



Committee and Date

Audit Committee

19 September 2013

2.00 pm

Item No

3

Public

MINUTES OF THE MEETING HELD ON 21 JUNE 2013

10.00am – 1.20pm

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Present

Messrs J Cadwallader, C Mellings, B B Williams, M Williams and M Wood.

Mr E Bagnall and Ms B Vaghela from Grant Thornton were also in attendance.

Chairman's Opening Remarks

The Chairman welcomed Members of the Committee, new and old, and looked forward to working with them all over the next four year cycle. The Chairman also welcomed 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 meetings held on 27 March 2013 and 24 May 2013 be approved and signed by the Chairman as a correct record.

It was agreed to take agenda items 4 (Payroll – update on progress following the 2012/13 audit) and 5 (Duplicate payments progress update) after item 12 (Internal Audit Annual Report 2012/13).

4. 2012/13 REVIEW OF WHISTLEBLOWING – 'SPEAKING UP ABOUT WRONGDOING' REPORT

4.1 The Committee received the report of the Organisational Development Programme Manager (copy attached to the signed Minutes) which provided an update on the number of cases raised regarding Council employees over the last two years (excluding school based employees).

4.2 The Chairman reported that the 'Speaking up about wrongdoing' process was an essential activity and formed a key element of the Council's Corporate Governance arrangements. It also saved the Council money.

4.3 **RESOLVED:**

- A. to note the contents of the report.
- B. to request that the report goes to the next meeting of the Council as an information item.

NB. Following advice from the Head of Legal Services (Monitoring Officer) it was agreed with the Chairman for paper copies of the Whistleblowing 'Speaking up about wrongdoing' arrangements for the public to be circulated to all Members of Shropshire Council in order to raise awareness of the availability of the policy and to reinforce the Council's stance on a zero tolerance culture for any potential fraud, bribery or corrupt activities.

5. REVENUE OUTTURN REPORT 2012/13

5.1 The Committee received the report of the Section 151 Officer (copy attached to the signed Minutes) which provided details of the revenue outturn position for Shropshire Council for 2012/13.

5.2 It was noted that the outturn for the revenue budget for 2012/13 was an overspend of £0.284m which represented 0.04% of the original gross budget. Members congratulated the Section 151 Officer and his team for getting so close to budget.

5.3 **RESOLVED:**

- A. to note that the outturn for the revenue budget for 2012/13 was an overspend of £0.284m which represented 0.04% of the original gross budget of £653m.
- B. to note that the level of general balance stood at £6.820m, which was above the anticipated level included within the Financial Strategy and was therefore 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 £4.953m (2011/12 £5.104m).
- D. to note that the outturn for the Housing Revenue Account for 2012/13 was an underspend of £0.044m and the level of the Housing Revenue Account reserve stood at £1.041m (2011/12 £0.998m).

6. CAPITAL OUTTURN REPORT 2012/13

6.1 The Committee received the report of the Section 151 Officer (copy attached to the signed Minutes) which informed Members of the final outturn position for the Council's 2012/13 capital programme and the current position regarding the 2013/14 to 2016/17 capital programme taking into account the slippage following the closure of the 2012/13 programme and any budget increases/decreases for 2013/14 and future years.

6.2 In response to a query the Section 151 Officer explained that as the financial year progressed, schemes would be moved back based on when it was believed they would likely be delivered, so funding was pushed back into

future years. The Council would however rather see schemes delivered than delayed.

6.3 RESOLVED:

- A. to approve budget variations of £131,011 to the 2012/13 capital programme, detailed in Appendix 12a/Table 1 of the report, and the re-profiled 2012/13 capital budget of £49.7m.
- B. to approve the re-profiled capital budgets of £78.6m for 2013/14, including slippage of £7.37m from 2012/13; £42.4m for 2014/15 and £16.1m for 2015/16 as detailed in table 4 and changes in Appendix 2b of the report.
- C. to accept the outturn expenditure set out in Appendix 1 of the report of £42,280,455, which represents 85.1% of the revised capital budget for 2012/13.
- D. to approve retaining a balance of capital receipts set aside of £12.6m as at 31 March 2013 to generate a Minimum Revenue Provision saving of £496,000 in 2013/14.

7. ANNUAL STATEMENT OF ACCOUNTS 2012/13

- 7.1 The Committee received the report of the Section 151 Officer (copy attached to the signed Minutes) which provided an overview of the Accounts and details of the reasons for the most significant changes between the 2011/12 accounts and the 2012/13 accounts. The draft Statement of Accounts for 2012/13 was appended to the report.
- 7.2 The Section 151 Officer introduced the officers who had pulled all of the information together for the Accounts. The final revenue outturn for 2012/13 was an overspend of £284,000 and the final capital outturn shows a spend of £42.280 million. It was hoped to finalise the figures by the end of the month with final sign off at the end of September 2013.
- 7.3 Members thanked the team for all their hard work in pulling together the accounts and for the helpful analytical review. In response to a query the Section 151 Officer explained what the Transformation Reserve had been spent on including staffing, software, advice and development of ip&e.
- 7.4 A query was raised in relation to Debtors and why Other Entities and Individuals had increased by approximately 20%. In response, the Chief Accountant explained that this was due to a variation in the class of debtors included as aged debtors together with less than expected funds being recovered. The Chief Accountant agreed to provide further information/analysis on the Debtors figures.
- 7.5 Under Disclosure of Officers' Emoluments, reference was made to compromise agreement payments in accordance with the Council's Policy. Members requested a copy of this policy.
- 7.6 Members were disappointed to see the increase of almost £100,000 in rent arrears and were concerned that this could increase following the impact of welfare reforms. It was confirmed that a report on aged debt would be presented to the Committee at its next meeting in September.

7.7 The Chairman felt that the public were pleased that all senior officers at Shropshire Council were paid a realistic salary but that there had been no lessening in the capability of these officers, which was good news for tax payers. He congratulated the Chief Executive and Cabinet on the way salaries were now managed.

7.8 **RESOLVED:**

- A. to note the draft 2012/13 Statement of Accounts.
- B. to agree that the Head of Finance, Governance and Assurance be authorised to make any final adjustments to the Statement of Accounts prior to the 30 June 2013.

8. **REVIEW OF SHROPSHIRE COUNCIL'S CODE OF CORPORATE GOVERNANCE 2012/13**

8.1 The Committee received the report of the Section 151 Officer (copy attached to the signed Minutes) which set out the Corporate Governance arrangements in place for the previous year to enable the Audit Committee to deliver its year end assurance report.

8.2 The Senior Group Auditor informed the Committee that the annual review was backward looking at how the code had been applied during the last financial year. The evidence demonstrating how each of the six core principles and their sub-principles had been addressed was set out in Appendix A to the report.

8.3 The report demonstrated very strong evidence of how the Code had been applied and no material breaches were identified.

8.4 **RESOLVED:** to approve the Internal Audit conclusion that the Council has very strong compliance with the Code of Corporate Governance, set out at Appendix A to the report.

9. **ANNUAL GOVERNANCE STATEMENT AND REVIEW OF THE EFFECTIVENESS OF THE COUNCIL'S SYSTEM OF INTERNAL CONTROLS 2012/13**

9.1 The Committee received the report of the Section 151 Officer (copy attached to the signed Minutes) which set out the Annual Governance Statement to be considered following a review of the effectiveness of the Council's system of internal controls.

9.2 The Section 151 Officer explained that the Annual Governance Statement was required to be produced alongside the Annual Accounts to demonstrate that governance arrangements were in place. The framework set out six core principles of good governance and the Annual Governance Statement must declare to what degree the Council follows these principles in order to provide assurance that the Council has sound governance arrangements in place.

9.3 Based on the work undertaken by internal audit over the year and events that happened in previous years, the Audit Service Manager has given a qualified opinion on the Council's internal control environment due to the increase in the numbers and negative direction of travel of the internal audit assurances provided on the principle financial systems. In response, management will

need to demonstrate implementation of positive action to address the matters raised.

- 9.4 The significant governance issue facing the council was drawn to the attention of the Committee in that the Council had to achieve a saving of £24 million in 2013/14 and the report set out the actions to be taken to ensure delivery of this. In response to a query, it was confirmed that the Audit Service Manager currently had adequate resources available to cover the current internal audit work programme.
- 9.5 **RESOLVED:** to approve the Annual Governance Statement 2012/13 set out at Appendix A to the report.

10. INTERNAL AUDIT ANNUAL REPORT 2012/13

- 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 year ended 31 March 2013. It also reported on progress against the annual audit plan and contributed to the review of the effectiveness of the Internal Audit team.
- 10.2 The Audit Service Manager reported that 101% of the revised plan had been delivered which was in excess of the target of 90%. Ninety good and reasonable assurances were made together with one unsatisfactory and twelve limited opinions. One fundamental recommendation was made in relation to the Teachers' Pensions audit.
- 10.3 The Audit Service Manager confirmed that she has qualified her opinion on the Council's internal control environment due to the increase in the number of financial systems having limited audit assurance opinions and a negative direction of travel. However, there was no evidence of significant material errors that could result in a misstatement in the accounts.
- 10.4 In relation to the fundamental recommendation on the Teachers' Pensions audit, the Head of Human Resources and Development explained that significant work was being undertaken to improve processes and ensure controls were in place and that teachers pensions records were correct and up to date.
- 10.5 The Audit Service Manager drew attention to the twelve limited assurance opinions, the detail of which was set out at Paragraph 5.13 of the report. She then drew attention to the fundamental and significant recommendations made in the final audit reports. She reported that the percentage of significant recommendations had increased slightly compared to the previous year, this, together with a corresponding fall in best practice recommendations had led to an increase in 'requires attention' recommendation.
- 10.6 94% of the revised plan had been achieved (63% of the original plan) which was in excess of the target of 90% by year end. When contingency work was taken into account, 101% of the revised plan had been delivered. The Audit Service Manager reminded the Committee that the plan had been revised a number of times in the year due to various resourcing issues resulting in a loss of 525 days, which had been offset by buying in external provision resulting in a net reduction of 293 days. There had also been a net reduction of 168 days later in the year.

10.7 RESOLVED:

- A. to note performance against the Audit Plan for the year ended 31 March 2013.
- B. to note that the system of internal control is operating effectively and could be relied upon when considering the Annual Governance Statement for 2012/13.
- C. to note the Audit Service Manager's qualified year end opinion on the Council's internal control environment for 2012/13 on the basis of the work undertaken and management responses received.

11. UPDATE ON RECOMMENDATIONS FOLLOWING AUDIT OF SHARED SERVICES PAYROLL 2012/13

- 11.1 The Committee received the report of the Transaction Manager (Copy attached to the signed Minutes) which provided Members with assurance that significant progress had been made against the recommendations highlighted in the Payroll System Audit 2012/13.
- 11.2 The Head of Programme Management, Systems and Transition reported that 30 recommendations had been made to improve management controls in a number of areas. He was disappointed that the majority of the recommendations had been made in previous audits but had not been actioned and therefore carried forward from the previous year.
- 11.3 The Head of Programme Management, Systems and Transition reported that 63% of the recommendations had now been implemented and it was hoped to complete the outstanding recommendations in the next four to six weeks.
- 11.4 The Head of Programme Management, Systems and Transition informed the Committee that a wider review of Shared Services management controls was being undertaken and that a further report would be presented to the Audit Committee in November.
- 11.5 **RESOLVED:**
 - A. to note the progress made against the recommendations outlined in the Payroll System Audit 2012/13.
 - B. to note that Shared Services had established day to day operational management control processes in providing Payroll Services for the authority.

12. UPDATE ON ACTIONS FOLLOWING REVIEW OF SHARED SERVICES FINANCE – DUPLICATE PAYMENTS

- 12.1 The Committee received the report of the Transaction Manager (copy attached to the signed Minutes) which provided members with an update in respect of progress made by Twice2Much on the recovery of the duplicate payments between March and June 2013.
- 12.2 It was reported that £250,000 had already been recovered by Twice2Much. The Section 151 Officer explained that Twice2Much were only paid for sums they recovered.

12.3 In response to a query, the Head of Programme Management, Systems and Transition explained how duplicate payments came about. He confirmed that a further report would be presented to the Audit Committee in November.

12.4 **RESOLVED:** to note the progress made and to support the ongoing recovery process.

13. ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

13.1 The Committee received the report of the Section 151 Officer (copy attached to the signed Minutes) which set out the findings of the annual review of the effectiveness of Internal Audit.

13.2 The Section 151 Officer drew attention to Appendix A of the report which set out compliance with the Code of Practice for Internal Auditors in Local Government 2006 and showed full compliance with all but one area of the code. Only partial compliance was achieved under Principles of Independence as Internal Audit has a small number of non-audit duties, however, this did not compromise their independence.

13.3 **RESOLVED:** to note the conclusion that the Council has an effective system of internal audit in place.

14. INTERNAL AUDIT CHARTER

14.1 The Committee received the report of the Audit Service Manager (copy attached to the signed Minutes) which proposed the adoption of an Internal Audit Charter in compliance with the Public Sector Internal Audit Standards applied in the UK based on the international standards, which were adopted on 1 April 2013.

14.2 The Audit Service Manager explained that the requirements of the charter were set out in paragraphs 5.3 and 5.4 of the report with the detail set out in the Charter at Appendix A. She reported that the charter would be refreshed in November/December in the future.

14.3 In response to a query, the Audit Service Manager informed the Committee that the Charter would be given to all clients so that everyone understood their roles and responsibilities.

14.4 In response to a query the Chairman confirmed that the Audit Service Manager had a degree of independence and objectivity and he drew Members attention to the code of ethics set out in Annex A of the report.

14.5 **RESOLVED:** to agree adoption of the Internal Audit Charter set out at Appendix A to the report.

15. ANNUAL ASSURANCE REPORT TO COUNCIL 2012/13

15.1 The Committee received the report of the Section 151 Officer (copy attached to the signed Minutes) which set out the draft Audit Committee Annual Assurance Report to Council for 2012/13. The benefits to the Council of operating an effective Audit Committee were set out at Paragraph 3 of the Assurance Report.

- 15.2 It was reported that the Audit Service Manager had given a qualified opinion on the Council's internal control environment and that the Audit Committee had been made aware of the negative direction of travel and an increase in the number of internal audit limited assurance reports on the principle financial systems, but were satisfied that there was no evidence of significant errors that could result in a material misstatement in the accounts.
- 15.3 The Audit Service Manager explained that the Audit Committee Opinion was set out at Paragraph 15 of the Assurance report which the Chairman was required to sign. Concerns were raised in relation to the risks of major new projects including ip&e and it was confirmed that the Audit Committee would have an essential role to play in monitoring the risks. The Audit Service Manager confirmed that she had been involved in aspects of ip&e and would report any material control risks to the Audit Committee as she became aware of them.
- 15.4 It was reported that the Head of Programme Management, Systems and Transition would be reporting to Audit Committee on the transformation programme controls and risks, including delivery models such as ip&e, at its September meeting.
- 15.5 **RESOLVED:** to note the contents of the draft Annual Assurance report for 2012/13 and to recommend to Council acceptance of the report.
- 16. EXTERNAL AUDIT: ANNUAL FEE LETTER 2013/14**
- 16.1 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 the work and details of the audit team.
- 16.2 Mr Grant Patterson reported that the fee for 2013/14 was the same as for 2012/13 which had been set at £177,390. As previously reported, additional work was being undertaken to address risks in 2012/13 which would lead to additional fees. The fee may need to be revisited further in order to reflect any additional audit risks from the creation of ip&e but these would be discussed with the Section 151 Officer.
- 16.3 **RESOLVED:** to note the contents of the report.
- 17. EXTERNAL AUDIT: PLAN UPDATE**
- 17.1 The Committee received the report of Grant Thornton UK LLP (copy attached to the signed Minutes) which provided a summary of emerging national issues and developments that may be relevant to the Council.
- 17.2 Mr Patterson reported that there were currently no issues to bring to the attention of the Committee. There were a small number of non-significant control weaknesses which were awaiting Managers responses and which he would bring back to the Committee if he had any concerns.
- 17.3 Mr Patterson took Members through the emerging issues and highlighted the challenge questions for the Committee to consider. He offered to give a presentation at the Committee's next training session on local government governance review. To ensure the challenge questions added value, it was agreed for Officers to bring responses back to Committee.

17.4 **RESOLVED:** to note the contents of the report.

18. DATE OF NEXT MEETING

18.1 The next meeting of the Committee would be held on 19 September 2013 at 10.00am in the Wilfred Owen Room.

The Chairman read out the following statement: 'The Committee wishes to thank Mrs Dulson for her service as Clerk to this Committee for many years past and wishes her every joy and happiness as she takes maternity leave before the birth of her baby in September.'

19. EXCLUSION OF PRESS AND PUBLIC

19.1 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 20 to 22 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.

20. MINUTES (EXEMPTED BY CATEGORIES 1,2, 3 AND 7)

20.1 **RESOLVED:** That the exempt minutes of the meeting held on 27 March 2013 be approved and signed by the Chairman as a correct record.

21. QUANTUM LEAP UPDATE (EXEMPTED BY CATEGORY 5)

21.1 The Committee received a verbal update from the Director of Commissioning.

22. FRAUD AND SPECIAL INVESTIGATION UPDATE – JUNE 2013 (EXEMPTED BY CATEGORIES 2, 3 AND 7)

22.1 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.

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

Signed..... (Chairman)

Date.....19 September 2013.....