



<u>Committee and Date</u>
Audit Committee
7 December 2009
9.15 a.m.

<u>Item</u>
3
Public

MINUTES OF THE MEETING HELD ON 17 SEPTEMBER 2009

4.45 pm –7.05 pm

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Present

Messrs P M Adams, C J Mellings, M Whiteman, B B Williams (Chairman) and M L Wood.

Mr Eric Bagnall, Mr Tony Corcoran, Ms Elaine Marpole, Mr Grant Patterson and Mr Ashley Wilkes of the Audit Commission were also present.

Chairman's Opening Remarks

The Chairman welcomed Members of the Committee, representatives from the Audit Commission and other officers to the meeting of the Audit Committee. He also welcomed Ms Ceri Pilawski the new Head of Audit Services who would be starting in post on 2 November.

1. Apologies for Absence

1.1 There were no apologies for absence, all Members being present.

2. Declarations of Interest

2.1 No declarations of interest were made.

3. Minutes

3.1 **RESOLVED:** that the Minutes of the meetings held on 18 June 2009 and 2 July 2009 be approved and signed by the Chairman as a true record.

3.2 Paragraph 5.1.7 – The requested additional information on the levels of deficit/surplus on individual school balances was circulated.

4. Exclusion of the Press and Public

4.1 It was **RESOLVED** that under paragraph 10.2 of the Council's Access to Information Procedure Rules that the proceedings of the Committee in relation to the following urgent item shall not be conducted in public on the grounds that it involves the likely disclosure of exempt information as defined by the category specified against it.

5. Urgent Item (Exempted by categories 1, 2 and 3)

5.1 The Director of Resources gave a verbal report.

The press and public were then readmitted to the meeting.

6. Internal Audit Strategic Plan 2009/13 and Annual Audit Plan 2009/10

- 6.1 The Committee received the report of the Head of Audit Services – copy attached to the signed minutes – which provided Members with the outcome of the audit needs assessment which had recently been completed and which formed the basis for the next four year Strategic Plan for the period 2009/13, together with details of the audit plan for 2009/10.
- 6.2 The Head of Audit Services explained that the first step had been to merge the Audit Plans of the six former Authorities in order that all areas to be audited could be identified. There were now over 700 potential audits in the audit universe which had each been risk assessed. A best assessment was then made that approximately 12,822 audit days would be required over the four years of the plan. All of the risk elements were assessed and attached a weighting in order to give a frequency for the audits to be undertaken. The Head of Audit Services assured the Committee that the plan would be continually reviewed to ensure that it covered all areas.
- 6.3 The Head of Audit Services explained that a separate computer audit needs assessment had been undertaken by a dedicated IT auditor using the methodology adopted by KPMG. It was hoped to provide 300 audit days per year for the two years of the computer plan. The IT audit plan was only compiled for two years because of the rapid changes in this area.
- 6.4 It was felt that there were sufficient resources available to deliver 2,793 audit days in the first year of the plan, assuming that the two vacant posts were filled by April 2010. However, after allocating the work that must be done, such as fundamental systems, Financial Management Standards in Schools, major new systems and the Authority's external clients, this would be short of the days required in the first year but would be recovered over the following 3 years. The Head of Audit Services reported that about 60 Financial Management Standards in Schools audits would be carried out in the current year, which would allow the Director of Resources to sign off the Section 52 Statement. The Head of Audit Services confirmed that work had already begun on some of the external client audits and the authority's fundamental systems.
- 6.5 The Chairman thanked the Head of Audit Services and his team for all the work they had put into developing the plan and hoped that it could be maintained throughout the year. In response to a query the Head of Audit Services explained that there was room for slippage due to staffing changes however the work would be managed with the minimum of slippage. Members were confident that the plan would be delivered on and hoped that the quarterly update reports would look at how the overall plan was being managed.
- 6.6 In response to a query the Head of Audit Services clarified that the audits would be looking to ensure that all systems and controls were in place and were being adhered to, and he explained the process that would be followed if they were not being adhered to.
- 6.7 **RESOLVED:**
- A. That the outcome of the audit needs exercise be noted.
 - B. That the summary Audit Plan for the year 2009/10 set out in Appendix B to the report be noted.

7. Annual Insurance Report 2008/09

- 7.1 The Committee received the report of the Risk and Insurance Manager – copy attached to the signed minutes – which summarised the claims activity for 2008/09 policy year relating to Shropshire County Council claims only.
- 7.2 The Risk and Insurance Manager reported that 387 claims had been received which was an increase on the previous year but a decrease from 2006/07. 223 Public Liability claims had been received of which 201 were Highways claims. The number of own damage motor claims had also increased. The total payments made were £37,000, a decrease from £223,000 in 2007/08. The percentage of claims for which the Council were not liable stood at 89%, a 10% increase on the previous year, however, it was likely that claims the Council were not liable for would increase throughout the year as more claims were closed. Three claims had successfully been defended and the team were alert to potential fraudulent claims.
- 7.3 The Risk and Insurance Manager explained that by looking at the previous Authority's good claims record, the insurance company were happy to reduce the excess and increase the cover whilst reducing the premiums. The Director of Resources reported that previously the Authority's insurance premiums had been £1.6m, and now they were just over £1m which was a saving of £600,000 which was a good reflection of the work being done on risk management.
- 7.4 In response to a query, the Risk and Insurance Manager explained that the Authority had to go out to tender for its insurance cover in 2008/09 and as the Zurich Municipal was not the most competitive tender, the insurance portfolio was split between them and another company. The service from the current insurers had proven to be better.
- 7.5 In response to a query, the Risk and Insurance Manager informed the Committee that in order to minimise the number of own damage motor claims the Risk and Insurance Section worked closely with the Transport Section. The analysis of the Authority's own damage motor claims revealed a large number of reversing accidents particularly with agency drivers. As a consequence they have now introduced regular reversing training, reversing cameras have been fitted and a decision taken to stop using agency drivers. Also, if a driver was involved in three or more incidents in a quarter then they were sent for further training.
- 7.6 **RESOLVED:** that the report be noted.

8. National Fraud Initiative NFI 2008/09

- 8.1 The Committee received the report of the Head of Audit Services – copy attached to the signed minutes – which provided details of the outcomes arising from the National Fraud Initiative Audit 2008/09 for Shropshire County Council.
- 8.2 The Head of Audit Services stated that the report was self explanatory and highlighted the key areas. He reported that work had been carried out with Zurich Municipal and that nine matches had been identified that were currently being investigated but they appeared to be duplicate records. The results of data matching exercise in respect of Housing Rents, Council Tax and Register of Electors would be reported to the Audit Commission in due course.
- 8.3 The Head of Audit Services assured the Committee that the low level of fraud detected by the National Fraud Initiative process was evidence that the Authority's systems of internal control were working and frauds and irregularities were at a very low level.
- 8.4 In response to a query, the Head of Audit Services confirmed that systems were being reviewed in order that deceased blue badge holders were identified as soon as

possible. A report was requested for a future meeting to provide the Committee with more information and to explain how significant the problem was. The Head of Exchequer Services explained that they worked with bereavement services to provide assistance with benefits claims and getting occupational health equipment back etc and could also include a blue badge check if required.

8.5 The Head of Audit Services confirmed that counter fraud measures were publicised on all forms and documentation and also on the web site, which made it clear that data would be shared with other departments and agencies to assist with the detection of fraud.

8.6 **RESOLVED:** that the content of the report and how the work undertaken contributes to the Council's strong Counter Fraud and Anti-Corruption culture be noted.

9. Revenues and Benefits Issues

9.1 The Committee received the report of the Head of Exchequer Services – copy attached to the signed minutes – which updated the Committee on the continued progress within the Revenues and Benefits project.

9.2 The Head of Exchequer Services informed the Committee that £94m of income had so far been collected and 20,000 reminders had been sent out on those accounts over 30 days in arrears. Letters had also been issued in relation to the National Non Domestic Rate Deferral Scheme.

9.3 The Head of Exchequer Services explained that Performance Management and Quality Assurance module had gone live and these would check staff performance on the system and would pick up any errors or bad habits. She went on to report that paperless direct debits had also gone live and it was hoped to go live with E Benefits Services shortly.

9.4 There was currently a two week backlog of Benefits, Council Tax and Business Rates correspondence due to holidays.

9.5 In response to a query, the Head of Exchequer Services was not confident that the targets set by the Audit Commission for the collection of Council Tax would be met this year however it was hoped to get close to the target. Evidence from recent calls were highlighting a great deal of hardship in the current economic climate and so arrangements were being made, for example agreeing to instalments by March instead of January, but it was still hoped that these would be paid within the financial year.

9.6 Currently, many benefit recipients were working age families claiming for short periods. Letters had been sent to those in arrears giving them an opportunity to bring their accounts up to date before recovery proceedings were commenced.

9.7 Further information was requested showing how the collection was progressing and what else needed to be done. The Head of Exchequer Services also agreed to report on district arrears.

9.8 **RESOLVED:** that the contents of the report be noted.

10. District and Borough Councils Capital Slippage 2008/09

10.1 The Committee received the report of the Director of Resources – copy attached to the signed minutes – which provided details of the capital slippage to the Shropshire Council capital programme for 2009/10 arising from the five constituent District/Borough Authorities following closure of their 2008/09 capital programmes, as requested at the previous meeting.

- 10.2 The Director of Resources reported that £11m of slippage had been added to the Shropshire Council capital programme 2009/10 following closure of the District/Borough Authorities. The only issue of concern was the Quantum Leap project. A report would be going to Cabinet on 23 September 2009 requesting an additional £100k.
- 10.3 In response to a comment, the Director of Resources explained that the full cost of a scheme had to be shown even if it was financed by grant money. Progress reports on capital expenditure were requested. The Director of Resources pointed Members to the quarterly capital monitor which contained all the details.
- 10.4 **RESOLVED:** that the slippage of £10,993,217 from the capital programmes of the District Authorities to the 2009/10 capital programme for Shropshire Council be noted.

11. Audited Annual Statement of Accounts 2008/09

- 11.1 The Committee received the reports of the Director of Resources – copies attached to the signed minutes – which presented to Members the final audited outturn position for the financial year 2008/09.
- 11.2 The Director of Resources reported that unqualified opinions had been received from the auditors for all six sets of Accounts. Any changes were highlighted in paragraph 4 of the reports; there were some specific items but also a number of common themes.
- 11.3 The Director of Resources informed the Committee that further work had been required to correct an error in South Shropshire District Council's accounts which had shown the impairment of assets as at the wrong date. This recalculation however had not made any financial difference. The Statement of Recommended Practice states that impairment only had to be accounted for if it was expected to be sustained. A compromise had been reached with the Audit Commission which ensured that impairment was accounted for by each of the former districts. This was not an issue for Shropshire County Council as they had already accounted for it. Local auditors were constrained by national advice as to how to approach the calculation but the districts' impairments fitted within the parameters so it was a satisfactory position.
- 11.4 Shropshire Waste Partnership (SWP)
- 11.4.1 The report of the Director of Resources was tabled – copy attached to the signed minutes – which presented to Members the final audited outturn position for the financial year 2008/09.
- 11.4.2 The Director of Resources explained that all six Authorities had transactions with SWP last year and this had been included in their Statement of Accounts. SWP has been accounted for as a Joint Arrangement Not an Entity (JANE accounting principles).
- 11.5 The Director of Resources informed the Committee that a Community Asset Trust (CAT) had been established by North Shropshire District Council (NSDC) with the aims of promoting community regeneration and social development through commercial opportunities and community involvement including the provision of affordable housing. The CAT accounts had been amalgamated within the NSDC accounts in the form of Group Accounts. In order to wind up the CAT and release the equity held, this would incur corporation tax and HM Revenue and Customs had to be informed.
- 11.6 The Director of Resources reported that considerably more work had been done to support the revenues and benefits calculations, particularly in relation to arrears.

Ideally, all the figures in the accounts should have been taken from the new Northgate System however this had not been possible due to a problem with the transfer of data from the Academy System (entitlement to discount had not been transferred correctly). The legacy systems had to be revisited in order to demonstrate that the figures were supported. The Audit Commission still had some work to do on this.

- 11.7 The Director of Resources explained how a smoothing fund had been established for the PFI (Private Financing Initiative) to cover the rising costs in future years. This fund was not yet being drawn on and was still accumulating.
- 11.8 In response to a query the Director of Resources explained that the annual rate for waste collections by SWP varied within bands depending partly on the number of houses but largely on tonnage of waste, this was however being managed and a significant improvement had been achieved in recycling.
- 11.9 In response to a query about related party transactions, it was confirmed that as the sums involved were not significant, the Audit Commission's view was that it was acceptable not to disclose them.
- 11.10 Mr Corcoran, District Auditor thanked the Director of Resources and her team for all their work and likewise the Director of Resources thanked the Audit Commission team for the way they had run the audit and the extra work involved. Mr Patterson, District Auditor reported that all County Council issues had been resolved. There had been a minor error in that £100k had been accounted for as revenue instead of capital. A disclosure therefore had to be made by way of a letter of representation setting out the changes made to the accounts. He assured the Committee that he was happy that the Statement of Accounts showed a full and fair financial position, providing Members were happy with the content of the Governance Reports.
- 11.11 **RESOLVED:** that the audited 2008/09 Annual Statements of Accounts for all 6 predecessor Authorities and Shropshire Waste Partnership, on which the District Auditor had given unqualified opinions, be noted.

12. Annual Governance Report – Shropshire County Council

- 12.1 The Committee received the report of the District Auditor – copy attached to the signed minutes – which presented Members with the draft version of the Audit Commission's report on the results of their audit work for 2008/09.
- 12.2 Mr Patterson explained that this was the second Governance Report he had done for the County Council and that the Audit Commission had a responsibility under the regulations to authorise the accounts for publication, Members in turn needed to agree the letter of representation in order for the Director of Resources to sign off on the accounts.
- 12.3 The key message was that an unqualified audit opinion would be reported, together with a separate Value for Money opinion, which would also be unqualified. A separate report on the Pension Fund had been presented to the Council's Pensions Committee for which the District Auditor had also given an unqualified opinion.
- 12.4 Mr Patterson highlighted the main changes, which included a short term loan being classified as a long term loan in error. This had been corrected in the 2008/09 accounts. He informed the Committee that no material risks had arisen from specific audit work on Local Government Review or the Housing Revenue Account. Mr Patterson reported that an objection which had been received from a member of the public had now been resolved.

12.5 In response to a query the Finance Manager (Corporate Finance) explained that the first quarterly monitoring report indicated that there was some budgetary pressure on service areas but not specifically through inflation.

12.6 Mr Patterson reported that he would be giving a separate opinion for SWP for 2008/09 and he would circulate his report to Members. Finally, he informed the Committee that any JANE's (Joint Arrangement Not an Entity) would be incorporated into the County Council accounts e.g. SWP.

12.7 **RESOLVED:** that the report be noted.

13. Annual Governance Reports for District and Borough Councils

13.1 The Committee received the reports of the District Auditor – copies attached to the signed minutes - which presented Members with the final version of the Audit Commission's report on the results of their audit work for 2008/09.

13.2 Shrewsbury and Atcham Borough Council

13.2.1 Mr Corcoran stated that the general points had already been made. Page 9 listed the key findings however there was nothing of any great significance. Appendix 3 showed all the amendments and adjustments made. He explained that there was a paragraph in the letter of representation which needed to be completed stating reasons why any misstatements had not been adjusted.

13.3 North Shropshire District Council

13.3.1 Mr Corcoran informed the Committee that the only outstanding issue was the Community Asset Trust however the Audit Commission were happy with the way this would be accounted for. The Director of Resources would collate the Committee's response to the proposed Action Plan at Appendix 4.

13.4 Bridgnorth District Council

13.4.1 Mr Corcoran explained that impairment had been the biggest issue which had already been addressed in the amended accounts. The draft letter of representation asked the Authority to confirm that there were no material lessor nor significant contracts which required disclosure. He confirmed that the only item on the Action Plan had been taken forward.

13.5 South Shropshire District Council

13.5.1 Mr Corcoran reported that an issue had been raised relating to Diddlesbury Village Hall (when approval had been given for the purchase of land for the new village hall, lottery funding had been expected which did not materialise). An elector had raised a query about the money set aside to fund the village hall. This may become a formal objection.

13.5.2 The only other issue related to the valuation of a Bio Digester. Technical advice was being sought as to how to disclose this in the accounts. The Chairman requested that the Audit Commission let the Committee know the outcome of this issue at a future meeting. Members also wished to know on what basis the Bio Digester had been valued.

13.6 Oswestry Borough Council

13.6.1 Mr Corcoran reported that the main issue had been with impairments but the adjustments had all been made, leading to a £1.8m reduction in valuation on the Authority's housing stock. Another issue to be resolved was how to treat an

easement within the accounts. It had been agreed that this would be considered when compiling next year's accounts.

13.6.2 Concern was raised that no recent action had been taken to recover housing arrears. It was confirmed that this was dealt with in the Action Plan and a report would be presented at the next meeting showing progress on each recommendation. The Committee required assurance that the arrears would be collected or written off.

13.7 **RESOLVED:** that the recommendations in the reports for all six predecessor Authorities be approved.

14. Internal Audit Structure Chart - Update

14.1 The Head of Audit circulated an updated Internal Audit Structure Chart showing names and titles as at 2 November 2009 for Members' information.

14.2 The Head of Audit stated that Shropshire Council was very fortunate to have its own IT Audit specialist. He went on to report that the vacant Audit Manager post would be filled shortly.

15. Dates of Next Meetings

15.1 It was noted that future meetings would take place as follows:

26 November 2009 – 4.45pm
4 February 2009 – 4.45pm
24 March 2010 – 4.45pm

15.2 It was agreed that the Audit Committee Training would take place at 2pm following the Council Lunch on 24 September 2009 in the Council Chamber.

16. Exclusion of the Press and Public

16.1 It was **RESOLVED** that under paragraph 10.2 of the Council's Access to Information Procedure Rules that the proceedings of the Committee in relation to Agenda item 15 shall not be conducted in public on the grounds that it involves the likely disclosure of exempt information as defined by the category specified against it.

17. Fraud Update (Exempted by category 1)

17.1 The Audit Manager gave a verbal update.

The Chairman informed the Committee that this was the last meeting that the Head of Audit Services would attend. The Committee thanked him for all his advice and assistance and wished him well in his retirement.

The Head of Audit Services thanked the Committee for their kind words and praised his team of Auditors for all of their hard work. He wished Ms Pilawski all the best in her new role.

Signed.....(Chairman)

Date.....7 December 2009.....