



Committee and Date

Audit Committee

25 November 2010

10.00 am

Item No

**3**

Public

## MINUTES OF THE MEETING HELD ON 16 SEPTEMBER 2010

4.45 pm – 6.40pm

**Responsible Officer** Michelle Evans

Email: michelle.evans.lads@shropshire.gov.uk

Telephone: 01743 252727

### Present

Messrs P Adams, A Davies (Substitute for Mr M Wood), C Mellings, M Whiteman and B B Williams.

Mr B Gillow (Substitute) was also in attendance together with Messrs E Bagnall and G Patterson 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.

It was requested that a letter of thanks and best wishes for the future be sent on behalf of the Committee to the former Director of Resources.

#### 1. Apologies for Absence

1.1 Apologies were received from Mr M Wood.

#### 2. Declarations of Interest

2.1 No declarations of interest were made.

#### 3. Minutes

3.1 Mr P Adams requested a response to his query raised at the previous meeting in relation to the discussion on fire safety equipment in schools. The Risk and Insurance Manager agreed to obtain a response for Mr Adams.

3.2 **RESOLVED:** that the Minutes of the meeting held on 18 June 2010 be approved and signed by the Chairman as a correct record.

#### 4. Payroll Data Analysis

4.1 The Committee received the report of the Exchequer Services Manager – copy attached to the signed Minutes – which set out the results of the payroll data analysis undertaken by Deloitte.

- 4.2 The Head of Finance (Treasury and Pensions) introduced the report which highlighted the data testing that had been undertaken by Deloittes. He confirmed that no areas of concern had been identified and that assurance had been provided on the robustness of the payroll controls together with the adequacy of the work of Internal Audit to identify incorrect payments.
- 4.3 In response to a query, the Head of Finance suggested that the employment of casual staff may explain the increase in number of employees by 700 (5%) between May and November 2009. It was requested that an explanatory note be included in the report to explain any variances.
- 4.4 The Head of Audit confirmed that Deloittes had provided independent assurance that all systems had been amalgamated correctly following the transition to unitary status.
- 4.5 **RESOLVED:** That the results of the payroll data analysis be noted.
- 5. Annual Insurance Report 2009/10**
- 5.1 The Committee received the report of the Risk and Insurance Manager – copy attached to the signed Minutes – which summarised the claims activity during the last policy year.
- 5.2 The Risk and Insurance Manager explained that the 2008/2009 figures had been included for comparison. She reported that the number of claims received had only increased by eight claims which was an excellent result. It was also pleasing to note that the number of public liability claims had fallen. Also, Shropshire Council had done very well in a recent benchmarking exercise regarding the number of pothole claims received.
- 5.3 The Risk and Insurance Manager informed the Committee that 300 public liability claims had been closed over the last two years, 36 of which had been settled, and 264 had been rejected, saving the Council £671,000 in potential claims payments.
- 5.4 It was reported that there had been a slight increase in employers' liability cases but motor claims had seen a large increase. Although slightly less property claims had been received, one claim, for the fire at The Marches School, had cost £135,000 which had exceeded the policy excess.
- 5.5 In response to a query the Risk and Insurance Manager explained that a contingency had been set up following the town centre explosion to cover damage to Council property and loss of income from the car park closure etc. She confirmed that no public liability claims would be met from this contingency. It was reported that the Health & Safety Executive were still investigating this incident.
- 5.6 The Risk and Insurance Manager informed the Committee of the positive comments received from the Council's Insurers and reported that the CIPFA benchmarking exercise showed excellent performance by the Council in all areas.
- 5.7 Members thanked the Risk and Insurance Manager for her excellent report and congratulated her staff for all their hard work. In response to a query it

was confirmed that a programme for the installation of reversing cameras / sensors for larger vehicles eg buses had been introduced.

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

It was agreed to take agenda items 9 and 11 next.

## 6. Income Collection

6.1 The Committee received the report of the Head of Finance (Treasury and Pensions) – copy attached to the signed Minutes – which provided Members with information on the payment channels available to residents of Shropshire for the wide range of services provided by the Council.

6.2 The Head of Finance explained that the Council offered a number of different payment channels in order to make it easier and more convenient for customers to make payment. He went on to highlight the take up of the various payment channels and their relative costs. By far the cheapest method of payment was by Direct Debit which cost 12p per year compared to £30-£40 per year for cash payments. There was therefore a great incentive to get as many people as possible to pay by Direct Debit.

6.3 The Head of Finance informed the Committee of the Direct Debit promotion which had been held earlier that year and had led to an additional 2,500 households setting up Direct Debits. Phase two of that promotion had now commenced. It was confirmed that other electronic payment methods were also on the increase.

6.4 Members were pleased with this performance and felt that it would be useful to see similar information for National Non-Domestic Rates.

6.5 **RESOLVED:** It was noted that

- A. the cost of collecting the average council tax bill by direct debit was 12 pence per annum compared to up to £30 per annum if it was collected in cash on a weekly basis at Area Headquarter offices,
- B. the first phase of a council tax direct debit campaign had resulted in an additional 2,500 households paying their council tax via direct debit,
- C. the number of payments made via the automated telephone payment service and website had increased by 28% and 77% respectively in the first 3 months of the financial year compared to the same period last year.

## 7. Housing Rent Arrears and Update on New Housing IT System

7.1 The Committee received the report of the Head of Landlord Services – copy attached to signed Minutes – which provided details of the outturn position for rent arrears for the 2009/10 financial year and the position for the first quarter of 2010/11. An update in respect of the implementation of the new integrated housing IT system was also provided.

7.2 The Head of Landlord Services reported that a number of issues had been identified in relation to the collection of rent from Council tenants, including

payments not being allocated to the correct rent accounts. Also, a high level of arrears had been inherited from the former Oswestry Borough Council. However, following efforts to resolve these issues, the collection rate for the year was 97.53%.

- 7.3 The Head of Landlord Services reported that a number of new policies and procedures had been put in place including a new housing IT system and these, together with a restructure within the service, should help to improve the collection rate and level of arrears. She reported that the collection of former tenant arrears had been outsourced and that following a successful pilot, a campaign was to be rolled out to increase Direct Debit payments for rent.
- 7.4 Members thanked the Head of Landlord Services for her report and were encouraged to see that rent arrears had reduced. It was queried whether some of the current tenant debts should be moved into former tenant arrears. Also, it was felt that the write-off policy should be applied more frequently.
- 7.5 In response, the Head of Landlord Services explained that the former Bridgnorth District Council had been more effective at writing off aged debts than Oswestry Borough Council and had maintained an adequate level of bad debt provision. However, the majority of these aged debts had now been referred to civil enforcement agents and a significant proportion had been approved for write off.
- 7.6 In response to a query, the Head of Landlord Services reported that low level debt was being monitored to ensure that it was dealt with at an early stage.
- 7.7 The Chairman thanked the Head of Landlord Services for her report and for answering questions and requested that an update be received annually by the Committee.
- 7.8 **RESOLVED:** That the report be noted.

## **8. Audited Annual Statement of Accounts 2009/10**

- 8.1 The Committee received the report of the Section 151 Officer – copy attached to the signed Minutes – which presented Members with the final audited outturn position for the financial year 2009/10.
- 8.2 Members were reminded that the Committee had considered the Statement of Accounts at its meeting on 18 June 2010 and closure of the accounts had been achieved within the statutory deadline. It was reported that the Accounts had now been audited by the Audit Commission.
- 8.3 **RESOLVED:** That the 2009/10 Annual Statement of Accounts on which the District Auditor has indicated would receive an unqualified opinion, subject to some outstanding queries, be noted.

## **9. Annual Governance Report**

- 9.1 The Committee received the report of the District Auditor – copy attached to the signed Minutes – which presented Members with the results of the Audit Commission's audit work for 2009/10.

- 9.2 The District Auditor reiterated that the Committee had considered the Annual Statement of Accounts in June 2010 and were not being asked to re-approve them now. He went on to discuss the work that had been done and highlighted the amendments to be considered by the Committee.
- 9.3 The District Auditor explained that the audit was substantially complete subject to the completion of some outstanding audit procedures, however, he did not anticipate any problems and confirmed that he would be issuing unqualified opinions on the audit statements and Value for Money conclusion. A separate opinion would be issued for the Pension Fund.
- 9.4 The District Auditor reported that this was the first year that PFI assets had to be accounted for as owned by the Council and the only issue had been that the asset was brought onto the balance sheet at valuation rather than at cost. This would be adjusted in the next financial year.
- 9.5 It was agreed that using the calendar year as a basis for estimating movements on council dwelling valuations was a reasonable way forward as the final quarter data was not available. However in future it should be checked whether this data was available and whether it would make a difference. The District Auditor was satisfied that the figure was fairly stated.
- 9.6 Although an issue had arisen over the control environment for housing rents income, the District Auditor informed the Committee that sufficient assurance had now been gained over these entries in the accounts.
- 9.7 The District Auditor recognised the hard work of the finance team and the quality of the financial statements which were of a high standard. He informed the Committee that Shropshire Council had handled the Local Government Review well compared to others.
- 9.8 He drew Members' attention to the misstatements which had been identified and where the necessary adjustments had been made and stated that these were not unexpected given the transition period the Council had been in. He also drew attention to the unadjusted misstatements which did not affect the balance sheet. If the Committee were comfortable not to adjust the accounts this needed to be reflected in the letter of representation.
- 9.9 The District Auditor explained that they did rely on Members' Related Party Transaction statements when reviewing the accounts so, although he was satisfied that it did not impact on his audit opinion, it was important that in future these were received on time from all Members. It was agreed that Group Leaders be empowered to refer those Members who had not completed their statement directly to Legal Services.
- 9.10 The District Auditor reported that the Council's level of reserves was at the lowest level and it was important to ensure that the level of reserves remained adequate as there would be severe pressure on the reserves going forward.
- 9.11 The District Auditor confirmed that no material weaknesses had been identified in the internal control environment. He recommended that procedures for raising invoices be reviewed in order to ensure the completeness of income recording.

- 9.12 In conclusion, the District Auditor informed the Committee that the Coalition Government had withdrawn the requirement to score the value for money conclusion so now he simply had to state whether the Council had met the minimum criteria, which he confirmed it had done.
- 9.13 A query was raised as to how the Council would know whether it was doing better or worse if no value for money score was required. In response the District Auditor explained that going forward it would move more to self regulation, it would be up to the Council to reflect on its own performance, and any concerns would be raised with the appropriate officer. He commented that it was possible that this could lead to reduced audit fees.
- 9.14 The Chairman then took the recommendations individually. All recommendations were agreed.
- 9.15 In relation to the second recommendation, the Finance Manager explained that the Council had always treated BACS payments as creditors and it had been felt that there was no reason for the Council to change this for this financial year. However, the policies would be looked at in the current financial year with a view to accounting for BACS payments as cash. Members were happy with this as a way forward.
- 9.16 Members were also happy for no adjustments to be made in this financial year for the valuation of QICS PFI assets. CIPFA would be requested to confirm the correct treatment of these assets and any adjustments required would be made in the current financial year. In response to a query, the Audit Manager explained that this was the first year that PFI assets had to be identified in the accounts.
- 9.17 In respect of Recommendation 3, members asked that a Legal Service officer write to the members identified to ensure that Disclosure of Related Party Transactions Statements were completed.
- 9.18 In response to a query in relation to Recommendation 5, the Audit Commission Manager explained that this had been the first opportunity to raise the issue which was about trying to get assurance over the assertion of completeness in relation to income collection, in particular the possibility of a sales invoice requisition. It was not a major concern and following some testing assurance had been gained however, if a control had been in place at the outset it would have saved a couple of days testing and would have given additional assurance. The Chairman requested a report outlining such a control for the Committee to consider at its next meeting.
- 9.19 The District Auditor explained that the certificate to close the audit could not yet be given as there was an outstanding query in relation to the Veolia Contract, and the Audit Commission had been advised by its legal team to await the outcome of a similar court case in Nottinghamshire. It was hoped that this issue would be resolved early in October 2010.
- 9.20 **RESOLVED:** That
- A. As part of its estimation approach for council dwellings impairments or revaluations the Council should ensure that there was a review of the basis of the estimation prior to the authorisation of the accounts in order

to satisfy itself that there had not been a potentially material change to the year end values.

- B. The Audit Committee consider the impact of the unadjusted misstatements in Appendix 3 of the external auditor's 2009/10 Annual Governance Report and instruct management not to amend the financial statements, but to review the treatment of both for the current financial year. The letter of representation would set out the reasons for not amending the errors.
- C. Arrangements must ensure that all Members complete their 'Disclosure of Related Party Transactions Statement' prior to the authorisation of the financial statements. A representative from Legal Services would be asked to write to members to ensure that disclosure of related party transaction statements were completed.
- D. The Council should closely monitor its level of reserves to ensure that an effective and appropriate level of balances was maintained.
- E. The Council should review its procedures for raising sales invoices and explore whether or not a control could be established for the control of sales invoices to confirm the completeness of recording of income.

## **10. Audit Committee Training Plan 2010/11**

- 10.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which set out a proposed training plan for Audit Committee Members and Substitutes which would ensure that they were well informed to fulfil their role.
- 10.2 The Head of Audit explained that the report suggested a different approach to training and that a half day annual training event be held after the annual meeting of Council. She went on to give an example of a proposed training day.
- 10.3 The Chairman was happy with the proposal but felt that one half day per year was inadequate for Members to keep up to date with all of the relevant procedures and proposed that a further half day training session be held in January or February.
- 10.4 **RESOLVED:** That the proposed training plan be approved together with an additional half day training session in January/February for the Committee to review the many areas for which it has responsibility.

## **11. CIPFA Audit Committee Update – Helping Audit Committees to be Effective**

- 11.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which informed Members of the CIPFA Audit Committee update briefing papers to be supplied through CIPFA's Better Governance Forum three times a year. The Head of Audit felt that these would be a useful resource to share with the Committee.
- 11.2 The Chairman informed the Committee of a workshop to be held in York on 17 November 2010 to which it was recommended that two members plus an

officer attend. The Chairman reported that he had attended a previous workshop and felt that it had been very good value for money and was an opportunity to meet with Members of other Audit Committees in order to share good practice. It was agreed for Mr Whiteman and Mr Adams to attend along with the Head of Audit.

- 11.3 **RESOLVED:** That the briefing papers be noted and that they be circulated electronically to Members of the Committee in future.

## 12. Council Tax, National Non Domestic Rate and Housing Benefit Overpayment Performance Monitoring Report

12.1 The Committee received the report of the Head of Finance (Exchequer Services) – copy attached to the signed Minutes – which provided Members with performance monitoring information on the collection of income in respect of Council Tax and National Non Domestic Rates (NNDR) for the year to 31 August 2010.

12.2 The Section 151 Officer reported that the collection of Council Tax had reduced slightly, whilst collection of NNDR had increased. The Council were therefore in a good position to reach target by year end. He explained that figures for 2008/09 had been included for comparison.

12.3 Concern was raised at the amount of arrears outstanding, half of which had been carried over from the former District Councils, and requested information about current arrangements for the collection of these arrears, which the Section 151 Officer agreed to provide.

12.4 In response to a query, the Section 151 Officer explained that the former District Councils had different rates of recovery but it was felt that 98.5% was a reasonable guideline.

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

## 13. Date of Next Meetings

13.1 Following a brief discussion it was agreed to hold future meetings at the earlier time of 10am.

13.2 The next meeting would therefore take place at 10am on Thursday 25 November 2010.

## 14. Exclusion of the Press and Public

14.1 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 15 and 16 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.

## 15. Minutes (Exempted by category 1)

15.1 **RESOLVED:** that the Exempt Minutes of the meeting held on 18 June 2010 be approved and signed by the Chairman as a correct record.



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

16.1 The Audit Manager gave a verbal update.

The District Auditor gave a brief update in relation to the abolition of the Audit Commission.

Signed.....(Chairman)

Date.....25 November 2010.....