



Committee and Date

Audit Committee
21 June 2012
10.00 am

Item No

5

Public

MINUTES OF THE MEETING HELD ON 22 MARCH 2012

10.00 am – 12.35 pm

Responsible Officer Michelle Evans

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Present

Messrs P Adams, B Gillow (substitute for 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.

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 2 February 2012 be approved and signed by the Chairman as a correct record.

3.2 Paragraph 5.4 – Quantum Leap

The District Auditor updated the Committee in relation to the question raised by an elector about the Quantum Leap project. A draft report had been prepared for the Council upon which detailed feedback was awaited together with agreement of the recommendations.

3.3 The Corporate Head of Finance and Commerce informed the Committee that the District Auditors' report had been received in a timely manner. She reported that she was liaising with a number of officers who had to find old records/archives in order to respond to the District Auditors' queries.

3.4 In response to a query it was confirmed that the report to Audit Committee would be a public report however certain information may be exempt so a separate exempt report would be prepared if necessary.

- 3.5 In relation to the query about Care Assessments, the District Auditor confirmed that a final piece of information was awaited from the Council to confirm when the assessment actually took place. Clarification was also being sought in relation to invoices. It was hoped to conclude the matter once these two bits of information were received. Any issues arising would be referred to the Chief Executive. The District Auditor confirmed that there would be no impact on the accounts and he expected that no further action would be taken.

4. Review of Audit Committee Terms of Reference

- 4.1 The Committee received the report of the Corporate Head of Finance and Commerce – copy attached to the signed Minutes – which set out the proposal for the Audit Committee to accept responsibility for the monitoring and overview of the Council's Whistleblowing; 'Speaking up about Wrongdoing' policy.
- 4.2 An additional recommendation was proposed that the amended Terms of Reference be referred to Full Council for approval.
- 4.3 **RESOLVED:**
- A. to endorse the proposal to accept responsibility for the monitoring and overview of the Whistleblowing arrangements and resulting adjustments to the current Audit Committee Terms of Reference to reflect this.
 - B. to refer the amended Audit Committee Terms of Reference to Full Council for approval.

5. Benefit Fraud Team Performance Monitoring Report

- 5.1 The Committee received the report of the Public Protection and Enforcement Fraud Manager – copy attached to the signed Minutes – which provided Members with performance monitoring information on the activities of the team for the financial year 2011/12 up to 29 February 2012.
- 5.2 The Public Protection and Enforcement Fraud Manager explained that the report highlighted the overpayments which had been identified in this financial year compared to previous years together with the sanctions taken by the fraud team against customers following fraud investigations. There had been an increase in prosecutions as a lot more pro active work had been done by the team.
- 5.3 The Public Protection and Enforcement Fraud Manager informed the Committee that the Council were using more Administrative Penalties as an alternative to prosecution, which was a financial sanction equivalent to 30% of the benefit overpayment and was in addition to the total overpayment of benefit which was also recoverable.
- 5.4 In response to a query the Public Protection and Enforcement Fraud Manager explained that when the team identified overpayments through the system, the subsidy team receive a 40% subsidy from Central Government.
- 5.5 The Public Protection and Enforcement Fraud Manager reported that the Benefit Fraud Team had moved into the Public Protection and Enforcement Service in April 2011. The Service was using the expertise in the Council across the whole of Public Protection and not just benefits. She drew attention to the Welfare Reform Bill which contained provision for a new Single Fraud Investigation Service to commence in 2013.

- 5.6 In response to a query the Public Protection and Enforcement Fraud Manager explained that a lot of work was undertaken to prevent frauds from entering the system although it was difficult to gauge how much had been stopped. It was confirmed that a further report on recovery levels of overpaid benefit would be presented to a future meeting as part of the Committee's work plan.
- 5.7 **RESOLVED:** to approve the position as set out in the report of the Public Protection and Enforcement Fraud Manager.

6. Treasury Management Self-Assessment

- 6.1 The Corporate Head of Finance and Commerce introduced the report of the Treasury and Exchequer Manager – copy attached to the signed Minutes - which set out the Treasury Management Self-Assessment which had been reviewed by the Audit Committee at its last meeting in order to identify any areas where support or training was needed to ensure the development of effective scrutiny.
- 6.2 **RESOLVED:** to approve the Treasury Management Self-Assessment as set out in the report of the Treasury and Exchequer Manager.

7. Update on the Actions Taken Following the Leisure Centre Audits 2011-12

- 7.1 The Committee received the report of the Leisure Facilities Manager – copy attached to the signed Minutes – which set out the progress being made in response to audits carried out at Shropshire Council Leisure Facilities and the previous report presented to Audit Committee at its meeting on 20 September 2011.
- 7.2 The Leisure Facilities Manager reported that between November 2011 and February 2012 the Audit Service conducted follow up audits at three Shrewsbury sites (The Quarry Swimming and Fitness Centre, Shrewsbury Sports Village and Meole Brace Golf Club) plus additional sites across Shropshire. Prior to these audits, the Leisure Facilities Manager – North and Admin Officer – Central visited all sites and undertook pre audit assessments and assisted with further training and the implementation of the new procedures.
- 7.3 Results from the audits had been extremely positive and showed significant improvements at all three Shrewsbury sites, where assurances had improved from unsatisfactory to reasonable. Four other sites had been assessed as good. The Leisure Facilities Manager explained that once all of the audits had been completed, the Leisure Administration Task and Finish Group would reconvene to consider these further audits.
- 7.4 In response to a query the Leisure Facilities Manager confirmed that the new procedures had been implemented effectively and were now firmly embedded within individual sites.
- 7.5 **RESOLVED:** to note the contents of the report and the continued positive progress being made by leisure staff in response to the audits previously carried out at the three leisure centres.

8. Housing Rent Arrears Update

- 8.1 The Committee received the report of the Housing Finance Manager – copy attached to the signed Minutes – which provided Members with an update on the rent collection rate for 2011/12 to 3 March 2012.
- 8.2 The Housing Finance Manager reported that improvements continued to be made on collection rates and the level of current tenant arrears. In 2009/10, the collection rate was 89.11% which marginally fell short of the target of 98%, in 2010/11 the collection rate marginally exceeded the target of 98.5% (98.52%). Performance for the current year showed further improvement, however the figures only reflected the position as at 3 March 2012 (not the year end). It was hoped that the two rent free weeks would help achieve the target.
- 8.3 The Housing Finance Manager advised that the current economic climate together with the potential implications of Government proposals for reform of the benefits system would place additional challenges for the collection of benefit overpayments in the future. He stated that a number of tenants were uncomfortable with the change to Housing Benefit being paid directly to them and not to their landlord which may place an added responsibility on families who may have other financial pressures. It was hoped to identify ways of ensuring this change did not impact on collection rates.
- 8.4 Members acknowledged the significant progress made since 2009 but expressed concern at the challenges ahead. The Chairman requested a further report showing the year end position.
- 8.5 **RESOLVED:** to note the contents of the report of the Housing Finance Manager.

9. External Audit, Audit Strategy for Shropshire Council

- 9.1 The Committee received the report of the District Auditor – copy attached to the signed Minutes – which set out the work for the 2011/12 audit.
- 9.2 The District Auditor highlighted the significant and specific risks that had been identified. The significant risks related firstly to Heritage Assets, which needed to be included in the accounting statements for the first time, and secondly to redundancy costs which the District Auditor needed to ensure had been calculated correctly.
- 9.3 The specific risks were set out in the report and related to Pension Liabilities, Accounting for Schools, HRA Self Financing, PFI Schemes, Deferred Liabilities and Group Financial Statements (eg WMS) which again the District Auditor needed to ensure were all properly accounted for in the financial statements.
- 9.4 The District Auditor explained that he was required to give an opinion on the Council's Whole of Government Accounts and how certain assets were measured, particularly infrastructure assets. This year would be a dry run using depreciated replacement cost however he would need to give an opinion next year so it was important for the Council to ensure arrangements were in place for 2012/13.
- 9.5 The District Auditor also has to give a value for money conclusion about the Council's arrangements to secure economy, efficiency and effectiveness. The identified significant risks to be addressed were set out in the report and included ensuring that the Council could maintain its financial resilience and

level of reserves. The District Auditor did not anticipate any variation from the scale fees which were a reduction from the previous year.

- 9.6 In response to a query about the actuarial valuation of pension fund assets and liabilities, the District Auditor explained that the actuary provides a formal year end statement and used approximations of what assets and liabilities would be at the year end. In order to provide independent verification that the actuary was reliable, the Audit Commission looked at all actuaries who provided this service and reviewed the procedures that they had in place and whether their assumptions were acceptable.
- 9.7 The Corporate Head of Finance and Commerce informed the Committee that the inclusion of Heritage assets would not be a major concern for the Council at this stage although it was difficult to put a value on some Museum pieces. The Council would take a pragmatic approach and would work with the District Auditor to value any such items on a case by case basis.
- 9.8 In response to a query the Corporate Head of Finance and Commerce explained that any delivery vehicle providing a service to the Council would have separate governance arrangements. The Audit Service Manager explained that a member of staff was being trained up to specialise in contract management audits in order to give assurance that the governance arrangements of any such vehicle were being effectively discharged.
- 9.9 **RESOLVED:** to note the contents of the report of the District Auditor.

10. External Audit, Audit Strategy for Shropshire County Pension Fund

- 10.1 The Audit Manager introduced the report of the District Auditor – copy attached to the signed Minutes – which set out the work for the 2011/12 audit and which had been presented to the Pensions Committee at its meeting on 22 February 2012.
- 10.2 The Audit Manager reported that two significant risks had been identified in relation to the Actuaries valuation and the valuation of investments due to the complexity and nature of these transactions. Turning to the specific risks, these related to equal pay settlements, potential redundancies and reconciliation issues.
- 10.3 The Audit Manager drew attention to the testing strategy to be undertaken together with the key milestones and deadlines.
- 10.4 **RESOLVED:** to note the contents of the report of the District Auditor.

11. Review of the Audit Committee's Annual Work Plan and Future Training Requirements 2012/13

- 11.1 The Committee received the report of the Audit Services Manager – copy attached to the signed Minutes – which set out a proposed Work Plan for Audit Committee together with a learning and development plan for Members to ensure that they were well informed and appropriately skilled to fulfil their role.
- 11.2 The Audit Service Manager confirmed that she would include a report on the Management and Monitoring of the Whistleblowing Policy for the June 2012 meeting. It was requested that a training session be held covering Risk Assurance Mapping, which was the subject of the latest CIPFA update. The Audit Service Manager reminded Members of the Risk Assessment training session being held the following week.

11.3 Training sessions were agreed for the mornings of Thursday 17 May 2012 and Wednesday 24 October 2012.

11.4 **RESOLVED:** to approve the proposed work and learning and development plan for the Committee and its Members, as set out in Appendices A and B to the report of the Audit Service Manager.

12. Government Response to the Future of Local Public Audit Consultation

12.1 The Committee received the report of the Audit Services Manager – copy attached to the signed Minutes – which provided Members with an update on the Government’s response to the consultation on the Future of Local Public Audit, published in January 2012.

12.2 The Audit Service Manager reported that the proposals would not affect Shropshire Council until 2017 at the earliest. Following the announced abolition of the Audit Commission, the Government had put in place interim arrangements to appoint external auditors for local authorities through a number of contracts based on geographical areas that would last for five years, with a provision to extend for a further three years (may not therefore affect the Council until 2020).

12.3 The Audit Service Manager confirmed that Grant Thornton (UK) LLP had been selected to service Shropshire Council as part of the West Midlands area contracts. Following this five year appointment, Shropshire Council would have a statutory duty to appoint their own auditors following advice from an Independent Audit (or Auditor) Appointment Panel (IAAP). A draft bill was expected to be published in the spring.

12.4 The District Auditor informed the Committee that the requirements of External Audit remained in the Bill. The five year contracts (extendable by three years) for the appointment of auditors had now been let so Shropshire Council would need to appoint its own Auditor for the 2017/18 audit year. He explained that the audit team would be transferring to Grant Thornton (UK) LLP under TUPE in November 2012. So he would remain the Council’s auditor until 1 September 2012 when Grant Thornton (UK) LLP would take over for two months before the audit team transferred over.

12.5 Following a discussion with Grant Thornton (UK) LLP, the District Auditor confirmed that it was hoped to maintain the status quo into 2012/13 but this was not guaranteed. He drew attention to a conference being held in the West Midlands on 30 April to explain the changes.

12.6 **RESOLVED:** to note the Government’s response to the consultation on the Future of Local Public Audit and the results of the recent Audit Commission contract awarded to Grant Thornton (UK) LLP for a five-year audit contract for the West Midlands as set out in the report of the Audit Services Manager.

13. Draft Internal Audit Plan 2012/13

13.1 The Committee received the report of the Audit Services Manager – copy attached to the signed Minutes – which set out the proposed Internal Audit Plan for 2012/13 which amounted to 2,778 days. Any adjustments required to the plan would be agreed with the Section 151 Officer and reported to the next meeting of the Committee.

- 13.2 The Audit Services Manager informed the Committee that this was the final year of the four year Strategic Plan. Due to the significant changes that the Council was going through and further planned changes, it had been decided to review the risk assessment on an annual basis to ensure that it remained robust and relevant to the needs and risk profile of the Council.
- 13.3 The Audit Service Manager drew attention to the issues which had been taken account of whilst considering the risks affecting audit areas together with the top ten risks as identified by CIPFA (Chartered Institute for Public Finance and Accounting), all of which had been considered when forming the 2012/13 plan.
- 13.4 The original plan included 3,343 audit days available for delivery of the plan. The reduction in days was due to the permanent loss of three posts, plus maternity leave and a current vacancy. It was hoped to fill the vacancy shortly. The Audit Service Manager drew attention to the key items for Members to note as set out in the report at paragraph 5.6. The Audit Service Manager informed the Committee that she would be meeting with the external auditor that afternoon in order to provide him with a draft of the detailed plan and request any comments.
- 13.5 In response to a query the Corporate Head of Finance and Commerce explained the audit work that had been done as part of the shared services process. The audit team had worked with the implementation lead officers and reasonable assurance had been given on controls and identified risks
- 13.6 Members were concerned about the number of days available to deliver the plan, which had been reduced by some 600 days and whether there were any issues which had been left out or given less coverage. In response, the Audit Service Manager reported that although there had been a reduction in resources the Chief Executive had given assurance that resources would be available to ensure appropriate audit coverage whilst the Council is going through the transformation process. She commented that as the business changed in the future the audit team would also need to remain flexible in the application of its resources.
- 13.7 **RESOLVED:** to endorse the approach taken to create the proposed Internal Audit Plan for 2012/13 as set out in the report of the Audit Service Manager and to approve its adoption.

14. Internal Audit Plan Report to January 2012

- 14.1 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 to the end of January 2012 and summarised progress against the Internal Audit Plan. The Audit Services Manager informed the Committee that 72% of the plan (84% of the revised plan) had been completed which was on line to achieve the target of 90% by year end.
- 14.2 The Audit Services Manager reported that 33 good and reasonable assurances had been made together with one unsatisfactory opinion and two limited assurance opinions. The 36 final reports issued between October 2011 and the end of January 2012 contained 493 recommendations. In addition, 23 audit reports had been issued in draft and were awaiting management comments together with nine reports and a special investigation report for external clients. Audits had also been completed at 12 schools and other honorary and voluntary bodies.

- 14.3 The Audit Services Manager explained that an unsatisfactory opinion had been given in relation to the Secret Hills Discovery Centre where internal control weaknesses had been identified in several areas. In response, management had agreed all recommendations made. The two limited opinions had been issued in relation to Sales Ledger entries and would be followed up next year to determine whether any satisfactory improvements had been made.
- 14.4 The Audit Services Manager informed the Committee that work on fundamental system audits were currently being undertaken however none had yet been completed so would be reported on in the year end report. The Audit Services Manager reported that of the 493 recommendations made in the final audit reports, no fundamental recommendations had been issued this quarter. None of the recommendations had been rejected by management in the period October 2011 to January 2011, compared to 18 in the first half of the year.
- 14.5 The Audit Services Manager explained that special investigation work continued at a significant level and the budget had been increased by 40 days to cover existing work to the end of the year whilst work for external clients had been reduced by 47 days.
- 14.6 Members expressed concern about the Secret Hills Discovery Centre and requested a follow up report from the relevant officer to a future meeting.
- 14.7 In response to a query the Audit Services Manager explained possible reasons why management may not accept particular recommendations, for example, the evidence may have been misinterpreted or the recommendation would not add value so would not be beneficial. It was confirmed that there was a rigorous process in place when deciding whether to accept a decision from management to reject a particular recommendation.
- 14.8 **RESOLVED:**
- A. to endorse performance against the 2011/12 Audit Plan to the end of January 2012 as set out in Appendix A to the report of the Audit Service Manager.
 - B. to endorse the adjustments required to the 2011/12 plan to take account of changing priorities as set out in Appendix A to the report of the Audit Service Manager.
- 15. Internal Audit Report of the Review of Risk Management Audit**
- 15.1 The Committee received the report of the Senior Group Auditor - copy attached to the signed Minutes – which summarised the detailed findings identified in the Internal Audit Review of Risk Management.
- 15.2 The Senior Group Auditor reported that the overall control environment for the Risk Management system had been assessed as 'Good', which was the highest rating that could be given, and all control objectives had been met.
- 15.3 All three of the recommendations made the previous year had been implemented and only one recommendation had been made this year which related to the development of Performance Plus to enable the process of reviewing and updating of risks to be streamlined to give officers direct access. However, this did not affect the 'Good' opinion.
- 15.4 **RESOLVED:** to endorse the findings from the Review of Risk Management by Internal Audit as set out in the report of the Senior Group Auditor.

16. Protecting the Public Purse, Counter Fraud Self-Assessment

- 16.1 The Committee received the report of the Senior Group Auditor - copy attached to the signed Minutes – which set out the self assessment questionnaire which allowed the Audit Committee to assess the effectiveness of the Council's counter fraud arrangements and to identify any further improvements that could be made.
- 16.2 The Senior Group Auditor reminded the Committee that it had reviewed the Counter Fraud Self-Assessment during the last training session and he drew attention to Appendix A which set out the opinion and evidence of where met. Although the Council's counter fraud arrangements were good, four areas for further improvement were identified.
- 16.3 In response to a query, the Audit Service Manager confirmed that work to update the counter fraud action plan was ongoing and would be completed by the end of April 2012.
- 16.4 **RESOLVED:**
 - A. to approve the self assessment checklist together with any amendments required.

17. Date of Next Meeting

- 17.1 The next meeting of the Committee would be held on Thursday 21 June 2012 at 10.00am in the Wilfred Owen 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 2 February 2012 be approved and signed by the Chairman as a correct record.

20. Internal Fraud and Special Investigation Update – March 2012 (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.....21 June 2012.....