



Committee and Date

Audit Committee

10 November 2011

10.00 am

Item No

**3**

Public

## MINUTES OF THE MEETING HELD ON 20 SEPTEMBER 2011

10.00 am – 12.45 pm

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### Present

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

Mr E Bagnall and Mr G Patterson of the Audit Commission were 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. In particular, the Chairman welcomed Ms Rachel Musson, the Council's new Corporate Head of Finance and Commerce and Section 151 Officer.

#### 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 **RESOLVED:** that the Minutes of the meeting held on 16 June 2011 be approved and signed by the Chairman as a correct record.

#### 4. An update on progress in implementing new financial management procedures and controls at the Council's Leisure facilities

4.1 The Principal Leisure Facilities Manager introduced the report of the Area Director, South – copy attached to the signed Minutes – which described the progress being made in response to audits carried out at three leisure facilities.

4.2 The Principal Leisure Facilities Manager informed the Committee of the progress that had been made to address the issues highlighted by the audits. There were a number of common theme areas to the recommendations which were summarised into groups and ordered by priority in order that written procedures could be introduced and rolled out to all Shropshire Council managed facilities.

- 4.3 In January staff working groups were formed in order to collate information and best practice. Following this, Leisure Facilities Financial Procedures and Guidelines were produced and implemented in June 2011. The Principal Leisure Facilities Manager explained that it would take time to embed the new financial procedures at some sites, for example, joint use facilities which had only recently been taken over by the Leisure Service, however a lot of work had taken place and progress would be reviewed to ensure the new procedures were being followed.
- 4.4 Members were pleased to see that progress had been made but felt that these issues should not have arisen in the first place and queried why procedures previously implemented were not being followed. In response, the Finance Officer Culture and Leisure explained that procedures had been in place however in a number of cases a lot of people had been involved so those procedures had been streamlined including segregation of duties and cash being handled as few times as possible.
- 4.5 The Chairman was concerned that it had taken so long for these issues to be identified. He sought assurance that the situation would continue to improve and requested a report on progress to a future meeting once the new procedures had become imbedded.
- 4.6 **RESOLVED:**
- A. That the positive progress being made by leisure and finance staff in response to the audits previously carried out at three leisure centres be noted.
  - B. That a report on progress be presented to the March meeting of the Audit Committee.
5. **Annual Insurance Report 2010/11**
- 5.1 The Committee received the report of the Risk Management Team Leader – copy attached to the signed Minutes – which provided details of the claims history for the policy year 2010-11 and compared this with the previous year.
- 5.2 The Risk Management Team Leader informed the Committee that the Council had had another reasonable year especially considering the bad weather effects on the roads and property. Claims overall had increased by 29 compared to the previous year, however not all of these were from the 2010-11 year, for example, one dated back to 1973-74 and 1974-75. Public liability claims could however increase as there was a three year period in which to make a claim.
- 5.3 The Risk Management Team Leader was happy to report that public liability claims had only increased by one which was very good bearing in mind the bad weather and which reflected the hard work undertaken by Highways to keep roads in good order and continually inspected. This allowed the Council to successfully repudiate 256 out of 299 claims and thereby saving the Council £540K.
- 5.4 The number of motor claims had reduced by 23. Own damage claims had been reduced mainly as a result of the installation of reversing sensors and cameras on the Council's larger vehicles. There had been an increase in the number of burst pipes, the majority during November and December, 43 at schools and 27 at general properties. The Risk Management Team Leader explained that the current policy covered per event not per property so there was only one excess of £100,000 for schools and one of £100,000 for general

property. However, the insurance company had agreed to deal with all burst pipe claims as one claim which saved the Council another £165K.

- 5.5 The Risk Management Team Leader drew attention to the benchmarking information and reported that Shropshire Council were below average for the number of public and employees liability claims received. Insurance premiums were also below average.
- 5.6 The Risk Management Team Leader then highlighted the risk reviews that had been undertaken together with the scores attained. Each review produced recommendations for improvement which would be implemented. The Risk Management Team Leader expressed the importance of maintaining high standards and ensuring good risk management practices were in place and being followed. She reported that guidance for driving and properties during bad weather would be produced.
- 5.7 Members felt that the team had performed very well indeed and thanked the Risk Management Team Leader for her excellent report. In response to a query, she explained that the risk review looked at the processes that were in place however some claims may have to be paid because of a defect or because an inspection had been missed by a week etc so the Council would have no defence. Processes were in place but the review checked how well they were being followed.
- 5.8 The Risk Management Team Leader reported that they were putting together guidance to follow during bad weather together with the Health and Safety team, the Transport Group and Property Services which it was hoped would be available during the early part of this term. In response to a query, the Risk Management Team Leader explained that separate reports were provided to Transport following any incidents and if any driver had more than three incidents they would receive further training.
- 5.9 The Risk Management Team Leader answered a number of queries in relation to the Council's own insurance and the risk reviews undertaken.
- 5.10 **RESOLVED:** That the position as set out in the Report and Appendix A be accepted.

## **6. Council Tax and National Non Domestic Rates Performance Monitoring Report**

- 6.1 The Revenues Manager introduced the report of the Customer Care and Involvement Manager – 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 31 August 2011.
- 6.2 The Revenues Manager reported that by 28 August 2011 48.2% of Council Tax and 48.1% of NNDR had been collected compared to 48.3% of Council Tax and 51% of NNDR collected by 29 August 2010. The Revenues Manager reported that they were on track to achieve target and collection rates continued to improve. Work was also continuing to reduce the amount of arrears owed to the Council.
- 6.3 In response to a query the Revenues Manager explained that last year's arrears were added on to this year's arrears to give a total of £8.2m however this figure of arrears would keep reducing throughout the year.
- 6.4 In response to a query the Revenues Manager discussed the effectiveness of the Council's current bailiff's who collect approximately £600K of Council Tax on behalf of the Council. He felt that they were very effective, they had regular

meetings and their performance was monitored. He explained that for those arrears at the 14 day letter stage the system suggested a course of action, for example, attachment of earnings or pass to bailiff etc.

6.5 The Revenues Manager explained that the Recovery Team had recently undergone a restructure and they now had two additional officers. In response to a query the Revenues Manager explained the process for refunding credits. However this was not a top priority but periodical checks would be made to see if credits could be refunded and if not consideration given to writing them off.

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

## **7. Benefit Overpayment Performance Monitoring Report**

7.1 The Revenues Manager introduced the report of the Customer Care and Involvement Manager – copy attached to the signed Minutes – which provided Members with performance information on the collection of Housing Benefit overpayments for the year to 31 July 2011.

7.2 The Revenues Manager reported that as at 31 July 2011 the total amount outstanding was £3.7 million compared to £2.6 million as at 31 August 2010. The figures to August 2011 were not yet available but would be reported at the next meeting.

7.3 Concern was raised that the amount of arrears had increased quite significantly and assurance was sought that work was being undertaken to minimise the arrears. The District Auditor explained that if a credit was created the Council's subsidy would be reduced because it was the Council's mistake.

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

## **8. Housing Rent Arrears Annual Update 2010/11 and Housing Rent Incentives Initiative Update**

8.1 The Committee received the report of the Housing Landlord Service Manager – copy attached to the signed Minutes – which gave an update on the rent collection rate for 2010/11 and the first quarter of the current financial year. It also provided a review of the rent incentive initiative that had been undertaken in 2010/11.

8.2 The Housing Landlord Service Manager informed the Committee that in 2010/11 around £14 million was due in rent from tenants of Council dwellings and garages and from service charges. She explained that the amount collected as a proportion of the amount due was monitored throughout the year. Performance had improved over the year and outturn for 2010/11 was 98.52% against a target of 98.5%.

8.3 The Housing Landlord Service Manager was pleased to report that performance for the first quarter of the current financial year was higher than the same quarter in the previous two years and that the service was on course to meet the current year target of 99%. However the current economic climate was likely to place increasing pressure on tenants and collection rates in the longer term.

8.4 In response to a number of queries the Housing Landlord Service Manager discussed the rent incentive initiative which had been undertaken in order to reduce the number of high level rent arrears and to give an incentive for tenants to start making regular payments. In response to a query the Financial Advice Officer (Places & HRA) explained why the collection rate was lower at

certain times of the year when tenants tended not to pay so well, together with the impact of the rent free fortnight. First quarter performance had however improved year on year and it was hoped that encouraging direct debit payments would even out the peaks and troughs.

- 8.5 In response to concerns about former tenant arrears, the Housing Landlord Service Manager agreed to look at how these were being dealt with and see what progress could be made. In response to a query the Financial Advice Officer (Places & HRA) explained how the Council's bad debt provision was built up and how improvements in collection rates led to a saving in the revenue account.
- 8.6 The Housing Landlord Service Manager explained that the team had to be sensitive to tenants' other issues, some of whom were poorly paid or elderly and they worked very intensively with vulnerable tenants, offering financial and other advice.
- 8.7 The Chairman requested a report to the Committee's March meeting.
- 8.8 **RESOLVED:** That the contents of the report be endorsed and that a report on progress be presented to the March meeting of the Audit Committee.

## **9. Annual Treasury Report**

- 9.1 The Corporate Head of Finance introduced the report of the Treasury Service Manager – copy attached to the signed Minutes – which informed members of treasury activities for Shropshire Council for 2010/11, including the investment performance of the internal treasury team to 31 March 2011.
- 9.2 The Corporate Head of Finance reported that the Council had very robust treasury management strategies in place. In response to a query she explained that the external treasury advisors cost the Council in the region of £60K. She stated that the advisors were reviewed to ensure their effectiveness and the benefit to the Council of their work. The Council were also actively looking at the need for two independent advisors and would look at the value gained from their advice. It was felt advantageous however not to rely on one source.
- 9.3 In response to a query the Corporate Head of Finance confirmed that the report set out what they believed to be the position in relation to the £1million invested in the Icelandic Bank, Landsbanki Islands. The District Auditor reported that the case had been heard by the Court of Appeal the previous week. The Council's claim had been accepted as a priority claim and 95% of the investment could be received back. The sum would however be reduced because the final payment would not be made until 2018.
- 9.4 **RESOLVED:** That the position as set out in the report be accepted.

*It was agreed to take agenda items 12 (Consultants), 13 (Credit Card Expenditure 2010/11) and 14 (Audited Annual Statement of Accounts 2010/11) next.*

## **10. Consultants 2010/11**

- 10.1 The Committee received the report of the Corporate Head of Finance – copy attached to the signed Minutes – which outlined the amount spent on consultants and gave an explanation of the benefits of contracting consultants in the main spending areas.
- 10.2 Spend for 2010/11 was £702,530. The Corporate Head of Finance drew attention to the table at paragraph 6.1 which broke down spend by area and set out the benefits of the consultancy. In response to a query the Corporate

Head of Finance confirmed that a report regarding how consultants were procured would be presented to a future Scrutiny Committee meeting.

- 10.3 The Corporate Head of Finance explained that consultants were only used if the Council lacked the internal knowledge or skills to fulfil a project and could mean, for example, an interim Manager or just ad hoc advice etc. The value added to the Council through the use of consultants must be clear.
- 10.4 Further information was requested in relation to the spend on adult social care. The Audit Service Manager discussed the transformation project within adult social care which was a national programme externally funded for three years by the Department of Health. A financial consultant had been employed to manage the specific financial system. She agreed to circulate a briefing note to Members providing further information.
- 10.5 It was suggested that any reduction in spend on consultants be transferred to the internal training programme. The Audit Service Manager confirmed that there were a number of initiatives in place.
- 10.6 **RESOLVED:** That the contents of the report be endorsed.

#### **11. Credit Card Expenditure 2010/11**

- 11.1 The Committee received the report of the Corporate Head of Finance – copy attached to the signed Minutes – which set out those post holders who had been allocated credit cards, together with a breakdown of spend.
- 11.2 A further report was requested for a future meeting. In response to a query the Audit Service Manager agreed to let Members have information about the number of Freedom of Information requests received in relation to credit card expenditure.
- 11.3 **RESOLVED:** That the content of the report be endorsed.

#### **12. Audited Annual Statement of Accounts 2010/11**

- 12.1 The Committee received the Report of the Corporate Head of Finance - copy attached to the signed Minutes – which presented Members with the final outturn position for the financial year 2010/11.
- 12.2 The Corporate Head of Finance drew attention to section 7 of the report which set out the items that had changed since Members had previously seen the draft Statement of Accounts however there was nothing of significance and they were a very good set of Accounts.
- 12.3 In response to a query about cash and cash equivalents the Corporate Head of Finance explained that cash went up and down for no particular reason and the discrepancy related to the timing of closure of the accounts. The District Auditor clarified that slight changes had been made in relation to the International Financial Reporting Standards.
- 12.4 The District Auditor felt that the bad debt provision of £1.6million was a reasonable estimate and would feed into the budget the following year.
- 12.5 **RESOLVED:**
- A. That the 2010/11 Statement of Accounts be approved and signed by the Chairman (in accordance with the requirements of the Accounts and Audit Regulations 2011).
  - B. That the Corporate Head of Finance and Commerce be authorised to make any minor adjustments to the Statement of Accounts prior to the 30 September 2011.

### **13. External Audit Annual Governance Report 2010/11**

- 13.1 The Committee received the report of the District Auditor – copy attached to the signed Minutes – which summarised the findings from the 2010/11 audit that was substantially complete. It included the messages arising from the audit of the Council's financial statements and the results of work undertaken to assess the Council's arrangements to secure value for money and use of resources.
- 13.2 The District Auditor confirmed that he would be issuing an unqualified opinion on the financial statements. No material amendments had been required to the financial statements, however two non-material items had been noted in respect of employees annual leave entitlement as a provision rather than a credit and the misclassification of pre-payments.
- 13.3 The District Auditor reported that there had been a number of disclosure issues in relation to the change in International Financial Reporting Standards and a misstatement in respect of the PFI grant had been identified which management were not proposing to amend. The District Auditor recognised the hard work of the finance team who had produced the financial statements to a good standard and to statutory deadlines.
- 13.4 The District Auditor confirmed that he intended to issue an unqualified value for money conclusion which would state that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its' use of resources.
- 13.5 The District Auditor and Corporate Head of Finance answered a number of queries from Members in relation to the payroll inconsistency, the public index used for valuation of housing stock and the PFI scheme.
- 13.6 In response to a query the Corporate Head of Finance confirmed that performance indicators were monitored by and reported to Scrutiny and Cabinet.
- 13.7 **RESOLVED:**
- A. That the adjustments to the financial statement set out in Appendix 2 to the report be noted.
  - B. That the letter of representation, attached at Appendix 4 to the report, on behalf of the Council be approved.
  - C. That the Committee's response to the proposed action plan, attached at Appendix 5 to the report, be agreed.

### **14. Future of Local Audit**

- 14.1 The District Auditor updated members on the future of local audit. He confirmed that the Audit Commission's in-house audit function framework contract was being outsourced. There was to be four areas and each area would be split into ten lots. Work worth £85m had gone out to tender the week beginning 5 September 2011. Bids had to be received by December 2011 with the winners being announced in March 2012. Companies could only win one lot in each area.
- 14.2 The District Auditor reported that some staff within the Audit Commission were in the process of setting up an 'in-house' company and linking up with a private

sector partner in order to bid for work, and to that end, two managers had taken a leave of absence. All staff had signed a protocol not to provide information to bidders to ensure there was no favouritism.

- 14.3 In order to provide continuity of auditor the District Auditor confirmed that Shropshire Council would have the same audit team until the end of 2011/12. The Audit Commission would then appoint an auditor for 3 or 5 years (currently being consulted upon) following which the Council could appoint its own auditor from 2017.
- 14.4 The District Auditor agreed to report back to the Committee when the options became clearer.
- 14.5 **RESOLVED:** That the District Auditor's update be noted.
- 15. Results of the National Fraud Initiative 2010/11**
- 15.1 The Committee received the report of the Audit Service Manager – copy attached to the signed Minutes – which provided details of the outcomes to date arising from the National Fraud Initiative 2010/11 exercise and an update on the 2008/09 exercise in respect of Council Tax Single Person discount investigations.
- 15.2 The Audit Service Manager reported that the savings from this exercise had increased from the previous year to £51K which mainly related to Housing benefit matches. Single person discount savings of £201K had also been identified. She confirmed that work was ongoing and would be reported to the Audit Committee at its March meeting
- 15.3 The Audit Service Manager drew Members' attention to the table at paragraph 5.7 which set out further details of the significant matches that had been identified and examined, together with the associated results. In response to a query the Audit Service Manager confirmed that they checked whether Taxi Drivers were claiming benefits.
- 15.4 In response to a query about whether 20 days was adequate to complete this work, the Audit Service Manager stated that it was the best estimate however more days would be included if required and this would be reported back to the Committee.
- 15.5 **RESOLVED:** That the content of the report and how the work contributed to the Council's counter fraud and corruption culture be noted
- 16. Internal Audit Benchmarking Results 2011**
- 16.1 The Committee received the report of the Audit Service Manager – copy attached to the signed Minutes – which provided members with details of the results from the CIPFA Audit benchmarking Club for 2011 for unitary authorities. This information usually fed into the Annual Internal Audit report submitted to the Audit Committee in June however the data had not been available at that time.
- 16.2 The Audit Service Manager reported that overall during 2010/11 both auditor costs and days per auditor remained lower than average and 99% of the revised plan had been delivered. Higher than average coverage had been delivered in the areas of fundamental financial systems and high levels of fraud work had been encountered, however lower than average time was spent on corporate support, grant certification and strategic risk.
- 16.3 **RESOLVED:** That the contents of the report be endorsed.



**17. Date of Next Meeting**

17.1 The next meeting of the Committee would be held on 10 November 2011 at 10.00am in the Shrewsbury Room.

**18. Exclusion of Press and Public**

18.1 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 19 and 20 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.

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

19.1 **RESOLVED:** That the exempt minutes of the meeting held on 16 June 2011 be approved and signed by the Chairman as a correct record.

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

20.1 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.

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

Signed.....(Chairman)

Date.....10 November 2011.....