

**MINUTES OF THE AUDIT COMMITTEE**  
**Wednesday, 17<sup>th</sup> December 2008 at 7.00 pm**

PRESENT: Councillor Cummins (Chair) and Councillors Butt and H M Patel.

**1. Declarations of Personal and Prejudicial Interests**

None declared.

**2. Deputations**

None

**3. Minutes of the Previous Meeting Held on 24<sup>th</sup> September 2008**

RESOLVED:-

that the minutes of the previous meeting held on 24<sup>th</sup> September 2008 be approved as an accurate record.

**4. Matters Arising**

*Statement of Accounts 2007/08: International Standard on Auditing – (ISA) 260*

Andrea White (District Auditor, Audit Commission) advised Members that the Unqualified Audit Opinion had since been provided after no other matters had arisen. In reply to a query from the Chair, Duncan McLeod (Director of Finance and Corporate Resources) advised that if other issues had arisen, an updated set of accounts may have had to be resubmitted to Members.

*Review of the Audit Committee*

Duncan McLeod reminded the Committee that he was still awaiting responses from the 3 leaders of the political groups with regard to the report and he requested that Members remind the leaders that this was yet to be provided.

**5. Deposits with Icelandic Banks**

Martin Spriggs (Head of Exchequer and Investment, Finance and Corporate Resources) introduced the report and updated Members on the present situation, with a £10m deposit to Heritable Bank and £5m deposit to Glitnir Bank remaining outstanding. Members heard that the Council was working with other local authorities, the Local Government Association (LGA) and other organisations including the Chartered Institute of Public Finance and Accountancy (CIPFA) to recover the loans or mitigate the effects of non-recovery until the situation was resolved. Martin Spriggs drew Members' attention to details of the lending procedures contained in the report, advising that the CIPFA Code of Practice on Treasury Management for local

authorities stressed that the protection of councils' cash balances was seen as more important than the pursuit of additional margin returns. A revised Code of Practice in 2002 required the Council to issue bi-annual reports, one on the annual treasury strategy and plan in advance of the year, and an annual report after its close.

Martin Spriggs emphasised the importance of the use of the lending list in devising the Treasury Management Lending Strategy, adding that the lending list had been fully reviewed in 2006. Butlers had been appointed as the Council's treasury adviser, although the Council was not required to follow their advice. Although the Council had agreed to appoint 2 external treasury managers in 1998, only 1, Aberdeen Asset Management, was being used at present as the other manager had left the market in 2007. An internal audit of lending processes in 2007 had provided a 'Satisfactory Assurance' rating and weaknesses that had been identified had since been addressed, whilst the external audit was to confirm the end of year details. The Treasury Team also reported weekly on treasury and prudential matters to the Deputy Director of Finance. As a result of the credit crisis, Martin Spriggs advised that the Council's lending list had been revised on 30<sup>th</sup> September and 8<sup>th</sup> October 2008 to exclude the 2<sup>nd</sup> tier of UK banks and the 3<sup>rd</sup> and 4<sup>th</sup> tiers of overseas banks, effectively meaning that the list mainly contained the major high street banks. Members heard that it was important that the Council maintained a sufficiently broad risk that minimised, but not removed, risk as a balance needed to be struck between risk and return. The Committee noted that a number of options were being considered following discussion with Butlers, including a review of how credit ratings were used, investigating whether some UK banks would receive guarantees from the Government and what the nature of these guarantees would be, whether other indicators could be of use and whether there was a need to reduce the size of some deposits. Martin Spriggs concluded by advising that additional training was to be made available to Members containing information as set out in the report.

During discussion, Councillor Butt sought further information on the use of sovereign ratings and details of support ratings. He also enquired whether deposits to the Debt Management Office which, as a Government organisation, supposedly offered 100% security, would continue to be an option if interest rates dropped further. Councillor H M Patel asked whether the Council had been offering a fixed level of credit or whether the amounts fluctuated and sought confirmation of the agencies that produced the credit ratings.

The Chair enquired whether the credit rating agencies used were in broad agreement over the ratings they provided. With regard to the deposits owed by the 2 Icelandic banks, he sought information on the proportion and timescale of repayments to the Council and whether there would be any arrangements for interim payments. He also asked if all councillors would be informed if there were any significant developments with regard to the deposits owed by the Icelandic banks.

In reply, Martin Spriggs advised that sovereign ratings gave a rating of each country's ability to cope with the financial crisis, and Iceland had been perceived as relatively safe in these ratings. Members were advised that the level of credit deposited depended on the organisations, with the Council either adjusting the amount loaned or reducing the lending period. The supporting ratings ranged from 1 to 5, 1 being the most secure and 5 the least. Martin Spriggs advised that the 3 credit rating agencies used by the Council were Fitch, Standard and Poors and Moodys and overall their ratings were in agreement. With regard to use of deposits to the Debt Management Office, Martin Spriggs advised their interest rates would be significantly squeezed if the Bank of England set a base rate of below 2% and would less likely be used, although deposits to this organisation had been provided in the past.

Duncan McLeod advised that Ernest and Young had been appointed as administrators of Heritable Bank and that repayments would depend on how much of the business was sold, with most recent indicators suggesting that repayment would be received over a 1 or 2 year period. A creditors meeting which would involve representatives of the local authorities concerned was to take place on 22<sup>nd</sup> December 2008 and overall Duncan McLeod felt that the Council could be optimistic in recovering the deposits as Heritable Bank contained more assets than liabilities. The situation with regard to Glitnir Bank was more complex as there were many legal issues involved and the bank was being administered in Iceland. Duncan McLeod suggested that repayment would be over a longer period and it was not possible to provide a specific timescale at this stage. The Committee heard that it was normal procedure for interim payments to be pursued and any receipt would depend on how soon assets were cashed in, although such payments were not expected in the near future. Duncan McLeod advised that all councillors would be advised of any major developments regarding the Icelandic bank deposits and that this issue had also been considered by other Council committees such as the Performance and Finance Select Committee and the Budget Panel. Training would be made available to all members of the committees involved and the Audit Committee would focus on internal controls.

RESOLVED:-

that the report on Deposits with Icelandic Banks be noted.

## **6. Revised Risk Management Strategy and Guidance**

Alison Matheson (Head of Procurement Strategy and Risk Management, Finance and Corporate Resources) introduced the report which sought an endorsement of an updated Risk Management Strategy and Guidance. This had last been reported upon in June 2007 and Alison Matheson advised that Risk Management was recognised as a key component in good corporate governance. Furthermore, this would be an important component of the Comprehensive Performance Assessment (CPA) and also the Comprehensive Area Assessment (CAA) that was to be introduced in 2009.

Over recent years, the Council had been strengthening its approach to risk management and a key element of this was through focusing on corporate hotspots. Such risk areas were regularly reported to the Executive and monitored through the Corporate Management Team and the High Level Monitoring Group, both chaired by the Chief Executive. Members heard that the approach to risk management had evolved over a period of time and actions to ensure risk became embedded within the Council's processes included:-

- A complete refresh of the risk register
- Revision of the risk guidance document to provide guidance for service development planning
- Project risk, an area that the CPA had identified as in need of strengthening
- Inclusion of Corporate hotspots in the risk register
- Availability of automated reports to managers to aid evaluation of risk
- Strengthening the role of the Strategic Performance Group and Local Strategic Partnership for over oversight of partnership risk

Alison Matheson advised that it was intended to provide a summary report of high level risks following completion of the 2009/10 service planning process. She emphasised the need to provide the necessary training that could be audited and it was hoped that this would be achieved within 2 months of the start of 2009/10, whilst issuing more clear guidance to staff was also required. Identifying weaknesses in risk management would also play a significant role in boosting CAA performance.

Councillor Butt enquired to what extent the District Auditor would be involved. Councillor H M Patel asked if the summary report would be included as part of the automated report or would be a separate document.

In reply, Andrea White advised that the Deputy Leader and Lead Member for Corporate Resource had overall responsibility for ensuring that working risk management processes were in place and therefore this was primarily a Council responsibility. However, the Audit Commission would play a role in terms of the Council's use of its resources to address this issue. Richard Evans (Audit and Investigations, Finance and Corporate Resources) advised that an internal assessment would be undertaken and it was anticipated that a report would be present to this Committee next year. Simon Lane (Head of Audit and Investigations, Finance and Corporate Resources) added that the report would also comprise individual audits of units and service areas. Alison Matheson confirmed that the summary report would both be available as part of the automated reports and as a separate report.

RESOLVED:-

- (i) that the revised risk strategy as set out in Appendix 1 be endorsed;
- (ii) that the revised risk guidance as set out in Appendix 2 be endorsed;  
and

- (iii) that it be noted that high level risks will be reported following the addition of risks identified as part of the 2009/2010 service planning process.

## **7. Internal Audit Progress Report 2008/2009 – Update 2**

Simon Lane introduced the report, advising that the 2008/09 internal audit plan comprised of 1,230 days, 970 of which were allocated to Deloitte & Touche Public Sector Internal Audit Limited, and 260 to the in-house team. As of the end of November 2008, 646 days had been delivered, representing 53% completion of the plan to date. Members noted that the plan was not on target to achieve 75% completion by the end of the 3<sup>rd</sup> quarter, with a number of planned audits not taking place. This was mainly due to audits being connected to other projects and developments that were not progressing to plan and therefore it was not felt appropriate to undertake such audits. In addition, some non-completions related to Financial Management Standards in Schools (FMSIS) assessments where schools were not sufficiently prepared in accordance with agreed deadlines and these audits had subsequently been postponed to 2009/10. Simon Lane explained that the report also contained a breakdown of the plan into substantial works, works in progress and school works.

Councillor H M Patel sought clarification of where school had been given conditional passes and what follow-up action was required of them. Councillor Butt enquired about the type of other projects that had been delayed that had impacted upon audits. With regard to targets not being met, the Chair enquired whether the District Auditor would seek an explanation as to why and what steps would be taken to ensure that they would be met in future.

In response, Richard Evans advised that upon achieving a conditional pass, a school would have up to 20 working days to ensure that they met all remaining issues in order to obtain a pass. If this could not be met within this period, the school needed to demonstrate how they would be able to achieve the measures required and they would be visited again at a future date to check that this work had subsequently been carried out. Members heard that delayed projects that impacted upon audits were mainly IT-related and that the Audit and Investigation Team had re-prioritised to undertake work in different areas. Richard Evans added that only where a unit or service area was actively preventing an audit taking place would it be reported.

Andrea White advised that her role with regard to audit targets not being met would depend on how significant the issue was and also whether there were sound reasons as to why a plan had needed to be changed. Consideration would also be given as to the risks posed if such an area had not been internally audited.

Simon Lane advised that where audit days had not been undertaken this year, these would be rolled onto 2009/10. He added that details of what audits had

been withdrawn and what they had been replaced with would be presented to the Committee at a future meeting. Members noted that replacement of audits would take into account areas that were perceived as high priority and that the Audit Plan provided the flexibility the organisation required.

The Chair commented that a realistic approach needed to be taken with regard to the tasks set and that there should be an emphasis on monitoring success as well as failure.

RESOLVED:-

that the progress made in achieving the 2008/2009 internal audit plan be noted.

## 8. **Any Other Business**

### *Members Training Needs*

Members discussed future training needs. The Chair acknowledged that there would be training in Risk Management over the next few months and enquired if there had been consideration of training that had been undertaken in other London boroughs. He asked if there could be additional training for Councillor Butt as he had only recently become a Member of this Committee. The Chair noted that no alternates had attended the training session prior to this meeting on the role of the Audit Committee. He also enquired what training needs could be reported back to the next meeting.

In reply, Richard Evans stated that pre-meeting briefings or other meetings with Councillor Butt could be arranged and that Members could be included in the circular list for newsletters that provided useful information and added that training on Accounts would be another worthwhile activity. He advised that other London boroughs had undertaken open sessions on Risk Management with councillors, whilst an e-learning package could also be provided. Andrea White suggested that a tailor-made training course could be devised explaining what the various issues meant to the Audit Committee. For example, the training could focus on the challenges to be met, what sort of questions Members needed to ask, and opportunities to observe the Committee in action and for Members to provide feedback.

Duncan McLeod advised that consideration was being given as to who could provide an e-learning package and he suggested that training on Risk Management and Accounts could be undertaken before the next meeting had taken place. Informal sessions could also be provided, which Councillor Butt may find particularly useful, whilst any useful articles could also be provided to Members. Duncan McLeod stated that a report on Training Needs could possibly be provided as early as the next meeting and approaches to the Learning and Development Team could be made in respect of this. In addition, training on Treasury Management would be offered to all councillors. Duncan McLeod requested that Members consider what other training requirements they may have.

The Chair welcomed the suggestions that had been made and requested that Members be included in the circulation list of useful newsletters as had been suggested.

9. **Date of Next Meeting**

It was noted that the next meeting will take place on **Wednesday, 4<sup>th</sup> March 2009** at **7.00 pm**.

The meeting ended at 8.10 pm

M CUMMINS  
Chair