



Committee and Date

Audit Committee
2 February 2012
10.00 am

Item No

3

Public

MINUTES OF THE MEETING HELD ON 10 NOVEMBER 2011

10.00 am – 11.30 am

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Present

Messrs P Adams, C Mellings, M Whiteman, B B Williams and M Wood.

Mr E Bagnall and Mr G Patterson 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 No apologies were received.

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 20 September 2011 be approved and signed by the Chairman as a correct record.

3.2 Paragraph 11.2

The Audit Service Manager updated the Committee in relation to Credit Card Expenditure. She confirmed that of the three remaining corporate credit cards, two had been replaced with purchasing cards and the third had been cancelled.

In response to a query the Audit Service Manager explained that a purchasing card was issued to a specific person and billed to a specific cost centre so controls were in place specific to that individual. The Audit Service Manager explained that purchase card processes were audited and robust controls were identified. The Committee therefore agreed that a further report was no longer required.

It was agreed to take agenda items 4 (Treasury Management Update – Quarter 2 2011/12) and 5 (Treasury Strategy 2011/12 – Mid Year Review) together.

4. Treasury Management Update – Quarter 2 2011/12

4.1 The Corporate Head of Finance and Commerce introduced her reports – copies attached to the signed Minutes – which outlined the Treasury Management activities of the Council.

- 4.2 The Corporate Head of Finance and Commerce drew Members' attention to the key points of the Mid Year Treasury Strategy report. She reported that all treasury management activities had been in accordance with approved limits and prudential indicators, the internal treasury team had outperformed the benchmark for the Council's cash balances by 0.59% and the Committee were informed that the Council was to withdraw from the Housing Revenue Account subsidy system.
- 4.3 The Corporate Head of Finance and Commerce explained that the claim with the Icelandic Bank was still going through the Icelandic Supreme Court. However, the District Auditor reported that the Icelandic Supreme Court had upheld the previous decision and found in favour of Local Authorities. The Corporate Head of Finance and Commerce would confirm this information and update the Committee.
- 4.4 The Corporate Head of Finance and Commerce informed the Committee that the difficulties within the global economy were having a huge impact on the market, especially the Eurozone debt crisis, and she confirmed that a close eye would be kept on the situation.
- 4.5 The Corporate Head of Finance and Commerce briefly discussed the UK economy and the future economic forecast. Sector Treasury Services had forecast that the bank rate would stabilise at 0.5% for quite some time up until June 2013 meaning that investment returns would remain low.
- 4.6 The Corporate Head of Finance and Commerce gave Members more detail about the proposed reform of the Housing Revenue Account (HRA) subsidy arrangements. She reported that the Government would reduce the borrowing rates offered to Local Authorities from the PWLB by up to 1% in order to finance the payment required by Government to leave the HRA Subsidy system. This would mean that the PWLB would be the cheapest form of credit available.
- 4.7 A query was raised about how the level of inflation impacted on the risk strategy and the Council's ability to deliver services. In response, the Corporate Head of Finance and Commerce explained that various price increases had been taken into account and inflationary figures that were felt appropriate had been applied.
- 4.8 Members were pleased to receive the report and to note the changes to the HRA subsidy. The Chairman also highlighted the surplus of £163,000 created through the Council's prudent Investment Management Policies. The Chairman queried whether the PWLB rate would be fixed at 1% if taken out before March 2012. The Corporate Head of Finance and Commerce agreed to seek clarification on this issue and report back.
- 4.9 A query was raised about whether the £163,000 surplus would go back into the general fund or whether it could be put into reserves. In response, the Corporate Head of Finance and Commerce explained that the best use of those funds would be considered.
- 4.10 The Corporate Head of Finance and Commerce agreed to ask a relevant officer to contact those Members who had specific queries. An information report was requested to a future meeting in relation to the future funding of the HRA. The Corporate Head of Finance and Commerce stated that a training session could also be arranged if necessary.
- 4.11 **RESOLVED:** That the position as set out in the reports be accepted.

5. Treasury Strategy 2011/12 – Mid Year Review

5.1 See Paragraph 4 above.

6. Internal Audit Strategy

6.1 The Committee received the report of the Audit Service Manager – copy attached to the signed Minutes – which proposed some minor changes to the Internal Audit Strategy 2009/10 to 2012/13 to reflect the Accounts and Audit Regulations 2011 together with some structural changes.

6.2 The Chairman commented on how much wider the role was for Members of the Audit Committee compared to a few years ago.

6.3 **RESOLVED:** That the contents of the report be endorsed.

7. Annual Review of Internal Audit Terms of Reference

7.1 The Committee received the report of the Audit Services Manager – copy attached to the signed Minutes - which proposed some minor changes to the Internal Audit Terms of Reference to reflect the Accounts and Audit Regulations 2011 together with some structural changes.

7.2 In response to a query the Senior Group Auditor explained that the areas managed by the Audit Service Manager would be audited by a different auditor and reported to her line manager.

7.3 **RESOLVED:** That the contents of the report be endorsed.

8. Internal Audit Plan 2011/12 – Half Year Report

8.1 The Committee received the report of the Audit Services Manager – copy attached to the signed Minutes – which provided Members with details of the work undertaken by Internal Audit for the first half of 2011/12 and summarised progress against the Internal Audit Plan.

8.2 The Audit Service Manager reported that 44% of the plan (51% of the revised plan) had been completed which was in line with the target of 90% by the year end. Forty nine good and reasonable assurances were made, together with one unsatisfactory opinion and two limited opinions. 485 recommendations were made, none of which were fundamental.

8.3 The Audit Service Manager informed the Committee that the IT Auditor was to remain with the Council so the days previously lost from the plan would be built back in.

8.4 One fundamental audit had been completed on Treasury Management which had been classed as good. The rest of the Fundamental System audits would be completed within the next few months.

8.5 In response to a query the Senior Group Auditor reported that there had been 14 recommendations in relation to the Northgate Revenue and Benefits system (IT audit), eight of which had been significant and five had required attention in relation to user account security following changes in the System Administration Team. 8.6 In response to a query, the Senior Group Auditor informed the Committee that weaknesses had been identified in the overall MyView payroll self service facility in relation to field verification and how this interfaced with Resource Link. Northgate had been commissioned to do more work around controls in this area.

8.7 The Chairman commented that it was very good news that the IT Auditor had decided to stay with the Council. The Chairman welcomed the increase in the number of audit days for safeguarding which assured the Committee that risks

were being adequately assessed and processes adequately followed in this area.

8.8 In response to a query the Audit Services Manager explained that 15 extra days had been allocated to Shropshire Fire and Rescue to cover a one off additional IT audit that had been requested by the Fire Service.

8.9 **RESOLVED:**

A. That the half year performance against the 2011/12 Audit Plan set out in Appendix A be endorsed.

B. That the adjustments required to the 2011/12 plan to take account of changing priorities set out in Appendix A be endorsed.

9. **Annual Review of Audit Committee Terms of Reference**

9.1 The Committee received the report of the Corporate Head of Finance and Commerce – copy attached to the signed Minutes – which set out the review of the Audit Committee Terms of Reference and proposed some minor changes to reflect revised officer post details.

9.2 The Audit Service Manager drew attention to the final paragraph on page two of the report and confirmed that if any changes were required to take account of independent members, the Terms of Reference would be brought back to the Committee for consideration.

9.3 It was suggested that the final sentence of the second bullet point under Paragraph 2.1 be amended to read ‘None of the Members should be Members of the Executive or Scrutiny Chairs or Vice-Chairs’.

9.4 In relation to Paragraph 3.1, the Chairman commented that for the last three years the Audit Committee had met five times a year, however, as there would likely be insufficient business, and with the agreement of the Committee, he proposed that the 2 February 2012 meeting be cancelled. However, the District Auditor informed the Committee that the Annual Audit Letter would be ready at the end of November. It was therefore agreed for the 2 February 2012 meeting to be a single item agenda followed by an additional training session.

9.5 **RESOLVED:**

A. That the contents of the report be endorsed.

B. That the 2 February 2012 meeting be a single item agenda followed by an additional training session.

10. **Audit Committee Self-Assessment Checklist**

10.1 The Committee received the report of the Corporate Head of Finance and Commerce – copy attached to the signed Minutes – which requested Members to review and comment on the draft self-assessment questionnaire which allowed 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.

10.2 **RESOLVED:** That the self-assessment questionnaire be approved.

11. Annual Review of Counter Fraud, Bribery and Anti-Corruption Strategy and an Update on the Government's Strategic Plan entitled 'Fighting Fraud Together'

- 11.1 The Committee received the report of the Audit Service Manager – copy attached to the signed Minutes – which set out the Council's commitment to stand against all forms of fraud, bribery and corruption whether it was attempted on or from within the Council.
- 11.2 The Audit Service Manager informed the Committee that the Council's Strategy had been reviewed and revised, in particular to reflect the requirements of the Bribery Act 2010. The Strategy provides a clear stance in respect of the Council's zero-tolerance to bribery in addition to that of fraud and corruption.
- 11.3 The Audit Service Manager drew Members' attention to the Government's strategic plan to reduce fraud 'Fighting Fraud Together', attached at Appendix B, which set out four key priorities of collaboration, assessment of risk and measurement of loss, prevention and zero tolerance, all of which were already included in the Council's Strategy.
- 11.4 In response to a query the Audit Service Manager reported that the Strategy was drawn to the attention of staff via the intranet and the fraud interactive training. The Strategy was also available in the Constitution and Code of Conduct. It was essential that all staff understood the strong approach taken in respect of any attempts to contravene the strategy. The Audit Service Manager explained that there was other guidance that sat alongside and supported this Strategy, for example, in relation to Gifts and Hospitality.
- 11.5 It was noted that the number of incidents that required investigating were on the increase due to the current economic climate. It was therefore incumbent upon everyone to be vigilant.
- 11.6 **RESOLVED:**
- A. That the Counter Fraud, Bribery and Anti-Corruption Strategy be proposed to Cabinet for adoption as a key part of the Council's stance against Fraud, Bribery and Corruption.
 - B. That the Council's Strategy be aligned to that of the Government's 'Fighting Fraud Together' Strategy and that further reports be brought to Members when the Local Government Fraud Strategy was released later in the year.

12. Date of Next Meeting

- 12.1 The next meeting of the Committee would be held on 2 February 2012 at 10.00am in the Shrewsbury Room for the sole purpose of considering the Audit Commissions' Annual Audit Letter. A training session would follow.

13. Exclusion of 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 defined by the categories specified against the items.

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

- 14.1 **RESOLVED:** That the exempt minutes of the meeting held on 20 September 2011 be approved and signed by the Chairman as a correct record.

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

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

Signed.....(Chairman)

Date.....2 February 2012.....