



Committee and Date

Audit Committee
14 February 2013
10.00 am

Item No

3

Public

MINUTES OF THE MEETING HELD ON 7 DECEMBER 2012

10.00am – 1.20am

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Present

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

Mr G Patterson and Ms B Vaghela from Grant Thornton were also in attendance.

Chairman's Opening Remarks

The Chairman welcomed Members of the Committee, representatives from Grant Thornton, other Officers and Councillors to the meeting of the Audit Committee.

The Chairman proposed that the Committee offer its condolences to the Audit Service Manager on the death of her mother.

1. Apologies for Absence and Substitutions

1.1 No apologies were received.

2. Disclosable Pecuniary Interest

2.1 The Chair reminded members of their obligation not to participate in the discussion or vote on any matter in which they had a disclosable pecuniary interest.

3. Minutes

3.1 Paragraph 4.4

The training session on 24 October 2012 took place at 9.00am not pm as stated in the Minutes.

3.2 The Paragraph immediately after 4.4 should be numbered 4.5 and not 4.2.

3.3 Paragraph 6.5

Mr Mellings' comments about Council Tax arrears did not refer to debts as stated in the minutes but referred to older credits and overpayments.

3.4 Paragraph 18.1

The date of the next meeting should read Friday 7 December 2012, not 17.

3.5 **RESOLVED:** that the Minutes of the meeting held on 19 September 2012 be approved and signed by the Chairman as a correct record, subject to the above.

4. External Audit Quantum Leap Report 2011/12

- 4.1 The Committee received the report of the District Auditor – copy attached to the signed Minutes. The District Auditor took Members through his report and drew their attention to the key points. He reported that local electors had raised concerns about the costs and value for money of the Quantum Leap Sculpture.
- 4.2 The District Auditor explained that external audit was an essential part of the process of accountability for public money and as such he had a responsibility to investigate concerns brought to his attention by members of the public but only in relation to issues that were relevant to an ‘open’ audit. At the time the concerns were raised, only the 2011/12 audit remained open so the District Auditor could not consider any decisions made prior to 2011/12 and had only included them to provide the necessary context.
- 4.3 The District Auditor took Members through the background to the project which was commissioned by the former Shrewsbury and Atcham Borough Council (SABC) in February 2008, and which passed to Shropshire Council in 2009 following Local Government Reorganisation. Between April and June 2009 problems were experienced with the construction of the arch. It was eventually completed in 2010 by which time significant additional costs had been incurred. The costs had risen from an original budget of £200,000 to exceed £1 million.
- 4.4 The reason for the misalignment of the arch was disputed between the contractor and contract administrator but eventually led to additional work being undertaken in order to complete the design. Liability for the additional costs incurred remained in dispute for over 12 months until April 2011 when formal dispute resolution was initiated by the Contractor. The independent adjudicator found against Shropshire Council, which was contrary to the expert advice given to the Council.
- 4.5 Once the project had been transferred to Shropshire Council, arrangements were put in place to manage the project including the appointment of a Project Manager and Project Board that met regularly to consider risks, progress and necessary actions. The Project Board identified a risk relating to the low level of indemnity insurance. Shropshire Council required a minimum level of £1 million and an action was noted by the Project Board in May 2009 to review the level of insurance that had been agreed by SABC at £250,000. Despite repeated attempts to increase the insurance level, the Council were unable to do so.
- 4.6 In November 2010, a specialist structural engineer was appointed to provide advice when it was thought likely that the Contractor would initiate formal dispute resolution. Officers believed that specialist construction advice would support the Councils submission to the adjudication process that the additional costs were due to the Contractor. The expert’s opinion was that the design specification was adequate. However, the adjudicator disagreed and ruled that the additional costs arose from the inadequate design.
- 4.7 The Contractor made a verbal offer to settle for £600,000 prior to adjudication, however, following professional advice that the Council would be successful, this was not taken up. The District Auditor concluded that improved documentation would have assisted in improving the transparency of the decision making process. There were lessons to be learnt and

recommendations made in relation to transparency and governance issues had been accepted by the Council.

- 4.8 Councillor Jon Tandy made a statement explaining that from the outset he had raised his concerns about the project with SABC and that it had been very difficult to get any information about the project costs even once it had been completed. He felt that not enough had been done to check the cost implications of the project before work had begun as it was evident right at the start that it would cost more. His biggest concern was that Members had not been informed about what was going on, the issue of costs should have been discussed by Cabinet. Councillor Tandy was grateful for the District Auditors' work and felt that important lessons had been learnt and he hoped that the Council could demonstrate to the public that it would take on board the Audit Commissions' recommendations.
- 4.9 The Chairman informed the meeting that the Audit Committee had not been aware of what was happening with regards to costs and indeed Councillors as a whole were not fully drawn into discussions about costs. It was agreed that the offer to settle from the contractor should have gone to Cabinet for their decision. In response, the Portfolio Holder for Health & Wellbeing explained that the offer had been discussed at informal cabinet but following discussions with officers and legal advice, all the evidence pointed to a strong case and that the Contractor would be liable.
- 4.10 Members raised a number of concerns in relation to the original appointment of the Architect, who had no previous experience, the low level of indemnity insurance, and why it had not been increased. Members recommended that in future Shropshire Council should ensure an adequate and appropriate professional indemnity insurance level to cover all eventualities. Concern was raised that not all relevant information had been made available to Shropshire Council during the handover arrangements from SABC.
- 4.11 The Risk Management Team Leader explained that although a minimum level of £1 million was required, the Council needed to look at each contract individually as they were awarded to assess any risks including the financial impact of any loss.
- 4.12 **RESOLVED:**
- A. to note the contents of the report
 - B. to agree the detailed actions needed in response and to oversee their implementation.

5. Annual Insurance Report 2011/12

- 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 2011-2012 and compares this with previous policy years.
- 5.2 The Chairman thanked the Risk Management Team Leader for her comprehensive report which again showed how effective the team were. The Risk Management Team Leader reported that there had been a reduction in the number of total claims received, in part due to the work of the Highways

- team whose good risk management processes allowed the Council to successfully defend claims.
- 5.3 The Risk Management Team Leader informed the Committee that £1.2 million had been saved by successfully defending public liability claims over the last three years.
- 5.4 Turning to the CIPFA Benchmarking exercise, it was pleasing to note that Shropshire Council received one of the lowest number of Public and Employers Liability claims. The Risk Management Team Leader also reported that the number of motor claims received had also slightly reduced.
- 5.5 The Risk Management Team Leader reported that a 'Good' assurance had been received from Internal Audit following an audit of the Insurance Team in April 2012 and no recommendations had been made. The Council had received a 2.5% discount on its 2011/12 Public Liability and Motor Insurance Policy.
- 5.6 In response to a question the Risk Management Team Leader explained how errors or omissions had occurred in Land Charges Searches leading to four land charges claims being made during the last three years. She reported that only the definitive map was now used when undertaking Land Charges Searches and assured the Committee that procedures were in place to guard against mistakes.
- 5.7 **RESOLVED:** To accept the position as set out in the report.
- 6. Update on the actions to be taken following the audits of the Shropshire Hills Discovery Centre, 2011-12**
- 6.1 The Committee received the report of the Southern Area Facilities Team Leader – copy attached to the signed Minutes – which described the progress being made in response to audit reviews carried out at the Shropshire Hills Visitor Centre between May and August 2011 and in April 2012.
- 6.2 The Chairman commented on the considerable number of recommendations that were still outstanding. In response, the Southern Area Facilities Team Leader explained that progress in addressing the recommendations had been slower than expected due to the level of change to the management of the Shropshire Hills Discovery Centre. A robust programme was now in place to meet all of the recommendations by the end of the year.
- 6.3 Members requested a further report to the June meeting of the Audit Committee to allow time for the actions to be implemented.
- 6.4 **RESOLVED:** to endorse the continued positive progress being made by Shropshire Hills Discovery Centre management and staff in response to the results of the two audit reports.
- 7. Treasury Strategy 2012/13 mid-year review**
- 7.1 The Committee received the report of the S151 Officer– copy attached to the signed Minutes – which informed Members of the Treasury activities of the Council for the first six months of the financial year. The Financial Advice Manager introduced the report and informed the Committee that the internal

Treasury team had achieved a return of 0.98% on the Council's cash balances outperforming the benchmark by 0.69%.

- 7.2 It was pointed out that the Audit Committee Terms of Reference stated at paragraph 5.1 that the Audit Committee would 'consider the robustness of the authority's Treasury Strategy before their submission to Cabinet and full Council' whereas on this occasion the report had already been to Cabinet. It was confirmed that the report had not been available at the time of the previous Audit Committee meeting.
- 7.3 In response to a query about the robustness of the benchmark, the Financial Advice Manager explained that the benchmark had been based on what the Council had been advised would be a reasonable return. The continued outperformance of the benchmark suggested that the target be revisited.
- 7.4 In response to a query, the Financial Advice Manager explained that when investments matured, they would be reinvested in the most appropriate investments at the time. He agreed to let Members have a response in relation to the Current Long Term ('A') ratings of lenders.
- 7.5 **RESOLVED:** to accept the position as set out in the report.

8. ip&e, Programme Management Governance Report

- 8.1 The Programme Manager introduced his report which set out the internal programme management structure and governance controls being applied to the programme to establish ip&e, and the transfer of Council services to ip&e (the 'ip&e transition programme'). The report also provided assurance on the progress of the programme to date.
- 8.2 The Programme Manager drew attention to the financial implications set out in section 4 of the report. He informed the Committee that a commercial loan of £500,000 had been made to ip&e from the Council to assist with set up costs. He explained that the whole journey would be complex and challenging but was a way of addressing forthcoming spending challenges for the Council.
- 8.3 The Programme Manager drew attention to the Governance arrangements set out at paragraph 6 of the report which set out the exact mechanisms by which decisions would be made. It was recognised that ip&e was still in the set up phase and not at the stage whereby services could be transferred in. It currently only had one member of staff, the Managing Director, on a salary of £80,000. The Programme Manager was assisting the Council side to prepare for council services going into ip&e.
- 8.4 The Programme Manager briefly touched on the corporate structure of ip&e, with the Leader as Non-Executive Chairman and Officers and Members on the Board of Directors. The Managing Director would manage the company and the Cabinet Members were the representatives of the shareholders. This was all set out in public documents (articles/memorandum). He reported that the dates for going live with services in the report were obviously variable but he did not believe that Shared Services would be in by Christmas. The services would transfer only when they were ready to do so.
- 8.5 The Chairman thanked the Programme Manager for his very reassuring presentation. In response to a query it was confirmed that the Companies Act outlined the duties that ip&e had to comply with and that the loan agreement

which was in place could be drawn down in stages so the Council could keep control of what was being spent. The Programme Manager explained that there was only one share, which was owned by the Council, and that ip&e would have to submit an annual business plan to the Council setting out its finances and capital budget before services would transfer. The main costs currently incurred were for the Managing Directors salary, office overheads, legal and HR advice.

- 8.6 Members were concerned that the Council had to get this right first time as the success of the Council in the future depended on the success of ip&e. Members wished the Managing Director and Programme Manager to take advice from other local authorities who had successfully or otherwise created a similar company in order to identify any further or unforeseen risks and to report back to a future meeting of the Audit Committee.
- 8.7 In response, the Programme Manager informed the Committee that market analysis had been done by V4 Consultancy into how to go about setting up new delivery vehicles including a council owned company. He agreed to let Members have a copy of the report prepared by V4 which included an explanation of where this had worked for other authorities.
- 8.8 In response to a query the Programme Manager reported that consultancy for setting up ip&e had been paid for through the transformation budget.
- 8.9 In response to a query about when it was envisaged that ip&e would stand on its own and start its accounting period, the Programme Manager explained that ip&e had been incorporated and were in the process of being registered for VAT but it was the responsibility of the Board of Directors to answer this query. The Chairman was not satisfied with this response and felt that the Programme Manager must have had some idea of when ip&e would be launched as a trading company.
- 8.10 The Programme Manager reported that a paper went to Cabinet recommending that first Shared Services and secondly Shire Services be transferred to ip&e in 2013. The Managing Director of ip&e was the person responsible on the ip&e side and would be presenting his Business Plan to Cabinet at which time he may clarify the timeline. The Programme Manager felt that ip&e could be trading after the first quarter of 2013/14 with at least Shire Services, however, it was for the Board to confirm these timelines, not him. He explained that ip&e needed firstly to justify how services were put in and the Council had to agree a trading plan including any working capital arrangements.
- 8.11 The Chairman drew attention to the risk management role, set out at paragraph 6.6 of the report and the fourth page of Appendix D. He was concerned that the Audit Committee should be assessing risks and internal controls as the whole issue of ip&e had such an effect on the Council's future. The Programme Manager informed the Committee that comprehensive risk management had been included in the programme. Risk Strategy workshops had been undertaken and a Strategic Risk Register was in place, managed by the Programme Board, and reviewed on a monthly basis.
- 8.12 The Chairman proposed that the report of the Programme Manager be referred to Cabinet to be read alongside the Business Plan and then be sent to the Performance and Strategy Scrutiny Committee.

8.13 RESOLVED:

- A. That the report be referred to Cabinet and to the Performance and Strategy Scrutiny Committee for consideration alongside the Business Plan to be presented to Cabinet on 16 January 2013.
- B. That the Audit Committee receive a report at each meeting, until otherwise agreed, on the advice and guidance issued to ensure that ip&e's risks and internal controls were effectively managed.

9. External Audit Annual Audit Letter 2011/12

- 9.1 The Committee received the report of the District Auditor – copy attached to the signed Minutes – which set out the findings from the 2011/12 audit of the Council's financial statements and an assessment of the Council's arrangements to achieve value for money in its use of resources.
- 9.2 The District Auditor took Members through the report and highlighted the salient points. He confirmed that he had issued an unqualified opinion together with an unqualified value for money conclusion. It was reported that the 2011/12 accounts had been certified officially closed.
- 9.3 **RESOLVED:** to note the contents of the report.

10. Annual Review of Audit Committee Terms of Reference

- 10.1 The Committee received the report of the Corporate Head of Finance and Commerce – copy attached to the signed Minutes – which set out minor changes being proposed to the Audit Committee Terms of Reference to reflect present officer structures.
- 10.2 **RESOLVED:** to endorse the current Audit Committee Terms of Reference.

11. Audit Committee Self-Assessment Checklist

- 11.1 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.
- 11.2 **RESOLVED:** That the self-assessment questionnaire be approved.

12. Internal Audit Strategy

- 12.1 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. It did not however take account of any refinements proposed in the UK Public Sector Internal Audit Standards which were still under development and which would be reported to a future meeting.
- 12.2 **RESOLVED:** to note the contents of the report.

13. Annual Review of Internal Audit Terms of Reference

- 13.1 The Committee received the report of the Audit Service Manager – copy attached to the signed Minutes. No changes were being proposed to the Internal Audit Terms of Reference. It was noted that the Audit Committee Terms of Reference did not make reference to the Audit Committees' Value for Money role.
- 13.2 **RESOLVED:** to note the contents of the report.

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

- 14.1 The Committee received the report of the Audit Service Manager – copy attached to the signed Minutes – which informed Members that the Counter Fraud, Bribery and Anti-Corruption Strategy had been reviewed and refreshed in line with best practice and continued to 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.
- 14.2 A number of changes were being proposed to reflect the Governments latest strategy and also reflected further management structure changes.
- 14.3 **RESOLVED:** 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.

15. Internal Audit Plan 2012/13 – Half Year Report

- 15.1 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 2012/13 and summarised progress against the Internal Audit Plan.
- 15.2 It was reported that 43% of the plan (48% of the revised plan) had been completed which was in line with the target of 90% by year end. Sixty five good and reasonable assurances were made, together with one unsatisfactory opinion and four limited opinions. 789 recommendations were made in the 71 final reports, none of which were fundamental.
- 15.3 The Senior Group Auditor informed the Committee that work had begun on fundamental systems audits which would be completed in the third and fourth quarters. Performance issues in relation to the Council's Income and Sales Ledger systems operated by Shared Services had been identified and recommendations made which were being considered by Shared Services. The audits in those problem areas had been delayed until February 2013 to allow action to take place.
- 15.4 **RESOLVED:**
- A. That the half year performance against the 2012/13 Audit Plan set out in Appendix A be endorsed.
 - B. That the adjustments required to the 2012/13 plan to take account of changing priorities set out in Appendix A be endorsed.

16. Date of Next Meeting

16.1 The next meeting of the Committee would be held on Thursday 14 February 2013 at 10.00am in the Shrewsbury Room.

17. Exclusion of Press and Public

17.1 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 18-20 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.

18. Minutes (Exempted by Categories 1 and 3)

18.1 **RESOLVED:** That the exempt minutes of the meeting held on 19 September 2012 be approved and signed by the Chairman as a correct record.

19. Quantum Leap – Additional Information (Exempted by Category 5)

19.1 The Committee received the exempt report of the Area Director North – copy attached to the signed Minutes.

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

20. Fraud and Special Investigation Update – December 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.....14 February 2013.....