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**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
Committee Room 3B - Town Hall
25 September 2012 (7.30 - 8.50 pm)**

Present:

COUNCILLORS:

Conservative Group Georgina Galpin (in the Chair), Steven Kelly (in place of Frederick Osborne), .

Residents' Group Clarence Barrett

Labour Group Denis Breading

An apology was received for the absence of Councillor Frederick Osborne .

Councillor Murray was also present as an observer.

1 member of the public was present.

Unless otherwise indicated all decisions were agreed with no vote against.

Through the Chairman, announcements were made regarding emergency evacuation arrangements and the decision making process followed by the Committee.

14 MINUTES OF THE MEETING

The minutes of the meeting of the Committee held on 25 June 2012 were agreed as a correct record, subject to the addition of Councillor Barrett's name in the list of those members who sent their apologies, and signed by the Chairman.

15 ANNUAL STATEMENT OF ACCOUNTS

The Statement of Accounts 2011-12 were submitted for the Committees approval. Officers drew Members' attention to the Statement of Movements in Reserves 2011/12, the Comprehensive Income and Expenditure Statement 2011/12, the Balance Sheet as at 31st March 2012 and the Cash Flow Statement as at 31st March 2012. The accounts also included the Pension Fund Accounts and Housing Revenue Fund Account.

The Committee raised a number of minor issues regarding declarations and membership of organisations which officers agreed to amend for the future.

The Committee:

1. **Approved** the Statement of Accounts confirming the no amendments were required to be made to the accounts in respect of the items set out in the auditors report, and
2. **Noted** that the Annual Accounts must be published by 30th September 2012.

16 **REPORT TO THOSE CHARGED WITH GOVERNANCE (ISA 260)**

PricewaterhouseCoopers (PWC) - the Council's external auditors submitted their report to those charged with governance as required by ISA 260. The auditors had identified a number of significant risks when they carried out their risk assessment, these risks were:

- Recognition of Income and Expenditure – i.e. the risk of material misstatement in relation to revenue;
- Management override of controls;
- New Financial System – Oracle E-suite.

The auditors had nothing to report in these areas.

The auditors brought to the Committee's attention a number of significant audit and accounting matters. These included:

- Government and non-government grants – a question of how these were treated in the accounts;
- Component accounting – this issue had been raised in last year's audit and the Council's officers had responded to the matters in their treatment this year.
- Separation of bank accounts – Pension Fund – the auditors reported that the Pension Fund had failed to comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. Officers explained to the auditors and the Committee why they had been unable to comply at this time.

The auditors confirmed they would be signing an unqualified opinion.

With regard to future fees officers advised that it was likely there would be a 40% reduction in 2012/13.

The Committee **noted** the contents of the report and the draft Letter of Representation.

17 **RESPONSE TO ISA 260**

Officers provided the Committee with details of their responses to the matters raised by the external auditors. With regard to the separation of bank accounts this would be implemented in 2012/13. All pension fund transactions were currently recorded in a separate ledger account and were

properly reconciled. Interest was allocated on the net balance in accordance with a formal agreement between the Fund and the Council.

Officers had adopted a cautious approach in 2011/12 to give the new Oracle E-suite an opportunity to bed down. The ability of the system to allow more than one bank account to be linked to the Accounts Payable, Accounts Receivable and Payroll Systems was being investigated.

The Committee considered and **noted** the responses from management and raised no issues.

18 INTERNAL AUDIT PROGRESS REPORT (QUARTER 1)

Officers submitted their progress report on the work of the Internal Audit Team during quarter 1. Two systems audits had been completed and these had received either a Full or Substantial opinion. Details of the work in progress were provided.

Two school audits had also been completed in the same period both receiving substantial opinions. Officers advised the Committee that they were working on a campaign to encourage Academies to use Internal Audit's services.

The Committee raised no issues of concern and **noted** the report.

19 I-EXPENSES AND PURCHASE CARDS - FOLLOW UP REPORT

Officers submitted a report, as requested, on progress in implementing the recommendations of the systems audit in respect of iExpenses and Purchase Cards. The audit had given rise to five high, three medium and one low priority recommendation. All the recommendations were agreed at the time of issuing the final report and deadlines for all but two (one low, one medium) were prior to 30 August 2012.

The Committee had first considered the report in June 2012 and they had requested a report back as a number of the recommendations had not been implemented.

Internal Audit had followed up with management and at the time the report was written three of the recommendations had been completed, although the Committee were advised that in two cases no action had been taken to improve control. These risk areas would be revisited in 2012/13 when the other control improvements had been embedded.

Three recommendations were in progress with extended implementation dates identified.

One recommendation had not been progressed at all and management had now rejected the recommendation and accepted the risks.

The other two recommendations were due to be implemented by 30 September 2012.

Recommendation 7 which had now been rejected related to cost effective risk based monitoring activity which should be undertaken by Internal Shared Services to ensure that claims were compliant and bona fide. Management had decided that this was the role of line management under the principles of Self Service following the implementation of Oracle using the vanilla t-gov solution.

The Committee had asked what happens when a recommendation is rejected. Officers advised that in this instance guidance would be issued to all managers and when managers had had the time to absorb the implications the system would be reviewed. In addition the Internal Audit Team would be undertaking some pro-active fraud work in this area.

The Committee **noted** the report.

20 **OUTSTANDING AUDIT RECOMMENDATIONS REPORT**

Officers submitted the quarterly update on outstanding audit recommendations. They explained that any recommendations needed to be affordable, achievable and efficient.

The Committee expressed their concern that there were still two high priority recommendations outstanding from audits completed in 2008/9. The first related to the Commissioning of works and the failure to sign a contract with the successful contractor - Jacobs in respect of the Architectural and Surveying (Property) contracts. The original date for completion was February 2009 and the revised date suggested by management was March 2013. The revised date followed an update report to this committee earlier this year. The Committee were especially concerned that the Council had been committing work against an unsigned contract. They asked officers to take the issue back to management and ensure the matter was resolved by the next meeting. If the contracts were not signed by the next meeting officers would need to report back on why not.

The second issue of concern related to IT security and Data Management. This recommendation was supposed to have been fully actioned by March 2010. A revised date of March 2013 had been set by management. This delay was not acceptable to the Committee and management was requested to expedite matters, and fully implement before the next meeting, or report back to the next meeting as to why they had failed to fully implement this recommendation by the original deadline.

Although the medium priority recommendation on Cemeteries and Crematorium was now scheduled for completion by April 2013 as compared to the original date of March 2010 Members did not consider this to be a priority.

Officers explained to the Committee that under new systems in place in Internal Audit officers followed up outstanding recommendations on a monthly basis. Furthermore the Annual Report would include summaries of all the sections work and details of all outstanding recommendations

The Committee **noted** the report.

21 **FRAUD PROGRESS REPORT**

The Committee received a report on the work of the Investigation Team and Internal Audit Fraud Team from 2 April 2012 to 29 June 2012.

The Committee were provided with details of the restructure of the Investigations Team which had been launched in June 2012. Since the report had been written the manager of the Investigations Team had been seconded to the Department of Work and Pensions for 6 months to assist with the establishment of the Single Fraud Investigation Service. This will enable the Manager to have an impact on the proposals.

Following the restructure there would be two Senior Investigator posts in the Team and between them they should be able to cover the work. The Internal Audit & Corporate Risk Manager indicated that she would be taking this opportunity to take a more proactive role in the management of the team, which had only recently fallen within her remit.

The Committee were advised that the Department of Works and Pensions would be covering the salary of the seconded officer during this period.

Concerns were expressed about the impact of this secondment and the Committee indicated they wished management to ensure they looked seriously at the impact of secondments on the Council in this time of reduced staffing levels.

The Committee looked at the Revenue Budget for 2012/13 and felt that this failed to give a correct picture of the actual costs of the work to combat fraud. Officers explained that the figures do not include the full income being generated by the proceeds of crime work. As indicated later in the report in one specific case it was possible the Council could receive as much as £100,000 if not more. The financial investigator had seven open cases which had resulted in nine properties, eight vehicles, two speedboats and three bank accounts being restrained.

The income from Administrative Penalties was included but this would only be forthcoming when any over payments had been cleared.

The income from over payments did not get credited to this budget heading.

The Committee asked officers to find some way of demonstrating the financial viability of the current system.

The report was **noted**.

22 **TREASURY MANAGEMENT QUARTERLY REPORT**

The Committee resolved to excluded the public from the meeting during discussion of the following item on the grounds that if members of the public were present it was likely that, given the nature of the business to be transacted, that there would be disclosure to them of exempt information within the meaning of paragraph 3 of Schedule 12A to the Local Government Act 1972 which could reveal information relating to the financial or business affairs of any particular person (including the authority holding that information) and it was not in the public interest to publish this information.

The Financial Services Manager presented the report that set out the context that was part of the Chartered Institute of Public Finance and Accountancy (CIPFA) revised Code of Practice for Treasury Management. The revised Code suggested that Members would be informed of Treasury Management activities at least twice a year or preferably quarterly. The report ensured the Council was embracing Best Practice in accordance with CIPFA's revised Code of Practice.

The details of the report were outlined to the Committee, including that the Council had remained within its prudential indicators limits. Details of the Council's investments were made available together with the interest rates they attracted. The Committee were informed the new format provided current and relevant information for its consideration.

The report was **noted**.

Chairman