



Committee and Date

Audit Committee

22 February 2017

**MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 24 NOVEMBER 2016
9.30 AM - 12.15 PM**

Responsible Officer: Michelle Dulson
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Present

Councillor Tim Barker (Chairman)
Councillors John Cadwallader (Vice Chairman), Chris Mellings, Pamela Moseley and David Turner

Also Present

Councillor Brian Williams

50 Apologies for Absence / Notification of Substitutes

50.1 No apologies were received.

51 Disclosable Pecuniary Interests

51.1 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.

52 Minutes of the previous meeting held on the 15 September 2016

52.1 RESOLVED:

That the Minutes of the meeting held on 15 September 2016 be approved and signed by the Chairman as a correct record.

53 Public Questions

53.1 No public questions had been received.

54 Management Report: AGS Action Plan Update

54.1 The Committee received the report of the Chief Executive Officer – copy attached to the signed Minutes - which provided Members with an interim progress update against each of the activities identified in the Annual Governance Statement Action Plan.

- 54.2 The Chief Executive drew attention to the ongoing Adult Social Care costs together with the £3m debt owed by the CCG to Shropshire Council. He confirmed that £1.8m of the debt had been secured with a further payment of £0.5m having been secured the previous week. The Chief Executive reported that following advice from a barrister, it had been agreed in principle that if the CCG and the Council could not agree, the Council's evidence was robust enough to go to binding arbitration to resolve the matter. The Section 151 Officer explained that payment of the outstanding amount had a nil impact on the income and expenditure account as the income had already been assumed and the debt was held on the balance sheet. If the balance had to be written off, however, then this may need to be charged to the service and this could result in lower than anticipated income in the current year projections.
- 54.3 In relation to Governance issues, the Chief Executive reported that these issues were still being worked through. There was also a question of whether the joint commissioning had the correct delegated powers in place. Concern was raised about the overspend on discharge from hospital, caused by an August spike, and whether there would be any money for the pressures of winter. The Director of Adult Services explained that it was felt the solution was pre/post admission in the community as there was no money to buy beds due to reduced funding elsewhere.
- 54.4 In response to a query the Chief Executive informed the Committee that a new Head of Economic Growth had been appointed who would own the new Strategy. The Council was currently working with consultants who were at the forefront of economic development and the advantages brought about by devolution. It was felt that the Council needed to focus on the more strategic economic market e.g. niche industries and higher level employment in order to increase wage levels and Business Rates etc. Real opportunities existed for the Council as part of the West Midlands Combined Authority.
- 54.5 The Chief Executive briefly touched on the draft Corporate Plan which had been through Scrutiny and Council. The Plan had been improved to include Climate Change, Environmental issues and Economic Growth but was still a working draft.

54.6 **RESOLVED:**

That the activities delivered to date against the approved Annual Governance Action Plan be noted.

55 **Management Report: Assurances on Social Care Commissioning**

- 55.1 The Committee received the report of the Chief Executive Officer – copy attached to the signed Minutes – which set out the range of processes and activities which were applied through Social Services Commissioning (Adults and Children's) to ensure that the services which had been procured were delivering the volume, cost and quality set out in their contracts. It also gave assurance on the robustness of the commissioning of Adult and Children Social Care Services, and highlighted the potential to continuously improve how commissioning and contract management was carried out by the Council.
- 55.2 The Director of Adult Services drew attention to the three lines of defence. The first line of defence related to the operational management of risks which was felt to be

paramount. In response to a query about whether there was a clear view on how to make the service fit for purpose, the Director of Adult Services explained that as the landscape changed over time, how the Council worked in partnership with other organisations across the Health and Social Care economy needed to change.

55.3 Turning to the second line of defence, this related to a number of internal governance activities. In relation to a query, the Director of Adult Services explained that the market was not currently able to meet demand. The approach may therefore need to be revised in order to stimulate the market. The third line of defence was the independent assurance function including Internal and External Audit, Ofsted and the CQC. Concern was raised that the increasing costs of Adult Social Care was leading to a lack of Health and Social Care providers.

55.4 **RESOLVED:**

That the contents of the report be noted.

56 **Management Report: Council Tax and Non-Domestic Rates Performance Monitoring Report**

56.1 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 Council Tax and Non Domestic Rates (Business Rates) income for the year to 31 March 2016, and progress on the year to 31 March 2017.

56.2 The Revenues and Benefits Service Manager informed the Committee that the Council collected over £245m in Council Tax and Business Rates. He confirmed that the change in regulations to allow council tax payers to request payment over 12 months rather than 10 months did have an impact on collection rates.

56.3 The Revenues and Benefits Service Manager reported that the final collection rate for council tax for 2015-16 was 98.4% which compared favourably to the previous year's collection rate of 98.3%. In cash terms this was an increase of more than £3m. The average national collection rate for the collection of Council Tax was 97.1%, the average for Unitary Authorities was 96.9%. In the year to 7 November 2016, 73.3% of council tax had been collected compared to 73.7% for the equivalent period last year. The total arrears for council tax as at 31 March 2016 stood at £9m but as at 1 November 2016 this had reduced by £1.5m to £7.5m.

56.4 In respect of Business Rates (NNDR), the Revenues and Benefits Service Manager stated that the final collection rate for 2015/16 was 99.1% which again compared favourably with the previous year's collection rate of 98.7%. In cash terms this was an increase of more than £1m. The average national collection rate for Business Rates was 98.2% and for Unitary Authorities was 98%. In the year to 7 November 2016, 73.4% of business rates debt had been collected compared to 75.5% for the equivalent period last year. The total arrears for Business Rates as at 31 March 2016 stood at £3.5m and as at 1 June 2016 this had reduced by £300k to £3.2m.

56.5 In response to a query, the Revenues and Benefits Service Manager explained that the expected recovery rates always assumed that not all Council Tax or Business Rates would be collected however he was comfortable that the rate was set at an

adequate level. In response to queries about committal hearings, the Revenues and Benefits Service Manager confirmed that they would be looking to recommend committal hearings in the New Year which would be useful publicity.

56.6 RESOLVED:

That the contents of the report be noted.

57 Management Report: Treasury Strategy Mid-Year Report 2016/17

57.1 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 of the Council for the first six months of the financial year.

57.2 The Section 151 Officer reported that the internal treasury team had outperformed its benchmark by 0.32% and that all treasury management activities had been in accordance with the approved limits and prudential indicators set out in the Council's Treasury Strategy. The Council currently had £175m held in investments and borrowing of £326m at fixed interest rates.

57.3 The Section 151 Officer drew attention to the Council's investment profile and explained that the bank rate had fallen to 0.25% however it was still not worth repaying any debt due to the expensive penalties that would be imposed for early redemption.

57.4 The Section 151 Officer then turned to the Council's Annual Investment Strategy which outlined the Council's investment priorities as the security and liquidity of its capital. Appendix A set out the Council's current investments, he confirmed that all investment institutions were double A rated or above.

57.5 It was suggested that as the Internal Treasury Team consistently outperformed its benchmark, whether the actual return achieved should be used rather than the current benchmark.

57.6 RESOLVED:

A. That the position as set out in the report be noted.

B. To note that any capital schemes brought forward that would impact on the current strategy would need to be approved by Council.

58 Annual Review of Counter Fraud, Bribery and Anti-Corruption activities, including an update on the National Fraud Initiative

58.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which outlined the measures undertaken in the last year to evaluate the potential for the occurrence of fraud, and how the Council managed these risks with the aim of prevention, detection and subsequent reporting of fraud, bribery and corruption.

- 58.2 The Head of Audit informed the Committee that the Council had taken part in the CIPFA Fraud and Corruption Tracker (CFaCT) annual survey examining the levels of fraud detected in local authorities across the UK, the results of which were set out in paragraph 6.3 of the report.
- 58.3 The Head of Audit reported that the Council's Counter Fraud, Bribery and Anti-Corruption strategy was due to be updated in February 2017 and would be reported to a future meeting of the Audit Committee.
- 58.4 The Head of Audit explained that the results from the National Fraud Initiative data matching exercise for 2016/17 were due to be published at the end of January 2017 and the outcomes of any resulting investigations would be reported to a future meeting. Benefits to the Council of this exercise were reported to the Audit Committee in November 2015, following which there had been very little change.
- 58.5 In response to a query, the Head of Audit confirmed that although there were some areas where more could be done on a regular basis, enough work was still being undertaken to mitigate the risk adequately. She assured the Committee that the level of fraud was not considered to be high.

58.6 **RESOLVED:**

That the measures undertaken and detailed in the report be noted.

59 **Annual Review of Audit Committee Terms of Reference**

- 59.1 The Committee received the report of the S151 Officer – copy attached to the signed Minutes – which set out minor changes being proposed to the Audit Committee Terms of Reference shown in bold and underlined in Appendix A of the report. He drew attention to paragraph 5.7 which set out those areas raised by Members for potential inclusion in the Terms of Reference.
- 59.2 Concern was raised whether there were sufficient resources within Internal Audit to include the review of partnership working and alternative delivery models and if these were covered adequately in the Audit Committee's Terms of Reference and Work Plan. The Head of Audit felt that this area was covered under the Core Functions section of the Terms of Reference. She explained that the Terms of Reference needed to remain flexible, respond to changing themes and allow the Committee to look at things from different angles. The Work Plan was therefore key, and specific reports could be requested as required in addition to those already planned for.
- 59.3 A brief discussion ensued in relation to the inclusion of independent members on the Audit Committee and whether they would bring any value to the Committee. It was suggested that provision be made to have an independent member but that the post be held vacant until someone with the right skills set was found. It was noted that training would need to be considered for any new Councillors appointed to the Audit Committee following the election in May 2017 so that may be a good time for an independent member to receive training also.
- 59.4 It was agreed for the Terms of Reference to be amended to allow provision for an independent member, if elected members felt they would benefit from their

experience, to be selected by the Monitoring Officer in consultation with the Audit Committee and relevant Officers.

59.5 RESOLVED:

That the Audit Committee Terms of Reference be endorsed, subject to the amendment set out at paragraph 59.4 above.

60 Annual Audit Committee Self-Assessment

60.1 The Committee received the report of the S151 Officer – copy attached to the signed Minutes – which requested Members to review and comment on the self-assessment of good practice questionnaire which allowed them to assess the effectiveness of the Audit Committee and to identify whether there were any further improvements that could be made which would improve the Committee's overall effectiveness.

60.2 The Section 151 Officer took Members through the changes, set out in Appendix 3, including consideration of whether to have a pre-meeting prior to the formal meeting. It was agreed that if the Committee felt it needed guidance before the meeting this would be raised with the Chairman and relevant officers, depending on the issue. The Section 151 Officer reminded Members that they could get together outside of the meeting, if necessary.

60.3 The Section 151 Officer drew attention to Appendix B which set out the core skills identified by the Audit Committee in its 2014 self-assessment.

60.4 RESOLVED:

A. That the self-assessment questionnaire be approved.

B. That the proposals highlighted in paragraph 5.5 be approved.

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

61.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which provided Members with an update of the work undertaken by Internal Audit in the two and a half months since the last report in September 2016 summarising progress against the Internal Audit Plan.

61.2 The Head of Audit informed the meeting that 53% of the revised plan had been completed which was in line with the target to achieve 90% by year end. She reported that one good and 12 reasonable assurance opinions had been issued together with eight limited and three unsatisfactory assurance opinions. She went on to say that twenty four final reports had been issued which contained 274 recommendations, one of which was fundamental. The Head of Audit explained that the fundamental recommendation was around the lack of a Hardware Replacement Strategy.

61.3 The Head of Audit drew attention to the Direction of Travel set out at Paragraph 5.17 of the report which showed that the unsatisfactory assurance levels had increased

from 9% in 2015/16 to 21% in 2016/17 year to date. The unsatisfactory assurance opinions were listed by service area in Table 3 of the report.

61.4 In response to a query the Section 151 Officer explained that when considering the acceptable level of assurances being given by Internal Audit, it was a question of whether the Council was reaching the point whereby it needed to change its approach. As resources were increasingly being focused on higher level areas of risk, one would expect that more issues would arise. However it was important to keep an eye on the whole assurance framework.

61.5 RESOLVED:

- a) That performance to date against the 2016/17 Audit Plan as set out in the report be noted;
- b) That the adjustments required to the 2016/17 plan to take account of changing priorities, as set out in Appendix B of the report, be endorsed.

62 External Audit: Annual Audit Letter 2015/16 Shropshire Council

62.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – which summarised the key findings arising from the work carried out for the year ended 31 March 2016.

62.2 The Executive Officer introduced the report and drew attention to the Value for Money findings for 2015/16. He explained that the biggest risk for Shropshire Council's financial position was Adult Social Care costs which would be taken into account going forward.

62.3 The Executive Officer reported that the change required to how the Highways Network Asset was accounted for had been deferred to 2017/18. The final fees were set out on page 122 but the Executive Officer highlighted that there would be a fee for work on the elector's objection which was still unresolved.

62.4 RESOLVED:

That the contents of the report be noted.

63 External Audit: Audit Committee update

63.1 The Committee received the report of the External Auditor - copy attached to the signed Minutes - which provided Members with a report on progress. The Executive Officer reported that the Planned Fee Letter for 2016/17 had been issued in April 2016 and that the Audit Manager would be producing an Audit Plan in February 2017. In relation to the Audit Findings report, the Executive Officer explained that management responses were awaited from the Council. The Section 151 Officer confirmed that the responses had been done and would be signed off later that day.

63.2 The Executive Officer drew attention to the changing requirements for 2017/18 when Local Authorities were required to bring forward the date by which their accounts must be published from 30 September to 31 July. This requirement had been discussed with the Council but no decision had been made whether to use 2016/17

to test an earlier closedown. The Section 151 officer explained that initial discussions had taken place within the Council and a lot of processes had already been brought forward. He confirmed that it was hoped to make a realistic plan going forward for an earlier close down.

63.3 RESOLVED:

That the contents of the report be noted.

64 Changes to arrangements for appointment of External Auditors

64.1 The Committee received the report of the Section 151 Officer – copy attached to the signed Minutes – which sought a formal decision from Council to ‘opt-in’ to the Public Sector Audit Appointments Ltd (PSAA) national auditor appointment arrangements.

64.2 RESOLVED:

That Members affirm and recommend to Council their preferred option, as agreed at their meeting on 23 June 2016, to opt-in to national auditor appointment arrangements with PSAA Ltd, the Local Government Association National Sector Led Body.

65 Date and Time of Next Meeting

65.1 Members were reminded that the next meeting of the Audit Committee would be held on 22 February 2017 at 9.30am.

66 Exclusion of Press and Public

66.1 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.

67 Exempt Minutes of the previous meeting held on 15 September 2016

67.1 RESOLVED:

That the exempt minutes of the meeting held on 15 September 2016 be approved and signed by the Chairman as a correct record.

68 Internal Audit: Fraud, Special Investigation and RIPA Update (Exempted by Categories 2, 3 and 7)

68.1 The Committee received the exempt report of the Principal Auditor – copy attached to the exempt signed Minutes – which provided a brief 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.

68.2 RESOLVED

That the contents of the report be noted.

Signed (Chairman)

Date: