

**Committee and Date**

Audit Committee

30 November 2017

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 7 SEPTEMBER 2017**1.30 - 4.40 PM****Responsible Officer:** Michelle Dulson

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Present

Councillor Peter Adams (Chairman)

Councillors Chris Mellings, Brian Williams (Vice Chairman) and Michael Wood

27 Apologies for Absence / Notification of Substitutes

27.1 An apology for absence was received from Councillor Ioan Jones.

28 Disclosable Pecuniary Interests

28.1 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.

29 Minutes of the previous meeting held on the 29 June 2017**29.1 RESOLVED:**

That the minutes of the meeting held on 29 June 2017 be approved and signed by the Chairman as a correct record.

30 Public Questions

30.1 No public questions had been received.

31 Management Report: Information Technology update

31.1 The Committee received the report of the Head of Human Resources and Development - copy attached to the exempt signed Minutes - which provided an update on a number of areas within ICT. The Head of Human Resources and Development informed the Committee that the content of the report included clear evidence of improvement and increased resilience of the IT function.

31.2 The Head of Human Resources and Development gave an overview of the changes and service improvements already made together with those improvements scheduled to be implemented. She highlighted progress against the Disaster

Recovery and Business Continuity plan, which was slightly ahead of schedule with a test plan and live testing schedule prepared and she updated the Committee in relation to the Digital Transformation Programme.

31.3 Members of the Committee commended the Head of Human Resources and Development on her excellent report and praised the progress made to date. They requested a further report to the next meeting in November. In response to a query, the Head of Audit reported that improvements were being seen in processes reviewed to date, whilst it should be noted that the audit plan is only partially completed at this stage, the levels of assurance were increasing with only two limited and eight good/reasonable assurances. The Council's strategic risk exposure had also reduced significantly.

31.4 **RESOLVED:**

That the significant progress in the improvement of Shropshire IT function be noted, and in particular, that a number of these improvements were now being validated through improved audit report outcomes.

32 **Management Report: Assurance feedback on the Adult Services Peer Review**

32.1 The Director of Adult Services gave a presentation on the feedback received following the Adult Services Peer Review – copy of slides attached to the signed Minutes – which showed the Council in a very good light.

32.2 In response to a query, the Head of Finance, Governance and Assurance (Section 151 Officer) explained the work undertaken in relation to setting the appropriate level of budget for Adult Social Care. The Head of Human Resources and Development responded to a query in relation to the IT compatibility between the Council, the NHS and the CCG. She confirmed that there would be the capacity for sharing data however, there were still some questions around permissions. The Director of Adult Services reported that progress had been made in resolving the NHS legacy debt issue and that a formal agreement had been made.

32.3 The Director of Adult Services explained that following receipt of a written response from the Peer Review, the Council had to respond with an Action Plan setting out timescales for achieving each recommendation. A follow up review would then be undertaken six months later for the Council to demonstrate the progress that had been made.

32.4 **RESOLVED:**

That the feedback received following the Adult Services Peer Review be noted.

33 **Management Report: Programme controls and risks**

33.1 The Committee received the report of the Director of Place and Enterprise – copy attached to the signed Minutes – which provided an update on the developments that have taken place to further strengthen governance around commissioning and contract management over the past 12 months.

33.2 The Director of Place and Enterprise reported that as part of the governance around commissioning, the remit of the Commissioning Directors Group had been expanded to include commissioning assurance with a line of sight of key contracts to include the top ten (by value) across each of the Directorates. The terms of reference for the Commissioning Assurance and Performance Board were attached at Appendix 1 of the report.

33.3 The Director of Place and Enterprise explained the focus on training and development which had been identified as a key requirement for good contract management. Turning to commissioning development, the Director of Place and Enterprise drew attention to a piece of work currently being undertaken around Prevention which was looking at different ways for services to be commissioned.

33.4 The Director of Place and Enterprise touched upon the social value charter together with the role of IT and the Digital Transformation Programme. In response to a query, it was agreed that the Commissioning Development and Procurement Management be requested to provide a demonstration of the new Illuminator product, at a future training session, which was being used to analyse the Council's Contracts, to look at market availability and the sustainability of the contractor etc.

33.5 RESOLVED:

That the contents of the report be noted.

34 Management Report: Housing Benefit Overpayment Performance Monitoring

34.1 The Committee received the report of the Revenues and Benefits Service Manager – copy attached to the signed Minutes – which provided Members with performance monitoring information on the collection of Housing Benefit overpayments for the year 2016/17.

34.2 The Revenues and Benefits Service Manager informed Members that as at the 2 August 2017 the total amount outstanding, including previous years was £6 million, compared to £6.2 million as at 31 July 2016. He explained that nationally Housing Benefit Overpayments were increasing and that a number of national initiatives, detailed in the report, may explain why the figures had continued to increase. These initiatives highlighted errors in the system which created overpayments along with an increase in data matching which was leading to more overpayments being identified.

34.4 Referring to the breakdown by financial year set out in Appendix A, a query was raised as to whether there was any debt prior to 2008/09. The Revenues and Benefits Service Manager explained that debt prior to 2008/09 had been written off in accordance with the Council's write-off policy. Members requested figures for the amount of debt that had actually been written-off along with the amount that had been identified as possibly written-off.

34.3 RESOLVED:

That the contents of the report be noted.

35 Audited Annual Statement of Accounts 2016/17

35.1 The Committee received the report of the Head of Finance, Governance and Assurance (Section 151 Officer) – copy attached to the signed Minutes – which presented Members with the final audited outturn position for the financial year 2016/17. It was confirmed that no material changes had been identified during the audit however a number of amendments had been made to disclosures, set out in Paragraph 7.1 of the report. Members were informed that the accounts would go to Full Council on 21 September 2017, giving an opportunity for any final adjustments to be made, following which an unqualified audit opinion was expected to be given.

35.2 RESOLVED:

- A. That the 2016/17 Statement of Accounts be approved and that the Chairman of the Council be recommended to sign them in accordance with the requirements of the Accounts and Audit Regulations 2015.
- B. That the Head of Finance, Governance and Assurance be authorised to make any minor adjustments to the Statement of Accounts prior to the 30th September 2017.
- C. That the Head of Finance, Governance and Assurance and the Chairman of the Audit Committee be authorised to sign the letter of representation in relation to the financial statements on behalf of the Council and send to the External Auditor.

It was agreed to take Agenda Item 14 – External Audit: Shropshire Council Audit Findings 2016/17 next.

36 External Audit: Shropshire Council Audit Findings 2016/17

- 36.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – which summarised the key matters arising from the audit of Shropshire Council's financial statements for the year ending 31 March 2017. The report also set out the value for money conclusion for the Council.
- 36.2 The Engagement Lead advised that the vast majority of the financial statements had been completed and he anticipated that an unqualified opinion would be given, along with an unqualified value for money conclusion. He drew attention to the key audit and financial reporting issues, including areas where improvements could be made in order to strengthen controls eg sales ledger debt and IT.
- 36.3 The Engagement Lead confirmed that there were no material concerns around the Council's ability to continue as a going concern. There were no adjusted misstatements and only one unadjusted misstatement in relation to an extrapolated error.
- 36.4 The Engagement Lead expressed concern going forward with the long term financial plan and the potential £21million funding gap which was currently being dealt with by way of one-off grants and reserves. Although recognising the Council's approach of savings programmes and income generation, more work was required. Due to this significant gap in the financial plan, he warned that as the Council approached 2019/2020 it may be necessary for a qualified opinion to be issued.

36.5 The Engagement Lead recognised the progress that had been made in relation to replacement of the IT infrastructure and business continuity, but cautioned that there was still a risk of a severe IT failure. He explained that business continuity plans needed to be tested to ensure that if the system did go down, it could successfully be restored. In response to a query, it was confirmed that there was a programme in place to test all of the ICT systems within this financial year. The Head of Finance, Governance and Assurance informed the Committee that the ERP (Enterprise Resource Planning) system which will replace the old Northgate system did not include Revenues and Benefits (Northgate iWorld system) due to their complexity.

36.6 RESOLVED:

That the satisfactory audit opinion and Value for Money conclusion be noted.

37 Annual Treasury Report 2016/17

37.1 The Committee received the report of the Head of Finance, Governance and Assurance (Section 151 Officer) – copy attached to the signed Minutes – which informed Members of the treasury activities for Shropshire Council for 2016/17 and included the investment performance of the internal treasury team to 31 March 2017.

37.2 The Head of Finance, Governance and Assurance (Section 151 Officer) confirmed that the internal treasury team had outperformed their investment benchmark by 0.34% in 2016/17.

37.3 The Head of Finance, Governance and Assurance (Section 151 Officer) drew attention to the breakdown of borrowing over future years and he explained that the Council would not be undertaking any further borrowing in the next few years. He informed the Committee that it was hoped to develop a significant capital programme but that any such projects would need to be considered by Council.

37.4 RESOLVED:

That the position as set out in the report be accepted.

38 Management Report: Risk and Insurance Annual Report 2016/17

38.1 The Committee received the report of the Risk and Insurance Manager – copy attached to the signed Minutes – which set out the challenges and achievements accomplished by the Risk Management Team during 2016/17.

38.2 The Risk and Insurance Manager informed Members that following an audit of both risk management and insurance, an assurance level of “good” had been identified. She explained that strategic risks had been reviewed bi-monthly whilst operational risks had been reviewed on a quarterly basis. It was confirmed that business continuity management arrangements were constantly reviewed with regular testing and exercising undertaken, following which, post exercise reports and action plans were produced. The Team undertook a lot of work with the local business community and with schools in relation to business continuity.

38.3 Turning to Insurance, the Risk and Insurance Manager confirmed that 448 claims had been received which was a reduction of 11.5% on the previous year, leading to a

saving of £48,000. Of those claims received, 381 related to liability claims, decisions for which had been reached on 158 of these with 142 being repudiated (a 90% repudiation rate). Savings of £2.8m had been achieved against defended liability claims. The repudiation rate for pot hole claims was 92.3%.

38.4 The Risk and Insurance Manager informed the Committee that eight employers liability claims had been received during 2016/17, five of which were historic. A total of 47 motor claims and 12 property claims had been received. There were currently 244 open claims with a total reserve of £5.3m, of these, 107 (48.3%) had been repudiated, 111 remained under investigation and 23 claims had been accepted. A total of five cases had been to court which were all successfully defended.

38.5 In response to a query, the Risk and Insurance Manager explained that the number of pot hole claims had been reducing however there had not been a really bad winter for a number of years. The Risk and Insurance Manager informed the meeting how in house vehicle accidents were dealt with.

38.6 RESOLVED:

That the position as set out in the report be accepted.

39 Management Report: Strategic Risks Update

39.1 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 together with recent modifications and planned changes to strategic risk management within the authority.

39.2 The Risk and Insurance Manager confirmed that strategic risks were historically reviewed and updated every two months before being reported to Directors. She informed the Committee that the Risk Profile and Action Plan behind each strategic risk would be covered in more detail at the Training session taking place on Thursday 5 October. It was explained that a target score for each strategic risk to be achieved by the end of the year had now been included in the Risk Profile and Action Plan.

39.3 As at May 2017, there were 16 strategic risks on the register, as set out in the report. The Risk and insurance Manager stated that two risks had been added to the strategic risk register in 2016/17, the first being the 'Impact of Brexit' and the second 'Difficulty in meeting our capabilities and commissioning needs across the organisation (Expressions of Interest/Tendering)'. It was confirmed that these risks were to be developed further.

39.4 The Risk and Insurance Manager informed the meeting that going forward strategic risks would be reviewed quarterly and operational risks six monthly. The Risk and Insurance Manager answered a number of queries from Members of the Committee and explained that a brief report was prepared following each strategic risk review setting out the direction of travel for individual strategic risks. The Risk and Insurance Manager advised that the committee could ask for individual risk profiles to be brought by the risk owner to future meetings for Members to look at in more detail, if wished.

39.5 RESOLVED:

That the position as set out in the report be accepted.

40 Internal Audit Performance Report and revised Annual Audit Plan 2017/18

40.1 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 four months since the beginning of the financial year and the start of Shropshire Council's approved audit plan implementation.

40.2 The Head of Audit advised Members that 34% of the revised Plan had been completed and it was hoped to achieve 90% completion by year end. She reported that eleven good, thirteen reasonable, two limited and one unsatisfactory assurance opinions had been issued and that the 27 final reports contained 211 recommendations. Of these, two fundamental recommendations had been identified and two had been rejected by management.

40.3 The Head of Audit drew attention to performance against plan and the assurance levels awarded to each completed audit area, 89% of which were good or reasonable. It was reported that there is no strong pattern of lower assurance levels during this period, with two limited audit areas and one unsatisfactory audit area, detailed in table 3 of the report.

40.4 In response to a query, the Head of Audit explained the process for when recommendations were rejected by management. The recommendations in question were not fundamental, however Internal Audit still highlighted the associated risks to management who would need to add them to their own risk register and the risks were escalated to Audit Committee as necessary.

40.5 In relation to Estates Management, Members requested a follow up report to the next meeting and that the Service Manager and relevant Portfolio Holder be requested to attend. The Head of Audit reported that a follow up audit would be undertaken the following year.

40.6 RESOLVED:

- A. That the performance to date against the 2017/18 Audit Plan be noted.
- B. That the adjustments required to the 2017/18 Plan to take account of changing priorities as set out in Appendix B to the report, be approved.

41 External Audit: Shropshire County Pension Fund Audit Findings Report 2016/17

41.1 Members received the report of the External Auditor - copy attached to the signed Minutes - which set out the Audit Findings for Shropshire County Pension Fund for the year ending 31 March 2017. The Engagement Lead confirmed that an unqualified opinion in respect of the financial statements was anticipated. He drew

attention to the key findings and the disclosure in relation to Related Party Transactions set out on page 17 of the report.

41.2 RESOLVED

That the contents of the report be noted.

42 External Audit: Audit Committee update

42.1 The Committee received the report of the External Auditor - copy attached to the signed Minutes - which provided Members with a report on progress together with a summary of emerging national issues and developments which may be of relevance to the Council.

42.2 RESOLVED:

That the contents of the report be noted.

43 Date and Time of Next Meeting

43.1 Members were reminded that the next meeting of the Audit Committee would be held on the 30 November 2017 at 1.30pm.

44 Exclusion of Press and Public

44.1 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 item as defined by the categories specified against it.

45 Fraud and Special Investigation Update September 2017 (Exempted by Categories 2, 3 and 7)

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

45.2 RESOLVED:

That the contents of the exempt report be noted.

Signed (Chairman)

Date: 30 November 2017