



<u>Committee and Date</u>
Audit Committee
16 June 2011
10.00 am

<u>Item No</u>
5
Public

MINUTES OF THE MEETING HELD ON 23 MARCH 2011

10.15 am – 12.45 pm

Responsible Officer Michelle Evans

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Present

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

Mr G Patterson of the Audit Commission was also in attendance.

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 An apology was received from Mr M Wood.

2. Declarations of Interest

2.1 No declarations of interest were made.

3. Minutes

3.1 It was confirmed that Mr P Adams had given belated apologies and it was agreed to include these in the Minutes.

3.2 Paragraph 4.7 (Council Tax and National Non Domestic Rate Performance Monitoring Report)

In response to a query the Head of Audit Services confirmed that an update on outstanding debts had been added to the work plan for the September 2011 meeting.

3.3 Paragraph 6.13 (Annual Audit Letter)

It was confirmed that the Chairman had responded to the email highlighting that the queries contained therein were an item for Scrutiny not the Audit Committee.

3.4 The Chairman requested that an item be included at the next training session clarifying the division of work between the Audit Committee and Scrutiny.

3.5 Paragraph 10.8 (Internal Audit Annual Plan 2010/11 Quarter Three)

The Chairman clarified that he had suggested that an actual risk management score be included under the Risk Management Appraisal Section of reports to all Committees, not just the Audit Committee. The Head of Audit Services reported that she had spoken to the Risk and Insurance Manager who had explained that a review of Committee reports was being undertaken and consideration is being given to include the Risk Management Appraisal Section in the body of the report to raise its profile and to allow it to be discussed in more detail.

3.6 **RESOLVED:** that the Minutes of the meeting held on 8 February 2011 be approved and signed by the Chairman as a correct record, subject to the above.

It was agreed to take agenda item 5 (Housing Rent Arrears) next.

4. **Housing Rent Arrears**

4.1 The Committee received the report of the Housing Finance Manager– copy attached to the signed Minutes – which gave an update on the rent collection rate to 6 March 2011 and identified actions that had been taken during the year to reduce the level of arrears since 31 March 2010.

4.2 The Housing Finance Manager reported that the collection rate had risen to 98.3% as at week 50. He drew attention to the initiatives targeted at reducing the level of arrears and explained the reasons why former tenant arrear were harder to collect. He reported that the authority had sufficient bad debt provisions to address the irrecoverable debts and a number were being recommended for write off.

4.3 The Housing Finance Manager reported that current tenant arrears stood at £176k and former tenant arrears at £374k which totalled £550k, a fall of £40k. He explained that there was one more rent free week when any arrears could be paid.

4.4 Members were pleased that good progress had been made and that irrecoverable debts were being written off. In response to a query about the effectiveness of the authority's debt collectors, the Housing Finance Manager reported that a high number of cases were referred to them however a lot came back as irrecoverable in which case they would be considered for write off.

4.5 Concern was raised in relation to the rent incentive initiative as it was felt that this was not an approved use of council money. The Committee requested that a report from Housing Services, with input from the Head of Audit Services, be presented to a future meeting explaining the background to this initiative including who approved it and how tenants were selected. Members were concerned that the Council could be criticised by other tenants. The Housing Finance Manager stressed that the initiative had not been open to all tenants and that those selected were already taking action to reduce their

- arrears. Their accounts were now up to date so it had been far better to recover this money than to write off the arrears.
- 4.6 In response to a query, the Housing Finance Manager explained that a high number of the former tenant arrears were as a result of eviction. The ability to recover arrears became even harder once evicted. Current rent arrears were addressed within two weeks.
- 4.7 The Housing Finance Manager explained that each year the bad debt provision in the Housing Revenue Account was increased to allow for bad debts to be written off, currently £50k was what the Housing Revenue Account felt was prudent as the annual increase to address former tenant arrears.
- 4.8 In conclusion, the Housing Finance Manager reported that the collection target for the next year was 99% which was increasingly challenging and in the upper quartile.
- 4.9 **RESOLVED:** That the report be noted.
- 5. Report on the Process undertaken to date for the Highway and Environment Term Service Contract**
- 5.1 The Committee received the report of the Procurement Manager – copy attached to the signed Minutes – which reviewed the tendering process so far undertaken to award the Highway and Environment Term Service Contract which Shropshire Council was procuring jointly with Cheshire West and Chester Council.
- 5.2 The Procurement Manager took Members through the report and explained that it was hoped to appoint one main contractor for both authorities if this was the most advantageous option. Ten organisations had returned their completed questionnaires and of these six had been selected to be invited to tender. The invitation to tender would be dispatched on 14 April 2011 and the deadline for receiving completed tenders was 12 noon on 8 July 2011.
- 5.3 The Chairman explained that this aspect of service to residents was particularly sensitive and Members were anxious to assure residents that the Council took the best opportunity to ensure best value in terms of performance, not only in the procurement but also to ensure good compliance.
- 5.4 In response to a query the Project Manager explained that although it was hoped to get a better price by appointing one contractor, both councils would have separate contracts with the contractors so each would include their own audit requirements.
- 5.5 The Procurement Manager explained that part of the award criteria would be to look at the balance between cost and quality. The Project Manager expanded on this and explained that certain standards would be set out for the whole contract eg to keep the grass at a certain length and these performance indicators would be measured throughout the contract and extensions or penalties may be used.
- 5.6 In response to a query the Procurement Manager explained that the EU Procurement Directive specified that at least five expressions of interest had to be taken forward to the invitation to tender stage. As the tender requirements

- had to be exactly met and as this was very time intensive, any tenders received clearly wished to pursue the Contract.
- 5.7 The Project Manager explained that there was a schedule of rates which any Contractor would have to work to so if they tried to charge too much the Council could give the job to another Contractor. In response to a query he confirmed that safeguards were built in to take account of any price increases or the addition of new items.
- 5.8 The Project Manager gave an illustration of the allocation of extensions and explained that if a Contractor failed to perform, the contract could not be terminated straight away as there had to be two clear years at the end of a contract to allow for the procurement of a new contract.
- 5.9 In response to a query the Project Manager explained that there were six basic areas of performance that would be measured monthly (accuracy, on time, at cost, safety issues, user satisfaction and environmental impact).
- 5.10 The Project Manager responded to a number of queries in relation to staffing issues, TUPE transfers and joint working with other Shropshire bodies. It was confirmed that the Contract would not include any work at schools. In response to a query the Project Manager explained that in the main the majority of work would be done by the Contractor however, there may be some specialist work that would need sub-contractors or to allow for peaks and troughs. Any sub-contractors would be managed by the Contractor.
- 5.11 The Project Manager explained that the level of collaboration was Level 2 Single Tender Package but with two separate contracts. The Section 151 Officer drew attention to the fact that there was an assumption in the Medium Term Financial Plan that overall there had to be a £600k reduction in cost from the start of the Contract and if this was not delivered the savings would need to be found in other areas.
- 5.12 **RESOLVED:** That the progress and steps taken so far and planned be noted.
- 6. External Audit Progress Report**
- 6.1 The Committee received the report of the Council's Audit Commission Manager – copy attached to the signed Minutes – which provided an update 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.
- 6.2 The District Auditor took Members through the report. Following a review of the Information Technology (IT) environment, the District Auditor confirmed that there was a low risk of material misstatement and reliance could be placed on it. Some minor improvements had however been identified and these had been reported to the authority.
- 6.3 The District Auditor reported that the review of the restatement of the Council's financial statements arising from the change to International Financial Reporting Standards (IFRS) should be completed later that month. The audit was on track and no problems were expected.

- 6.4 The District Auditor confirmed that the 2011/12 Audit Commission fees had been finalised and were available on its website. Shropshire Council's fee would be £295,650. The District Auditor briefly touched on other matters which may be of interest to the Committee including financial reporting, blue badge fraud, staff mutual's and the Local Government Association's proposals for the new local government performance framework.
- 6.5 In response to a query about blue badge fraud, the Head of Audit Services reported that data matching work was ongoing but no frauds had been identified at the current time.
- 6.6 In response to a query the District Auditor explained the risks associated with staff mutuals and advised that the authority would need to have a way of assessing any expressions of interest received in order to ensure they were viable in terms of standards, quality, health and safety etc.
- 6.7 The Head of Audit Services reported that periodic testing of disaster recovery arrangements had formed part of her recommendations to senior management for which a response was awaited. The District Auditor explained that although the authority had good plans in place, it was good practice to take systems down and for the arrangements to be tested.
- 6.8 The Chairman queried whether Shropshire Council had any responsibility for ensuring that Town and Parish Councils had their accounts audited. The Section 151 Officer agreed to explore this however the District Auditor felt that the legislation had not been drafted with that in mind and that it was the primary responsibility of the auditor of those councils. The Chairman requested comment in future reports if this affected any of the Town and Parish Councils in Shropshire.
- 6.9 **RESOLVED:** That the report be noted.
- 7. External Audit: Audit Strategy, Shropshire County Pension Fund 2010/11**
- 7.1 The Committee received the report of the Council's Audit Commission Manager – copy attached to the signed Minutes – which set out the audit work proposed to be undertaken for the audit of the Pension Fund financial statements for 2010/11.
- 7.2 The District Auditor explained that this report had been presented to the Pensions Committee which was the responsible body, however, it had been agreed to bring it to the Audit Committee for noting in its Governance role for the Council as a whole.
- 7.3 The District Auditor drew attention to the specific opinion risks that had been identified which included areas relating to SORP compliance, actuarial requirements, accuracy issues and assurance as to the value of investment funds. The District Auditor confirmed that these risks were not material to the accounts.
- 7.4 **RESOLVED:** That the report be noted.

8. External Audit 2009/10 Certification of claims and returns report

- 8.1 The Committee received the report of the Council's Audit Commission Manager – copy attached to the signed Minutes – which summarised the findings from the certification of 2009/10 claims.
- 8.2 The District Auditor informed the Committee 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 and he explained that the Audit Commission were acting as agents for those government departments and not for the Council when certifying these claims.
- 8.3 The District Auditor confirmed that the fees charged for this work were £79k which was a significant saving on the 2008/09 combined fee for the former County and District Councils (£199k).
- 8.4 The District Auditor drew attention to the amendments which had been made to the claims for Housing and Council Tax Benefits, National Non Domestic Rates and Advantage West Midlands. He also highlighted the appendices which summarised the 2009/10 certified claims, the costs for each grant claim and the key features of the current certification arrangements.
- 8.5 In conclusion, the District Auditor confirmed that overall the Council's control environment was good.
- 8.6 In response to a query, the District Auditor explained that certain claims were audited outside of the Audit Commission regime and required an agreement to be signed to enable the Audit Commission to carry out the audit.
- 8.7 A query was raised in relation to the District Auditor's suggestion that some of the required certification testing could be carried out by council officers in order to reduce the audit fees. In response, the Head of Audit Services confirmed that this would be explored with the relevant officers.
- 8.8 **RESOLVED:** That the report be noted.

9. Draft Internal Audit Plan 2011/12

- 9.1 The Committee received the report of the Head of Audit Services – copy attached to the signed Minutes – which provided members with a detailed Internal Audit Plan for 2011/12.
- 9.2 The Head of Audit Services informed the Committee that 2,868 days had been identified in order to provide coverage across the Council's services and external clients. She explained that this was the third year of the strategic plan covering the period 2009 to 2013. It was confirmed that the Audit Plan had been revised to take account of the Council's 'New Operating Model'.
- 9.3 The Head of Audit Services had spoken to the new Corporate Heads of Service in order to identify any risks emerging in new areas or areas where expert staff were leaving the authority. She explained that Internal Audit wished to advise on internal control risks and their management arising due to the transformation process and a contingency of 200 days had been allocated

to allow for this. The plan needed to be flexible to allow additional work to be allocated if required and if any priorities changed these would be reported to the Committee.

- 9.4 The Head of Audit Services circulated the new Audit structure and confirmed that three posts had been lost. From 1 April 2011 Internal Audit would report directly to the Business Improvement Unit, which would strengthen audits links allowing them to provide advice on internal controls that should be in place as services are redesigned; whilst still reporting to the Section 151 Officer on issues of financial propriety.
- 9.5 The Head of Audit Services drew attention to Appendix A which set out a summary of the Audit Plan by Service which was not a complete list of the new Council structure but set out those areas where audits would be delivered in 2011/12.
- 9.6 In response to a query the Head of Audit Services confirmed that mechanisms were in place to pick up on any risk area that changes. The Head of Audit Services explained that the Management Consultant covering Job Evaluation was an internal employee. This project was being done as part of the audit team in order to give reassurance that it was independent of Human Resources.
- 9.7 The Head of Audit Services explained the new roles within Audit and reported that the Group Auditor with responsibility for counter fraud was a specialist in that area however the Senior Group Auditor had overall responsibility.
- 9.8 **RESOLVED:** That Members approve the proposed Internal Audit Plan for 2011/12.

10. Audit Committee Annual Work Plan 2011/12

- 10.1 The Committee received the draft work plan – copy attached to the signed Minutes. The Head of Audit Services informed the Committee of the additional items included in the work plan and confirmed that the requested report on Council Tax and National Non Domestic Rates would be added on to the September 2011 meeting.
- 10.2 **RESOLVED:** that the draft work plan be noted.

11. Compliance with Financial Rules

- 11.1 The Committee received the report of the Head of Audit Services – copy attached to the signed Minutes – which summarised the findings identified in the Internal Audit review of compliance with Financial Rules.
- 11.2 The Head of Audit Services highlighted the five areas covered by the Financial Rules and the information that had been used to establish compliance which included a questionnaire completed by all Directorate Finance Officers.
- 11.3 The Head of Audit Services confirmed that changes made to the Financial Rules in February 2011 would be implemented from 1 April 2011 and the Finance Manual would be updated to reflect these changes.

- 11.4 In conclusion, the Head of Audit Services reported that five recommendations for improvement had been made however the Council's compliance was generally good and no significant material weaknesses had been identified.
- 11.5 In response to a query the Head of Audit Services explained how the recommendations would be implemented and confirmed that they did not recommend any amendments to the rules. She had however, already fed her observations into the recent review of Financial Rules.
- 11.6 **RESOLVED:** That the findings from the review of compliance with Financial Rules by Internal Audit be noted.

12. Date of Next Meeting

- 12.1 The next meeting of the Committee would be held on 16 June 2011 at 10.00am 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 items 14 and 15 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.

14. Minutes (Exempted by Categories 2, 3 and 7)

- 14.1 **RESOLVED:** that the Exempt Minutes of the meeting held on 8 February 2011 be approved and signed by the Chairman as a correct record.

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

- 15.1 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.
- 15.2 **RESOLVED:** that the report be noted.

Signed.....(Chairman)

Date.....16 June 2011.....