



Committee and Date

Audit Committee
21 June 2013
10.00 am

Item No

3

Public

MINUTES OF THE MEETING HELD ON 27 MARCH 2013

10.00am – 12:45pm

Responsible Officer Michelle Dulson

Email: michelle.dulson@shropshire.gov.uk

Telephone: 01743 252727

Present

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

Mr B Gillow OBE (substitute) was also in attendance as was Ms B Vaghela from Grant Thornton.

Chairman's Opening Remarks

The Chairman welcomed Members of the Committee, Ms Vaghela, other Officers and Councillors to the meeting of the Audit Committee.

The Chairman informed the meeting that Mr Whiteman, Vice-Chairman of the Audit Committee would not be standing for re-election. He thanked Mr Whiteman for his Services to the Audit Committee over the last four years and wished him well for the future.

1. Apologies for Absence and Substitutions

1.1 An apology for absence was received from Mr M Wood.

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 **RESOLVED:** that the Minutes of the meeting held on 14 February 2013 be approved and signed by the Chairman as a correct record.

4. Update on Actions Following Review of Shared Services Finance

4.1 The Committee received the report of the Section 151 Officer – copy attached to the signed Minutes – which updated Members on the progress being made following the management review carried out within Shared Services Finance in October 2012.

- 4.2 The Section 151 Officer drew attention to the key issues highlighted in the review which had mainly been caused by a number of vacancies arising within the income team together with a re-direction of resources within Shared Services Finance. As a result of the issues raised, action had been taken to reprioritise the work within the team and additional resources had been allocated in the short term. Many of the issues had now been tightened up and improvements made.
- 4.3 The Section 151 Officer felt much more comfortable and able to provide assurance that the issues were being dealt with and were adequately resourced. In response to a query in relation to aged debts and the ongoing recovery of duplicate payments, the Section 151 Officer explained that three additional debt recovery staff had been allocated to Shared Services on a fixed term basis so that action could be taken on the recovery of aged debt, which stood at approximately £5 million. It was hoped that these debts would reduce quickly in the next few months.
- 4.4 Turning to duplicate payments, the Section 151 Officer explained that an external organisation, Twice2Much, had been commissioned for a limited time of three to six months and that they were being paid on the basis of a percentage of any debt recovered once it was in the Council's accounts. These agreements were typically for 20% but the Council had agreed a significantly lower rate of 12% of any recovery but increasing as the amount of recovery increased, so there was an incentive for them to recover as much as possible.
- 4.5 In response to a query about how much of the £5 million outstanding was likely to be recovered, the Chief Accountant reported that the team were reviewing the debts and trying to get recovery of the larger and older debts. Members requested a further update to a future meeting.
- 4.6 **RESOLVED:** to endorse the continued positive progress being made by Shared Services Management and staff in response to the results of the management review and for a further update to be received at a future meeting of the Audit Committee.
- 5. External Audit: Annual Audit Plan for 2012/13**
- 5.1 The Committee received the report of Grant Thornton UK LLP – copy attached to the signed Minutes – which set out the Annual Audit Plan for 2012/13. Ms Vaghela, the **In Charge Accountant** explained that in planning their audit they needed to understand the challenges and opportunities faced by the Council together with the impact of any key developments relevant to the Council and the audit. The audit approach pulled all this together and used it to develop the plan in order to obtain reasonable assurance that the Financial Statements were free from any material misstatements.
- 5.2 Ms Vaghela informed the Committee that the audit was based on risk and focussed on areas where a risk of material misstatement had been identified. The level of testing then undertaken depended upon the level of risk identified. If the risk was felt to be significant an assessment of controls would be undertaken around the risks and detailed substantive testing would be carried out. If the level of risk was not material they would not do any testing.

5.3 Ms Vaghela took the Committee through the significant and other risks which had been identified. She reported that no issues had been raised during their interim audit work. She then summarised the work to be done to inform the value for money conclusion and explained that a separate Governance Review of ip&e would be undertaken. In response to a query, Ms Vaghela explained what was meant by 'walk through' testing which followed a transaction from start to finish through the whole system.

5.4 **RESOLVED:** To note the contents of the report.

6. External Audit: Informing the Audit Risk Assessment

6.1 The Committee received the report of Grant Thornton UK LLP – copy attached to the signed Minutes – which contributed towards the effective two-way communication between auditors and the Council's Audit Committee. It also covered some important areas of the auditor risk assessment where external audit were required to make inquiries of the Audit Committee under auditing standards.

6.2 Ms Vaghela explained that as part of their risk assessment, they were required to obtain an understanding of management processes and the Audit Committee's oversight on five areas: fraud; laws and regulations; going concern; accounting estimates; and related party transactions. She took Members through these areas and the responses received from Council management to the series of questions raised on each area. She reported that no issues of concern had been identified and requested the Audit Committee to consider whether the responses were consistent with its understanding of the processes.

6.3 The Chairman commented on how carefully the Council were audited both internally and externally, and that the public could rest assured that nothing was likely to go wrong in the way the Council managed money in the public interest.

6.4 **RESOLVED:** To note the contents of the report.

7. Internal Audit Report of the Review of Risk Management Audit

7.1 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.

7.2 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. No control weaknesses had been identified and no recommendations had been made. He informed the Committee that all recommendations made last year had been implemented.

7.3 **RESOLVED:** to endorse the findings from the review of Risk Management by Internal Audit.

8. Public Sector Internal Audit Standards (PSIAS)

8.1 The Committee received the report of the Audit Service Manager – copy attached to the signed Minutes – which provided a summary briefing on the new PSIAS which the Chartered Institute of Public Finance and Accountancy

(CIPFA) had developed in collaboration with the Chartered Institute of Internal Auditors (CIIA) and which came into force on 1 April 2013.

- 8.2 The Audit Service Manager explained that the standards applied to all internal audit services and replaced the CIPFA Code of Practice. She drew Members' attention to the key points. The Audit Service Manager was still required to give assurance based on an objective assessment of the framework of governance, risk management and control. There was also a requirement for an internal audit charter formally defining the internal audit activity which would be similar to the internal audit Terms of Reference.
- 8.3 The Audit Service Manager reported that there was no longer a requirement to produce an audit strategy. Instead, a risk based plan must be produced setting out how it linked to the Council's objectives and priorities. The quality of internal audit services would be checked under the quality assurance and improvement programme (QA&IP) which required ongoing internal assessments and an external assessment every five years, results of which would be reported to the Audit Committee.
- 8.4 The Audit Service Manager explained that CIPFA would shortly be producing a Local Government Application note following which she would consider and review the service against the guidance to ensure compliance and to identify any gaps and would report back to the Audit Committee at a future meeting. It was requested that PSIAS be included in the training session for new and existing members on 21 May 2013.
- 8.5 **RESOLVED:** to endorse the adoption of the PSIAS with effect from 1 April 2013.

9. Internal Audit Annual Plan 2013/14

- 9.1 The Committee received the report of the Audit Service Manager – copy attached to the signed Minutes – which provided Members with the outcome of the audit needs exercise which had recently been completed to inform the Internal Audit plan for 2013/14.
- 9.2 The Audit Service Manager explained that in view of the scale and speed of organisational change within the Council, it was felt that a four year plan would not be appropriate so for 2013/14 the Council would be moving to an annual rolling risk based audit plan.
- 9.3 The Audit Service Manager reported that days had been included in the plan to cover fundamental systems, a contingency of 100 days had been allocated for transformation projects and time had also been allocated to human resource management and payroll processes. The counter fraud and investigation contingency had been increased by 50 to 200 days and; days had been allocated to external clients in line with contractual commitments. Increased time had also been added to ICT audits to reflect changes in IT applications and new technology.
- 9.4 The Audit Service Manager explained that the audit team consisted of 11.2 full time equivalents supplemented by buying in a number of internal audit reviews from external suppliers in order to provide flexibility and cover the needs of the service. In response to a query, the Audit Service Manager amplified how the external suppliers were appointed. She assured the Committee that she had sufficient resources to deliver the plan.

- 9.5 In response to a query the Audit Service Manager explained that the Council had submitted a bid for £160K over two years to help supplement counter fraud activity within social housing. If successful, the funding would be used to employ a fraud investigation officer to investigate housing tenancy fraud and to support a publicity campaign to raise awareness of the issue across Shropshire.
- 9.6 The Audit Service Manager explained why there had been a reduction in the number of days allocated to transformation projects. A number of these projects were now known and had been included as specific areas in the plan. The contingency was included for those as yet unidentified projects.
- 9.7 In response to a query the Section 151 Officer explained that although the Council ensured it was not out of pocket from providing Internal Audit Services to external clients, it would not be appropriate to make a profit from them as they were working in partnership with the Council.
- 9.8 **RESOLVED:** to endorse the approach taken to create the proposed Internal Audit Plan for 2013/14 and to approve its adoption.

10. Review of the Audit Committee's Annual Work Plan and Future Learning and Development Requirements 2012/13

- 10.1 The Committee received the report of the Audit Service Manager – copy attached to the Signed Minutes – which provided a proposed audit committee work plan and a future learning and development plan for Members to ensure they were well informed and appropriately skilled to fulfil their role.
- 10.2 Proposed changes to the Work Plan were highlighted, the reasons for which were set out in the report and Member approval was sought for these changes. In response to a query the Audit Service Manager reported that PSIAS training had been included under the 21 May 2013 training session.
- 10.3 **RESOLVED:** to approve the proposed work and learning and development plan for the committee and its members.

11. Date of Next Meeting

- 11.1 The next meeting of the Committee would be held on 21 June 2013 at 10.00am in the Shrewsbury Room.

12. Exclusion of Press and Public

- 12.1 The Chairman asked the Legal Services Manager - People to explain the reasons why agenda item 14 (Review of the internal controls and procedures in respect of consultancy provision – Exempted by Category 3) was in Part II and not Part I as neither the Chairman nor the Leader had made this decision.
- 12.2 The Legal Services Manager explained that the Director of Operations and the Head of Legal Services [Monitoring Officer] had advised that the report should be taken in Part II. It was difficult for him to comment as to the reasons in Part I but there were observations made in the report which as a matter of fairness the individuals concerned ought to have the opportunity to comment on.

- 12.3 A debate followed in which Cllrs Mosley, Hartin and Mellings argued that the report was concerned with important issues regarding Council processes that should be debated in public.
- 12.6 The Chairman informed the meeting that legal advice had been taken. Members could express a view if they wished in private. He felt it would stifle the debate if the item was taken in public. He felt there was no reason why the report could not be issued at a later date but that the debate must be held in private.
- 12.7 It was moved by Councillor Williams, seconded by Councillor Whiteman and upon being put to the vote (3 For, 1 Against, No abstentions) 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 to 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.
- 13. Minutes (Exempted by Categories 1 and 3)**
- 13.1 **RESOLVED:** That the exempt minutes of the meeting held on 14 February 2013 be approved and signed by the Chairman as a correct record.
- 14. Review of the internal controls and procedures in respect of consultancy provision (Exempted by Category 3)**
- 14.1 The Committee received the exempt report of the Audit Service Manager – copy attached to the signed Minutes – which provided a summary of the findings from a review of the internal controls and procedures in respect of consultancy provision.
- 14.2 **RESOLVED:** That the findings of the review be noted.
- 15. Fraud and Special Investigation Update – March 2013 (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.

The Chairman commented that Mr B Gillow OBE was also standing down. He thanked Mr Gillow for his regular attendance as a substitute at meetings and training sessions and wished him well for the future.

Councillor Mellings thanked the Chairman and all officers for all their work over the last four years which had engendered a good working relationship. It had been a pleasure for him to serve on the Audit Committee and he thanked the Chairman for his leadership.

Signed..... (Chairman)

Date.....