



Committee and Date

Audit Committee
29 June 2017

Council
26 July 2017

ANNUAL ASSURANCE REPORT OF AUDIT COMMITTEE TO COUNCIL 2017/18

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1. Summary

Attached to this report is the Audit Committee's Annual Assurance Report to Council for 2017/18. This provides Council with an independent assurance that the Council has in place adequate and effective governance, risk management and internal control frameworks; internal and external audit functions and financial reporting arrangements that can be relied upon and which contribute to the high corporate governance standards that this Council expects and maintains consistently.

2. Recommendations

2.1 Recommendations to Audit Committee

Audit Committee is asked to consider and comment on the contents of the draft Annual Assurance report for 2017/18 before forwarding to Council with a recommendation to accept this report.

2.2 Recommendations to Council

Council is asked to consider and comment on the contents of the Annual Assurance report for 2017/18 before recommending accepting this report.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The Audit Committee's Annual Assurance Report is part of the overall internal control arrangements and risk management process. The Audit Committee objectively examines and evaluates the adequacy of the control environment through the reports it receives and in turn can provide assurances to Council on

its governance, risk management and internal control frameworks; internal and external audit functions and financial reporting arrangements that inform the Annual Governance Statement.

- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change requirements or consequences of this proposal.

4. Financial Implications

There are no direct financial implications from this report. In assessing the internal control environment, risk management and governance aspects of the Council, the Audit Committee can provide a perspective on the overall value for money of these.

5. Background

- 5.1 A key part of the Audit Committee's role is to report annually to Full Council on the Committee's findings, conclusions and recommendations; providing its opinion on the adequacy and effectiveness of the Council's governance, risk management and internal control frameworks; internal and external audit functions and financial reporting arrangements. In addition, the Audit Committee should report to Council where they have added value, improved or promoted the control environment and performance in relation to its Terms of Reference and the effectiveness of the Committee in meeting its purpose and functions.
- 5.2 The Audit Committee has a well-established role within the Council and it is important that an Annual Assurance report based on the work of the Committee is produced and recommended to Council. In compiling this assurance report, information provided at the Audit Committee meeting on 28 June 2018 has also been considered.
- 5.3 In addition, this report has been reviewed to ensure its continuing compliance with CIPFA¹'s Audit Committees, Practical Guidance for Local Authorities and Police, 2013 edition. Section 6.34 requires the Audit Committee to be held to account on a regular basis by the Council specifically in relation to:

Whether the;

- committee has fulfilled its agreed terms of reference;
- committee has adopted recommended practice;
- development needs of committee members have been assessed and whether committee members are accessing briefing and training opportunities;
- committee has assessed its own effectiveness, or been the subject of a review, and the conclusions and actions from that review and,

¹ The Chartered Institute of Public Finance and Accountancy (a revised publication is now out and on order, this will be used as the template next year).

- the committee has had an impact on the improvement of governance, risk and control within the Council.

5.4 The annual assurance report to Council for 2017/18, attached to this report, is an aid to addressing the key areas where the Committee should be held to account. **(Appendix A).**

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

CIPFA's Audit Committees, Practical Guidance for Local Authorities and Police, 2013 edition
 Audit Committee reports 2017/18

Cabinet Member (Portfolio Holder)

Peter Nutting, Leader of the Council and Peter M Adams, Chairman of Audit Committee

Local Member

N/A

Appendices

Appendix A - Draft Audit Committee Annual Assurance Report 2017/18

AUDIT COMMITTEE ANNUAL ASSURANCE REPORT FINANCIAL YEAR 2017/18

STATEMENT FROM THE CHAIRMAN OF THE AUDIT COMMITTEE

1. Governance in and of the public sector continues to be high profile with the Chartered Institute of Public Finance and Accountancy (CIPFA) supporting good practice in local government. In Shropshire we have a Code of Corporate Governance which is reviewed annually in line with the best practice issued by CIPFA and SOLACE²; we have also produced an Annual Governance Statement, again in line with best practice and legislative requirements. Being well managed and well governed are important attributes in helping to improve performance and in reducing the risk of failing to achieve our objectives, and providing good service to our community.
2. Shropshire Council has an Audit Committee that is long established in seeking to maintain and improve our governance procedures. The Committee is a key component of the Council's corporate governance arrangements and a major source of assurance of the Council's arrangements for managing risk, maintaining an effective control environment and reporting on internal and external audit functions and financial and non-financial performance.
3. The benefits to the Council of operating an effective Audit Committee are:
 - Maintaining public confidence in the objectivity and fairness of financial and other reporting.
 - Reinforcing the importance and independence of internal and external audit and any other similar review process; for example, reviewing the Annual Statement of Accounts and the Annual Governance Statement.
 - Providing a sharp focus on financial reporting both during the year and at year end, leading to increased confidence in the objectivity and fairness of the financial reporting process.
 - Assisting the co-ordination of sources of assurance and, in so doing, making management more accountable.
 - Providing additional assurance through a process of independent and objective review.
 - Raising awareness within the Council of the need for governance, internal control and the implementation of audit recommendations.
 - Providing assurance on the adequacy of the Council's risk management arrangements and reducing the risk of illegal or improper acts.
4. The Committee continues to have a professional and arm's length relationship with Grant Thornton, the Council's external auditors, who attend all meetings of

² Society of Local Authority Chief Executives

the Committee to offer their advice where needed.

5. The Committee undertakes a substantial range of activities and works closely with both internal and external auditors and the Chief Finance Officer (Section 151 Officer) in achieving our aims and objectives. We have put together a work and development plan for the year to enable key tasks to be considered and completed.
6. As Chair of the Audit Committee, I see training as a key priority for members to undertake our roles effectively. The Committee continues to undertake a full and extensive programme of training and this year has been no exception. Training has been received in relation to:
 - Purpose of the Audit Committee
 - Core functions
 - Wider Committee Role
 - Membership and Effectiveness
 - Annual assessment, evaluating effectiveness and identifying any improvements
 - Contract management and Porge
 - Risk management and registers
 - Audit Committee's self-assessment facilitated by CIPFA.Members also have access to CIPFA's Better Governance Forum network which provides specific information in the form of regular briefings, training events, and an informative web site.
7. This year the Committee has held four planned meetings including the meeting held on 28 June 2018. We have received and considered a substantial number of reports across key areas of the Council's activity (see **Annex A**).

Audit Committee Membership and Dates of Meetings

8. Membership of the Audit Committee for 2017/18 was made up of the following Councillors: Peter Adams (Chairman); Brian Williams (Vice Chairman); Chris Mellings, Michael Wood and Ioan Jones.
9. Substitutes were invited to attend and contribute at all meetings and training.
10. Meetings of the Committee have been held on:
 - 30 August 2017
 - 30 November 2017
 - 1 March 2018
 - 28 June 2018

Details of Reports/Information Received

11. **Annex A** provides a summary of the key reports and information received by

the Audit Committee at its meetings. These appear categorised in the areas which, under the Terms of Reference, Audit Committee have a responsibility to consider and report upon. They are:

- Governance;
- Risk management framework;
- Controls, including specific focus on:
 - Contracts and partnerships
 - Fraud, corruption and whistleblowing
 - Value for money
- Financial reporting and treasury management.

A detailed audit work plan has been agreed for the current year.

12. Following receipt of the reports Audit Committee resolved that:

- There were effective arrangements in place for corporate governance and, where improvements are required, there is a clear improvement plan with dedicated lead officers that will be monitored by Members.
- The risk management and assurance framework was fit for purpose and operating as intended.
- There have been improvements in the level of assurances for the internal control environment. There is still a need in the current situation with pressures on resources and changes to major systems, to ensure continual monitoring by management and members alike. Members focus will remain on those areas critical to the Council, i.e. digital transformation, commissioning and those showing a low level of assurance where evidence of improvements will be sought.
- Following management reports and internal audit performance updates, there is evidence of effective management and monitoring of contracts and partnerships. The Audit Committee have been advised by managers that performance around the management of contracts and commissioning processes will be strengthened further as the Council's commissioning approach is adopted more widely. Given the wider approach the Council continues to take to commissioning and contracting of services, managers will increasingly be expected to provide assurances on this area.
- There were effective arrangements for the prevention and detection of fraud and corruption, and for enabling whistleblowing (confidential reporting).
- There were effective arrangements in place to support Value for Money as demonstrated by both internal audit performance management updates and external audit reviews.
- Financial Statements reflected the Council's true position, were complete including all transactions, and were prepared in accordance with International Financial Reporting Standards.

13. Given the Head of Audit's unqualified opinion on the Council's internal control environment, the Audit Committee confirms that this reflects significant improvements in key areas of internal control but focus should continue to ensure these are maintained and built upon and the Audit Committee will help

facilitate that.

Additional Responsibilities

14. Members of the Audit Committee and the Head of Audit and her staff are aware of the changing nature of local government in relation to the greater responsibilities for innovative practice allowed by the Government’s Powers of Competence Act. We are aware that the Audit function has an essential and on-going role to play in monitoring the risks involved in the arrangements for strategic commissioning. Members continue to receive training in this extended aspect of their responsibilities, and the Head of Audit is ensuring that adequate resources are available in order to minimise any possibility of the risk of financial malpractice.

Audit Service Staff

15. The key staff are James Walton, the Section 151 Officer, Ceri Pilawski, the Head of Audit and her deputies, Principal Auditors: Katie Williams, Peter Chadderton and Barry Hanson.
16. Without the support of all Audit staff and of the officers mentioned above, it would not be possible for the Audit Committee to be as highly effective as peer comparisons show us to be. My thanks and that of my fellow committee members are given to all our Audit Service officers.

Annual Statement of Assurance

17. Based on:
 - The work carried out by the Internal and External Auditors and their reports presented to this Committee;
 - Reports from service managers and;
 - The work carried out by the Section 151 Officer, Head of Audit and their reports presented to this Committee.

It is the Audit Committee’s opinion, founded on those reports, explanations and assurances received, that the Council has in place adequate and effective risk management and internal control systems that can be relied upon and which contribute to the high corporate governance standards that this Council expects.

RECOMMENDATION – Council is asked to accept this report

Signed Date.....
On behalf of the Audit Committee
Peter M Adams

Summary of assurance reports received by Audit Committee

Governance

- **Management report; Annual Governance Statement (AGS) and a review of the effectiveness of the Council's internal controls and Shropshire's Code of Corporate Governance**

Report of the Section 151 Officer on the effectiveness of the system of internal controls and the production of the Annual Governance Statement. In addition, he reported on compliance with the Corporate Governance Code as good.

- **Internal Audit – Annual review of Internal Audit, Quality Assurance and Improvement Programme (QAIP) 2017/18**

Report of the Head of Audit which provided Members with an update on the internal self-assessment review confirmed that Shropshire Council complied with the requirements of the Public Sector Internal Audit Standards.

- **Annual review of Internal Audit Quality Assurance Improvement Programme (2016/17)**

Report of the Section 151 Officer on the effectiveness of the system of Internal Audit in 2017/18.

- **Annual review of Audit Committee terms of reference**

Report of the S151 Officer which set out minor changes being proposed to the Audit Committee Terms of Reference. The only major amendment being the inclusion of an option to co-opt an independent member on to the Audit Committee, should this be considered appropriate in the future.

- **Annual Audit Committee self-assessment**

Report of the Section 151 Officer which requested members to review and comment on the self-assessment of good practice questionnaire to assess the effectiveness of the Audit Committee and identify any further improvements. Members discussed the benefits of having an outside facilitator help them to assess their effectiveness. They considered that this would bring challenge from someone with greater awareness of best practice elsewhere. This was completed in early 2018 and has led to an action plan.

- **Internal Audit Charter**

Report of the Head of Audit which set out the changes being proposed to the Internal Audit Charter following a refresh of the Public Sector Internal Audit Standards (PSIAS) in March 2017. The Charter had also been refreshed to reflect learning points identified following the external review of Internal Audit by the Chartered Institute of Public Finance and Accountancy (CIPFA) which had been reported to the Committee in February 2017. The Head of Audit drew attention to the new standard for the Head of Internal Audit about roles or responsibilities that fall outside of Internal Audit, for example corporate counter fraud. The new standard was introduced to limit impairments to the independence or objectivity of the head of internal audit. It was felt that as the Head of Audit did not have direct managerial responsibility for any of the areas examined in relation to corporate counter fraud, her

independence was demonstrated.

- **Draft Audit Committee's annual work plan and future training requirements**
Report of the Head of Audit which provided a proposed Audit Committee work plan and sought discussion and agreement around a learning and development plan for members to ensure they were well informed and appropriately skilled to fulfil their role.
- **Annual Assurance report of Audit Committee to Council 2017/18**
Report of the Section 151 Officer in respect of the Audit Committee's Annual Assurance report to Council.

The Audit Committee resolved that there were effective arrangements for corporate governance and where improvements are required there is a clear improvement plan with dedicated lead officers that will be monitored by Members.

Risk Management Framework

- **Management report: Risk and Insurance Annual Report 2016/17**
Report of the Risk and Insurance Manager which set out the challenges and achievements accomplished by the Risk Management Team during 2016/17. 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 with no recommendations being made. 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. Turning to Insurance, she 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.
- **Management report: Strategic risks update**
Report of the Risk and Insurance Manager set out the current strategic risk exposure and advised of recent modifications and planned changes to the management of strategic risk within the authority. She stated that two risks had been added to the strategic risk register, 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.
- **Management report: Strategic risks update**
Report of the Risk and Insurance Manager which set out the current strategic risk exposure following completion of the October review, outcomes of which were reported to Directors and Informal Cabinet. She reported that the Risk Profile and Action Plan which included target scores for each strategic risk had also been revisited. There had been no change to the 15 strategic risks, except for the impact of Brexit risk which had been given a medium score. A new emerging risk had been identified in relation to Safeguarding Children and the financial capacity of the service to meet the needs and demands of delivering the service

and looking after vulnerable children. Members wished to have a more detailed examination of the strategic risks, this was delivered at a future training session.

➤ **Management report: Strategic risks update**

Report of the Risk and Insurance Manager which set out the current strategic risk exposure following completion of the January 2018 review. She informed the Committee that there were currently 15 strategic risks, with changes to the scoring having been made for three of the risks, as follows: The reputation risk had increased from a low risk to a high risk; the Failure to Safeguard Vulnerable Adults risk had been reduced from high to medium; whilst the Failure to Safeguard Vulnerable Children had reduced from a twelve to an eight keeping it at a medium risk level.

➤ **Internal Audit report of the review of Risk Management audit 2017/18**

Report of the Principal Auditor 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, the highest rating that could be given.

➤ **Draft Internal Audit risk based plan 2018/19**

Report of the Head of Audit on the proposed risk based Internal Audit Plan for 2018/19. She drew attention to the summarised Internal Audit Plan which confirmed that 1,764 days had been planned for Shropshire Council audit work and 226 days for external clients. She also referred members to the Appendix, which set out those audit areas of high priority for which no provision had been made in this year's internal audit plan. The Head of Audit informed the Committee that they could seek the necessary assurances from Management on these areas and on those areas considered to be low risk.

➤ **External Audit: Informing the risk assessment**

Report of the Engagement Lead (Grant Thornton) which contributed towards the effective two-way communication between auditors and the Council's Audit Committee, as 'those charged with governance'. The report gave Audit Committee assurance that the Council had appropriate arrangements in place.

The Audit Committee resolved that the risk management and assurance framework was fit for purpose and operating as intended.

Controls

➤ **Management Report: Digital Transformation Programme (DTP) Update**

Report of the Head of Workforce and Transformation which provided an update on the progress of the Digital Transformation Programme including the most recent position for each project in the programme and the overarching programme as a whole.

➤ **Management Report: Estates Update**

Report of the Head of Business Enterprise and Commercial Services set out the management action that had been undertaken to address the recommendations set out in

the Internal Audit report dated 21 April 2017 in respect of the corporate landlord function and estate management at the Council. There had been 19 recommendations in the Internal Audit report, one of which was fundamental, eight were significant and ten required attention. He updated the Committee on progress made against each of the recommendations since the last report in November 2017.

➤ **Management Report: Information Technology update**

Report of the Head of Workforce and Transformation providing an overview of the changes and service improvements already made in ICT together with those 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. The direction of travel was positive.

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

Presentation of the Director of Adult Services on the feedback received following the Adult Services Peer Review which showed the Council in a very good light. He then 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.

➤ **Management report on housing benefit overpayment performance**

Report of the Revenues and Benefits Service Manager which provided members with performance monitoring information on the collection of housing benefit overpayments for the year 2016/17.

➤ **Management Report: Ofsted - Children's Services update**

A verbal report was delivered by the Director of Children's Services, following the recent Ofsted inspection of Shropshire Council's Children's Services which received a 'good' rating placing it amongst the top 53 Council's in the Country. She informed the Committee that the inspection had taken place over four weeks in September and had looked at children in need of help and protection together with the safeguarding of Looked after Children (LAC) and those leaving care. The outcome of the inspection was good for Shropshire Council but was also good for children and families, stakeholders and partners. A few recommendations had been identified in the inspection report, one of which was around developing an Action Plan. The Director of Children's Services reported that the Action Plan would be presented to the People Overview Committee for approval.

➤ **Management Report: Estates Update**

The report of the Head of Business Enterprise and Commercial Services set out the management action that had been undertaken to address the recommendations set out in the Internal Audit report dated 21 April 2017 in respect of the corporate landlord function and estate management at the Council. He reported that management actions had now been put in place to address the recommendations, which included additional staffing resources and more effective controls and processes to ensure that all rent associated with leased out property was identified, invoiced and collected in a timely manner. It was hoped that the new Enterprise Resource Planning (ERP) system would provide an opportunity to move the asset management data onto one system. In addition, he reported that an

independent review of the assets and estate function had been commissioned to identify where/how improvements could be made. An independent review had also been commissioned of all systems and processes that were undertaken within the Council to ensure that they supported economic growth and commercial strategies.

➤ **Internal Audit performance report and revised annual audit plan 2017/18**

Report of the Head of Audit which provided Members with an update of the work undertaken by Internal Audit in the four months since the beginning of the financial year. She informed the meeting that 34% of the revised plan had been completed which was in line with the target to achieve 90% 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. She 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 within the report.

➤ **Management Report: Council tax and non-domestic rates performance monitoring report**

Report from the Revenues and Benefits Manager which set out the performance monitoring information on the collection of income through Council Tax and National Non-Domestic Rates (NNDR) for the year up to 31 March 2018 and progress on the year to date.

➤ **Management Report: Digital Transformation Programme (DTP) Update**

Report of the Head of Human Resources which provided an update on the progress of the Digital Transformation Programme including the most recent position for each project in the programme and the overarching programme as a whole. The Section 151 Officer confirmed that a lot of the requirements for the social care project had already been completed whereas the ERP was more challenging as there had been a delay in getting the contract signed due to protracted negotiations with the supplier. The design stage had therefore been extended from the end of November 2017 until mid-January 2018. He stressed the importance of getting the design stage correct. He reported that the customer experience project was progressing well and it was hoped that this would be in place by February/March 2018. Work was ongoing with Customer Relationship Management (CRM) following an issue with the original supplier. A new option was now being pursued with a different provider. He confirmed that an Infrastructure and Architecture Board had been formed and had begun to work through all of the legacy systems in order to prioritise the transfer of these systems on to the new platform, whilst the Programme Assurance team had oversight of the whole programme. It was reported that a new project manager had been employed to work on the Infrastructure and Architecture project and that the budget was being monitored as the projects were worked through, and an underspend was currently predicted.

➤ **Internal Audit performance report and revised annual audit plan 2017/18**

Report of the Head of Audit provided members with an update of the work undertaken by Internal Audit since the last report in September 2017. She informed the meeting that 58% of the revised plan had been completed which was in line with the target to achieve

90% delivery by year end, and which was slightly ahead of the previous year. She reported that three good and fourteen reasonable assurance opinions had been issued together with sixteen limited and four unsatisfactory assurance opinions. She went on to say that thirty-seven final reports had been issued which contained 409 recommendations, none of which were fundamental. The Head of Audit explained that one of the recommendations had been rejected by management in relation to lone working. She drew attention to the Direction of Travel which showed that the lower level assurance levels had decreased from 48% in 2016/17 to 36% year to date. The unsatisfactory assurance opinions were listed by service area in the report. In relation to the unsatisfactory assurance levels, Members requested management reports be presented at a future Committee meeting on Transport Operations Group and Highways Permits. In relation to limited reports, commended that the Head of Audit monitor the situation and report back to Audit Committee as part of the Direction of Travel update. If there had been no improvement then this would be followed up and escalated to Directors. In relation to the residual control environment, Members wished the Head of Audit to report back to the managers of those areas informing them that the Audit Committee urged them to comply with the recommendation.

➤ **Internal Audit performance report and revised annual audit plan 2017/18**

Report of the Head of Audit which provided Members with an update of work undertaken by Internal Audit in the three months since the last report in November 2017. She informed the meeting that the team were on track to deliver the target of 90% by year end. She drew Members' attention to the Audits completed since October, the Assurance levels awarded and the overall spread of recommendations. The unsatisfactory and limited assurance opinions were set out in the report. The Head of Audit informed members that two recommendations had been rejected by management. Turning to Direction of Travel, she explained that the number of lower level assurances (41%) were lower than the outturn for 2016/17 of 49%, however there was no one area giving cause for concern. She advised members who were concerned about the lower assurance levels in Commissioning, that they could invite the Head of Commissioning to a future meeting to address their concerns. Concern was raised in relation to Adult Services (Financial Assessments) which had received its third limited assurance. It was agreed to invite the Director of Adult Services to a future meeting to seek explanation of the issues within the control environment and how these could be improved.

➤ **Management Report: Highways permits**

Report of the Highways, Transport and Environmental Manager which set out progress against the recommendations made following an audit of the service. He explained the role of the Street Works teams and why the audit had been requested. Significant progress had been made to meet the requirements of the recommendations.

➤ **Management Report: Transport Operations Group**

Report of the Director of Place and Enterprise provided an update on the progress made and actions taken because of the audit of the Council's Transport Operations Group (TOG). The Transport Commissioning Manager explained that a few opportunities for savings and efficiencies had been identified including reducing the size of the fleet to 200, a new term maintenance contract and the procurement of a new council fuel contract. In response to a query, the Transport Commissioning Manager explained that Kier would be taking over the management and servicing of some of the vehicles which would remain at

the same depot.

➤ **Management Report: Income Generation**

Report of the Head of Finance, Governance and Assurance which set out the budgeted gross income position for the Council for 2018/19. Detailed information was included to enable Members to consider the overall risks and assurances associated with the income and resources received by the Council. The Head of Finance, Governance and Assurance drew attention to the report which identified areas where the Council's aspirations were, including two areas of income generation: one, where the Council currently collected income (by increasing, extending or charging new rates) and two, areas which are being looked at in the future as part of the Commercial Strategy. A further report will be provided in six months' time when further information would be available.

➤ **Management Report: Information Technology update**

Report of the Head of Human Resources and Development which provided updates on the following areas: Service Improvement and Compliance; Disaster Recovery/Business Continuity Project; Infrastructure and Architecture Project; and Digital Transformation. She was pleased with the progress that had been made. Turning to the Digital Transformation Programme, she informed the Committee that the CRM project was going well with Hitachi, who were the first organisation who had aligned the Council's vision and strategy with the rollout it wished to achieve. New telephony had been rolled out, the CRM portals would be rolled out in June/July. The Social Care project was also progressing well. The ERP project, however, was a little behind schedule due to a lack of resources available to deliver the project.

➤ **Internal Audit annual report 2017/18**

Report of the Head of Audit on achievements against the revised internal audit plan for 2017/18 and the annual internal audit assurance. The Head of Audit gave an unqualified opinion on the Council's internal control environment based on the improvements demonstrated.

The Audit Committee resolved that there have been improvements in the level of assurances for the internal control environment. There is still a need in the current situation with pressures on resources and changes to major systems, to ensure continual monitoring by management and members alike. Members focus will remain on those areas critical to the Council, i.e. DTP, Commissioning and those showing a low level of assurance where evidence of improvements will be sought.

Controls: Contracts and Partnerships

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

Report of the Director of Place and Enterprise which provided an update on the developments that have taken place to further strengthen governance around commissioning and contract management over the past twelve months. He 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; there was increased focus on training and development, which had been identified as a key requirement for good contract management. Turning to commissioning development, he drew the Audit Committee's attention to a piece of work being undertaken around prevention which was looking at different ways for services to be commissioned. Following this report and as part of a training session with Members, the Commissioning Development and Procurement Manager committed to and did provide a demonstration of the new Illuminator product, which is being used to analyse the Council's Contracts, to look at market availability and the sustainability of the contractor etc.

The Audit Committee resolved, following management reports, that there is evidence of effective management and monitoring of contracts and partnerships. The Audit Committee have been advised by managers that performance around the management of contracts and commissioning processes will be strengthened further as the Council's commissioning approach is adopted more widely. Given the wider approach the Council continues to take to commissioning and contracting of services, managers will increasingly be expected to provide assurances on this area.

Controls: Fraud, Corruption and Whistleblowing

➤ **Fraud, special investigation and Regulation of Investigatory Powers Act (RIPA) update (Exempted by categories 2, 3 and 7)**

Members are provided with exempt reports of the Principal Auditor providing an update on the current fraud and special investigations undertaken by Internal Audit and current RIPA activity.

➤ **Annual review of Counter Fraud, Bribery and Anti-Corruption Strategy and activities, including an update on the National Fraud Initiative**

Report of the Head of Audit provided 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. It also provides an update on the action plan to ensure continuous improvement. It was confirmed that no changes were being proposed to the existing strategy. The Head of Audit drew attention to the Action Plan set out within the report.

➤ **Annual Whistleblowing report**

Report of the Head of Workforce and Transformation on the number of cases raised through the whistleblowing process over the last year and the actions resulting.

The Audit Committee resolved that there were effective arrangements for the prevention and detection of fraud and corruption, and for enabling whistleblowing (confidential reporting).

Controls: Value for Money

➤ **External Audit: Shropshire Council audit findings 2016/17**

Report of the Engagement Lead (Grant Thornton) on key matters arising from the audit of Shropshire Council's financial statements for the year ending 31 March 2017. He advised that the vast majority of the financial statements had been completed and he anticipated that an unqualified opinion would be given. He drew attention to the key audit and financial reporting issues, including areas where improvements could be made to strengthen controls e.g. sales ledger debt and IT. He 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. He 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. He 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.

➤ **External Audit: Audit plan**

Report of the Engagement Lead (Grant Thornton) setting out the plan for the year ending 31 March 2018 for Shropshire Council 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.

➤ **External Audit: Pension fund audit plan 2017/18**

Report of the Engagement Lead (Grant Thornton) setting out the Pension fund plan for the year ending 31 March 2018.

➤ **External Audit: Audit fee letter 2017/18**

Report of the Engagement Lead (Grant Thornton) setting out the audit fee for the year ending 31 March 2018.

The Audit Committee resolved that there were effective arrangements in place to support Value for Money.

Financial reporting

➤ **Audited Annual Statement of Accounts 2016/17**

Report of the Section 151 Officer which set out the final audited outturn position for the financial year 2016/17 which would be confirmed by Council on the 21 September 2017. The Head of Finance, Governance and Assurance informed members that there had been no material changes identified during the audit however a few amendments had been made to disclosures, set out in Paragraph 7.1 of the report.

➤ **External Audit: Shropshire County Pension Fund audit findings report 2016/17**

Report of the Engagement Lead (Grant Thornton) summarised the findings for the year ended 31 March 2017 on the audit of the Pension Fund financial statements. He informed the

meeting that this report would be considered by the Pensions Committee and had been brought to the Audit Committee as an information item.

➤ **External Audit: Audit Committee update**

Report of the Engagement Lead (Grant Thornton) which highlighted the progress made on work undertaken during the year and summarised the emerging national issues and developments of relevance to the Council. It also included several challenge questions in respect of the emerging issues which the Audit Committee may wish to consider in its future work or training programmes. At the November meeting, the Senior Manager drew Members' attention to the technical matters and sector issues. It was confirmed that the Head of Finance, Governance and Assurance (Section 151 Officer) was aware of the changes to the Code of Practice on Local Authority Accounting in the UK 2017/18 and the forthcoming changes to IFRS9 and 15 (lease accounting and revenue recognition).

➤ **External Audit: Annual audit letter 2016/17 Shropshire Council**

Report of the Engagement Lead (Grant Thornton) which summarised the key findings arising from the work carried out for the year ended 31 March 2017. The Senior Manager introduced the report and drew attention to the unqualified opinion given on the Council's Financial Statements along with the Value for Money Conclusion for 2016/17. She explained that financial sustainability remained a risk for the Council. The Senior Manager went on to draw attention to the unqualified opinion given on the Shropshire County Pension Fund along with the final fees.

➤ **External Audit: Certification summary report**

Report of the Engagement Lead (Grant Thornton) detailing the Certification Work for 2016/17 relating to Housing Benefit subsidy claim. It was explained that due to two issues that had been identified, the claim had been qualified. Details of the errors were set out in the report.

➤ **Financial outturn report 2017/18**

Report from the Section 151 Officer providing details of the revenue outturn position for the Council and the full year capital expenditure and financing of the Council's capital programme.

➤ **Approval of the Council's Statement of Accounts 2017/18 including a review of accounting policies**

Report of the Section 151 Officer on the draft Annual Statement of Accounts and the accounting policies.

Treasury Management

➤ **Annual treasury report 2016/17**

Report of the Section 151 Officer providing information on treasury activities for Shropshire Council for 2016/17 and including the investment performance of the internal treasury team to 31 March 2017. He confirmed that the internal treasury team had outperformed their investment benchmark by 0.34% in 2016/17 and 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.

➤ **Treasury Strategy 2017/18 mid-year report**

Report of the Section 151 Officer which provided an economic update for the first six months of 2017/18; including a review of the Treasury Strategy; Annual Investment Strategy, the Council's investment portfolio; the Council's borrowing strategy; any debt rescheduling undertaken and compliance with Treasury and Prudential limits all for 2017/18. He reported that the internal treasury team had outperformed its benchmark by 0.33%, delivering additional income of £265,650 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. He also informed Members of the formation and operation of the Capital Investment Board.

➤ **Treasury Strategy 2018/19**

Report of the Section 151 Officer which proposed the Treasury Strategy for 2018/19 and the recommended Prudential Indicators for 2018/19 to 2020/21.

The Audit Committee resolved that Financial Statements reflected the Council's true position, were complete including all transactions, and were prepared in accordance with International Financial Reporting Standards.