



Committee and Date

Audit Committee

15 September 2016

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 23 JUNE 2016

9.30AM – 12.30PM

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

5 Apologies for Absence / Notification of Substitutes

5.1 No apologies were received.

6 Disclosable Pecuniary Interests

6.1 Members were reminded 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.

6.2 With reference to Agenda Items 7, 9, 11 and 12 Councillor Tim Barker declared that he was a Board Member of ip&e and as such he would hand the Chair over to the Vice-Chairman and leave the room prior to the commencement of the debate on these items. Councillor Tim Barker also declared that he was the Chairman of the Shropshire Housing Alliance.

6.3 As a former Employee of Shrewsbury and Atcham Borough Council, Councillor Pam Moseley declared an interest in the Shropshire County Pension Fund.

6.4 Councillor Chris Mellings declared that he was a Board Member of the Shropshire Housing Group.

7 Minutes of the previous meetings held on the 18 February 2016 and 27 May 2016

7.1 RESOLVED:

That the Minutes of the meetings held on 18 February 2016 and 27 May 2016 be approved and signed by the Chairman as a correct record.

8 Public Questions

8.1 There were no public questions.

9 Council Tax and NNDR Performance Monitoring Report

- 9.1 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 income for the year to 31 March 2016, and progress on the year to 31 March 2017.
- 9.2 The Revenues and Benefits Service Manager reported that the final collection rate for council tax for 2015-16 was £153,091,967 or 98.4% which compared favourable to the previous year's collection rate of 98.3% (£149,829,554), which was an increase of £3.2m. In the year to 6 June 2016, 25.2% of council tax had been collected compared to 27.1% for the equivalent period last year. The total arrears for council tax as at 31 March 2016 stood at £9m but by 1 June 2016 this had reduced to £8.4m.
- 9.3 In respect of Business Rates (NNDR), the Revenues and Benefits Service Manager stated that £78,124,707 or 99.1% had been collected between the 1 April 2014 and the 31 March 2015 which again compared favourably with the previous year's collection rate of 98.7% (£77,058,449), which was an increase of £1m. In the year to 6 June 2016, 27.9% of business rates debt had been collected compared to 31.3% for the equivalent period last year. The total arrears for Business Rates as at 31 March 2016 stood at £3.6m but by 1 June 2016 this had increased to £3.8m, due to an old year rating adjustment.
- 9.4 In response to a query about payments due to the Council from its own premises, The Section 151 Officer explained that bills had been issued but there may be some dispute about which services were located in which buildings, however it had been agreed that these bills be paid and any disputes be sorted out and refunds issued, if necessary.
- 9.5 The Revenues and Benefits Service Manager explained the Council's approach to Credit and when refunds were issued. Over £2m in Council Tax had been refunded and over £5m in Business Rates. Sometimes however these refunds were not claimed or no forwarding address was available so there inevitably would be some credit balances.
- 9.6 The Revenues and Benefits Service Manager answered a number of queries from Members of the Committee in relation to enforcement, write-offs and bad debt reserves. He agreed to report back to the next meeting in relation to bailiff performance.
- 9.7 **RESOLVED:**
That the report be noted.

10 Annual Whistleblowing Report

- 10.1 The Committee received the report of the Head of Human Resources and Development – copy attached to the signed Minutes – which provided Members with an update on the number of Whistleblowing cases raised regarding Council employees over the previous year (excluding school based employees).

- 10.2 The Head of Human Resources and Development reported that in 2015/16 there had been one case reported by an employee and nine by members of the public. However, in all but two cases the outcome was that there was no case to answer or a vexatious complaint.
- 10.3 In response to a query it was confirmed that an employee was at risk from disciplinary action if they made a vexatious complaint. However in these cases the whistle-blowers remained anonymous.
- 10.4 **RESOLVED:**
That the report be noted.

11 Revenue Outturn Report 2015/16

- 11.1 The Committee received the report of the Section 151 Officer – copy attached to the signed Minutes – which provided Members with details of the revenue outturn position for Shropshire Council for 2015/16 and provided a summary of the revenue outturn for each service area with a commentary on the main variations and an outline of how the position had changed since Quarter 3; the movements in the Council's general balance and the Council's reserves and provisions.
- 11.2 It was noted that the final outturn for 2015/16 showed an overall net revenue expenditure of £213,027m and an underspend of £2.816m, which was a significant improvement from quarter 3, by over £3m. The Section 151 Officer drew attention to the budget variations by service area set out at paragraph 6.2 and the further analysis at Appendix 1 of the report.
- 11.3 The Section 151 Officer reported that the General Fund balance had increased from £15m to £18m but that this was still below the risk assessed level of £28m. The Section 151 Officer informed the Committee that a Scrutiny Working Group had been put together to look at the general fund balances and the earmarked reserves so the process had been challenged and looked at in more detail.
- 11.4 In response to a query, the Section 151 Officer explained the Council's vacancy management policy whereby every vacant post was being challenged before being recruited to. The Section 151 Officer confirmed that if the post was considered essential it would of course be appointed to.
- 11.5 Turning to the Housing Revenue Account (HRA), the outturn for 2015/16 was an underspend of £1,031m taking the closing balance on the HRA Reserve to £5.824m. This underspend was due, in part, to less being spent on planned repairs, which, in turn, had led to an increase of £2,803m in the Major Repairs Reserve. The Section 151 Officer agreed to let Members know the total amount of outstanding rent arrears as at the end of March 2016.
- 11.6 In response to a query, the Section 151 Officer explained that the Schools Building Maintenance Insurance Balances were held on behalf of schools, however, it was not clear what would happen to these reserves once a school became an academy. A query was raised, in relation to the level of balances for Shire Services and it was confirmed that any underspends went into the reserve. The Section 151 Officer reported that all earmarked reserves were currently being considered by Cabinet.

11.7 A brief discussion ensued in relation to the overspend in Adult Social Care. The Section 151 Officer explained that the Financial Strategy took account of a greater level of growth in Adult Social Care than previously modelled for and whilst there was significant more growth, Adult Social Care did not appear to be quite as high as first thought.

11.8 Further reports were requested for future meetings on school balances in relation to the Academisation of schools, the School Buildings Maintenance reserve and the HRA.

11.9 **RESOLVED:**

A. TO NOTE THAT THE OUTTURN FOR THE REVENUE BUDGET FOR 2015/16 WAS AN UNDERSPEND OF £2.816M, THIS REPRESENTS 0.5% OF THE ORIGINAL GROSS BUDGET OF £594M.

B. To note that the level of general balance stood at £18.370m, which was above the anticipated level included within the Financial Strategy.

C. To note that the Outturn for the Housing Revenue Account for 2015/16 was an underspend of £1.031m and the level of the Housing Revenue Account reserve stood at £5.824m (2014/15 £3.076m).

D. To note the increase in the level of Earmarked Reserves and Provisions (excluding delegated school balances) of £4.175m in 2015/16.

E. To note that the level of school balances stood at £7.173m (2014/15 £3.957m).

12 **Capital Outturn Report 2015/16**

12.1 The Committee received the report of the Section 151 Officer – copy attached to the signed Minutes - which informed Members of the final outturn position for the Council's 2015/16 capital programme and the current position regarding the 2016/17 to 2018/19 capital programme taking into account the slippage following the closure of the 2015/16 programme, and any budget increases/decreases for 2016/17 and future years.

12.2 The Section 151 Officer reported that the outturn capital expenditure was £44.4m, which represented 85.7% of the re-profiled budget. The Chairman raised concern about the £7.4m slippage and whether this could be used to generate capital receipts. In response, the Section 151 Officer explained that if there was a clear revenue benefit it would be prioritised and monitored quite closely.

12.3 **RESOLVED:**

A. That the net budget variations of £0.490m to the 2015/16 capital programme, detailed in Appendix 1/Table 1 and the re-profiled 2015/16 capital budget of £51.9m be approved.

B. That the re-profiled capital budgets of £70.4m for 2016/17, including slippage of £7.4m from 2015/16, £36.4m for 2017/18 and £16.2m for 2018/19 as detailed in Appendix 1/Table 4 be approved.

- C. That the outturn expenditure set out in appendix 1 of £44.4m, representing 85.7% of the revised capital budget for 2015/16 be accepted.
- D. That retaining a balance of capital receipts set aside of £17m as at 31st March 2016 to generate a one-off Minimum Revenue Provision saving of £377,500 in 2016/17 be approved.

13 Annual Statement of Accounts 2015/16

- 13.1 The Committee received the report of the Section 151 Officer - copy attached to the signed Minutes - which provided Members with an overview of the Accounts and also provided details of the reasons for the most significant changes between the 2014/15 Accounts and the 2015/16 Accounts.
- 13.2 The section 151 Officers explained that there had been a number of changes to the way in which the accounts were reported including a new accounting standard and a Narrative Report which had replaced the Explanatory Forward. The Section 151 Officer drew attention to the Analytical Review set out in Appendix 2 of the report.
- 13.3 In response to a query it was confirmed that, due to the actuarial valuation, there had been a very small change (0.2%) to the Defined Benefit Liability, the figure used for discount rates.
- 13.4 It was noted that the debt owed by 'NHS Funds' to the Council had almost halved, however that owed by 'Other Entities and Individuals' had increased by over £2m. The amount owed by the Council to 'Other Entities and Individuals' had increased from £39K to £53K. In response, the Head of Financial Management & Reporting stated that she would have a look at these and let Members know if there were any large sums owing from a particular other entity or individual.
- 13.5 In response to a query in relation to Officer's Remuneration, it was confirmed that the figures reported showed the position as at the end of the year, and included schools. The Principal Accountant (Revenue) explained that some of the changes reported were due to inflationary increases.
- 13.6 In response to a query, it was confirmed that all but three Related Party Transaction responses had been received.
- 13.7 **RESOLVED:**
 - A. THAT THE CONTENTS OF THE DRAFT 2015/16 STATEMENT OF ACCOUNTS BE NOTED.**
 - B. That the changes made to the Council's accounting policies in 2015/16 be noted and agreed.
 - C. That the Head of Finance, Governance and Assurance be authorised to make any final adjustments to the Statement of Accounts prior to the 30 June 2016.

14 Internal Audit Annual Report 2015/16

- 14.1 The Committee received the report of the Audit Service Manager - copy attached to the signed Minutes - which provided Members with details of the work undertaken by

Internal Audit for the year ended 31 March 2016. It also reported on delivery against the approved Annual Audit Plan and included the Audit Service Manager's opinion on the Council's internal controls as required by the Public Sector Internal Audit Standards (PSIAS).

- 14.2 The Audit Service Manager reported that the revised plan had been delivered in excess of the 90% delivery target. 2,050 days had been provided in the original plan, this figure had been revised to 1,932 days to reflect changing risks and resources. In total, 103 final reports were issued in 2015/16. Fifty one good or reasonable assurances were made (49%), which was a reduction of 15% on the previous year. This was offset by a 15% increase in limited (43) and unsatisfactory (9) opinions which accounted for 51% in total compared to 36% last year.
- 14.3 The Audit Service Manager explained that lower level assurances had been awarded in mainly two areas, Children's Services (mainly schools) and Chief Executives (ICT infrastructure). The lower levels of assurance within the ICT Infrastructure were still a cause for concern as there had been little or no change, which had resulted in the Audit Service Manager qualifying her overall opinion. The Chairman requested a report to the next meeting of the Audit Committee to ensure the Direction of Travel was more focused and driven and that management were prioritising implementation plans to address the matters raised. The Section 151 Officer agreed to raise Members 'concerns at a future Directors meeting.
- 14.4 The Audit Service Manager drew attention to the assurance levels given for the eleven Fundamental Systems set out at Appendix A, Table 3. All fundamental systems showed a static or improved direction of travel with all areas providing reasonable or good assurance, except for Sales Ledger which was showing a lower level of assurance, mainly due to issues around debt collection rates. A further paper was requested in relation to the lower level of assurance given for the Sales Ledger.
- 14.5 1,568 recommendations had been made in the 103 final audit reports issued with the fundamental recommendations falling from six to four. Forty nine recommendations (3.2%) had been rejected by management (36 by one School). Where the reasons for rejection were not accepted and it was considered that the identified risks were not being managed or mitigated, this had been highlighted to the managers concerned. No fundamental recommendations had been rejected.
- 14.6 Turning to the Direction of Travel in relation to the control environment, the Audit Service Manager reported a weakening control environment over the last four years with over a quarter of the lower level assurances relating to IT systems/processes which further supported qualification of the Audit Service Managers' opinion.
- 14.7 **RESOLVED:**
- A. That performance against the Audit Plan for the year ended 31 March 2016 be noted.
 - B. To note that Internal Audit had evaluated the effectiveness of the Council's risk management, control and governance processes, taking into account public sector internal auditing standards or guidance, the results of which could be used when considering the internal control environment and the Annual Governance Statement for 2015/16.

- C. To note the Audit Service Manager's qualified year end opinion on the Council's internal control environment for 2015/16 on the basis of the work undertaken and management responses received.

15 **Review of the Code of Corporate Governance 2015/16**

- 15.1 The Committee received the report of the Engagement Auditor - copy attached to the signed Minutes - which clearly identified how the Council achieved effective Corporate Governance in 2015/16.
- 15.2 The Council's Code of Corporate Governance had been reviewed against the six core principles identified in the CIPFA/SOLACE guidance and set out at Paragraph 5.5 of the report. The Engagement Auditor drew attention to Appendix A which set out how the Council achieved these principles.
- 15.3 **RESOLVED:** To note that the Council has very strong compliance with the Code of Corporate Governance.

16 **Annual Governance Statement and a Review of the Effectiveness of the Council's System of Internal Control 2015/16**

- 16.1 The Committee received the report of the Section 151 Officer - copy attached to the signed Minutes - which set out the Annual Governance Statement to be considered following a review of the effectiveness of the Council's system of internal controls. An addition to paragraph 20 of the Annual Governance Statement was reported as follows:
- 'The Council will review the close down of ip&e and the separate external audit of ip&e yet to be completed and will identify opportunities for learning arising therefrom. This will be reported as appropriate to the Audit Committee and, as far as is relevant and necessary, in the 2016/17 Annual Governance Statement of the Council.'
- 16.2 The Section 151 Officer highlighted the six core principles set out in paragraph 5.3 of the report and briefly took Members through the Statement. He drew attention to the overall assurance levels which were all good or reasonable, as set out at paragraph 5.8 of the report. The strategic risks/governance issues identified were set out at paragraph 71 of the report.
- 16.3 It was requested that the words 'and Members' be added to the last sentence of Paragraph 15, so that it read as follows: 'Training and awareness sessions are provided for officers and Members...'
- 16.4 **RESOLVED:**
That the Annual Governance Statement for 2015/16 be approved.

17 **Annual review of Internal Audit - Quality Assurance and Improvement Programme (QAIP) 2015/16**

- 17.1 The Committee received the report of the Section 151 Officer - copy attached to the signed Minutes - which provided Members with the results of a self-assessment of the Internal Audit Service against the requirements of the Public Sector Internal Audit

Standards (PSIAS), compliance against which demonstrates an effective Internal Audit service.

17.2 The Section 151 Officer drew Members' attention to paragraphs 5.7 to 5.9 of the report which set out areas of potential non- or partial conformance.

17.3 RESOLVED:

To note the conclusion that the Council employs an effective Internal Audit to evaluate its risk management, control and governance processes that complies with the principles of the Public Sector Internal Audit Standards and has planned improvement activities to work towards full compliance where appropriate.

18 Annual Assurance Report of Audit Committee to Council 2015/16

18.1 The Committee received the report of the Section 151 Officer - copy attached to the signed Minutes - which provided the Council with an independent assurance of an adequate and effective governance, risk management and internal control framework; internal and external audit functions and financial reporting arrangements that could be relied upon and which contributed to the high corporate governance standards expected by the Council and which had been consistently maintained.

18.2 An amendment was reported to Paragraph 9 of Appendix A, which should read 'Substitutes who were invited'.

18.3 RESOLVED:

That the Draft Annual Assurance Report be approved and that Council be recommended to accept the contents of the report, subject to the above amendment.

19 Changes to Arrangements for Appointment of External Auditors

19.1 The Committee received the report of the Section 151 Officer – copy attached to the signed Minutes – which summarised the changes to the arrangements for appointing external auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.

19.2 RESOLVED:

To recommend that Council support the Local Government Association (LGA) in setting up a national Sector Led Body by indicating intention to "opt-in".

20 External Audit: Pension Fund Audit Plan 2015/16

20.1 The Committee received the report of the External Auditor - copy attached to the signed minutes - which set out the details of the planned audit work in relation to the Council's Pension Fund.

20.2 RESOLVED:

That the contents of the report be noted.

21 External Audit: Audit fee letter 2016/17

21.1 The Committee received the report of the External Auditor - copy attached to the signed minutes - which set out details of the audit fee for the Council for 2016/17

along with the scope and timing of work to be undertaken by the External Auditors. The Council's scale fee for 2016/17, which had been set by the Public Sector Appointments Limited at the same level as the scale fees applicable for 2015/16, at £133,845.

21.2 RESOLVED:

That the contents of the report be noted.

22 External Audit: Audit Committee Update

22.1 The Committee received the report of the External Auditor - copy attached to the signed Minutes - which provided members with a report on progress.

22.2 The External Audit Manager drew attention to the progress to date. She reported that the final account audit had begun and would start on site in August. It was aimed to complete this by 31 August 2016, one month earlier than previously.

22.3 The Engagement Lead updated the Committee in relation to the Value for Money conclusion. He reported that the guidance from the National Audit Office now required External Audit to satisfy themselves that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources by looking at three areas; informed decision making, sustainable resource deployment and working with partners and other third parties.

22.4 The Engagement Lead gave examples of the areas they would be looking at in more detail which included the Council's governance arrangements, its finances and strategies going forward, service delivery and partnership working, particularly in relation to Adult Social Care. In response to a query the Engagement Lead explained how the effectiveness of the Council's governance arrangements would be tested.

22.5 RESOLVED:

That the contents of the report be noted.

23 Date and Time of Next Meeting

23.1 Members were reminded that the next meeting of the Audit Committee would be held on the 15 September 2016 at 9.30am.

24 Exclusion of Press and Public

24.1 RESOLVED:

That in accordance with the provision of Schedule 12A of the Local Government Act 1972, Section 5 of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations and paragraphs 2, 3 and 7 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.

25 Exempt Minutes of the previous meetings held on 18 February 2016

25.1 RESOLVED:

That the Exempt Minutes of the meetings held on 18 February 2016 be approved and signed by the Chairman as a correct record.

26 Fraud, Special Investigation and RIPA Updates (Exempted by Categories 2, 3 and 7)

26.1 The Committee received the exempt report of the Engagement Auditor – copy attached to the exempt signed Minutes - which provided an update on the current fraud and special investigations undertaken by Internal Audit together with an update on the RIPA activity since the last meeting.

26.2 RESOLVED:

That the contents of the exempt report be noted.

Signed (Chairman)

Date: