



<u>Committee and Date</u>
Audit Committee
16 September 2010
4.45 pm

<u>Item No</u>
<b>3</b>
Public

## MINUTES OF THE MEETING HELD ON 18 JUNE 2010

10.00 am – 12.45pm

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### Present

Messrs P Adams, C Mellings, M Whiteman, B B Williams and Michael Wood.

Mr Tim Barker, Mr B Gillow (Substitute) and Mr P Phillips were also in attendance together with Messrs N Meredith and E Bagnall of the Audit Commission.

### Chairman's Opening Remarks

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

#### 1. Election of Chairman

1.1 It was proposed, duly seconded and **RESOLVED:** that Mr B B Williams be elected Chairman for the ensuing municipal year.

#### 2. Apologies for Absence

2.1 No apologies were received.

#### 3. Appointment of Vice-Chairman

3.1 It was proposed, duly seconded and **RESOLVED:** that Mr M Whiteman be appointed Vice-Chairman for the ensuing municipal year.

#### 4. Declarations of Interest

4.1 No declarations of interest were made.

#### 5. Minutes

5.1 **RESOLVED:** that the Minutes of the meeting held on 24 March 2010 be approved and signed by the Chairman as a correct record.

It was agreed to take agenda items 9, 14, 15, 16 and 17 together.

## **6. The Council's Accounts for 2009/10**

6.1 The Director of Resources gave a presentation – copy of slides attached to signed minutes – which covered the following areas:

- Core Functions of Audit Committee
- Reviewing the Financial Statements
- What the Audit Committee should focus on
- What evidence the Audit Committee can use to support its conclusions
- Annual Governance Statement
- How Assurances are gained
- Changes in Accounting Policies
- What the Accounts are telling us
- Revenue Budget 2009/10 Overspend / Underspend
- Comparative Figures between 2008/09 and 2009/10
- Analytical Review

6.1.1 The Director of Resources agreed to let all Members have a note of the in year government cuts to one off, specific grants (excluding the formula grant) and she confirmed that the Council could manage most of these cuts.

6.1.2 The Director of Resources reported that the biggest item of overspend in the Revenue Budget for 2009/10 was £1.1m on County Training (LETS) which was due to the loss of part of a government contract. This deficit would need to be recovered through training activity in future years.

6.1.3 The Chairman was concerned whether all Members were aware of and understood the changes in reporting practices introduced by the International Financial Reporting Standards.

6.1.4 In response to a query, information about the level of individual school balances was circulated. The Director of Resources reported that there was only one school about which there were concerns.

6.1.5 Members thanked the Director of Resources for her presentation which had assisted them in understanding the reports.

## **6.2 Annual Governance Statement 2009/10**

6.2.1 The Committee received the report of the Director of Resources – copy attached to the signed Minutes – which set out the Annual Governance Statement 2009/10.

6.2.2 In response to a query the Director of Resources explained the difference between agenda item 8 – Review of Shropshire Council's Code of Corporate Governance 2009/10 and agenda item 9 Annual Governance Statement 2009/10. The Annual Governance Statement formed part of the accounts and set out the framework which defined good governance, whereas the other report identified how the Council had complied with the Code of Corporate Governance.

6.2.3 In response to a query the Chairman of the Scrutiny Review Member Task and Finish Group informed the meeting of the proposed changes to the Council's Scrutiny function.

6.2.4 **RESOLVED:** that the Annual Governance Statement 2009/10 be noted.

### 6.3 Revenue Outturn Report 2009/10

6.3.1 The Committee received the report of the Director of Resources – copy attached to the signed Minutes – which provided details of the revenue outturn position for Shropshire Council for 2009/10.

6.3.2 In response to a query about the increased expenditure on the Registrars service, the Director of Resources explained that the service had undergone a major reorganisation and had also changed its accommodation. Income from the service had however increased which had contributed to the underspend in Legal & Democratic Services.

6.3.3 In response to a query about the differences in outturn from the quarter positions, the Director of Resources explained that there was no difference in capital, there was only a difference on the revenue side as all directorates tended to be conservative about the income generated in the third quarter however, when closing at the year end they can sometimes identify more income or less expenditure. It was therefore important for Members to note what was happening between the fourth quarter and closing.

6.3.4 A query was raised as to how the level of overspend on County Training would be claimed back. The Director of Resources confirmed that this would be kept under review. It would be expected for the overspend to be recovered over a two to three year period, however if it appeared that it was not being recovered, it would likely have to be written off.

6.3.5 It was felt that Shropshire Council ought to examine the core role and functions of County Training in order not to lose its successful functions which were of great value for the Council.

#### 6.3.6 **RESOLVED:**

- A. That the Outturn for the Revenue Budget for 2009/10 of an overspend of £919,000, which represents just 0.2% of the original gross budget of £574,019,000 be noted.
- B. That the level of the general balance which stands at £2,875,226 (2008/09 £2,250,000), which is within the Council's policy of ½% to 2% of the gross revenue budget be noted.
- C. That the level of school balances which stand at £7,647,772 (2008/09 £7,552,027) be noted.

### 6.4 Capital Outturn Report 2009/10

6.4.1 The Committee received the report of the Director of Resources – copy attached to the signed Minutes – which informed Members of the final outturn for the 2009/10 capital programme and the revised 2010/11 Shropshire Council capital budget.

6.4.2 In response to a query it was confirmed that the slippage from 2009/10 would be carried forward and added to the capital budget for 2010/11.

- 6.4.3 The Director of Resources explained that the Council were obliged to have provision for operating leases within the capital accounts for things like school buses or other transport etc. In this case the provision was specific rather than estimated, and instead of starting again, had been carried over.
- 6.4.4 In response to a query the Director of Resources explained the reason for the differences in the closing balance for one year and the opening balance for the next year.
- 6.4.5 **RESOLVED:**
- A. That the 2009/10 outturn capital expenditure of £78,270,074 which represents 83% of the total revised budgeted expenditure for 2009/10 be noted.
  - B. That the slippage of £16,172,112 to be carried forward to the 2010/11 Shropshire Council capital programme be noted.
  - C. That the carry forward of the operating leasing approval of £2,224,248 from 2009/10 to 2010/11 be noted.
  - D. That the net budget increase of £573,170 to the Shropshire Council 2009/10 capital budget, funded from additional grants and contributions be noted.
  - E. That the revised Shropshire Council capital budgets of £139,926,289 for 2010/11, £70,586,747 for 2011/12 and £53,104,281 for 2012/13 (appendix three) be noted.
  - F. That the balance of capital receipts set aside (£23.2 million) in 2009/10 to be retained as set aside as at 31 March 2010 to generate Minimum Revenue Provision savings of £0.92 million in 2010/11 be noted.

## **6.5 Reserves, Provisions and Balances 2009/10**

- 6.5.1 The Committee received the report of the Director of Resources – copy attached to the signed Minutes – which identified the Council's reserves, provisions and balances as at 31 March 2010 and explained the purpose for which they were held.
- 6.5.2 The Director of Resources explained that the brought forward balances from 2008/09 included £3/4m expenditure accrued by the former Shrewsbury and Atcham Borough Council which had also netted off £3/4m from cash as well, so it had doubled its provision for accruals. It was hoped that this sum would help to address some of the Government cuts.
- 6.5.3 In response to a query the Director of Resources confirmed that the Government had introduced the option to claw back some school balances. The school balances seemed to have levelled off in 2009/10. In 2010/11 individual school budgets would be under pressure and would therefore be using their balances.
- 6.5.4 The Director of Resources reported that no payments had been made out of the Major Planning Inquiries reserve throughout the year although it was

sensible to have a fund in place as it was anticipated that there would be one or two significant inquiries throughout the year.

**6.5.5 RESOLVED:**

- A. That the level of the Council's reserves, provisions and balances and the purposes for which they were held be noted.
- B. That the increase in the level of School Balances from £7,552,000 to £7,647,770 be noted.
- C. That the increase in the General Fund Balance from £2,250,000 to £2,875,226 as set out in Appendix 2 be noted.
- D. That the increase in the specific revenue reserves and provisions, after incorporating balances transferred from the District Councils, from £30,885,000 to £38,175,000, as set out in Appendix 1 be noted.

**6.6 Annual Statement of Accounts 2009/10**

6.6.1 The Committee received the report of the Director of Resources – copy attached to the signed Minutes – which provided an overview of the Accounts and detailed the reasons for the most significant changes between the 2008/09 Accounts and the 2009/10 Accounts.

6.6.2 Concern was raised that the former tenant rent arrears together with the housing rent bad debt provision had both increased. It was agreed for a report on rent arrears, including overall collection figures against targets and an update on progress for the implementation of the rents system, to be presented to the next meeting. The Director of Resources reported that rent arrears had improved significantly throughout the year however there was still a lot of work to be done including the actioning of direct debit forms. Collection rates for Council Tax were approximately 98%.

6.6.3 In response to a query the Director of Resources explained that the Council collected National Non-domestic Rates on behalf of the Government and currently got more out than it paid in.

6.6.4 The Director of Resources commended and thanked her staff for their hard work and dedication in the preparation of the Statement of Accounts.

**6.6.5 RESOLVED:**

- A. That the draft 2009/10 Statement of Accounts be noted and referred to Full Council.
- B. That it be noted that the 2009/10 Statement of Accounts are to be audited by the Audit Commission during July and August and that any material changes required as a result of the audit would be reported to the Audit Committee and Council.
- C. That it be noted that formal publication of the audited 2009/10 Statement of Accounts was required by 30 September 2010 (Accounts and Audit Regulations 2003 as amended 2006).

## **7. Risk Management Annual Report to Audit Committee 2009/10**

- 7.1 The Committee received the report of the Risk and Insurance Manager – copy attached to the signed Minutes – which set out some of the initiatives undertaken and challenges managed by Risk Management and Insurance during 2009/10.
- 7.2 The Risk and Insurance Manager reported that the Council's Insurance Company had confirmed that the Council paid a lower premium than other Local Authorities in recognition of the good risk management in place throughout the whole council.
- 7.3 The Risk and Insurance Manager highlighted the achievements throughout the year and confirmed that the team had continued to embed risk management throughout the authority.
- 7.4 In response to a query the Risk and Insurance Manager confirmed that minibus drivers should have Category D1 on their drivers licence. If they do not, they must undertake a further driving test which also included a medical at a cost of approximately £1,000. She confirmed that the training had gone out to tender.
- 7.5 It was felt that the work done with schools had been excellent and very helpful. Also, the work being done to embed risk management throughout the whole of the Council was reassuring. In response to concerns about partnership working, the Risk and Insurance Manager explained that work was ongoing to ensure that partners had business continuity plans in place and also to look at the risks associated with them and how they were being managed.
- 7.6 In response to concerns about policies not being implemented in certain schools, it was confirmed that the scheme of financing set out what the school / authority were responsible for in terms of funding. Clarification had been put together to ensure that the correct support was available and further work had to be done following feedback to try to establish responsibilities.
- 7.7 In response to a query the Director of Resources reported that no liability for the town centre explosion would accrue to the Council.
- 7.8 The Risk and Insurance Manager explained that although the Council did not insure against theft, Children and Young People administered a self funded scheme which schools paid into.
- 7.9 **RESOLVED:** that the report be noted.

## **8. Accounts Payable Data Analysis**

- 8.1 The Committee received the report of the Treasury Accountant – copy attached to the signed Minutes – which set out the findings from the accounts payable data analysis undertaken by Deloitte.
- 8.2 The Treasury Accountant explained that Deloitte's had been asked to conduct a review of data around the purchase ledger and provide assurance on the robustness of the accounts payable controls at the time of the Council's transition to Unitary status. She explained the tests undertaken and the areas

requiring further investigation emphasising that the numbers identified were relatively small.

8.3 The Treasury Accountant drew attention to the Action Plan that had been put in place in order to review the data from Deloitte's and to ensure that any possible duplicate payments were significantly reduced. The Treasury Accountant confirmed that work was planned to be undertaken by the Payments Team with the assistance of Internal Audit every three months, in order to identify any duplicate payments over and above those found on a day to day basis.

8.4 **RESOLVED:** that the results of the accounts payable data analysis be noted.

## 9. **Review of Shropshire Council's Code of Corporate Governance Report 2009/10**

9.1 The Committee received the report of the Audit Manager – copy attached to the signed Minutes – which set out the corporate governance arrangements that the Council had in place for 2009/10.

9.2 The Audit Manager referred to the second paragraph of Appendix A which gave a definition of corporate governance. He explained that the Code was based on CIPFA / SOLACE guidance and set out how the Council would achieve good corporate governance.

9.3 The Audit Manager explained that the code and evidence reflected current practice and was backward looking. The evidence demonstrated the Council's good compliance with the Code. The Audit Manager explained that the review of the Code of Corporate Governance fed into the Annual Governance Statement.

9.4 The Audit Manager drew attention to the Framework of Corporate Governance, which formed part of the code and demonstrated how the Council delivered good governance diagrammatically.

9.5 In response to a query the Director of Resources reported that complaints were regularly scrutinised by the Strategic Overview & Scrutiny Committee.

9.6 **RESOLVED:** that the Internal Audit conclusion that the Council has very strong compliance with the Code of Corporate Governance be noted.

## 10. **Internal Audit Annual Report 2009/10**

10.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which provided Members with details of the work undertaken by Internal Audit for the year ended 31 March 2010 together with progress against the annual audit plan and accounts for the application of audit resources, and an opinion on the internal controls.

10.2 The Head of Audit took Members through the report and confirmed that 104% of the plan had been completed which was above the contractual hours. This reflected additional work that had been completed and where contingencies for sickness had not been fully utilised.

- 10.3 In response to a query the Head of Audit reported that the majority of schools found the Financial Management Standard in Schools assessments of benefit however a few felt it was too bureaucratic.
- 10.4 In response to a query the Head of Audit explained that there had been two housing rent audits planned for 2009/10. The first (Oswestry) had been completed as planned, however the second (Bridgnorth) had slipped into this year but had now been completed.
- 10.5 The Head of Audit reported that most of the special investigations involved people abusing their privileges compared to weaknesses in internal controls. She confirmed that any management issues had been addressed.
- 10.6 **RESOLVED:** that the performance against the Audit Plan for the year ended 31 March 2010 and the Head of Audit's annual opinion on the internal controls be noted.
- 11. Annual Review of the Effectiveness of the System of Internal Audit**
- 11.1 The Committee received the report of the Director of Resources – copy attached to the signed Minutes – which demonstrated that the Council had an effective system of internal audit.
- 11.2 The Director of Resources drew attention to the CIPFA Internal Audit benchmarking report and informed the Committee that overall Shropshire Council were performing well and in the top third of similar authorities.
- 11.3 **RESOLVED:** that the report be noted and that the conclusion that the Council had an effective system of internal audit in place be endorsed.
- 12. Audit Committee Training Plan 2010/11**
- 12.1 The Chairman confirmed that this item had been withdrawn and that a revised training plan would be presented to the Committee at its next meeting.
- 13. Visit by the Information Commissioner's Officer**
- 13.1 The Committee received the report of the Director of Resources – copy attached to the signed Minutes – which updated Members on the recent visit to the Council by officers of the Information Commissioner's Office following two significant losses of data.
- 13.2 The Director of Resources confirmed that the officers were very satisfied with the progress made by the Council and that no further actions were required.
- 13.3 **RESOLVED:** that the Council's ongoing work in relation to Information Governance and the views of the Information Commissioner's Office be noted.
- 14. Annual Assurance Report to Council 2009/10**
- 14.1 The Committee received the report of the Director of Resources – copy attached to the signed Minutes – which set out the draft Audit Committee's Annual Assurance Report to Council 2009/10.
- 14.2 The Committee were happy for the Chairman to sign the Audit Committee's Annual Assurance Report for 2009/10.



- 14.3 **RESOLVED:** that Council be recommended to accept the Annual Assurance Report 2009/10.

It was agreed to take agenda items 19, 20 and 21 together.

## 15. Requests for Approval of Policies/Disregard

- 15.1 The Director of Resources introduced these items and stated that the recommendations on these reports should be amended to request the Committee to note the reports and refer them to Cabinet for approval. The Director of Resources explained that there were no existing policies, only those inherited from the Districts.

### 15.2 Request for Approval of an Overpayment Policy

- 15.2.1 The Committee received the report of the Director of Resources – copy attached to the signed Minutes – which set out the Overpayment Policy.
- 15.2.2 The Chairman requested that the Policy name be amended to Overpayment Recovery Policy.
- 15.2.3 A report on current performance of overpayments, write offs and their comparable trends was requested for a future meeting as Housing Benefit Overpayments contributed significantly to the Council's bad debt provision and it was hoped that the level would be reduced.
- 15.2.4 **RESOLVED:** that the Overpayment Recovery Policy be noted and referred to Cabinet for approval.

### 15.3 Request for Approval of a Prosecution Policy

- 15.3.1 The Committee received the report of the Director of Resources – copy attached to the signed Minutes – which set out the Prosecution Policy.
- 15.3.2 **RESOLVED:** that the Prosecution Policy be noted and referred to Cabinet for approval.

### 15.4 Request for Approval to Disregard War Pensions from Housing and Council Tax Benefit Calculations

- 15.4.1 The Committee received the report of the Director of Resources – copy attached to the signed Minutes – which set out the local scheme for permitting the disregard of war disablement pensions and war pensions.
- 15.4.2 **RESOLVED:** that the disregard of war pensions in full in the calculation of Housing and Council Tax Benefit be noted and referred to Cabinet for approval.

It was agreed to take agenda items 22 and 23 together

## 16. External Audit

- 16.1 The Council's Audit Commission Manager reported that things had moved on since the fee letters had been issued following a change of Government. However, no formal guidance had been received by the Audit Commission so

it was unclear what these changes would mean for Use of Resources or Value for Money going forward and the fees quoted therefore still stood at present.

## **16.2 Annual Inspection 2010/11 Letter**

16.2.1 The Committee received the report of the Council's Audit Commission Manager – copy attached to the signed Minutes.

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

## **16.3 Annual Audit Fee 2010/11 Letter**

16.3.1 The Committee received the report of the Council's Audit Commission Manager – copy attached to the signed Minutes.

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

## **17. External Audit Progress Report**

17.1 The Committee received the report of the Council's Audit Commission Manager – copy attached to the signed Minutes – which provided the Audit Committee with a summary of progress made on the 2009/10 audit and information on the planning for the 2010/11 audit year.

17.2 The Audit Commission Manager updated the Committee with regard to changes to the Comprehensive Area Assessment and Use of Resources. He reported that the main planned work had been completed however work was ongoing in relation to housing rent issues.

17.3 The Audit Commission Manager explained that a review of the opening balances had been undertaken in order to provide assurance that they had been correctly recorded. A review would be undertaken to assess the Council's compliance with International Finance Reporting Interpretations Committee 12.

17.4 The Audit Commission Manager was happy with progress and felt that they were on course. He went on to explain issues around rent systems and commented on the problems experienced by Internal Audit in gaining access to undertake the audit. The Audit Manager explained that this was a result of work pressures in Housing arising from the implementation of the new IBS housing rents computer system, involving the integration of the two existing systems.

17.5 The Director of Resources explained how problems had arisen due to the transfer of data from two separate systems onto one system and how matters had been overlooked in the Bridgnorth Housing Team because they did not know that they had to do certain things. She reported that the position now was very different and was much improved.

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

## **18. Date of Next Meeting**

18.1 It was noted that the next meeting would take place at 4.45pm on 16 September 2010.

**19. Exclusion of the Press and Public**

19.1 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 27 to 29 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.

**20. Minutes (Exempted by category 1)**

20.1 **RESOLVED:** that the Exempt Minutes of the meeting held on 24 March 2010 be approved and signed by the Chairman as a correct record.

**21. Summary of Internal Audit Findings 2009/10 (Exempted by Category 3)**

21.1 The Committee received the exempt report of the Audit Manager - copy attached to the signed Minutes – which summarised the main findings identified from internal audit work undertaken in 2009/10.

21.2 **RESOLVED:** That the report be noted.

**22. Fraud Update (Exempted by category 1)**

22.1 The Audit Manager gave a verbal update.

Signed.....(Chairman)

Date.....16 September 2010.....