



Committee and Date

Audit Committee

24 November 2016

**MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 15 SEPTEMBER 2016
9.30 AM - 12.25 PM**

Responsible Officer: Michelle Dulson

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Present

Councillor Tim Barker (Chairman)

Councillors John Cadwallader (Vice Chairman), Chris Mellings, Pamela Moseley and Nic Laurens (Substitute) (substitute for David Turner)

27 Apologies for Absence / Notification of Substitutes

27.1 An apology for absence was received from Councillor David Turner. Councillor Nic Laurens substituted for him.

28 Disclosable Pecuniary Interests

28.1 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.

28.2 With reference to Agenda Items 6, 9 and 17 Councillor Tim Barker declared that he was a Board Member of ip&e however as the reports only made a passing reference to ip&e he would remain in the room unless it was discussed in more detail.

29 Minutes of the previous meeting held on the 23 June 2016

29.1 RESOLVED:

That the minutes of the meeting held on 23 June 2016 be approved and signed by the Chairman as a correct record.

30 Public Questions

30.1 There were no public questions.

31 Exclusion of Press and Public

31.1 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.

32 Management Report on IT

32.1 The Committee received the exempt 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 which had been prioritised for improvement.

32.2 RESOLVED:

That the contents of the exempt report be noted.

33 Exempt minutes of the previous meeting held on the 23 June 2016

33.1 RESOLVED:

That the exempt minutes of the meeting held on 23 June 2016 be approved and signed by the Chairman as a correct record.

34 Fraud and Special Investigation Update September 2015 (Exempted by Categories 2, 3 and 7)

34.1 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.

34.2 RESOLVED:

That the contents of the exempt report be noted.

At the conclusion of this item the meeting reverted to open session.

35 Management Report on Programme Controls and Risks

35.1 The Committee received the report of the Director of Place and Enterprise – copy attached to the signed Minutes – which provided a further update on the existing and emerging assurance and management controls and risk management arrangements within the Council. It included work undertaken to develop strong governance around commissioning, and also provided an update on the Commissioning Support Unit.

35.2 The report gave assurance on the robustness of governance arrangements for all commissioning activity arising from the Council's 2014-2017 business plan and financial strategy. The Director of Place and Enterprise explained that higher value contracts went through quite a vigorous process and that the relevant Scrutiny Committee also looked at some of the larger Contracts which demonstrated that full governance arrangements were in place.

35.3 The Director of Place and Enterprise drew attention to the Commissioning Support Unit and the Intelligence Led Organisation updates. He confirmed that Shropshire Council was a commissioning authority as 60/70% of its work was commissioned out. Further guidance on the Council's approach to transitioning services out of the Council was set out in Appendix three to the report.

35.4 Turning to the Procurement and Contract Management update, the Director of Place and Enterprise explained that this section built on previous reports and referred to the new Contract Reference System and Delta, the Council's e-tendering system. In response to a query on the highways term maintenance contract, the Director of Place and Enterprise felt that the market place was reasonably broad enough to provide competition with possibly six to eight large contractors. However there was a framework in place for planned activity whereby more contractors were available.

35.5 In response to a further query on the same contract, the Director of Place and Enterprise was confident that the correct performance management measurements were in place following strong dialogue with contractors. He confirmed that the Council always had good working relationships with its Contractors. These measurements were of course always under review.

35.6 In addition, the Commissioning Development and Procurement Manager informed Members of the very detailed process for recommissioning which was taking place in relation to that particular procurement. He believed that there would be sufficient competition when tenders were invited. Turning to performance indicators within the contract for that procurement, he confirmed that these were being looked at very carefully by the project team and should lead to better results in terms of performance.

35.7 In response to a query, the Commissioning Development and Procurement Manager explained the process of due diligence undertaken around the ability of potential suppliers to deliver, such as undertaking financial checks and looking at references. The Head of Audit reported that they undertook as much research as possible into the financial stability of a company, using all the facilities open to them. The Commissioning Data Analysis and Intelligence Manager confirmed that those assurances were being developed and strengthened by working very closely with internal audit.

35.8 **RESOLVED:**

That the contents of the report be noted.

36 **Management Report on Housing Benefit Overpayment Performance Monitoring**

36.1 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 2015/16.

36.2 The Revenues and Benefits Service Manager informed Members that as at the 31 July 2016 the total amount outstanding, including previous years was £6.2 million, compared to £5.4m the previous year. He explained that, according to DWP figures, there had been a 19% increase in Housing Benefit Overpayments nationally (this figure was just over 15% for Shropshire Council).

36.3 The Revenues and Benefits Service Manager drew attention to a number of national initiatives detailed in the report which may explain why the figures had increased. He also drew attention to paragraph 6 which set out the action taken in order to address the higher level of overpayments. In response to a query it was confirmed that better

data matching was leading to more overpayments being identified. He explained that most overpayments were usually caused by claimant error rather than fraud.

36.4 In response to a query, the Revenues and Benefits Service Manager explained that in the last 12 to 18 months the service had been restructured and there was now a bigger recovery team which was why the current recovery rate was significantly higher than in 2015/16.

36.5 RESOLVED:

That the contents of the report be noted.

37 Management Report on Sales Ledger; update on progress in implementing improved internal controls

37.1 The Committee received the report of the Head of Financial Management and Reporting – copy attached to the signed Minutes – which provided an update on progress in implementing management controls within Sales Ledger in order to address the Limited assurance opinion that emerged from the Internal Audit review in June 2016.

37.2 The Head of Financial Management and Reporting drew attention to the positive Direction of Travel set out at paragraph 5 of the report. She reported that a number of actions had been undertaken to address the significant recommendations highlighted by the review and a more targeted approach to debt recovery had been created.

37.3 In response to a query, the Head of Financial Management and Reporting agreed to let Members have a breakdown of aged and current debt outside of the meeting.

37.4 RESOLVED:

That the progress made since June 2016 to address Internal Audit recommendations be noted.

38 Audited Annual Statement of Accounts 2015/16

38.1 The Committee received the report of the Head of Finance, Governance and Assurance – copy attached to the signed Minutes – which presented Members with the final audited outturn position for the financial year 2015/16. It was confirmed that no material objection had been received to the accounts which had to go through Full Council by 30 September 2016 following which the audit opinion would be given.

38.2 RESOLVED:

- A. That the 2015/16 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 2016.

- 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.

39 Annual Treasury Report 2015/16

- 39.1 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 2015/16 and included the investment performance of the internal treasury team to 31 March 2016.
- 39.2 The Head of Finance, Governance and Assurance (Section 151 Officer) explained that the Annual Treasury Report was scrutinised by the Audit Committee whose Members had received training on treasury management issues by completing the CIPFA treasury management self-assessment and had received further training with the Council's Treasury Advisor, Capita on risk strategy and attitude to risk.
- 39.3 The Head of Finance, Governance and Assurance (Section 151 Officer) reported that the Council had a reasonable level of return against risk with a higher level of returns than similar authorities for the same level of risk. He confirmed that the internal treasury team had outperformed their investment benchmark by 0.27% in 2015/16. The Head of Finance, Governance and Assurance (Section 151 Officer) explained that the Council was currently cash rich and as such would not be looking to borrow any money.
- 39.4 **RESOLVED:**
That the position as set out in the report be accepted.

40 Management Report Risk and Insurance Annual Report 2015/16

- 40.1 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 2015/16.
- 40.2 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 with no recommendations being made. She explained that strategic risks were updated monthly and monitored closely through meetings with key officers, Directors, the Chief Executive and Portfolio Holder. The outcome of each review was then reported to Directors and Informal Cabinet.
- 40.3 The Risk and Insurance Manager drew attention to the new Risk Profile and Action Plan template which had been adopted for managing strategic risks. The Chairman felt that the Committee ought to be looking more at the detailed Governance of Risk Management as part of their role. In response, the Risk and Insurance Manager explained the assurance process and the three lines of defence (Management; Internal Governance; independent assurance including External and Internal Audit). She reported that all relevant strategic risks had been linked to the Annual Governance Statement Action Plan points and that there was an assurance framework for each risk.

- 40.4 In response to a question, the Head of Audit gave independent assurance that the audit review provided confidence in the Council's risk management process. The Risk and Insurance Manager confirmed that; specific more detailed reports could be provided to members which would set out the relevant controls and action plans in relation to any of the strategic risks. It was agreed for the Head of Finance, Governance and Assurance (Section 151 Officer) to discuss the contents of future risk reports to the Committee with Directors.
- 40.5 In response to a query about the reserve of £278K for one claim alone, the Risk and Insurance Manager explained that it was a personal injury claim and that she would let members of the Committee have the detail outside of the meeting. The case was currently being investigated but it was felt that it could be repudiated.
- 40.6 In response to a query in relation to MMI (Municipal Mutual Insurance), the Risk and Insurance Manager explained that the agreement was if the mutual failed and had insufficient funds, then each member would have to contribute to ensure that sufficient funds were available. She reported that Shropshire Council had to make two payments, one for 15% and a further one of 10% following an increase in historic claims. Any claim payment thereafter the Council would have to pay the first 25%.
- 40.7 **RESOLVED:**
That the position as set out in the report be accepted.

41 **Management Report Strategic Risks Update**

- 41.1 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.
- 41.2 **RESOLVED:**
That the position as set out in the report be accepted.

42 **Internal Audit Performance Report and revised Annual Audit Plan 2016/17**

- 42.1 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 five months since the beginning of the financial year and the start of Shropshire Council's approved audit plan implementation.
- 42.2 The Head of Audit advised Members that 29% of the revised Plan had been completed which, although lower than in previous years, was in line with the profile of available resources and it was hoped to achieve 90% completion by year end. She reported that two good and ten reasonable assurances, eight unsatisfactory and eight limited assurance opinions were issued and that the 28 final reports contained 549 recommendations. She added that two fundamental recommendations had been identified and that three had been rejected by management.
- 42.3 The Head of Audit drew attention to Performance to date and the Direction of Travel. She explained that compared to previous years Internal Audit resources were much reduced so they had been focussing on the high risk areas which may impact on the year end opinion.

42.4 In response to a query, it was confirmed that the plan had been adjusted to include an additional 45 days spent on external clients. The Head of Audit agreed to email Members to explain the reduction in audit days for Children's Services. Members felt that this should be looked at by Young Peoples' Scrutiny Committee however the Head of Finance, Governance and Assurance (Section 151 Officer) explained that it was important to ensure the distinction between Audit and Scrutiny.

42.5 RESOLVED:

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

43 Internal Audit Charter

43.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – 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 2016.

43.2 RESOLVED:

That the proposed adjustments to the Internal Audit Charter be noted.

44 Internal Audit Quality Assurance Improvement Programme

44.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which provided Members with an update on the External Assessment review planned for 21 November 2016 by CIPFA during which Members of Audit Committee may be interviewed.

44.2 RESOLVED:

That the contents of the report be noted.

45 Code of Governance

45.1 The Committee received the report of the Head of Finance, Governance and Assurance (Section 151 Officer) – copy attached to the signed Minutes – which sought approval to the Code which had been refreshed following publication of a new governance framework for local authorities, police and fire authorities in April 2016 for application for the 2016/17 year.

45.2 RESOLVED:

That Cabinet be recommended to approve the revised Code of Corporate Governance contained in Appendix A to the report.

46 External Audit: Shropshire Council Audit Findings 2015/16

46.1 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 2016.

46.2 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. He reported that there had been one material change to how the CIES was disclosed but this had no overall impact on the total income or expenditure.

46.3 The Engagement Lead highlighted the control issues identified in the areas of ICT resilience and Sales Ledger. He confirmed that an unqualified Value for Money conclusion would be given.

46.4 The Head of Finance, Governance and Assurance (Section 151 Officer) confirmed that the Action Plan would be completed and circulated to Members of the Committee within the next six weeks.

46.5 **RESOLVED:**

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

47 **External Audit: Shropshire County Pension Fund Audit Findings Report 2015/16**

47.1 Members received the report 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 2016. The Engagement Lead drew attention to the key audit and financial reporting issues set out on page 6 and confirmed that no significant adjustments had been identified. He also confirmed that no significant control weaknesses had been noted. He explained that a change had been made in the final set of financial statements in relation to Related Party Transactions. They Committee were informed that the report would be considered fully by the Pensions Committee and Pensions Board.

47.2 **RESOLVED**

That the contents of the report be noted.

48 **External Audit: Audit Committee update**

48.1 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. 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.

48.2 The Head of Finance, Governance and Assurance (Section 151 Officer) reminded the Committee that a report had been presented to Full Council in July on the flexible use of capital receipts.

48.3 **RESOLVED:**

That the contents of the report be noted.

49 **Date and Time of Next Meeting**

49.1 Members were reminded that the next meeting of the Audit Committee would be held on the 24 November 2016 at 9.30am.

Signed (Chairman)

Date: