



Committee and Date

Audit Committee
27 March 2013
10 am

Item No

3

Public

MINUTES OF THE MEETING HELD ON 14 FEBRUARY 2013

10.00am – 12noon

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Present

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

Mr G Patterson and Mr E Bagnall from Grant Thornton were also in attendance.

Chairman's Opening Remarks

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

1. Apologies for Absence and Substitutions

1.1 No apologies were received.

2. Disclosable Pecuniary Interest

2.1 The Chairman 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 **RESOLVED:** that the Minutes of the meeting held on 7 December 2012 be approved and signed by the Chairman as a correct record.

4. ip&e Programme Management Governance Report

4.1 The Committee received the report of the Programme Support Officer – copy attached to the signed Minutes – which set out the continuing 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'), as requested by the Committee at the meeting held on 7 December 2012.

- 4.2 The Programme Support Officer gave a brief update on the governance arrangements and reported that a paper was being presented to Cabinet at its meeting on 20 February 2012. He explained that Risk Management meetings continued monthly to ensure that the Programme Board were comfortable with their risk exposure. The Transition Team would ensure the physical transfer of each service into ip&e and was being amply resourced.
- 4.3 The Programme Support Officer reported that the Programme Board had changed slightly but that all new Members would be briefed and up to speed. The Terms of Reference had been re scoped to include all services transferring out of the Council. The Programme Support Officer informed the Committee that the Programme Board were committed to not transferring any services until they were business ready.
- 4.4 In response to a query, the Audit Service Manager explained how aspects of ip&e would be reviewed by Internal Audit in respect of internal controls and risks and that the Audit Committee would also play a role in scrutinising these when receiving reports Internal Audit had already contributed to reviews of the strategic contract and business plans for different commissioning and delivery models. Members raised concerns that the Audit Committee may not be as objective as it should be due to political pressures, this needed to be smoothed out or it could become fractious.
- 4.5 In response to a query about where ip&e saw the Internal Audit function sitting, the Programme Support Officer explained that the Board of ip&e were still considering which services to transfer. The Section 151 Officer reported that there was a lot of work on-going around the way services would transfer and that Internal Audit was fundamental to the transfer of other services. He assured the Committee that Internal Audit was not going anywhere for the time being.
- 4.6 In response to a query the Audit Service Manager explained that Internal Audit was represented on the Programme Board and had met with lead officers to discuss where the risks were. She was happy that there were processes in place for the management of risks.
- 4.7 The Section 151 Officer explained that physical draw down of the loan of £500,000 to ip&e had not yet happened. Expenditure was however being monitored and appropriate arrangements were in place.
- 4.8 In response to a query the Programme Support Officer informed the Committee of the significant benefits that had so far been yielded by the work of the project team.
- 4.9 In response to a comment that the Programme Board seemed rather heavy, the Programme Support Officer explained that they wished to ensure that governance arrangements were as robust as possible, that all of the right people were around the table and would all be involved to a certain extent and were integral to the programme. All work streams were vital and would inform the strategic decision making. It was confirmed that a further report would be presented to the Audit Committee in the next financial year.
- 4.10 **RESOLVED:** to note the contents of the report.

5. Treasury Strategy 2013/14

- 5.1 The Committee received the report of the Section 151 Officer – copy attached to the signed Minutes – which proposed the Treasury Strategy for 2013/14 and recommended Prudential Indicators for 2013/14 to 2015/16. The Section 151 Officer expressed his thanks to the team for all their hard work, and in particular the Treasury and Pensions Service Manager.
- 5.2 The Section 151 Officer drew attention to the key points set out in the report. He informed the Committee that the Council was likely to get back all of the £1 million deposited with Landsbanki albeit over several years. The Section 151 Officer stated that the Council has had a strong strategy in place demonstrated over a number of years by outperformance of the benchmark.
- 5.3 In response to a query, the Section 151 officer explained why the cost of Capital investment decisions had risen when the cost of the capital programme had reduced rapidly. He informed the Committee that the Strategy going forward was not to borrow.
- 5.4 The Section 151 Officer explained that there were a whole suite of indicators based on a number of factors including the size of the Council, setting out parameters for how much a Council was able to borrow and how much it would impact on Council tax etc. In response to a query the Section 151 Officer explained that the indicators were based on CIPFA recommendations on Prudential Indicators and that Shropshire Council compared very favourably.
- 5.5 In response to a query in relation to why the Council only used one Building Society, the Section 151 Officer explained that the Council used those organisations with the highest credit rating so other Building Societies may be smaller or may not have the highest rating. The Building Society used was the only one that met the criteria.
- 5.6 The Section 151 Officer reported that the benchmark was set nationally by our Treasury Advisors and that the Council had continually outperformed the benchmark. The Section 151 Officer had asked to look at how other organisations were performing as he felt there would be some that were underperforming.
- 5.7 **RESOLVED:** To accept the position as set out in the report.

6. Benefit Fraud Investigations - Performance Monitoring Report

- 6.1 The Committee received the report of the Team Manager - Investigations – copy attached to the signed Minutes – which provided Members with performance monitoring information on investigations undertaken by officers for the financial year 2012/13 up to 28 January 2013.
- 6.2 The Team Manager – Investigations explained that the Council's benefit fraud function had moved under the Public Protection and Enforcement umbrella and during the last 12 months had undergone a service review which resulted in the merging of the old enforcement and benefit fraud teams, which he now managed.
- 6.3 The Team Manager – Investigations drew Members' attention to the Housing Benefit and Council Tax Benefit overpayments identified and the actions taken. He reported that introduction of the Single Fraud Investigation Service

(SFIS) had been delayed and was not likely to have a direct impact on current service delivery until April 2014 at the earliest.

- 6.4 In response to a query, the Team Manager – Investigations explained that the SFIS would be run by the DWP (Department for Work and Pensions) and the intention was that it would investigate all benefit matters. He expected that some officers would be recruited into the new team but it was not clear whether the DWP would keep things as they were with the Local Authority continuing to investigate. Four trials were currently being undertaken, one in Wrexham, using different models.
- 6.5 The Team Manager – Investigations agreed that more publicity of prosecutions could act as a deterrent including cases of corporate fraud, such as blue badge fraud which was being tightened up on and was more prominent in the press. This was of course dependent upon the media.
- 6.6 Members thanked the team for their work in this difficult and complex area. In response to a query, the Team Manager – Investigations explained that recovery work was undertaken by the Benefits Team and not the Investigations Team. He reported that in 2010/11 a stop had been placed on recoveries due to the backlog of unitary debts, following which an auto recovery system had been introduced which increased the level of recoveries. Also, a lot was recovered from on-going entitlement which would take several years to clear.
- 6.7 **RESOLVED:** To approve the position as set out in the report with respect to benefit fraud investigation performance.

7. External Audit Planned Audit Fee for 2012/13

- 7.1 The Committee received the report of Grant Thornton UK LLP – copy attached to the signed Minutes – which set out details of the audit fee for the Council along with the scope and timing of their work and details of their team.
- 7.2 Mr Patterson reported that an increase to the scale fee was being proposed to accommodate risks in relation to the transfer of services to ip&e, low levels of reserves and changes to the Council's Leadership Team, its responsibilities and governance arrangements, all of which were felt to be significant risks which impacted upon the Value for Money Conclusion. This increase still however represented a reduction on the 2011/12 audit fee and could be revisited in 12 months' time.
- 7.3 **RESOLVED:** To note the contents of the report.

8. External Audit Certification Work Report 2011/12

- 8.1 The Committee received the report of Grant Thornton UK LLP – copy attached to the signed Minutes – which summarised the overall assessment of the Council's management arrangements in respect of the certification process and drew attention to significant matters in relation to individual claims.
- 8.2 Mr Bagnall reported that five claims and returns had been certified in relation to the pooling of Housing Capital Receipts, HRA Subsidy, National Non Domestic Rates, Housing and Council Tax Benefits scheme and Teachers' Pension return.

- 8.3 Mr Bagnall reported that all claims had been submitted on time and were certified within the required deadlines. Only one qualification letter was issued in relation to the Housing and Council Tax Benefits scheme.
- 8.4 Scope for strengthening administrative arrangements was identified in respect of Teachers' Pensions return; particularly around retaining opt out forms on individual teacher's files. A management response had yet to be agreed. Members expressed strong concerns that this issue was being raised for a second year and expected it to be dealt with forthwith and not raised next year. It was reported that the forms had since been found so there was no reason why it should be raised again.
- 8.5 In response to a query, Mr Bagnall explained that as auditors for DWP they were required to test samples and if any errors were found, no matter how small, a qualification letter had to be issued.
- 8.6 **RESOLVED:** To note the contents of the report.

9. Biennial Report of Compliance with Financial Rules 2012/13

- 9.1 The Committee received the report of the Senior Group Auditor – copy attached to the signed Minutes – which summarised the findings of Internal Audit's review of compliance with Financial Rules. Overall, compliance was found to be excellent with no material breaches identified.
- 9.2 The Senior Group Auditor reported that three control objectives had been fully achieved, whilst two had been substantially achieved. Five recommendations had been made, two in relation to updating financial rules to ensure they were current and fit for the new commissioning model, two in relation to income guidance and PCI (Payment Card Industry) compliance and one on the authorisation of write offs of cumulative debt. All five recommendations had been accepted by management.
- 9.3 In response to concerns about whether it was the right time to review the financial rules in relation to the delivery of ip&e, the Audit Service Manager explained that by being proactive, Internal Audit work could help shape the financial rules to ensure that they were fit for purpose and reflected how ip&e would work with the Council.
- 9.4 The Audit Service Manager explained that updating of the financial manual would be led by Finance with support from Internal Audit. Even if the manual was slightly out of date, approval could be sought from the Section 151 Officer to do something outside of the financial rules, so long as it was legal.
- 9.5 **RESOLVED:** To approve the report.

10. Internal Audit Plan 2012/13 – Third quarter report

- 10.1 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 third quarter of 2012/13 summarising progress against the Internal Audit Plan.
- 10.2 The Audit Service Manager reported that 72% of the revised plan (61% of the original plan) had been completed which was in line with the target of 90% by year end. Sixteen good and reasonable assurances had been made together

- with a further four limited assurance opinions. The 20 final reports contained 254 recommendations including one fundamental recommendation in relation to the General Ledger audit. Also, ten audit reports had been issued in draft and were awaiting management comments.
- 10.3 The Audit Service Manager drew attention to the four limited assurances given in the areas of Civica Icon IT system, General Ledger 2012/13, Microsoft Lync Implementation and Direct Payments.
- 10.4 Work on fundamental systems audits was progressing well, with three having been completed, one issued in draft and two at the drafting stage. The Audit Service Manager was confident that the majority of fundamental systems audits would be completed by year end.
- 10.5 The Audit Service Manager drew attention to the summary of audit days delivered and reported that special investigation work continued at a significant level and in addition work on ip&e was gathering pace placing further pressures on senior resources. The plan has therefore been reduced to an achievable level resulting in a reduction of 146 planned audit days.
- 10.6 Further to the review of compliance with Contract Rules reported to the Audit Committee at its meeting in June 2012, the Audit Service Manager confirmed that implementation of the recommendations was continuing and Group Managers had been reminded of their obligations to obtain company financial health checks on all major contracts and that any changes to major contracts must be authorised by the Corporate Head of Legal & Democratic Services. Group Managers had also been requested to update their authorisation lists, which was on-going. Further Contract Rule revisions were being finalised and would be issued in draft for consultation before being approved by Full Council.
- 10.7 In response to a query about the General Ledger not being up to date, the Section 151 Officer confirmed that additional resources were being used to work through the back log in order to resolve the issue as soon as possible. Members requested an update on progress implementing improvements to General Ledger internal controls at their next meeting. In response to a query about the Direct Payments issue, the Audit Service Manager explained that the issue had been discovered when carrying out the audit but the backlog was now being addressed.
- 10.8 **RESOLVED:**
- A. To note third quarter performance against the 2012/13 Audit Plan set out in Appendix A.
- B. To note the adjustments required to the 2012/13 plan to take account of changing priorities set out in Appendix A.
- 11. Date of Next Meeting**
- 11.1 The next meeting of the Committee would be held on Wednesday 27 March 2013 at 2.00pm in the Shrewsbury Room.

12. Exclusion of Press and Public

- 12.1 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 13 and 14 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.

13. Minutes (Exempted by Categories 1 and 3)

- 13.1 **RESOLVED:** That the exempt minutes of the meeting held on 7 December 2012 be approved and signed by the Chairman as a correct record.

**14. Fraud and Special Investigation Update – February 2013
(Exempted by Categories 2, 3 and 7)**

- 14.1 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.
- 14.2 **RESOLVED:** that the report be noted.

Signed..... (Chairman)

Date.....27 March 2013.....