



<u>Committee and Date</u>
Audit Committee
23 March 2011
10.00 am

<u>Item No</u>
3
Public

MINUTES OF THE MEETING HELD ON 8 FEBRUARY 2011

10.00 am – 12.10pm

Responsible Officer Michelle Evans
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Present

Messrs C Mellings, M Whiteman, B B Williams (Chairman) and M Wood.

Mr B Gillow (Substitute) was also in attendance together with Ms B Vaghela and Mr E Bagnall of the Audit Commission.

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. The Chairman thanked the Head of Finance (Treasury and Pensions) for his service and wished him luck for the future.

1. Apologies for Absence

1.1 No apologies were received.

2. Declarations of Interest

2.1 No declarations of interest were made.

3. Minutes

3.1 Paragraph 3.2

It was confirmed that the District Auditor had met with the Interim Head of Finance on 17 January 2011 and had informed him of the decision reached in relation to the outstanding query on the Veolia contract. It had been agreed that the Interim Head of Finance would review the Council's position and address any outstanding issues.

3.2 Paragraphs 7.7 and 7.8

The Head of Finance (Exchequer Services) reported that the RSL Verification Training had gone live everywhere except Severnside where it was hoped to go live in the next few weeks. The Action Plan was being monitored closely. So far only 15 cases had been looked at however these had been 100% correct. This system would be slow to start but would save time in the long run for both the Council and the customer.

3.3 **RESOLVED:** that the Minutes of the meeting held on 25 November 2010 be approved and signed by the Chairman as a correct record.

4. **Council Tax and National Non Domestic Rate Performance Monitoring Report**

4.1 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 Council Tax and National Non Domestic Rates (NNDR) for the year to 26 January 2011.

4.2 The Head of Finance (Exchequer Services) reported that just over £3m had already been collected so Council Tax arrears to date stood at approximately £5m. She explained that the recovery team did all they could prior to issuing committal proceedings e.g. attachment of earnings/benefits, and special arrangements, which were in place for £1.5m of debt, some of which had defaulted so they were at the reminder stage.

4.3 The Head of Finance (Exchequer Services) confirmed that a lot of the arrears were being recovered but quite slowly, especially those subject to attachment of earnings/benefits. She also informed Members that the team had been restructured and that more staff had been diverted to deal with recovery work.

4.4 The Head of Finance (Exchequer Services) reported that NNDR arrears to date stood at approximately £4m, with £2.3m having already been recovered with almost a further £500,000 waiting to be written off. Special arrangements were in place for approximately £200,000 but most were either under investigation, pending arrangements or at the reminder letter stage.

4.5 Members thanked the Head of Finance (Exchequer Services) for her useful report and were pleased to see good progress being made to reduce arrears. It was felt that any arrears or credits from 1993-94 should be written off if they could not be collected or returned. Concern was raised that the amount of effort required in the collection of these aged debts was becoming disproportionate to the amount of arrears.

4.6 The Head of Finance (Exchequer Services) informed the Committee that it was very expensive to send a case for committal proceedings and this sum was not recoverable from the customer. She explained that the Council's Bailiffs tried to make arrangements with customers, any sums recovered by the Bailiffs were sent to the Council fortnightly, less costs.

4.7 In response to concerns that any defaults should be picked up as soon as possible, the Head of Finance (Exchequer Services) explained that an automated process had been used following the change to unitary which allowed any defaults to be chased up very quickly. It was hoped that once all outstanding debts had been investigated they would be written off or be entered onto the automated recovery system. Members requested a further report at that stage.

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

5. Treasury Strategy 2011/12

- 5.1 The Committee received the report of the Head of Finance (Treasury and Pensions) – copy attached to the signed Minutes – which proposed the Treasury Strategy for 2011/12 and recommended Prudential Indicators for 2011/12 to 2013/14.
- 5.2 The Head of Finance (Treasury and Pensions) highlighted the key points for Members to note. He reported that as the Capital Programme had been reduced, the Council's borrowing requirement would be significantly lower the next year. Further options were also being explored in order to reduce the remaining prudential borrowing.
- 5.3 The Head of Finance (Treasury and Pensions) informed Members that the Council took a conservative approach to lending and was restricted to UK Banks and Building Societies, some Nationalised Institutions, other Local Authorities and the UK Government. He explained that opportunities were always sought to make savings by actively managing the Council's cash balances and long term debt.
- 5.4 The Head of Finance (Treasury and Pensions) reported that the Council was being dealt with as a priority debtor and it was currently thought that 95% of the funds invested by Bridgnorth District Council with Landsbanki would be repaid although it would be over many years. In response to a query, the Head of Finance (Treasury and Pensions) explained that non priority creditors had objected however and an appeal was currently going through the Icelandic courts. It was felt that it was more likely that the Council would get 95% back than the appeal being successful, but that this would be on an instalment basis over several years.
- 5.5 The Head of Finance (Treasury and Pensions) explained that the bank base rate was currently 0.5% but it was expected to rise to 1% by the end of the financial year. It was also expected that long term borrowing rates would be higher than investment rates so there would be a short term advantage to delay borrowing to keep financing costs down if possible. The Council had offered to lend £10m of funding towards affordable housing.
- 5.6 The Chairman drew attention to the Council's Creditworthiness Policy and noted that, in line with the transformation agenda, this service had been outsourced to Sector Treasury Services which had led to a much improved level of security for its investments.
- 5.7 Members thanked the Head of Finance (Treasury and Pensions) for his interesting and comprehensive report, and were pleased how the treasury strategy was being managed.
- 5.8 **RESOLVED:** That the report be noted.

6. External Audit: Annual Audit Letter, Audit 2009/10

- 6.1 The Committee received the report of the District Auditor– copy attached to the signed Minutes – which summarised the findings from the 2009/10 audit, and which comprised the audit of the authority's financial statements, an assessment of the authority's arrangements to achieve value for money in its use of resources and an inspection of the Benefits Service.

- 6.2 The Audit Manager explained that the Annual Audit Letter had been drafted before the Government's Comprehensive Spending Review had been announced, so some things may have moved on since then.
- 6.3 The Audit Manager gave an overview of the report. It was noted that the Council had made a successful transition following the LGR process and had ensured that continuity was maintained. Due to current pressure on the economy the Council had indicated that it anticipated finding £66m of savings over four years. The Audit Manager was encouraged to see that the Council had already made £9.7m savings in the current financial year. There was also pressure on reserves, which were currently at the minimum level set by the Council, however it was hoped to increase reserves to £10m in the future.
- 6.4 The Council was currently restructuring posts and making changes to terms and conditions so there would be a lot of uncertainty for staff and the public and the risk of service disruption. It would therefore be important to communicate and manage these changes to ensure high quality services were maintained.
- 6.5 The Audit Manager then turned to the financial statements for which an unqualified opinion had been given for 2009/10. He explained that although the transition to a unitary authority had required a lot of work and had placed a lot of pressure on some departments, no material misstatements in the accounts or weaknesses in internal controls were identified. In the current climate the Audit Manager emphasised the importance of maintaining and protecting internal controls going forward and the need to maintain good reserves in the current climate of major structural change and severe financial constraint.
- 6.6 The Audit Manager explained that whilst no score would be issued for its use of resources, an unqualified Value for Money conclusion had been issued stating that the Council had adequate arrangements in place for its use of resources. The Audit Manager touched briefly on the transition of public health commissioning arrangements and the compulsory Benefits inspection which had assessed the Council as providing a 'fair' service that had promising prospects for improvement.
- 6.7 In conclusion, the Audit Manager stressed the importance of ensuring strong financial management including good lines of communication.
- 6.8 In response to a query, the Audit Manager confirmed that the Pension Fund had increased by £325m on the previous year although there was still a deficit. He reported that the Actuarial Valuation was due this year.
- 6.9 In response to a query it was confirmed that allegations about a former Chief Executive misusing expenses had been reviewed and nothing had been found to substantiate the allegations.
- 6.10 A query was raised about whether any work was ongoing to further the need to maintain the integrity of the internal control environment. It was explained that the quarterly Internal Audit reports would identify any weaknesses.
- 6.11 In response to concerns, it was confirmed that both Members and Officers had the necessary skills and knowledge of the new accounting requirements. The

Head of Audit agreed to include an update for Members in the forthcoming Training Seminar.

- 6.12 In response to a query the Audit Manager explained that there had been some improvement in the level of rent arrears in the Oswestry area however this needed to be monitored as there was a danger that this issue could arise again.
- 6.13 A brief discussion ensued regard an email that Members had received querying matters in relation to the Annual Audit Letter. The Head of Audit agreed to ascertain the appropriate place for these queries to be dealt with and would report back to the next meeting.
- 6.14 The Chairman raised concern about uncompleted Disclosure of Related Party Transactions Statements and wished the Head of Legal and Democratic Services to strengthen the request for Members to complete their annual disclosure on time.
- 6.15 **RESOLVED:** That the report be noted.

7. External Audit: Audit Strategy, Audit 2010/11

- 7.1 The Committee received the report of the District Auditor – copy attached to the signed Minutes – which set out the audit work proposed to be undertaken for the audit of financial statements 2010/11 and the Value for Money conclusion and which reflects the audit work specified by the Audit Commission for 2010/11 together with current national risks relevant to the authority's local circumstances and its local risks.
- 7.2 The Audit Manager explained that the report summarised how the audit would be done and how key risks would be identified eg IFRS, housing stock valuation etc. The Audit Manager then discussed the Audit Commission's testing strategy whereby control testing of the main systems would be carried out followed by substantive testing of certain transactions. Following a review of the Council's financial resilience, a Value for Money conclusion would be issued.
- 7.3 **RESOLVED:** That the report be noted.

8. External Audit: Statement of Audit Progress, Audit 2010/11

- 8.1 The Committee received the report of the District Auditor – copy attached to the signed Minutes – which updated Members on progress made by the Audit Commission in delivering its responsibilities as the authority's external auditor. It also highlighted key emerging national issues and developments which may be of interest to the Committee.
- 8.2 Members felt that the information contained in the section 'Challenges Faced by Audit Committees' was very useful for members to be aware of. It was felt that the Localism Bill would not impact on the Council until it had become a statute.
- 8.3 **RESOLVED:** That the report be noted.

9. Annual Audit Committee Self Assessment

- 9.1 The Committee received the report of the Section 151 Chief Finance Officer – copy attached to the signed Minutes – which asked Members to review and comment on the self assessment questionnaire attached to the report which would allow them 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.
- 9.2 It was reported that the Committee did not have a role in overseeing whistle-blowing strategies as they were considered by the Standards Committee. Members were informed that the structure of the Standards Committee was currently undergoing a review.
- 9.3 It was agreed for a questionnaire to be circulated to all members to identify any gaps in knowledge and/or training and to inform future arrangements.
- 9.4 It was clarified that the Committee could refer to other Committees and that it met frequently and as required.
- 9.5 In response to a query the Head of Audit informed Members that the CIPFA Code of Practice for effective audit committees was updated by quarterly supplements received from CIPFA’s Better Governance Forum.
- 9.6 **RESOLVED:** That the report be noted.

10. Internal Audit Annual Plan 2010/11 – Third Quarter Report

- 10.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which summarised progress for 2010/11 against the Internal Audit Plan covering delivery up to the end of December.
- 10.2 The Head of Audit reported that at the third quarter mark 77% of the revised plan had been completed which was in line with the target of 90% by year end. She informed the Committee that 26 final reports had been given good or reasonable assurance opinions and contained 208 recommendations, a further 69 draft reports had also been issued.
- 10.3 The Head of Audit explained that due to a reduction in resources it had been necessary to further reduce the Internal Audit Plan by 90 days to 2,597 days. Reasons for this included redundancy, maternity leave, long-term sickness and work arising out of the Department for Work and Pension’s Employment Authentication Service.
- 10.4 The Head of Audit went on to highlight the significant variations including suspension of the Schools FMSIS assessments, withdrawal of grants in some areas and work in new audit areas following the move to unitary status. Reductions to the plan had been carefully selected and the Head of Audit was satisfied that she could still deliver an opinion on the control environment at the year end.
- 10.5 Finally, the Head of Audit drew attention to the Fraud Training tool which had recently been introduced and was available on the intranet for both staff and Members to complete. It was a good awareness tool and an efficient way of providing training. Positive feedback had been received and an update would

be provided in the annual report presented to the next meeting of the Audit Committee. It was requested that this be included in the upcoming training session to ensure that all Audit Committee Members had completed the training.

- 10.6 In response to a query the Audit Manager explained the issues surrounding the low percentage of audit days completed for Development Services which included sickness within the team. He reported that two major audits in those areas were due to start shortly. In response to a query regarding the future of FMSiS, the Audit Manager clarified that Internal Audit were still offering the option for schools to voluntarily undertake the assessment under local arrangements until the new framework was introduced.
- 10.7 In response to a query the Head of Audit clarified the advice and support sought from Internal Audit and explained that the Section 151 Officer was responsible for putting internal controls in place if he felt they were necessary in order to mitigate risks.
- 10.8 A brief discussion ensued in relation to the Audit Committee's role in strategic risk management and it was suggested that an actual risk management score be included under the Risk Management Appraisal section of reports to the Committee. In response, the Head of Audit explained that there were risk management spreadsheets in relation to the audit planning process; these were detailed for the Committee's requirements. She agreed to discuss the suggestion with the Risk Manager to evaluate how best members could seek assurance that risk has been dealt with appropriately and in the most efficient way.
- 10.9 **RESOLVED:** that the third quarter performance against the plan in 2010/11 and the adjustments required to the 2010/11 plan to take account of changing priorities, both set out in Appendix A, be noted.

11. Internal Audit Risk Management Report 2010/11

- 11.1 The Committee received the report of the Audit Manager – copy attached to the signed Minutes – which summarised the detailed findings identified in the Internal Audit review of Risk Management.
- 11.2 The Audit Manager reported that full levels of assurance had been given for each of the control objectives. He informed the Committee that all three recommendations made last year had been implemented and that the three recommendations made this year had already been actioned.
- 11.3 The Audit Manager concluded that the overall control environment for the system of Risk Management had been assessed as good and this would be fed into the Annual Audit Report to be presented to the Committee at its meeting in June.
- 11.4 **RESOLVED:** That the findings from the review of Risk Management by Internal Audit be noted.

12. Date of Next Meeting

- 12.1 The next meeting of the Committee would be held on 23 March 2011 at 10.00am in the Shrewsbury Room.

12.2 The next training session for Members would take place on 21 February 2011 at 1.30pm in the Shrewsbury Room.

13. Exclusion of the Press and Public

13.1 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 14 shall not be conducted in public on the grounds that it involves the likely disclosure of exempt information as defined by the categories specified against it.

**14. Internal Audit Fraud Update – January 2011
(Exempted by categories 2, 3 and 7)**

14.1 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.

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

Signed.....(Chairman)

Date.....23 March 2011.....