

**Committee and Date**

Audit Committee

29 June 2017

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 22 FEBRUARY 2017**9.30 - 11.40 AM****Responsible Officer:** Michelle Dulson

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Present

Councillor Tim Barker (Chairman)

Councillors Chris Mellings, David Turner and Brian Williams (Substitute) (substitute for John Cadwallader)

69 Apologies for Absence / Notification of Substitutes

69.1 Apologies for absence were received from Councillors John Cadwallader and Pamela Moseley.

69.2 Councillor Brian Williams substituted for Councillor John Cadwallader.

70 Disclosable Pecuniary Interests

70.1 The Chairman reminded Members that they must not participate in the discussion or voting on any matter in which they have a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate.

70.2 With reference to Agenda Item 9 Councillor Chris Mellings declared that he was a Director for Shropshire Housing Limited.

71 Minutes of the previous meeting held on the 24 November 2016**71.1 RESOLVED:**

That the minutes of the meeting held on 24 November 2016 be approved and signed by the Chairman as a correct record.

72 Public Questions

72.1 No public questions had been received.

73 Management Report: Strategic Risks Update

73.1 The Committee received the report of the Risk and Insurance Manager – copy attached to the signed Minutes – which set out the current strategic risk exposure of

the Council and detailed recent movements within the register following the most recent review.

73.2 The Risk and Insurance Manager informed the Committee that there were currently 14 strategic risks which was two less than previously reported in September 2016. The reduction had arisen from the removal of one risk (in relation to a union challenge) and the amalgamation of two others. Of these 14, half were high risk and the other half were medium risk.

73.3 The Risk and Insurance Manager reported three changes to risk ownership since the last report, with specific Directors taking ownership from the Chief Executive who would now have a full overview of all risks. Changes to the status of strategic risks were set out at paragraph 3.9 of the report.

73.4 A brief discussion ensued in relation to cyber security as a strategic risk. The Risk and Insurance Manager reported that the Council undertook quite a bit of work in this area and a business continuity exercise had been undertaken. She explained that there was a strategic risk around IT so it was on the radar and was being monitored. If it was felt that a specific strategic risk was required for cyber-attacks, this would have to be approved by Directors. Members were reassured that the Council had sufficient software in place to protect against significant breaches of the software.

73.5 Members requested that the Director and Portfolio Holder with responsibility for IT be invited to attend a future meeting to discuss this further. It was also requested that the other strategic risks be examined in more detail at future meetings in order for the Committee to gain a better understanding of what the risks were and the assurances in place to mitigate those risks.

73.6 RESOLVED:

That the position as set out in the report be accepted, and that the Audit Committee examine the Risk Register on a rolling basis over the next 12 months.

74 Internal Audit Report of the Review of Risk Management Audit 2016/17

74.1 The Committee received the report of the Principal Auditor – copy attached to the signed Minutes – which summarised the detailed findings identified in the Internal Audit review of Risk Management of which the overall control environment had been assessed as ‘Good’ with no control weaknesses identified.

74.2 RESOLVED:

That the findings from the Internal Audit review of Risk Management be endorsed.

75 Draft Audit Committee Annual Work Plan and Future Training Requirements

75.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which provided a proposed Audit Committee work plan and sought discussion and agreement around a learning and development plan for Members to ensure that they were well informed and appropriately skilled to fulfil their role.

75.2 The Head of Audit drew attention to the Work Plan set out at Appendix A to the report and the proposed changes which were highlighted in bold and underlined. She also drew attention to the areas for learning and development which were set out at Appendix B to the report.

75.3 A brief discussion ensued in relation to whether the Committee were looking at all of the areas it should be considering in order to support them in delivering their roles. In response to a query, the External Auditor reported that it was more common for Audit Committees to meet five times a year. He also explained to Members other ways in which the Committee could gain assurances.

75.4 RESOLVED:

- A. That the Audit Committee work plan for 2017/18, set out at Appendix A to the report, be approved.
- B. That a learning and development plan for Members of the Committee taking into account information in Appendices A and B be approved.

76 Annual Review of Counter Fraud, Bribery and Anti-Corruption Strategy

76.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which provided Members with an update following the latest review of the Counter Fraud, Bribery and Anti-Corruption Strategy in line with best practice. The Strategy continued to underpin the Council's commitment to prevent all forms of fraud, bribery and corruption whether it be attempted on or from within the Council, thus demonstrating the strategy's continuing and important role in the corporate governance and internal control framework. It also set out an Action Plan for adoption to ensure continuous improvement.

76.2 The Head of Audit confirmed that the Strategy had been reviewed against CIPFA's Code of Practice and that the Action Plan had been aligned to the Strategy and would be refreshed annually. She drew attention to the Action Plan set out at paragraph 6.10 of the report which highlighted the activity ongoing throughout the year.

76.3 Members were encouraged by the thoroughness of the document but queried the extent to which the Strategy was widely known. The Head of Audit informed the Committee that the Policy was publicised on the Council's website, in schools and staff noticeboards etc. In response to a query, it was confirmed that although the report concentrated on whistleblowing by other members of staff, the Council did also get external whistleblowers.

76.4 RESOLVED:

That the Counter Fraud, Bribery and Anti-Corruption Strategy be endorsed.

77 Management Report: Treasury Strategy 2016/17

77.1 The Committee received the report of the Head of Finance, Governance and Assurance (Section 151 Officer) – copy attached to the signed Minutes – which

proposed the Treasury Strategy for 2017/18 and recommended Prudential Indicators for 2017/18 to 2019/20.

77.2 The Head of Finance, Governance and Assurance (Section 151 Officer) informed the Committee that the report had been approved by Cabinet and would be considered by Council the following day. He confirmed that the Strategy was reviewed every year and that, in line with previous strategies, the Council was looking to make more capital investment in the near future and the Strategy set out what the Council was able to do. He explained that borrowing was largely driven by the Capital Programme Strategy. If the Council wished to change certain elements, the Strategy would need to be re-written and approved by Council. If the Council wished to change its overall approach, for example it may wish to borrow for a particular purpose eg to generate income, this change would need to be built into that Policy.

77.3 In response to a query, it was confirmed that the Housing Association Loans were for a period of 25 years. A query was raised about why Officers felt that internal funding was needed when there had been a fall in Capital Expenditure. The Head of Finance, Governance and Assurance (Section 151 Officer) explained that thought was now being given to expanding the Capital Programme in order to get a return for the Council (eg rental, business rates etc), so the Council would look to borrow in order to fund this.

77.4 RESOLVED:

That the Treasury Strategy 2017/18 be endorsed.

78 Changes to Approvals Process for Statement of Accounts

78.1 The Committee received the report of the Head of Finance, Governance and Assurance (Section 151 Officer) – copy attached to the signed Minutes – which outlined the necessary amendments required to the timescales and process for the production and approval of the Statement of Accounts in 2017/18 to take account of the faster closedown agenda introduced in the Accounts and Audit Regulations 2015.

78.2 The Head of Financial Management and Reporting explained that from 2017/18 onwards the Statement of Accounts had to be approved two months earlier than in previous years. The Council were therefore having a dry run this year, and although the deadline dates would not change, the Statement of Accounts were being prepared to an earlier deadline.

78.3 It was confirmed that the Audit Committee would still receive the draft Statement of Accounts at its June meeting however, it would not receive the audited Statement of Accounts prior to it being presented to Full Council in July. It was therefore being proposed that the Audit Committee would instead receive the external audit findings report at its September meeting to ensure it was still fulfilling its core objectives.

78.4 RESOLVED:

That the amendments proposed to the process for reviewing and approving the Statement of Accounts from 2017/18 onwards be endorsed.

79 Internal Audit Performance Report and Revised Annual Audit Plan 2016/17

- 79.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which provided Members with an update of work undertaken by Internal Audit in the three months since the last report in November 2016 summarising progress against the Internal Audit Plan.
- 79.2 The Head of Audit informed the meeting that 81% of the revised plan had been completed and the team were on track to deliver the target of 90% by year end. She reported that two good, 16 reasonable, seven limited and four unsatisfactory assurance opinions had been issued. She went on to say that 29 final reports had been issued which contained 368 recommendations, three of which were fundamental. It was reported that none of the recommendations had been rejected by management.
- 79.3 The Head of Audit drew attention to the minor revisions made to the number of days required in the plan in order to address adjustments in both risk and resources. She also drew attention to the three fundamental recommendations which had been identified (set out at paragraph 5.12 of the report). The Head of Audit informed the Committee that two posts were being recruited to within Internal Audit so it was hoped that there would soon be a full complement of resources.
- 79.4 Turning to the Direction of Travel, the Head of Audit explained that the level of assurances were comparable with those for 2015/16, however, the level of unsatisfactory assurances were considerable higher when compared to 2015/16. Concern was expressed about the increase in unsatisfactory assurances together with a decrease in good assurances and Members queried what the Committee could do to improve these assurance levels.
- 79.5 In response, the Head of Finance, Governance and Assurance (Section 151 Officer) explained that a number of changes within the authority including the reduction in its workforce, the transformation programme, cyber-crimes, etc. had all had an impact on the underlying assurances. With a Risk Based approach, where there was less resources only the higher risk areas could be focussed on. The Head of Finance, Governance and Assurance (Section 151 Officer) informed the Committee that their role was to ensure the Council was moving in the right direction, where the focus of the work was, the assurances available etc.

79.6 **RESOLVED:**

- A. That performance to date against the 2016/17 Audit Plan set out in the report be endorsed.
- B. That the adjustments required to the 2016/17 plan to take account of changing priorities set out in Appendix B to the report be endorsed.

80 Internal Audit Quality Assurance Improvement Programme

- 80.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which provided Members with an update following the external assessment conducted by the Chartered Institute of Public Finance and Accountancy (CIPFA) in November 2016.

80.2 The Head of Audit drew attention to the third paragraph on page one which confirmed that Shropshire Council complied with the requirements of the Public Sector Internal Audit Standards. The full report from CIPFA along with the Action Plan and Recommendations to be taken forward were attached at Appendix A.

80.3 RESOLVED:

That the information set out in the report be endorsed.

81 Draft Internal Audit Risk Based Plan 2017/18

81.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which provided Members with the proposed risk based Internal Audit Plan for 2017/18. The Head of Audit drew attention to the summarised Internal Audit Plan set out at Appendix A which confirmed that 1,547 days had been planned for Shropshire Council audit work and 223 days for external clients.

81.2 The Head of Audit also drew attention to Appendix C which set out those audit areas of high priority for which no provision had been made in this year's internal audit plan due to lack of resources, however the Committee were able to seek assurances from Management. She reported that for the second year all fundamental system audit reviews, except for the Payroll System, would be done on a cyclical basis after considering the risk profile for each area.

81.3 The Head of Audit explained that a separate risk based analysis of the IT audit areas had been undertaken. Turning to Schools, the Head of Audit explained that it was hoped to review primary schools at least every five years either by a direct audit or a self-assessment process whilst secondary schools would be audited every four years. Schools would be prioritised based on any previous issues or an unsatisfactory assurance rating etc.

81.4 In response to concerns raised, the Head of Audit explained that the Assurance Framework did not just include internal audit reviews. As such, the Audit Committee could consider alternative assurances it could seek eg from management. The Head of Finance, Governance and Assurance (Section 151 Officer) explained that the process began at the start of the year when the Head of Audit sat down with Directors and if there were any areas that Directors were concerned about these would be included in the plan.

81.5 RESOLVED:

That the approach taken to create the proposed Internal Audit Plan for 2017/18 be endorsed and that its adoption be approved.

82 External Audit: Certification summary report

82.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – detailing the Certification Work for 2015/16 relating to grants, subsidy and the return of financial information.

82.2 It was explained that there was a requirement for the Housing Benefit subsidy to be certified by external audit because the funding came from the Department of Work and Pensions. The certification had been qualified due to a £4,800 amendment to the Housing Benefit subsidy claim. Individual errors had been identified in other areas however these could not be amended due to the nature of the claim.

82.3 RESOLVED:

That the contents of the report be noted and endorsed.

83 External Audit: Audit Plan

83.1 The Committee received the Audit Plan for the year ending 31 March 2017 for Shropshire Council - copy attached to the signed Minutes – which set out the work that Grant Thornton would be undertaking to discharge their responsibilities in relation to the Council's financial statements and to satisfy themselves that the Council had made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

83.2 An amendment was reported to the Audit Fees which had been incorrectly added up. The total audit fees should have read £45,350. In response to a query, it was confirmed that errors of up to £10.4k in the year end accounts were not considered material and an unqualified opinion would still be given in these circumstances. The error would clearly be reported to the Audit Committee with a suggestion that the accounts be amended.

83.3 The External Auditor drew attention to the significant risks identified including asset valuation, Pension Fund liability and changes to the way local authority financial statements had to be presented. He explained that further specific testing had to be undertaken on the other risks identified.

83.4 RESOLVED:

That the Audit Plan for Shropshire Council be noted.

84 External Audit: Informing the risk assessment

84.1 The Committee received the report of the External Auditor - copy attached to the signed Minutes - which contributed towards the effective two-way communication between auditors and the Council's Audit Committee, as 'those charged with governance'.

84.2 It was confirmed that this report gave Audit Committee assurance that the Council had appropriate arrangements in place. In response to a query it was confirmed that external audit were satisfied that the going concern assumption in the financial statements was correct. It was explained that ip&e was not audited on a going concern basis.

84.3 RESOLVED:

That the contents of the report be noted.

85 External Audit: Audit Committee Update

85.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – which provided Members with a progress report. The External Auditor assured Members that the plan was on target and he drew attention to the Technical Matters and Sector Issues and Developments. Members noted the update in relation to Integrated Reporting set out on page 15 of the report.

85.2 RESOLVED:

That the contents of the report be noted.

86 Date and Time of Next Meeting

86.1 Members were reminded that the next meeting of the Audit Committee would be held on the 29 June 2017 at 9.30am.

87 Exclusion of Press and Public

87.1 RESOLVED:

That in accordance with the provisions of Schedule 12A of the Local Government Act 1972 and paragraph 10.2 of the Council’s Access to Information Procedure Rules, the public and press be excluded during consideration of the following items as defined by the categories specified against them.

88 Exempt minutes of the previous meeting held on the 24 November 2016 (Exempted by Categories 2, 3 and 7)

88.1 RESOLVED:

That the exempt Minutes of the meeting held on 24 November 2016 be approved and signed by the Chairman as a correct record.

89 Internal Audit: Fraud, Investigations and RIPA Update (Exempted by Categories 2, 3 and 7)

89.1 The Committee received the exempt report of the Principal Auditor – copy attached to the signed Minutes – which provided an update on current fraud and special investigations undertaken by Internal Audit and the impact these have on the internal control environment, together with an update on current Regulation of Investigatory Powers Act (RIPA) activity.

89.2 RESOLVED:

That the contents of the report be noted.

Signed (Chairman)
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Date:
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