of the Counter Fraud, Corruption and Bribery Policy and Whistleblowing Policy to be updated as these Policies had been discussed and recommended to Full Council at the last meeting;5. (5.4) – to be added to the Work Programme to make certain that mechanisms were put in place to ensure that Officers were monitoring actions taken to implement external audit recommendations. <p>In response to a concern it was noted that it was a requirement of the S151 Officer to report to the Committee in terms of external audit's performance.</p> <p>Further to one of the questions asked in the self-assessment checklist in relation to external audit and the appointment of the external auditors, and due to the LGA investigating the feasibility of establishing a national sector led body to deliver economic and efficient external arrangements across all authorities, it was agreed that this subject should be added to the Work Programme.</p>	<p>Emma Hodds</p>
<p>29/16 <u>PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY (AGENDA ITEM 12)</u></p> <p>The Internal Audit Consortium Manager presented the report which examined the progress made between 2 December 2015 and 22 April 2016 in relation to the completion of the Annual Internal Audit Plan for 2015/16. The report also included abbreviated executive summaries in respect of the audit reviews that had been finalised in the course of this period.</p> <p>Members' attention was drawn to page 46 of the agenda which highlighted the significant changes to the approved Internal Audit Plan, the progress made in delivering the agreed audit work and the outcomes that had arisen from the agreed audit work.</p> <p>Additionally, West Suffolk audit had concluded on the ARP Revenues & Benefits audits as follows:</p> <ul style="list-style-type: none">• Council Tax – substantial assurance (equivalent to reasonable) – 19 recommendations;	<p>EH/JB</p>

Action By

- National Non-Domestic Rates – substantial assurance – 30 recommendations; and
- Benefits – substantial assurance – 21 recommendations.

The reason the number of recommendations was high was due to this particular audit covering multiple Councils.

As part of the new contract with TIAA a cross authority review had been undertaken of the Accounts Payable services, the Council's involved in this review were Breckland, North Norfolk & South Norfolk District Council's and Gt Yarmouth Borough Council. The overall objective of this review was to identify where there were opportunities to generate savings in processing of transactions within the Accounts payable function.

Attention was drawn to Appendix 2 of the report which provided Members with an overall view of the assurances awarded.

Referring to Appendix 3 of the report, Mr Ludlow asked why some payments were processed without a purchase order. The Chief Accountant explained that the majority of invoices did have purchase orders except, for example, electricity bills but all had some form of authorisation.

RESOLVED that the outcomes of the ten audits completed by the TIAA, the three audits finalised by West Suffolk Audit and the Cross Authority review of Accounts Payable finalised in the period covered by the report be noted.

30/16 FOLLOW UP REPORT ON INTERNAL AUDIT RECOMMENDATIONS
(AGENDA ITEM 13)

The Internal Audit Consortium Manager presented the report which provided Members with the position on the progress made by Management in implementing agreed Internal Audit recommendations as at financial year end 31 March 2016.

At year end position there were 28 recommendations still outstanding.

Appendix 2 detailed the three urgent recommendations still currently outstanding and a management response had been provided in relation to these.

A verbal update was provided for the following audit areas from prior financial years where (priority one and two) were still outstanding.

Data Centre, Back Up and Disaster Recovery – 2013/14 audit review

As there was further work to do, the completion date was expected to be the end of October 2016; this had taken longer than expected but no cost issues had been involved.

Data Protection and Freedom of Information – 2014/15 audit review

Still on-going, planned completion date end of August 2016.

Localism and Communities – 2014/15 audit review

Action By

Still work in progress but the draft policy would be completed by end of June 2016.

Payroll and Human Resources – 2014/15 audit review

DBS checks should be completed by end of July 2016.

Members were informed that the 8 recommendations from previous years should be achieved in the next couple of months. In response to a question as to the priority the aforementioned recommendations were, Members were informed that they were all two's so were not classed as urgent.

The content of the report was otherwise noted.

31/16 ANNUAL REPORT AND OPINION 2015/16 (AGENDA ITEM 14)

The Internal Audit Consortium Manager gave a detailed overview of the report developed in line with the Public Sector Internal Audit Standards (PSIAS) requirements, effective from April 2013.

A **substantial** audit opinion had been given in relation to governance and a **reasonable** assurance in relation to risk management and control for the year ending 31 March 2016.

Attention was drawn to section 3.6 of the report with regard to third party suppliers and the issues that this caused. The Council was currently under negotiation regarding these arrangements at the most senior level; however, this was a risk that still remained at year end.

Attention was also drawn to Appendix 1 which provided much more detail of the audit work undertaken during 2015/16 and appendix 2 that highlighted the assurance levels awarded in 2015/16 and those awarded in prior years.

Mr Ludlow referred to the limited assurance given again under the ICT audits in relation to Disaster Recovery, Back Up and Data Centre and asked whether this should be revisited again. The Internal Audit Consortium Manager advised that monthly updates were being received and the work was probably 97% completed.

It was agreed that a report on this matter should be brought to the next meeting. EH

Councillor Hewett was very disappointed that the Council was being impacted by the third parties risk assurance. The S151 Officer explained that Breckland Council was an authority that relied on third party suppliers and the contractual terms of which those relationships were based were vitally important and any improvement in that area would be best exercised that any new contractual arrangements should be made in the best possible terms for the Council. The Chairman asked if the Council had the necessary skills at the right level to manage and monitor those contracts. Members were informed that this would be a question to ask Internal Audit and it was agreed that this would be picked up in the Work Programme. EH/JB

Action By

RESOLVED that:

1. the contents of the Annual Report and Opinion of the Internal Audit Consortium Manager be approved;
2. the **substantial** audit opinion in relation to governance and the **reasonable** assurance in relation to risk management and control for the year ended 31 March 2016 be noted;
3. the opinions expressed together with significant matters arising from internal audit work and contained with the report be given due consideration when developing and reviewing the Council's Annual Governance Statement for 2015/16;
4. the conclusions of the Review of the Effectiveness of Internal Audit be noted.

32/16 TREASURY MANAGEMENT OUT-TURN REPORT (AGENDA ITEM 15)

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 2015/16. This 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).

RECOMMEND to Council that:

1. the actual 2015/16 prudential indicators be approved; and
2. the Treasury Management Stewardship report for 2015/16 at Appendices B and C of the report be noted.

33/16 2015-16 UN-AUDITED DRAFT FINANCIAL STATEMENTS (AGENDA ITEM 16)

The Chief Accountant & Deputy S151 Officer provided the Committee with a short but detailed presentation (copy attached).

The key points were highlighted.

There had been two significant areas of change to the statement of accounts this year, the first area being a change to The Code around the measurement basis for certain assets and the second area was a change to the Council's accounts bringing in group accounts for Breckland Bridge Ltd.

There had been quite a lot of movement in the value of the Council's assets mainly due to additional works (such as Riverside in Thetford and the IT refresh programme) and the changes to the valuation basis. There were also quite a lot of changes in long term and current assets with instant access cash reducing, mainly due to the expanded counterparty list meaning cash was now held in higher earning investments and partly due to working capital changes and capital expenditure. Additionally, there had also been a change to the pension liability due to the demographic assumptions used. Mr Ludlow asked why the discount rate

had changed. Members were informed that this change was in relation to the Bond prices and was where the changes in assumptions came from. Councillor Hewett then explained Bond prices to the Committee.

Attention was drawn to the provisions and it was explained that this was mainly the Council's share of the provisions relating to appeals on business rates retention at 40%.

Further details in relation to the Earmarked Reserves, the General Fund and the Group Accounts were provided.

It was noted that the Annual Governance Statement formed part of these accounts and had reflected the Internal Audit Consortium Manager's comments as well as changes to the Council's governance arrangements during the year.

Members were pleased to hear that Breckland Council was in a very strong financial position.

As with last year the Council had followed the timescales of the new regulations coming into force in 2017/18; accordingly, the un-audited accounts had been signed off by the Responsible Financial Officer (RFO) on 31 May and the audited accounts would be brought to the Audit Committee for approval by 31 July. The External Auditors were thanked for their timely efforts once again.

Mr Ludlow thanked the Chief Accountant & Deputy S151 Officer for the excellent presentation but he wanted to know why the housing benefit overpayments had risen by over 30%. In response, Members were informed that she had already been in contact with ARP about this issue and had been informed that this was a very difficult process that could take up to six months as only one debt at a time could be collected. ARP was trying to prevent this happening in future.

It was noted that Sumitomo under Note 11 - Short Term Investments was in fact a UK bank despite the name.

There was much discussion about pensions. Councillor Hewett said that he would like to see what the 2016 actuary showed.

The Chairman felt that it was a problem for all and asked if the Council had someone on the Norfolk Pension Fund Board; if not, he wanted the following question to be put forward: 'was there a representative for all district councils'. In response to the first question, it was noted that Breckland Council did not have the expertise in-house but Norfolk County Council did and they, through Norfolk Pension Fund, liaised with the Actuary. The Executive Director for Ernst & Young explained the set up and pointed out that there were governance documents which the Board had a duty to report. The S151 Officer explained that it was the duty of the Statutory Finance Officers to agree what rules apply to the pension fund on an annual basis.

The Chairman felt that there was a degree of distance to that discussion and should be investigated further. The S151 Officer agreed and felt that it would not be unreasonable for the Actuaries to come and talk to the Audit Committee.

Action By

Alison
Chubbock

AC

	<u>Action By</u>
<p>The Finance Team was thanked for all their hard work and also for the clarity of the presentation.</p>	
<p>34/16 <u>TRAINING (STANDING ITEM) (AGENDA ITEM 17)</u></p>	
<p>The Internal Audit Consortium Manager would make the necessary arrangements for the Member training sessions following an assessment of their needs.</p>	EH
<p>35/16 <u>WORK PROGRAMME (AGENDA ITEM 18)</u></p>	
<p>The following items would be added to the Work Programme for the following meetings:</p>	EH/JB
<p><u>23 September 2016</u></p>	
<p>Disaster Recovery – Head of Internal Audit</p>	
<p>Update on Independent Persons – Head of Internal Audit</p>	
<p><u>9 December 2016</u></p>	
<p>Contract Management & Monitoring – Head of Internal Audit</p>	
<p><u>Dates of meetings tbc</u></p>	
<p>Report on external quality assessment of Internal Audit</p>	
<p>External Audit appointments</p>	
<p>36/16 <u>NEXT MEETING (AGENDA ITEM 19)</u></p>	
<p>The arrangements for the next meeting on Friday, 29 July 2016 at 10.00am in the Norfolk Room were noted.</p>	
<p>Councillor Hewett’s apologies for this meeting were noted.</p>	
<p>The Chairman commented on the extreme high quality of the reports discussed.</p>	
<p>37/16 <u>EXCLUSION OF PRESS & PUBLIC (AGENDA ITEM 20)</u></p>	
<p>RESOLVED 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 1 of Part 1 of Schedule 12A to the Act.</p>	
<p>38/16 <u>INDEPENDENT PERSONS (AGENDA ITEM 21)</u></p>	
<p>Mr Ludlow and Mr Stevens were not present for this item.</p>	
<p>The Chairman reported on the proposed outcome of the recent pre-meeting, and it was:</p>	

RESOLVED that Option 2 of the report be agreed – to advertise for the position of Independent Members in 2017 in line with statutory guidance; the current Independent Members would be welcome to re-apply.

Action By

EH

It was agreed that the S151 Officer would inform the Independent Members forthwith.

It was further agreed that a report by the Internal Audit Consortium Manager would be brought to the September meeting so that the recruitment process could commence in January 2017.

EH

The meeting closed at 11.55 am

CHAIRMAN