



<u>Committee and Date</u>
Audit Committee
8 February 2011
10.00 am

<u>Item No</u>
3
Public

MINUTES OF THE MEETING HELD ON 25 NOVEMBER 2010

10.00 am – 11.50 am

Responsible Officer Michelle Evans
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Present

Messrs K Roberts, C Mellings, M Whiteman, B B Williams (Chairman) and M Wood.
Ms B Vaghela and Mr C Mitchell of the Audit Commission were also in attendance.

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.

1. Apologies for Absence

1.1 Apologies were received from Mr P Adams for whom Mr K Roberts substituted.

2. Declarations of Interest

2.1 No declarations of interest were made.

3. Minutes

3.1 Paragraph 9.9

The Section 151 Officer confirmed that all Members' Related Party Transaction Statements had been received by the deadline of 30 September 2010.

3.2 Paragraph 9.19

Ms Vaghela confirmed that the District Auditor was still looking into the outstanding query in relation to the Veolia Contract and would provide an update at the next meeting.

3.3 Paragraph 12.3

It was confirmed that a note on Collection Rates had been circulated to the Committee following the last meeting. Concern was raised that these debts

should be written off. The Head of Finance (Exchequer Services) would bring a report to the next meeting showing which debts were being recovered and which were being written off.

- 3.4 **RESOLVED:** that the Minutes of the meeting held on 16 September 2010 be approved and signed by the Chairman as a correct record.

4. International Financial Reporting Standards (IFRS) Update

- 4.1 The Committee received a presentation from the Finance Manager (Corporate Finance) – copy of slides attached to signed Minutes – which updated Members on progress with the International Financial Reporting Standards (IFRS), and covered the following areas:

- Timeline for restating the 2009/10 Accounts for IFRS
- Work undertaken on IFRS Restated Accounts
- Skeleton Accounts and Accounting Policies

- 4.2 The Finance Manager reminded the Committee that the Council were required to state the 2010/11 accounts under IFRS and also to restate the 2009/10 accounts, so a lot of work had been undertaken to complete this. She hoped that Members were happy to go forward on the basis of the updated accounting policies and reported that the Audit Commission would be attending the Council the following week to look at the restated accounts.

- 4.3 The Finance Manager reported that work had been done to reclassify some non-operational assets and to remove the Government Grants Deferred Balances, which would now be set against the Capital Adjustment Account. Work had also been undertaken on the Calculation of Employee Benefits Accrual, which would now be based on average salary however, the Finance Manager stated that this would have no effect on the council tax payer.

- 4.4 A significant piece of work had also been done to review former County Council and inherited leases. The Finance Manager confirmed that two operating leases were to be changed to finance leases but there were no issues with leases embedded in contracts which would still be treated as contacts.

- 4.5 The Finance Manager explained that skeleton accounts for the 2010/11 Statement of Accounts had been prepared together with new accounting policies. She informed Members that a session would be held to explain each statement.

- 4.6 The Updated IFRS Statement of Accounting Policies for 2010/11 were circulated – copy attached to the signed Minutes. The Finance Manager took Members through the key changes and answered a number of queries.

- 4.7 In response to a query the Finance Manager reported that work to implement the changes had been managed within existing resources and that the Technology Forge software had all the necessary requirements for IFRS. A Member of the Committee raised concerns that the change to IFRS was unnecessary.

- 4.8 Members noted the progress and accepted the updated accounting policies.

5. Follow up Report Reviewing the Audit Commission's Annual Governance Report 2009/10, Recommendation 5

- 5.1 The Committee received the report of the Head of Audit Services – copy attached to the signed Minutes – which set out details of the review of procedures for raising sales invoices as recommended by the Audit Commission in its Annual Governance Report 2009/10.
- 5.2 Following the review it was concluded that the controls already in place gave sufficient assurance and that the cost of introducing a control which could confirm the completeness of recording of income would outweigh the benefits and was unlikely to result in any savings. It was felt that as part of enhancements being considered to the on line capability of accounting systems, an automated solution would be considered.
- 5.3 **RESOLVED:** That the details of the Internal Audit Review be noted and that Recommendation 5 in the Audit Commission's Annual Governance Report 2009/10 be declined.

6. Information Commissioner's Office Data Protection Audit

- 6.1 The Committee received the report of the Head of Audit Services – copy attached to the signed Minutes – which set out the results of the Data Protection Audit and the further improvements proposed by the Information Commissioner's Office (ICO) which formed part of an agreed Action Plan for the Council.
- 6.2 The Head of Audit Services reported that the ICO considered that the Council's current arrangements for data protection governance and security provided a reasonable level of assurance. The Head of Audit Services confirmed that the Council were delivering on the agreed Action Plan.
- 6.3 In response to a query, the Head of Audit Services confirmed that there were no costs associated with referring a breach and indeed the Council had a duty to refer any breaches. She informed the Committee that the ICO could fine a Council up to £500,000 for a data security breach.
- 6.4 **RESOLVED:** That the results of the Data Protection Audit and resulting proposed management action for further improvement in the arrangements for the protection and security of personal data be noted.

7. Benefit Service Inspection Report

- 7.1 The Committee received the report of the Head of Finance (Exchequer Services) – copy attached to the signed Minutes – which provided Members with the results of the recent Audit Commission inspection. It also provided details of the Action Plan which had been produced to address the weaknesses identified in the report.
- 7.2 The Head of Finance (Exchequer Services) felt it was a comforting report and gave some assurance about the work being undertaken to overcome the issues that caused delays last year. She reported that areas of weakness identified by the inspection report included telephone answering times and time taken to process new claims.

- 7.3 Since the inspection, the average time taken to process all claims had improved to nine days, 97.6% of telephone calls were answered and new claims were processed within 20 days, with a 48 hour fast-track process now available.
- 7.4 The Head of Finance (Exchequer Services) was pleased to report that no-one had been evicted in the last financial year due to delays in processing applications, although it was appreciated that the delays were not acceptable.
- 7.5 The Head of Finance (Exchequer Services) informed the Committee of some of the current work being undertaken, including improvements to notification letters and closer working with Housing Services. She explained that the Action Plan would be monitored by both the Audit Committee and the Department of Work and Pensions.
- 7.6 Members felt this was an excellent outcome, although there were still issues to work on. Members wished their thanks to be passed on to the staff in the Benefits Team.
- 7.7 In response to a query the Head of Finance (Exchequer Services) explained that RSL Verification Training had begun although it was a bit early for this to bear fruit. It was hoped that the introduction of an electronic data capture system would save staff time.
- 7.8 The Chairman requested an update on completion of the Actions in due course.
- 7.9 **RESOLVED:** That the report be noted.
- 8. Benefits Fraud Team Performance Monitoring Report**
- 8.1 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 activities of the team for the year to 30 September 2010.
- 8.2 The Head of Finance (Exchequer Services) confirmed that new systems were now in place and that overpayments identified by the Fraud Team last year amounted to £314,000, whilst over £278,000 had been identified for the first six months of this year.
- 8.3 The Head of Finance (Exchequer Services) informed the Committee that the Fraud Team had also identified overpayments of other welfare benefits (eg Income Support, Job Seekers Allowance etc) in the sum of £303,000. She explained that the number of prosecutions for benefit fraud were increasing and that this work was being shared with the Department of Work and Pensions.
- 8.4 Members were surprised at the number of claimants for Housing and Council Tax Benefit. Concern was raised in relation to the cost of recovering overpayments.
- 8.5 **RESOLVED:** That the report be noted.

9. Treasury Strategy 2010/11 – Mid Year Review

- 9.1 The Committee received the report of the Head of Finance (Treasury & Pensions) – copy attached to the signed Minutes – which provided information on the Council's Treasury Management activities for the first six months of the year.
- 9.2 The Head of Finance (Treasury & Pensions) highlighted the key points and reported that all activities had been in accordance with approved limits.
- 9.3 The Head of Finance (Treasury & Pensions) reported that the average interest rate received had been 0.7%, against a benchmark of 0.35%, which amounted to £200,000 extra income. All future borrowing from the Public Works Loan Board would increase by 1%, which would cost the Council an extra £10,000 for every million pound borrowed. He confirmed that the Council could use market loans instead.
- 9.4 The Head of Finance (Treasury & Pensions) informed the Committee that the Council were still pursuing Landisbanki and it was expected that 95% of the £1 million deposited would be repaid although it would be many years before this was received.
- 9.5 **RESOLVED:** That the report be noted.

10. Annual Review of Internal Audit Strategy

- 10.1 The Committee received the report of the Head of Audit Services – copy attached to the signed Minutes – which proposed some minor changes to the Internal Audit Strategy 2009/10 to 2012/13.
- 10.2 The Head of Audit Services explained that the key aims had been amended to reflect the current aims of the Council and updated for the publications which contain the regulations and related guidance. Other amendments related to the Council's new structure.
- 10.3 The Chairman confirmed that the Mission Statement would be reintroduced when the Strategy was updated the following year.
- 10.4 **RESOLVED:** That the proposed amendments to the Internal Audit Strategy be approved.

11. Annual Review of Internal Audit Terms of Reference

- 11.1 The Committee received the report of the Head of Audit Services – copy attached to the signed Minutes – which proposed some minor changes to the Internal Audit Terms of Reference which reflected the structural changes taking place within the Council.
- 11.2 The Head of Audit Services explained that the Chairman had requested that the words 'against a four level grid of assurance opinions' at paragraph 16 be amended to read 'against four assurance opinions'.
- 11.3 The Head of Audit Services went on to explain that she could not give total assurance that control weaknesses or irregularities did not exist as it was a Managers responsibility to ensure that good internal controls were in place.

11.4 **RESOLVED:** That the proposed changes to the Internal Audit Terms of Reference be approved, subject to paragraph 11.2 above.

12. Internal Audit Plan 2010/11 – Half Year Report

12.1 The Committee received the report of the Head of Audit Services – copy attached to the signed Minutes – which summarised progress against the Internal Audit Plan up to the end of September 2010.

12.2 The Head of Audit Services reported that 47% of the plan (51% of the revised plan) had been delivered. Due to a reduction in resources the plan had been reduced by 222 days or 7.6%, to 2,687 days.

12.3 The Head of Audit Services drew Members' attention to the variations in the plan and updated the Committee on the Governments scrapping of the Financial Management Standards in Schools (FMSIS). It was unclear what system would be introduced to replace the FMSIS.

12.4 In response to a query the Head of Audit Services explained why there had been a reduction in resources.

12.5 **RESOLVED:**

A that the half year performance against the plan in 2010/11 and the adjustments required to the 2010/11 plan to take account of changing priorities, set out in Appendix A to the report, be noted.

B That the revised content of the Internal Audit Report be noted.

13. Annual Review of Audit Committee Terms of Reference

13.1 The Committee received the report of the Section 151 Chief Finance Officer – copy attached to the signed Minutes – which identified a number of minor proposed changes to the Audit Committee Terms of Reference.

13.2 The Section 151 Chief Finance Officer explained that the main changes related to the Audit Committee being able to meet with internal or external audit in private, the Committee's new role of reviewing the Treasury Strategy and to reflect recent changes to the Council structure.

13.3 The Section 151 Chief Finance Officer clarified that the Terms of Reference would be presented to Council and not to Cabinet, so paragraph 4.1 should be amended to reflect this by the deletion of the words 'to Cabinet' so that the sentence read 'This will raise any issues of concern to Council and provide...'

13.4 The Chairman requested that paragraph 5.2 be amended to read 'In carrying out the core functions the Audit Committee will approve an Annual Work Plan. This will enable Members to consider...'

13.5 **RESOLVED:** That the current Audit Committee Terms of Reference be revised and that the revised Terms of Reference be recommended to Council for adoption.

14. Audit Committee Self Assessment Checklist

- 14.1 The Committee received the report of the Section 151 Chief Finance Officer – copy attached to the signed Minutes – which set out the draft self assessment questionnaire which would allow Members to demonstrate the effectiveness of the Audit Committee and to identify whether there were any further improvements that could be made to improve the Committee’s overall effectiveness.
- 14.2 In response to a query the Head of Audit Services confirmed that the Self Assessment Checklist should be completed on an annual basis but could be done at any time. The Chairman requested that a blank self assessment checklist be circulated to all Committee Members and Substitutes and that the item be deferred for completion at the next meeting.
- 14.3 **RESOLVED:** That this item be deferred to the next meeting.

15. Annual Review of Counter Fraud and Anti-Corruption Strategy

- 15.1 The Committee received the report of the Head of Audit Services – copy attached to the signed Minutes – which set out the Counter Fraud and Anti-Corruption Strategy which had been totally refreshed in line with best practice and continues to clearly outline the Council's commitment to stand against all forms of Fraud and Corruption whether it is attempted on or from within the Council.
- 15.2 The Head of Audit Services drew Members attention to the main changes set out at paragraph 7 of the report and explained that recommendation B should be amended to refer to Cabinet and not Council.
- 15.3 The Chairman proposed that the second sentence of the final paragraph on page 16 be amended to read ‘Preventing fraud prevents losses – ensuring that all relevant funds can be directed into core business’.
- 15.4 **RESOLVED:** That the Counter Fraud and Anti-Corruption Strategy be noted and recommended to Cabinet for adoption as a key part of the Council’s stance against Fraud and Corruption.

16. Date of Next Meeting

- 16.1 The next meeting of the Committee would be held at 10am on 8 February 2011.
- 16.2 The Head of Audit Services reminded the Committee of the next training session to be held at 1.30pm - 4.30pm on 24 January 2011 in the Ludlow Room. The Chairman requested that an email reminder be sent to all Members and Substitutes of the Committee.

17. Exclusion of the Press and Public

- 17.1 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 18 and 19 shall not be conducted in public on the grounds that they involve the likely disclosure of exempt information as defined by the categories specified against them.

18. Minutes (Exempted by category 1)

18.1 **RESOLVED:** that the Exempt Minutes of the meeting held on 16 September 2010 be approved and signed by the Chairman as a correct record.

19. Internal Audit Fraud Update (Exempted by categories 2, 3 and 7)

19.1 The Committee received the exempt report of the Audit Manager – copy attached to the signed Minutes – which provided a brief update on current fraud investigations undertaken by Internal Audit.

19.2 **RESOLVED:** that the report be noted and that it be a regular feature of the Audit Committee.

Signed.....(Chairman)

Date.....8 February 2011.....