



Committee and Date

Audit Committee

19 September 2012

2.00 pm

Item No

3

Public

MINUTES OF THE MEETING HELD ON 21 JUNE 2012

10.00 am – 12noon

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. 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

2.1 Apologies were received from 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.

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 21 June 2012 be approved and signed by the Chairman as a correct record.

5.2 Paragraph 3.2 – Quantum Leap

The District Auditor updated the Committee in relation to the question raised by an elector about the Quantum Leap project. The District Auditor confirmed that feedback had been received from the Council however there were still some gaps in the evidence. The Council wished to locate this evidence before the District Auditor finalised his report as it may impact upon the final recommendations.

5.3 The Corporate Head of Finance and Commerce explained that officers were attempting to locate the required evidence however as there were voluminous files to peruse assistance had been sought from the officer who had dealt with the project at the time (but who had subsequently left the organisation). It was hoped to present the final report to the September meeting.

5.4 Paragraph 8.8 – Housing Rent Arrears Update

Members acknowledged receipt of an additional report showing the year end position but expressed concern that the new welfare benefits could have a negative impact on the rent arrears figures.

It was agreed to take agenda items 6, 7, 8, and 13 together.

6. The Council's Accounts for 2011/12

6.1 The Head of Finance and Commerce reported that the Revenue Outturn for 2011/12 was an underspend of £2.7m which represented 0.4% of the original gross budget, whilst the Outturn Capital expenditure was £64m, representing 93.1% of the re-profiled capital programme of £68.7m. She reported that the figures for the re-profiled capital budget were estimates and could be a lot higher in forthcoming years.

6.1.1 The Head of Finance and Commerce thanked the team for the significant amount of work done by them on the Statement of Accounts, for which the Audit Committee had a statutory duty to sign off. The Head of Finance and Commerce explained that the Annual Governance Statement included an assurance of the effectiveness of the Council's system of internal controls and confirmed that there was a safe control environment within the authority.

6.1.2 In response to a query about the overspend in Bereavement Services, the Head of Finance and Commerce confirmed that the overspend had been in place prior to the service being outsourced. The Chief Accountant responded to a query in relation to the reserve for Council Elections. She explained that £400k had been built into the budget for next years' elections (2013).

6.1.3 Members thanked the Head of Finance and Commerce for her very helpful cover report for item 8 (Statement of Accounts 2011/12) which helped to make the accounts more understandable. A follow up answer was requested in relation to the differences in the figures in the Housing Revenue Account.

6.1.4 In response to a query, Members were informed that £1.6m of National Non-Domestic Rate arrears and £650k of Council Tax arrears had been written-off. The Head of Finance and Commerce explained that the spending freeze had been implemented for a set period of time and had now been lifted. However, it could be reinstated if necessary.

6.1.5 In response to a query, the Head of Finance and Commerce explained what was meant by the term 'non-controllable spend' which related to charges incurred by individual service areas for which they had no control. These charges were redistributed at year end. The District Auditor explained that non-controllable spend had to be stated in the accounts to reflect the economic cost to the Council Tax payer of providing the service.

6.1.6 In response to a query, the Head of Finance and Commerce clarified that the Highways and Transport underspend was due to a major one off Section 74 compensation payment for street works. This had led to a disproportionate level of underspend this year but the budget would be set appropriately for future years.

6.1.7 The Head of Finance and Commerce informed the meeting that the Council had so far received £412k (40%) of its investment back from Landsbanki, however, it was expected that the whole of the investment would be received back by equal shares of the remaining £600k each December until 2019.

6.1.8 Members thanked all of the finance staff involved in the preparation of the accounts.

6.2 Revenue Outturn Report 2011/12

6.2.1 The Committee received the report of the Head of Finance and Commerce (copy attached to the signed Minutes) which provided details of the revenue outturn position for Shropshire Council for 2011/12 and provided a summary of the revenue outturn for each service area with a commentary on the main variations and an outline of how the position has changed since Period 11, the movements in the Council's general balance and the Council's reserves and provisions.

6.2.2 RESOLVED:

- A. To note that the Outturn for the Revenue Budget for 2011/12 was an underspend of £2,709,214, which represented 0.4% of the original gross budget of £661m.
- B. To note that the level of general balance stood at £7,637,881 (inclusive of New Homes Bonus of £2.021m due to be committed in 2012/13), an increase from the 2010/11 balance of £3.731m and within the Council's policy to hold between ½ and 2% of the gross revenue budget.
- C. To note that the level of school balances stood at £5,104,000 (2010/11 £6,239,000).
- D. To note that the Outturn for the Housing Revenue Account for 2011/12 was an underspend of £212,201 and the level of the Housing Revenue Account reserve stood at £997,739 (2010/11 £785,538).

6.3 Capital Outturn Report 2011/12

6.3.1 The Committee received the report of the Head of Finance and Commerce (copy attached to the signed Minutes) which informed Members of the final outturn position for the Council's 2011/12 capital programme and the current position regarding the 2012/13 to 2015/16 capital programme taking into account slippage following the closure of the 2011/12 programme, and any budget increases/decreases for 2012/13 and future years. The report also detailed the current position in respect to the prudential indicators approved by Council on 23 February 2012.

6.3.2 RESOLVED:

- A. To approve the budget variations to the 2011/12 capital programme, totalling £146,443 included in Appendix 1&3a/Table 1 and the re-profiled 2011/12 capital budget of £68.7m.
- B. To approve the re-profiled capital budgets of £79.5m for 2012/13 (including slippage of £4.69m from 2011/12), £43.6m for 2013/14, £32.2m for 2014/15 and £1.7m for 2015/16 as detailed in Appendix 2 and changes in Appendix 3b.
- C. To accept the outturn expenditure position set out in appendix 1 of £63,964,384, representing 93.1% of the revised capital budget for 2012/13.

- D. To approve retaining the balance of capital receipts set aside of £9m as at 31 March 2012 to generate Minimum Revenue Provision saving of £360,000 in 2012/13.

6.4. Annual Statement of Accounts 2011/12

- 6.4.1 The Committee received the report of the Head of Finance and Commerce (copy attached to the signed Minutes) which provided an overview of the Accounts and detailed the reasons for the most significant changes between the 2010/11 accounts and the 2011/12 Accounts.
- 6.4.2 **RESOLVED:** to note the contents of the draft 2011/12 Statement of Accounts 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 2012.

6.5. Annual Governance Statement and a Review of the Effectiveness of the System of Internal Control 2011/12

- 6.5.1 The Committee received the report of the Head of Finance and Commerce (copy attached to the signed Minutes) which set out the proposed Annual Governance Statement.
- 6.5.2 **RESOLVED:** to approve the Annual Governance Statement 2011/12 as set out at Appendix A to the report of the Head of Finance and Commerce.

It was agreed to take agenda item 11 next.

7. Annual Review of the Effectiveness of Internal Audit 2011/12

- 7.1 The Committee received the report of the Head of Finance and Commerce (copy attached to the signed Minutes) which demonstrated the effectiveness of internal audit in the Council. The Head of Finance and Commerce explained that it was an annual requirement for the Audit Committee to review the effectiveness of the Council's internal audit to ensure it complied with the CIPFA Code of Audit Practice for Internal Auditors in Local Government.
- 7.2 **RESOLVED:** to endorse the conclusion that the Council has an effective system of internal audit in place.

8. Review of Shropshire Council's Code of Corporate Governance 2011/12

- 8.1 The Committee received the report of the Senior Group Auditor (copy attached to the signed Minutes) which identified how the Council had achieved effective corporate governance in 2011/12. The Senior Group Auditor drew Members attention to Appendix A which set out the Code of Corporate Governance and which included evidence of how the Council had addressed the six fundamental principles.
- 8.2 The Senior Group Auditor confirmed that the Council had very strong compliance with the code and that no material breaches had been identified. In response to a query the Senior Group Auditor explained that the principles had remained the same however the way in which they were achieved had changed.
- 8.3 **RESOLVED:** to approve the Internal Audit conclusion that the Council has very strong compliance with the Code of Corporate Governance.

9. Internal Audit Annual Report 2011/12

- 9.1 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 2012. It

- reported on progress against the annual audit plan and contributed to the review of the effectiveness of the internal audit team. It also included the Audit Service Manager's opinion on the internal controls which in turn contributed to the review of the effectiveness of the system of internal control.
- 9.2 The Audit Service Manager reported that 101% of the revised plan (69% of the original plan) had been delivered which was in excess of the target to deliver 90% of the annual plan. 111 good and reasonable assurances had been made together with three unsatisfactory and five limited opinions. 1,471 recommendations had been made including one fundamental recommendation made on the Housing Benefits audit.
- 9.3 The Audit Service Manager reported that the Council's financial systems, internal control environment and risk management procedures were sound and working effectively and she therefore reported a positive year end opinion on the Council's internal control environment for 2011/12.
- 9.4 The Audit Service Manager explained that an unsatisfactory audit opinion had been issued for the Quarry Swimming and Fitness Centre. The issues identified had been addressed and a follow up audit had shown significant improvement, resulting in a reasonable opinion being issued. In relation to the other two unsatisfactory opinions, all recommendations had been agreed in relation to the Secret Hills Discovery Centre, and in relation to Myview, management had agreed a number of system enhancements which delayed implementation until control issues were satisfactorily addressed.
- 9.5 The Audit Service Manager drew attention to the five limited assurance opinions that had been issued together with the positive management responses received which would be followed up in 2012/13. She clarified that 13 fundamental systems audits had been completed with five being assessed as good, four as reasonable and four with limited opinions. The Audit Service Manager reported that Council Tax and National Non-Domestic Rates had improved to reasonable in 2011/12 whilst Housing Benefit continued to receive a limited opinion. Three other areas had been downgraded from reasonable to limited.
- 9.6 Members raised concerns about the limited assurance given for Housing Benefits especially in light of the new welfare benefit changes and queried whether any additional audit checks would be undertaken to ensure no further targets were missed. In response, the Audit Service Manager explained that the limited assurance had been discussed with management who needed time to respond and implement recommendations. The Service would be reviewed and the results reported back to the Audit Committee. Any impact on rent collection would be picked up in that Audit.
- 9.7 **RESOLVED:**
- A. to note performance against the Audit Plan for the year ended 31 March 2012.
 - B. to note that the system of internal control was operating effectively and could be relied upon when considering the Annual Governance Statement for 2011/12.
 - C. to note the Audit Service Manager's positive year end opinion on the Council's internal control environment for 2011/12 on the basis of the work undertaken and management responses received.

10. Annual Assurance Report to Council 2011/12

- 10.1 The Committee received the report of the Section 151 Officer (copy attached to the signed Minutes) which provided an independent assurance report that the Council had in place adequate and effective risk management and internal control systems.
- 10.2 The Chairman reported a number of minor amendments to the Audit Committee Annual Assurance Report. The word 'feel' had been removed from the final sentence of paragraph 7 and replaced with the words 'completely satisfied'. An additional paragraph had been added to cover the additional responsibilities of the audit function in response to the changing nature of local government and in particular changes to strategic commissioning and the creation of a council owned trading company.
- 10.3 **RESOLVED:**
- A. To note the contents of the report.
 - B. To recommend that Council accept the draft Annual Assurance report for 2011/12.

11. Biennial Report of Compliance with Contract Procedure Rules 2011/12

- 11.1 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 Contract Procedure Rules relating to ordinary and major contracts.
- 11.2 The Senior Group Auditor explained that the Contract Procedure Rules had been revised and approved by Council on 24 February 2011 and that this was the first review of the revised Rules. He stressed the importance of the Contract Procedure Rules which were designed to ensure that the Council achieved good value for money, kept within the law, maintained standards of conduct, was fair to suppliers and showed the public that the Council was honest.
- 11.3 The Senior Group Auditor reported that the overall control environment for the application of Contract Procedure Rules had been assessed as Reasonable. Some control weaknesses had however been identified in relation to officers with responsibilities specified within Contract Rules and the maintenance of a Register of Contracts. Six recommendations had been made, all of which had been accepted by management. A follow up report was requested for a future meeting.
- 11.4 **RESOLVED:** to note the findings from the review of Contract Procedure Rules by Internal Audit.

12. Local Government Fraud Strategy

- 12.1 The Committee received the report of the Audit Service Manager (copy attached to the signed Minutes) which set out the key aspects of the Local Government Fraud Strategy. The Audit Service Manager drew Members attention to the online package of anti-fraud products and guides available to support the strategy which included a checklist to help local authorities identify possible gaps in its current fraud response together with a counter fraud and corruption e-learning training course for staff.
- 12.2 The Audit Service Manager reported that the Council would be assessed on how well it performed against the action plan and any gaps would be reported back to a future meeting. In response to a query about the Single Fraud

Investigation Service, the Audit Service Manager explained that no decision had yet been taken about where the new service would sit but it was unlikely to impact Shropshire Council. Members requested a further report once guidance became available.

- 12.3 **RESOLVED:** to endorse the Local Government Fraud Strategy against which the Council's policies would be reviewed and aligned to.

13. 2011/12 Review of the Whistleblowing 'Speaking up about Wrongdoing' process

13.1 The Committee received the report of the HR Employee Relations and Policy Manager (copy attached to the signed Minutes) which provided an update on progress with the 'Speaking up about Wrongdoing' (Whistleblowing) process and related arrangements together with the number of cases raised regarding Council employees over the last two years. It also proposed some minor changes to the policy and provided a separate version for the public.

13.2 The Chairman commented on the lack of publicity of the Council's Whistleblowing policy. The Audit Service Manager explained that the leaflet has been redesigned and the front sheet amended to make it easier to see who to contact and the information required. The public version would be available on the Council's website and the staff version on the intranet.

- 13.3 **RESOLVED:** to note the contents of the report and the amended policies for staff and for the public.

14. External Audit Progress Report

14.1 The Committee received the report of the District Auditor (copy attached to the signed Minutes) which provided Members with a report on progress in delivering his responsibilities as the Council's external auditor. It also included an update on the externalisation of the Audit Practice. The report also highlighted key national issues and developments which may be of interest to Members.

14.2 The District Auditor explained that interim work had been undertaken but could not be completed until the year end. No significant issues had currently been identified. The District Auditor drew attention to other areas of work including a query in relation to the Council's approach to disposal of smallholdings together with the ongoing queries in relation to social care needs assessment and the Quantum Leap structure.

14.3 The District Auditor confirmed that the audit fee had been reduced by 40% as a result of outsourcing, however there could be possible additional charges if, for example, there were more public queries. He felt that there would be no significant changes to the audit team in the short term.

- 14.4 **RESOLVED:** To note the contents of the report.

15. Date of Next Meeting

15.1 The next meeting of the Committee would be held on Wednesday 19 September 2012 at 10.00am in the Shrewsbury Room.

16. Exclusion of Press and Public

16.1 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 item 20 shall not be conducted in public on the grounds that it involves the likely disclosure of exempt information defined by the categories specified against the item.

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

17.1 **RESOLVED:** That the exempt minutes of the meeting held on 22 March 2012 be approved and signed by the Chairman as a correct record.

Signed.....(Chairman)

Date.....19 September 2012.....