



<u>Committee and Date</u>
Audit Committee
24 March 2010
4.45 pm

<u>Item</u>
<b>3</b>
Public

## MINUTES OF THE MEETING HELD ON 4 FEBRUARY 2010

4.45pm – 6.35pm

**Responsible Officer** Michelle Evans

e-mail: [Michelle.evans.lads@shropshire.gov.uk](mailto:Michelle.evans.lads@shropshire.gov.uk) Tel: (01743) 252727 Fax (01743) 252713

### Present

Messrs P Adams, R Evans (Substitute), B Gillow (Substitute), M Whiteman and B B Williams (Chairman).

Mr G Patterson, Ms E Marpole and Mr E Bagnall of the Audit Commission were also present.

### Chairman's Opening Remarks

The Chairman welcomed Members and Substitutes of the Committee, representatives from the Audit Commission and other officers to the meeting of the Audit Committee.

#### 1. Apologies for Absence

1.1 Apologies were received from Mr C J Mellings and Mr M L Wood.

#### 2. Declarations of Interest

2.1 No declarations of interest were made.

#### 3. Minutes

3.1 It was noted that Mr Whiteman had given his apologies and had not been present at the meeting.

3.2 **RESOLVED:** that the Minutes of the meeting held on 7 December 2009 be approved and signed by the Chairman as a correct record, subject to the above.

#### 3.3 Paragraph 5.2

The Chairman queried whether Concessionary Bus Passes were now being recovered in the same way as Blue Badges and it was confirmed that this had been raised at the 'Tell us once' project working group and would be incorporated into the Registrars Service procedures and included on the bereavement service website.

#### **4. Internal Audit Plan 2009/10 – Third Quarter Report**

- 4.1 The Committee received the report of the Head of Audit Services – copy attached to the signed Minutes – which provided Members with details of the work undertaken by Internal Audit for the period up to 31 December 2009.
- 4.2 The Head of Audit Services reported progress for the third quarter. 77% of the revised audit plan had been completed and the Head of Audit Services was confident that the target of 90% would be achieved by the end of the year. She explained that it had been necessary to reduce the plan by 49 days in order to match resources.
- 4.3 The Chairman congratulated Internal Audit on achieving 77% and he was satisfied that they were ahead of the game. He queried whether schools were now finding the Financial Management Standard in Schools (FMSIS) audits easier.
- 4.4 In response the Director of Resources explained that these audits were a lot easier for schools now as they had built up a better understanding and a better portfolio of evidence than a few years ago, although a few still struggled.
- 4.5 The Chairman queried why the LGR One Council work was still ongoing. The Director of Resources explained that £10.8m of savings had been identified this year, and work was now taking place to bring services together in order to deliver a further £3.2m of savings which would contribute to the £7.1m savings required next year. Some work was still continuing that Internal Audit would contribute to in their advisory capacity that would not be audited until next year, for example, the way income was collected and the new Revenues and Benefits systems. It was therefore still a live issue but the work was being dealt with.
- 4.6 Concern was raised that only 7 out of 35 days had been undertaken for housing and the Head of Audit Services explained that a fundamental systems audit for housing would be undertaken in the fourth quarter.
- 4.7 In response to a query in relation to the collection of car park income, the Director of Resources explained that audits had been undertaken on a number of elements of the income systems and that visits had been made to car parks to ensure collection procedures were secure as part of the LGR One Council work. The Audit Manager explained that the audit of car park income was in progress and agreed to pass the query on to ensure it was covered.
- 4.8 **RESOLVED:**
- A. that the third quarter performance against the plan in 2009/10 set out in Appendix A to the report be noted.
- B. that the summary revised audit plan for the year 2009/10 set out in Appendix A to the report be noted.

## 5. Internal Audit Strategy

- 5.1 The Committee received the report of the Head of Audit Services – copy attached to the signed Minutes – which proposed the approval of an Internal Audit Strategy 2009/10 to 2012/13.
- 5.2 A revised draft Internal Audit Strategy was circulated and the Chairman explained that he had requested some minor amendments to this otherwise excellent document. The amendments were highlighted in purple and consisted of the addition of a mission statement and a conclusion, and a slight revision to the layout of sections 7 and 8. The Chairman confirmed that the content had not been revised in any way from the original report.
- 5.3 In response to a query the Director of Resources confirmed that the Internal Audit Strategy could be published on the resources website.
- 5.4 In response to a query the Head of Audit Services explained that it was recognised good practice by CIPFA for an authority to have an Internal Audit Strategy and the Audit Commission looked for this when reviewing the Internal Audit Service. All the elements of the Strategy had previously been in place and this document just pulled them all together. She stated that it should be read in conjunction with the Terms of Reference and the Internal Audit Manual.
- 5.5 The District Auditor added that the Council was required to satisfy itself that effective assurance was in place and the Audit Commission would check whether the authority complied with the CIPFA Code of Practice for Internal Audit.
- 5.6 In response to a query, the Director of Resources explained that the Children and Young People's Scrutiny Committee considered budget monitoring and performance monitoring for Children and Young People's Services. Overall the authority was doing well on the educational side however there had been one or two areas, which had been reported to Cabinet, where the authority was not performing as well as it might. For example, the Council was not doing as well as it might in minimising childhood obesity in year 6 pupils. Placement stability for looked after children had improved but there were still difficulties around managing the budget within resources but extra funding would be provided next year. Falling pupil numbers remained a concern and £9m had been budgeted from within the Capital programme to facilitate reorganisation. The Independent Policy Commission had been asked to look at how provision should best be provided in future years. These issues would be dealt with through the Children and Young People's Scrutiny Committee.
- 5.7 The Chairman clarified the role of the Audit Committee, which was to ensure that the Council had the necessary frameworks and governance in place to ensure the best management of all the financial affairs of the Council. For example, the Audit Committee would not look at overspends but would look to ensure that arrangements were in place to identify, monitor and control overspends.
- 5.8 **RESOLVED:** that the proposed Internal Audit Strategy be approved, subject to the amendments referred to in paragraph 5.2 above.

**6. External Audit Opinion Plan for Shropshire Council 2009/10 and Shropshire Council Pension Fund 2009/10**

- 6.1 The Committee received the reports of the Audit Commission Manager – copies attached to the signed Minutes – which set out the work proposed to be undertaken for the audit of financial statements 2009/10 for Shropshire Council and Shropshire Council Pension Fund.
- 6.2 The Audit Commission Manager introduced the two plans and explained that the indicative fee for the audit was £324k based on the Audit Commission's risk based approach. The Audit Commission had assumed that the Council's biggest risk was becoming a unitary authority although the economic downturn had also been factored in as a risk. It had also been assumed that the Council would provide good quality working papers in order to comply with the International Financial Reporting Standards (IFRS) and that Internal Audit would undertake appropriate work on all its material systems. Where these assumptions were not met the Audit Commission Manager may need to undertake additional work and so revisit the fee. If this was the case it would be discussed with the Director of Resources and reported to a future meeting of the Audit Committee.
- 6.3 The Audit Commission Manager explained the testing strategy which would consist of testing key controls to ensure that the systems were effective and worked as they were designed to. Wherever possible the Audit Commission would rely on Council's work from the relevant year. However, full control testing would need to be undertaken for the newer systems as they did not provide enough assurance at the moment.
- 6.4 The Audit Commission Manager went on to explain that the Use of Resources assessments would be based on how the Authority managed its finances, how it governed the business and how it managed its resources. This in turn would inform the value for money conclusion.
- 6.5 One identified risk had been partnership working between Shropshire Council and Shropshire County Primary Care Trust. A piece of work had been agreed and a report would be presented to the Committee in the summer of 2010.
- 6.6 The Audit Commission Manager explained that the plan was in draft at the moment and that she may have to come back before the Committee with any amendments at a later date. If any urgent amendments were required, she would write to the Director of Resources and the Chairman. The Plan should however be finalised by March 2010.
- 6.7 In response to a query the Audit Commission Manager explained that the Pension Fund used to be audited as part of the Council but the Audit Commission had decided to do a separate audit. The District Auditor added that the Audit Commission had looked at the public interest and the amounts of money involved when it made this decision. As regulators for the public sector, the Audit Commission had to ensure that due care and attention was given to the pension fund and that a separate opinion plan be produced. In response to a query it was confirmed that the Pension Fund itself picked up the fee of which Shropshire Council only paid their proportion.

6.8 In response to a query, the District Auditor explained that independent advice was received annually from PWC on whether the advice of an actuary could be relied upon.

6.9 **RESOLVED:** that the reports be noted.

## 7. Certification of Claims and Returns – Annual Return

7.1 The Committee received the reports of the Audit Commission Manager – copies attached to the signed Minutes – which summarised the findings from the certification of 2008/09 claims, including the messages arising from the assessment of the authority's arrangements for preparing claims and returns and information on claims that were amended or qualified.

7.2 The Audit Commission Manager explained that the Council's claims for grant funding received from government departments had to be audited to ensure that any conditions attached to them had been met. In 2008/09 Shropshire County Council received £44m from various departments. The Audit Commission certified 33 claims. A limited review was carried out on 28 claims and a full review on 5. Two European Regional Development Fund (ERDF) grants had to be amended due to some numbers being transposed, however, this had had no effect on entitlement.

7.3 Although the County Council had no housing service responsibility, in the run up to becoming a Unitary Authority, the Audit Commission audited the Housing Revenue Account (HRA) subsidy. A small adjustment had been required which had no affect on entitlement.

7.4 The Audit Commission Manager went on to explain the levels of audit required. For claims over £500,000 auditors must assess the control environment to decide whether reliance could be placed on it. Where reliance was placed on the control environment, limited testing would be done. When reliance could not be placed on the control environment further testing would be undertaken. For projects covering a number of years, the level of audit would relate to the whole life of the claim.

7.5 It had not been possible to rely on the control environment for five claims above the threshold, because the claims were for schemes or projects of a complex nature and therefore testing of eligibility of expenditure was necessary due to the complexity of the claims. No recommendations to improve the control environment had been identified so the Audit Commission had not made any qualifications on the claims.

7.6 The Audit Commission Manager explained that the Audit Commission had not been aware that the majority of ERDF projects would be completed in December 2008. However, as very good supporting documentation had been supplied they were able to certify most of the claims by the end of April 2009.

7.7 In response to a query the Director of Resources explained that the Authority would see a large reduction in the Audit Commission's Grant fee as a Unitary Authority rather than for the six separate authorities and would receive better value for money.

- 7.8 The District Auditor explained that the Audit Commission were acting as agents for government departments and not for the Council when certifying these claims.
- 7.9 Mr Bagnall introduced the district reports globally. He stated that there had been no major issues in relation to the control environment. A qualification had been made on the Housing and Council Tax Benefit grant for all five councils in relation to a minor reconciliation issue. The only real difference was in costs across the districts. He reported that the majority of the fees charged were for Housing and Council Tax Benefit claims as these audits were very prescriptive and took the greatest number of days to complete. He explained that the Audit Commission had to audit either 10% or a maximum of 20 cases (whichever was lowest). New methodology stated that a detailed review had to be undertaken on each case, so one case could take several days. If any errors were found, another 40 cases would have to be tested.
- 7.10 **RESOLVED:** that the report be noted.

## **8. Annual Audit and Inspection Letter 2009**

- 8.1 The Committee received the reports of the District Auditor– copies attached to the signed Minutes – which summarised the findings from the 2008/09 audit, including messages arising from the audit of the authority’s financial statements and the results of work undertaken to assess the authority’s arrangements to secure value for money in its Use of Resources.
- 8.2 The District Auditor thanked the Committee for the opportunity to present the final audit letter in respect of Shropshire County Council for the 2008/09 audit year. He explained that this had been the first year that local public services had been held collectively to account for their impact on better local outcomes through a new comprehensive area assessment (CAA).
- 8.3 The District Auditor informed the Committee that a new output of the area assessment process was an organisational assessment which draws upon a managing performance element and the findings of the Use of Resources assessment. Usually, the Use of Resources and Managing Performance assessments were combined to give an overall Organisational Judgment for the Council. However, due to local government reorganisation the Council would not be scored for managing performance this year, so there would be no combined overall organisational assessment scored judgement this year.
- 8.4 The District Auditor gave an overview of his findings as follows. Following a smooth transition to a single tier authority the Council was delivering improved outcomes for most people in areas that it considered as its priorities. The Council was managing its money well, including the setting of the budget for the unitary authority which had resulted in efficiencies being made which were being reinvested in key services. School exam results were generally high, crime was falling in most parts of the county and the quality of care and services for vulnerable and older people continued to improve. Vulnerable children were better cared for than before and the Council worked well with partners to help young people find training, educational opportunities or employment. Public transport was improving with people able to access their local towns more easily and the Council was enabling residents to recycle more of their waste.

- 8.5 The District Auditor highlighted the key challenges that still remained for the Council and its partners, which included helping vulnerable people find affordable housing, continuing to lessen the effect of the economic recession, and ensuring that the former district council services, e.g. planning and licensing, were being delivered at a consistently high level across the county.
- 8.6 Overall, the District Auditor had assessed the Authority as performing well in all three themes of the Use of Resources Key Lines of Enquiry i.e. managing finance, governing the business and managing resources. The District Auditor reported that Shropshire Council was the only new Unitary Authority that was performing well and was one of the top ten performing single tier and county councils in the country.
- 8.7 The District Auditor explained that as this was the first year of the new assessment, no direct comparisons could be made with previous scores. However, some learning from this years' assessment could be brought into the new unitary council. This included building upon the good practice operating in many areas of the council so that there was a council wide, consistent approach to demonstrating that policies and plans resulted in outcomes to all the population and could demonstrate value for money; continuing to take action to reduce the impact of Council activity on the environment and be able to demonstrate it; continue to make the best use of its asset base and clearly showing the link between the use of those assets and service performance. He stated that this performance was a reflection of the hard work and dedication of both staff and councillors.
- 8.8 The District Auditor explained that he had issued an unqualified opinion stating that the Council had adequate arrangements in place for securing economy, efficiency and effectiveness in its Use of Resources, which was known as the Value for Money Conclusion.
- 8.9 The District Auditor reported that he had also issued an unqualified opinion on the Authority's financial statements. However, he had not been able to formally close the accounts due to an outstanding query. He had also issued unqualified opinions for the Pension Fund and Shropshire Waste Partnership. He confirmed that the accounts had been prepared to a high standard and had been supported by good quality working papers. The Chairman commended the Finance Manager who had managed the closure of accounts and was responsible for the high quality of the working papers provided.
- 8.10 The Audit Commission had monitored the Council's progress with the International Financial Reporting Standards (IFRS) and were satisfied that the Authority was on track and were ahead of most Local Authorities. The Audit Commission would continue to work alongside the Council to ensure a successful transition.
- 8.11 The Council had set collection targets for all sources of income, including Council Tax, National Non Domestic Rates and Housing rents, and where performance was below target, arrangements were in place to ensure that income collection rates were maintained and improved.
- 8.12 The economic recession has had a significant impact on the income the Council received from investments however, the Council's treasury management arrangements had prevented money being invested with banks

in financial trouble, e.g. Icelandic Banks, where the Council acted prudently and withdrew any investments in time to avoid financial loss.

- 8.13 The District Auditor reported that he had received an objection from a member of the public concerning value for money in respect of the demand responsive transport system. This was being investigated and a response had been sent to the objector. A concern had also been received from a member of the public concerning the level of members' allowances paid. This had been investigated and responded to.
- 8.14 It was confirmed that the National Fraud Initiative data returns had been submitted and the quality of the data was higher than the national average. All areas had been investigated and had been reported to the Audit Committee. The main issue of concern had been the mismatch against deceased blue badge holders, however arrangements had been put in place to address this. Outstanding matches from the former District/Borough Councils had been investigated and monies were being recovered as a result and records were being updated to prevent future invalid issues.
- 8.15 Mr E Bagnall again introduced the district reports globally. An unqualified opinion had been issued for the accounts of all the former district councils and proper arrangements had been made in their Use of Resources. Weaknesses had been identified in the internal control environment relating to the Revenues and Benefits systems in all five Districts. The only other issue had been Bridgnorth District Council's investment in Landisbanki.
- 8.16 The Director of Resources informed the Committee that this would be the last Audit letter prepared by the Audit Commission Manager and she thanked her for doing such a good job and for being such a good colleague and wished her well for the future.
- 8.17 **RESOLVED:** that the reports be noted.

## **9. Use of Resources**

- 9.1 The Committee received the report of the Director of Resources – copy attached to the signed Minutes – which provided Members with details of the new criteria and outcomes for the 2009 Use of Resources assessment for Shropshire County Council which was carried out in May 2009.
- 9.2 In response to a query the Director of Resources explained that the rules around the Use of Resources assessment had changed between 2007/08 and 2008/09 and there was now a harder test to satisfy. She had written to the District Auditor who had explained that the Authority had not performed worse than the previous year but that a different approach was being taken and they were now looking at outcomes. The Director of Resources confirmed that she had met with each Assistant Director who had identified numerous outcomes that had been achieved in the last twelve months together with the difference any changes had made for local people and service users. It was hoped that when the 2010 Use of Resources assessment was undertaken in mid-March that enough new evidence would be available.
- 9.3 The District Auditor explained that no direct comparisons could be made between this assessment and the previous years as it was a new test and was linked to evidence of outcomes. The Audit Commission would look at how



well services had been integrated from the former District Councils together with evidence of the outcomes delivered by new services. In order to get a score of 4 out of 4 the Authority had to demonstrate excellent performance on all the Key Lines of Enquiry, which only a very small number of authorities would achieve. In response to a query it was confirmed that no Unitary Authority had achieved a score of 4 out of 4.

9.4 In response to a further query, the District Auditor explained that for the Key Line of Enquiry relating to the use of natural resources, the Council had to demonstrate how it engaged with the local community in order to reduce its carbon footprint and its impact on the environment.

9.5 The Director of Resources reported that a Carbon Management Plan had been received at Council, which aimed to reduce the Council's carbon footprint by 35% over the next 5 years. She went on to say that investment in energy management had been built into the Council's capital programme and would lead to significant financial savings in future years.

9.6 **RESOLVED:**

A. that the content of the report and assessment outcomes be noted.

B. that the plans for the 2010 Use of Resources Assessment be noted.

## 10. Date of Next Meeting

10.1 It was noted that the next meeting would take place at 4.45pm on 24 March 2010.

## 11. Exclusion of the Press and Public

11.1 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 items 12 and 13 shall not be conducted in public on the grounds that they involve the likely disclosure of exempt information as defined by the category specified against them.

## 12. Minutes (Exempted by category 1)

12.1 **RESOLVED:** that the Exempt Minutes of the meeting held on 7 December 2009 be approved and signed by the Chairman as a correct record.

## 13. Fraud Update (Exempted by category 1)

13.1 The Audit Manager gave a verbal update.

On behalf of the Committee, the Chairman conveyed sincere thanks to Ms E Marpole for her valuable contribution to the Committee and wished her a long and happy retirement.

Signed.....(Chairman)

Date.....24 March 2010.....