



Committee and Date

Audit Committee

20 September 2011

10.00 am

Item No

3

Public

MINUTES OF THE MEETING HELD ON 16 JUNE 2011

10.00 am – 12.45 pm

Responsible Officer Michelle Evans

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Present

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

Mr E Bagnall and Ms B Veghala of the Audit Commission were also in attendance.

Opening Remarks

Members and Substitutes of the Committee, representatives from the Audit Commission and other Officers were welcomed 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

1.1 Apologies were received from Mr B B Williams and Mr M Wood.

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.

In the absence of the Chairman, the Vice-Chairman took the Chair for the remainder of the meeting.

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 23 March 2011 be approved and signed by the Chairman as a correct record.

6. Internal Audit Annual Report 2010/11

- 6.1 The Committee received the report of the Audit Service Manager – copy attached to the signed Minutes – which provided members with details of the work undertaken by Internal Audit for the year ended 31 March 2011.
- 6.2 The Audit Service Manager reported that 99% of the revised plan had been delivered which was in line with the target and she was able to give a positive year end opinion that the Council had a sound and effective internal control environment for 2010/11.
- 6.3 The Audit Service Manager drew attention to the areas of high risk for which good or reasonable assurance had been given for all areas except one for which limited assurance had been given. Other audit areas for which limited levels of assurance had been given were also listed, however the Audit Service Manager was satisfied that these did not affect the audit opinion.
- 6.4 The Audit Service Manager reported that 196 good and reasonable audit assurance opinions had been delivered in 2010/11. Unsatisfactory opinions had been issued for Shrewsbury Sports Village, the Quarry Swimming and Fitness Centre and the Meole Brace Golf Course. Work had been undertaken with management to review procedures and improve controls. A report on progress was requested for a future meeting.
- 6.5 Of the 15 fundamental systems, seven had been assessed as good, five as reasonable and three had been given a limited level of assurance. The main areas of weakness to be addressed were shown in the table at paragraph 5.17, and related to the amalgamation of the five former District Council systems into the Northgate system. Work was being undertaken to address these issues.
- 6.6 The Audit Service Manager explained that of the 2,501 recommendations made, 35 had been rejected by management, reasons for which had been accepted. The Audit Service Manager highlighted the increased number of special investigations that had been undertaken.
- 6.7 Concern was raised in relation to the limited opinions given in respect of Council Tax, NNDR and Housing Benefits and the Audit Service Manager explained the reasons for this.
- 6.8 The Audit Service Manager agreed to circulate the CIPFA benchmarking report to members once received.
- 6.9 **RESOLVED:**
- A. That performance against the Audit Plan for the year ended 31 March 2011 as set out in the report of the Audit Service Manager be endorsed.
 - B. That it be noted that the system of internal control was operating effectively and could be relied upon when considering the Annual Governance Statement for 2010/11.
 - C. That the Audit Service Manager's positive year end opinion on the Council's internal control environment for 2010/11 on the basis of the work undertaken and management responses received be endorsed.

7. Annual Review of the Effectiveness of Internal Audit

- 7.1 The Committee received the report of the Section 151 Officer – copy attached to the signed Minutes – which set out the effectiveness of internal audit in the Council. The Section 151 Officer explained that the Audit Committee were required to review the findings of the Council’s annual review of the effectiveness of internal audit and to form an opinion thereon.
- 7.2 Appendix A to the report indicated that the Council were compliant with virtually all of the provisions contained in the Code of Practice for Internal Audit. Only partial assurance had been given under Principles of Independence however, which the Section 151 Officer explained that because of the way Internal Audit worked, they could not be completely independent given a small number of administrative services that they had to deliver, however, this was transparently managed.
- 7.3 **RESOLVED:** That the conclusion, as set out in the report of the Section 151 Officer, that the Council had an effective system of internal audit in place, be endorsed.

8. Review of Shropshire Council’s Code of Corporate Governance

- 8.1 The Committee received the report of the Senior Group Auditor – copy attached to the signed Minutes – which set out a review of Shropshire Council’s Code of Corporate Governance and clearly identified how the council achieved effective corporate governance in 2010/11.
- 8.2 The Senior Group Auditor explained that the review of the Code of Corporate Governance would feed into the Committee’s Annual Governance Statement. He informed the Committee that very little had changed in the Council’s Framework of Corporate Governance except the detailed examples and that the Council had very strong compliance with its code of Corporate Governance.
- 8.3 **RESOLVED:** That the Internal Audit conclusion, as set out in the report of the Senior Group Auditor, that the Council had very strong compliance with the Code of Corporate Governance, be endorsed.

9. Annual Governance Statement and a Review of the Effectiveness of the Council’s System of Internal Control 2010/11

- 9.1 The Committee received the report of the Section 151 Officer – copy attached to the signed Minutes – which set out the Annual Governance Statement which had been produced following a review of the effectiveness of the Council’s System of internal controls.
- 9.2 The Section 151 Officer reported that the Annual Governance Statement 2010/11 would accompany the Statement of Accounts. It was a requirement of the Accounts and Audit Regulations 2011 for the Council to produce the Statement and for the Audit Committee to consider it.
- 9.3 The Section 151 Officer informed the Committee that two significant governance issues had been identified in relation to: delivery of the Medium Term Financial Strategy and embedding the New Operating Model alongside delivery of the transformation programme, however action plans were in place to support these issues.

9.4 In response to a query the Section 151 Officer explained that more detail would come to light if any governance concerns arose due to the transformation programme.

9.5 Members queried the number of votes cast in the Youth Parliament elections and the criteria used for partnership working with the voluntary and community sector.

9.6 **RESOLVED:** That the Annual Governance Statement 2010/11 be approved.

10. Revenue Outturn 2010/11

10.1 The Committee received the report of the Section 151 Officer – copy attached to the signed Minutes - which provided details of the revenue outturn position for Shropshire Council for 2010/11.

10.2 The Section 151 Officer explained that the report had been approved by Cabinet the previous day. The final outturn for 2010/11 showed an overspend of £518k. Bigger overspends had been expected following the bad winter which had directly affected services and led to additional costs being incurred however a number of action plans were in place to bring those costs down.

10.3 Turning to the level of general balances, the Section 151 Officer reported that these currently stood at £3.9m. In response to a query the Section 151 Officer explained that this level of balances was not high risk and that it could be argued that if 30% were to go wrong at any one time the Council could still manage to deliver its services.

10.4 The Section 151 Officer then drew attention to Appendix 5 which showed overspends by business area and which had to be repaid into reserves the following year. In response to a query the Section 151 Officer explained how underspends were recovered.

10.5 In response to a query, the Section 151 Officer agreed to obtain a breakdown of areas of overspend in school balances. The Section 151 Officer confirmed that the majority of the overspend in facilities management was due to office moves within the Shirehall however it also related to other Council premises.

10.6 In response to concerns raised at the level of reliance and spend on consultants, the Section 151 Officer explained that the use of consultants had been identified as a requirement as the Council moved through the transformation agenda for areas where there was no in-house experience. They generated millions of pounds of spend and were considered good value for money. A report was requested for the next meeting showing how much had been spent on consultants and the benefits they had delivered for the Council.

10.7 **RESOLVED:**

- A. To note that the Outturn for the Revenue Budget for 2010/11 was an overspend of £517,640, this represents less than 0.1% of the original gross budget of £629,890,000.

- B. To note that the level of the general balance stood at £3,907,000 (2009/10 £2,875,000), which is within the Council's policy of ½% to 2% of the gross revenue budget.
- C. To note that the level of school balances stood at £6,239,000 (2009/10 £7,647,772).
- D. To reaffirm that overspends should be repaid to the General Fund Balance in 2011/12 as detailed in Appendix 5 of the report of the Section 151 Officer.

11. Capital Outturn Report - 2010/11

- 11.1 The Committee received the report of the Section 151 Officer – copy attached to the signed Minutes – which informed Members of the final outturn for the 2010/11 Capital Programme and the current position regarding the Council's 2011/12 to 2014/15 Capital Programme. It also detailed the current position in respect of the prudential indicators approved by Council on 24 February 2011.
- 11.2 The Section 151 Officer reported that outturn capital expenditure in 2010/11 had been £79.5m from a Capital Programme of £86.2m. The Capital Programme had been reduced significantly from a starting figure of £124m in order to improve affordability. He confirmed that the £80m had been delivered by grants and other external funding sources and not through borrowing, so there were no revenue implications for future years.
- 11.3 The Section 151 Officer drew attention to table 6 which set out the revised Capital Programme for 2011/12 as agreed by Cabinet in February. It had increased from £77.6m to £96m due to slippage and budget increases. The level of potential borrowing to pay for the Capital Programme in 2011/12 was £14.4m which would cost the Council £1.5m the following year. It was hoped to raise the level of capital receipts in the future in order to reduce borrowing.
- 11.4 Concern was raised that as a consequence of raising capital receipts revenue would be affected because of the need to borrow and certain revenue streams could be lost, for example, the major repairs allowance. In response it was confirmed that the HSR account included the settlement for major repairs to housing stock.
- 11.5 In response to a query, the Section 151 Officer gave an example of slippage in the Capital Programme whereby the programme would be 're-profiled', and some of the capital moved (slipped) into the following year.
- 11.6 **RESOLVED:**
 - A. To approve the budget variations to the 2010/11 capital programme, totalling £82,473 as included in Appendix 1&3a/Table 1 of the report of the Section 151 Officer, and the re-profiled 2010/11 capital budget of £86.2m.
 - B. To approve the re-profiled capital budgets of £96.5m for 2011/12 (including slippage of £6.65m from 2010/11), £38.6m for 2012/13, £30.6m for 2013/14 and £27.9m for 2014/15 as detailed in Appendix 2 and changes in Appendix 3b of the report of the Section 151 Officer.

- C. To accept the position set out in Appendix 1 of the report of the Section 151 Officer, of outturn expenditure of £79,544,144, representing 92.3% of the revised capital budget for 2010/11.
- D. To accept the position regarding the prudential indicators approved as part of the Treasury Strategy Report 2011/12, presented to Council on 24 February 2011.
- E. To approve the carry forward to 2011/12 of the unused operating lease approvals of £980,485.
- F. To approve retaining the balance of capital receipts set aside of £9.7m as at 31 March 2011 to generate Minimum Revenue Position savings of £390,000 in 2011/12.

12. Annual Statement of Accounts 2010/11

- 12.1 The Committee received the report of the Section 151 Officer – copy attached to the Signed Minutes – which provided an overview of the Statement of Accounts for 2010/11 and also provided details of the reasons for the most significant changes between the 2009/10 Accounts and the 2010/11 Accounts.
- 12.2 The Section 151 Officer reminded the Committee that the Statement of Accounts were a work in progress and would be signed off by himself at the end of the month. Amendments to the Housing Revenue Account were circulated due to a last minute change in the guidance in relation to the value of impairment.
- 12.3 Members were requested to let the Section 151 Officer have any queries before the 30 June 2011. A query was raised in relation to the reduced amount of cash and cash equivalents shown in the Balance Sheet compared to the previous year. In response, the Chief Accountant explained that as there had been no new borrowing, this had reduced the amount of investments held by the Council.
- 12.4 It was confirmed that the £799k shown as a deficit in the Housing Revenue Account was in fact a surplus and this would be amended accordingly.
- 12.5 **RESOLVED:** To note the draft Statement of Accounts 2010/11 and to agree that the Section 151 Officer be authorised to make any final adjustments to the Statement of Accounts prior to the 30 June 2011.

13. Annual Assurance Report to Council 2010/11

- 13.1 The Committee received the report of the Section 151 Officer – copy attached to the signed Minutes – which set out the Audit Committee's draft Annual Assurance Report to Council for 2010/11.
- 13.2 The Section 151 Officer explained that the Audit Committee were required to provide independent assurance of the adequacy of the risk management framework and the associated internal control environment. The Annual Assurance Report was based on the work of the Committee up to and including this meeting.
- 13.3 **RESOLVED:** That Council be recommended to accept the contents of the draft Annual Assurance Report for 2010/11.

14. Risk Management Annual Report to Committee 2011

- 14.1 The Committee received the report of the Risk Manager – copy attached to the signed Minutes – which set out the work undertaken by the Risk Management Team during the last year.
- 14.2 The Risk Management Officer introduced the report and highlighted some of the work undertaken with newly appointed Group Managers to identify and manage risks. She reported that the strategic risks now facing the Council were being considered and that the operational risks would continue to be monitored.
- 14.3 Members commended the excellent report and results from the recent benchmarking exercise which placed Shropshire Council first overall compared with 19 similar sized local authorities. Members congratulated the Team Leader for receipt of the Risk Manager of the Year award.
- 14.4 **RESOLVED:** To accept the position as set out in the report of the Risk Manager.

15. Benefit Fraud Team Performance Monitoring Report

- 15.1 The Committee received the report of the Customer Care and Involvement Manager – copy attached to the signed Minutes – which provided Members with performance monitoring information on the activities of the Benefit Fraud Team for the year to 31 March 2011.
- 15.2 The Customer Care and Involvement Manager explained that the Benefit Fraud Team were now part of the Corporate Enforcement Team. She reported that there had been a significant increase in prosecutions and cautions in the previous year together with an increased amount recovered from overpayments including those recovered on behalf of the Department for Work and Pensions.
- 15.3 In response to a query the Customer Care and Involvement Manager explained that the statutory deadline for Housing Benefit Overpayment recovery was six years. In the event of the debtor being deceased, overpayments would be pursued until the estate was cleared and at that point they would be written off. The Customer Care and Involvement Manager explained that unrecoverable debts were not pursued.
- 15.4 In response to a query the Section 151 Officer reported that Overpayments would be shown as a debt in the accounts until they were paid, or written off. Further information was requested about those overpayments that were not subject to prosecution.
- 15.5 **RESOLVED:** To accept the position as set out in the report of the Customer Care and Involvement Manager.

16. Benefit Service Inspection Report

- 16.1 The Committee received the report of the Customer Care and Involvement Manager – copy attached to the signed Minutes – which provided the Committee with an update of the action plan that had been produced to address the weaknesses identified in the Audit Commission inspection.
- 16.2 The Customer Care and Involvement Manager reported that the service had improved quite significantly despite a dip in February/March. She drew

attention to the average time taken to process changes in circumstances, which, at 6 days, was better than the national average.

16.3 New claims were being processed within 24 days and a fast track 48 hour process had been introduced, for which the service was currently processing 10/11 claims per week. The target for claims remained at 19 days.

16.4 Members thanked the Customer Care and Involvement Manager and her team for the excellent progress.

16.5 **RESOLVED:** To accept the position as set out in the report of the Customer Care and Involvement Manager.

17. External Audit Annual Audit Fee 2011/12 Letter

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

17.2 The Council's Audit Commission Manager explained that the estimated fees for the 2011/12 audit represented a reduction of over 10% on the previous years' fees. They were based on an hourly rate and were consistent with what the Audit Commission would expect the fees to be.

17.3 In response to a query, the Council's Audit Commission Manager confirmed that audit fees were paid in advance.

17.4 **RESOLVED:** To note the position as set out in the report of the Council's Audit Commission Manager.

18. External Audit Progress Report

18.1 The Committee received the report of the Council's Audit Commission Manager – copy attached to the signed Minutes – which provided the Committee with 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.

18.2 The Council's Audit Commission Manager drew attention to table 1 which set out those key financial systems for which no assurance had yet been obtained. He explained that additional testing would be undertaken in order to gain assurance.

18.3 The Value for Money conclusion was almost complete and the Council's Audit Commission Manager was confident that an unqualified opinion would be given.

18.4 In order to reduce the cost of the audit, officers were being trained to use the Audit Commissions work sheet.

18.5 The Council's Audit Commission Manager highlighted a query received in relation to a social care needs assessment. This had been discussed with the Chief Executive and a response was awaited from him that all processes were in place and all necessary actions had been taken.

- 18.6 The Council's Audit Commission Manager reported that he hoped to shortly be in a position to issue certificates for 2008/09 and 2009/10, which had been delayed due to queries raised by two local electors in relation to the Council's waste management contract.
- 18.7 In response to a query the Section 151 Officer explained that Utilities Companies had to book any planned road works through the Council and provide a timetable. Penalties could be charged if any works over ran. A sample of sites were inspected and cores taken to check whether the surface had been replaced to standard, if not, fines would be issued.
- 18.8 The Section 151 Officer confirmed that the Council did have a Transport Asset Management Plan (TAMP) in place which indicated which roads needed to be resurfaced on a regular basis and which did not because, for example, they were not used enough. The TAMP ensured that a more strategic, countywide approach was taken to road conditions in Shropshire.
- 18.9 In response to a query, the Council's Audit Commission Manager reported that the Pension Fund audit was separate and as such a separate fee was paid.
- 18.10 The Section 151 Officer confirmed that as part of the transformation programme the Council were looking to make changes in adult social care in order to improve value for money and deliver efficiency savings.
- 18.11 **RESOLVED:** To note the position as set out in the report of the Council's Audit Commission Manager.
- 19. Briefing Note on the potential transfer arrangements of Audit Commission work into the private sector**
- 19.1 The Committee received the briefing note of the Council's Audit Commission Manager – copy attached to the signed Minutes – which updated Members on the potential transfer arrangements of Audit Commission work into the private sector.
- 19.2 He expanded on Government proposals for 70% of the audit work to be packaged into seven or eight geographical areas and put out to tender. The timescales for this were unknown however Audit Commission staff intended to submit tenders for each area.
- 19.3 The Council's Audit Commission Manager stated that the final announcement was awaited at the end of June and further updates would be provided as the facts became known.
- 19.4 **RESOLVED:** To note the position as set out in the report of the Council's Audit Commission Manager.
- 20. Response to Consultation on the Future of Local Public Audit**
- 20.1 The Committee received the report of the Section 151 Officer – copy attached to the signed Minutes – which set out the Council's response to the principles

contained within the consultation document issued by the Department for Communities and Local Government on the future of local public audit.

20.2 The Section 151 Officer requested that any comments be emailed to the Audit Service Manager by the end of the following week (24 June 2011). It was agreed for the final response to be circulated to Members.

20.3 **RESOLVED:**

A. To approve the Council's proposed response to the Department for Communities and Local Government consultation on the future of local public audit.

B. That the Section 151 Officer seeks views from senior officers and considers those together with those of the Committee in providing a formal response to the consultation.

21. Audit Committee Training Plan 2011/12

21.1 The Committee received the report of the Audit Service Manager – copy attached to the signed Minutes – which provided the Committee with a proposed training plan for Members to ensure that they were well informed and appropriately skilled to fulfil their role.

21.2 The Audit Services Manager explained that the training plan provided for two half day sessions over the next twelve months. The next session would take place in November 2011, to which all substitute Members were also invited. Members commented that the training already provided had been excellent.

21.3 **RESOLVED:** To approve the proposed training plan as set out in Appendix A to the report of the Audit Service Manager.

22. Briefing Note on Council Credit Card Process

22.1 The Committee received the report of the Audit Service Manager – copy attached to the signed Minutes – which set out the general processes behind the management of Shropshire Council's credit cards.

22.2 The Audit Service Manager reported that an internal audit of these credit cards was included in the current year's annual plan.

22.3 In response to a query the Audit Service Manager confirmed that the credit cards were allocated to particular officers but that they could be booked out by other officers. Members requested a list of the post holders who had been allocated credit cards together with a breakdown of spend in the last financial year.

22.4 **RESOLVED:** To accept the position as set out in report of the Audit Service Manager.

23. Date of Next Meeting

23.1 The next meeting of the Committee would be held on 20 September 2011 at 10.00am in the Shrewsbury Room.

24. Exclusion of Press and Public

24.1 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 25 and 26 shall not be conducted in public on the grounds that they involve the likely disclosure of exempt information defined by the categories specified against the items.

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

25.1 **RESOLVED:** That the exempt minutes of the meeting held on 23 March 2011 be approved and signed by the Chairman as a correct record.

26. Internal Fraud and Special Investigation Update – June 2011 (Exempted by Categories 2, 3 and 7)

26.1 The Committee received the exempt report of the Senior Group Auditor – copy attached to the signed Minutes – which provided a brief update on current fraud and special investigations undertaken by Internal Audit.

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

Signed.....(Chairman)

Date.....20 September 2011.....