



Committee and Date

Audit Committee

INSERT NEXT MEETING DATE

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 29 JUNE 2017

9.30 AM - 12.50 PM

Responsible Officer: Julie Fildes

Email: michelle.dulson@shropshire.gov.uk Tel: 01743 257719

Present

Councillor Peter Adams (Chairman)

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

5 Apologies for Absence / Notification of Substitutes

5.1 No apologies for absence were received.

6 Disclosable Pecuniary Interests

6.1 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.

7 Minutes of the previous meetings held on the 22 February 2017 and 18 May 2017

7.1 RESOLVED:

That the minutes of the meetings held on 22 February 2017 and 18th May 2017 be approved and signed by the Chairman as a correct record.

8 Public Questions

8.1 Members noted that a public question had been received, regarding an objection to the accounts. This matter had previously been dealt with by the Council's auditors, no further action or correspondence would be entered into. The matter was considered to be closed.

9 Management Report: Digital Transformation Programme update

9.1 The Head of Human Resources and Development as Senior Responsible Officer [SRO] for the programme gave Members a presentation on the Digital Transformation Programme – copy attached to the signed minutes. She explained that she had responsibility for the strategic management of the project and the Communications and Technology Manager had responsibility for the day to day

management of it. Members noted that although many of the key officers involved in the project were based in the IT Service, the project went beyond IT. In response to a Member's query, the Head of Human Resources and Development explained that culture change was broader than Digital Transformation; that the programme for culture change encompassed DTP, Commercialism, Mobile and Agile working and Customer Experience interactions.

- 9.2 Members noted the Business Case which had been confirmed by Full Council and considered the sample Terms of Reference.
- 9.3 Members considered the chart showing the Proposed Programme Management Structure. They noted that there was an overarching Digital Transformation Board with a Programme Manager for each strand of the programme. Three discrete Project Boards had been established, each of which had a Senior Responsible Officer and a Project Manager working with the Project Team. The Infrastructure and Architecture Project Board supported the three Project Boards. In turn all of these were supported by the Project Assurance Team which included support from ICT, audit, and information Governance. Members noted that during the Design Phase the organisation would specify the systems which were required and consideration would be given to how these integrated with other Council systems. Once the Design Phase was completed there would be a better understanding of the Council's requirements.
- 9.4 Members discussed the role of internal audit and it was confirmed that Audit and Finance was involved throughout the process at every level.
- 9.5 Replying to a Members query regarding sharing health data with other organisations, the Head of Human Resources and Development explained that the new system was capable of integration and we are working closely with health in this respect however, there were a number of issues in achieving this not least the legal restrictions around data sharing and IT.
- 9.6 The Head of Human Resources and Development advised that the target date for implementation was 1st April 2018. She agreed that this was a challenging target and it may be that some of the project streams may 'go live' after that date. Where this happens we would need to consider contingency arrangements around system interfaces.

9.7 **RESOLVED:**

That the report be noted and Members receive regular updates on the progress of the Digital Transformation Programme at future meetings.

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 fifteen cases. Audit had initially received and investigated thirteen cases, Human Resources two.
- 10.3 As a result of investigations, one case was found to be a service complaint and was passed to the complaints team, one employee had resigned, one had been given a final written warning and one had been relocated. Seven of the cases were unfounded or vexatious. In response to a query, it was confirmed that an investigation would continue after a resignation had been received.
- 10.4 Members noted that both internal and public whistle blowing policies were readily available and could be found on the internet giving details of prescribed officers and bodies. Audit and external audit pages gave national whistle blowing links. It was also included in the staff induction programme.

10.5 RESOLVED:

That the report be noted.

11 Council Tax and NNDR Performance Report Monitoring

- 11.1 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 2017, and progress on the year to 31 March 2018.
- 11.2 The Revenues and Benefits Service Manager reported that the final collection rate for council tax for 2016-17 was £161,534,025 or 98.4%, which compared to the previous year's collection rate of 98.4% (£153,091,967), an increase of £8,442,058. It also compared favourably to the national collection rate for 2015/16 of 97.1%.
- 11.3 In the year to 6 June 2016, 25.2% of council tax had been collected compared to 25.2% for the equivalent period in the previous year. The total arrears for council tax as at 31 March 2017 stood at £9.9m but by 1 June 2017 this had reduced to £9.2m.
- 11.4 In respect of Business Rates (NNDR), the Revenues and Benefits Service Manager stated that £79,748,300 or 99.8% had been collected between 1 April 2016 and 31 March 2017, the previous year's collection rate had been 99.1% with £78,124,707 received. Members' attention was drawn to the National Statistics for 2015-16, which showed that the national average collection rate was 98.2%.
- 11.5 In the year to 5 June 2017, 28.7% of business rates debt had been collected, which compared favourably to 27.9% for the equivalent period in the previous year.
- 11.6 In response to a query about the Governments rebanding of properties, the Revenues and Benefits Service Manager commented that he had not analysed the movement of properties between the bands, although he anticipated that the majority would be in the medium bands.
- 11.7 The Revenues and Benefits Service Manager answered a number of queries from Members of the Committee in relation to arrears and interaction with debtors. He confirmed that the Council would pursue debtors using an Enforcement Agency and through the courts for non-payment, although it was a long-winded process and all efforts were made to prevent the

situation getting to this stage. He confirmed that once a debt was written off, the loss was borne by the Council.

11.8 RESOLVED:

That the report be noted.

12 Financial Outturn Report 2016/17

12.1 The Finance Governance and Assurance [Section 151] Officer presented the revised Financial Outturn 2016/17 report, copy attached to the signed minutes. Members noted that during the completion of the draft Statement of Accounts a minor error had been identified. Although the error had no material impact on the final Financial Outturn position of £0.129m, for the sake of accuracy and to maintain correct unambiguous records, Cabinet had received a revised Financial Outturn Report.

12.2 Members noted that the report set out the final financial position for 2016/17 and showed a slight underspend on the Revenue Account and an underachievement in the Capital Programme. The Finance and Governance Assurance [Section 151] Officer observed that previously Revenue and Capital outturns were detailed in two separate reports but these had been combined into one report.

12.3 Members considered table 1 on page 3 of the report, which set out the revised budget, controllable outturn and controllable under/over spend for each Service Area. All Service Areas apart from Children's Services achieved an underspend. Despite this the outturn position improved by £0.670m since Quarter 3.

12.4 Members noted that the General Fund Balance at 31st March 2017 was £14,689,000, which was above the anticipated level. The Finance Governance and Assurance [Section 151] Officer explained that significant levels of savings were required by the Budget Strategy 2017/18 and in future years, he made clear that there was insufficient funding to provide additional contributions into the General Fund Balance to ensure that the Council achieved the risk based target in 2017/18 and the following two years. He continued that it was important to closely monitor the potential gap between the Risk Based target and General Fund Balance. Should it become apparent that the projected balance was insufficient, this would be reported to Cabinet.

12.5 Members discussed the remodelling of Children's Services costs and the reasons why anticipated savings were not achieved. Members noted that in this Service Area small deviations in projected figures could have a significant impact on the Service Budget. The Finance Governance and Assurance [Section 151] Officer explained that the budget was set to reflect the known factors such as increasing costs, demographics and wage inflation. It was difficult to predict the number of children coming into the system and the level of care that they would require. Fewer children did not necessarily result in a reduction of expenditure if they had complex needs.

12.6 Members requested clarification on why Education and Children's services were combined in the report. The Finance Governance and Assurance [Section 151] Officer explained that this was a statutory requirement as the Director for Children's Services had legal responsibility for both areas. Other, more detailed, lower level reports were available which dealt with these areas separately. A Member

suggested that Children's Services Management should consider the assumptions that underpinned the budget, and endeavour to improve the accuracy of their predictions.

12.7 In response to a Member's query regarding Corporate Landlords, the Finance Governance and Assurance [Section 151] Officer explained that there had been significant reorganisation of this area which had previously been managed by individual Directorates, but was now managed by one Service Area. This had been a significant undertaking and was still not completed. This had resulted in issues in ensuring that tenants were billed correctly.

12.8 The Finance Governance and Assurance [Section 151] Officer responded to a Member that it was anticipated that the Digital Transformation would not be fully in place by April 2017, and this had been incorporated into the work plan.

12.9 Members considered the remodelling around Adult Social Care budgets. They noted that there were large numbers of service users and a vast amount of information to be included in the modelling. There were a variety of representative variables which the modal was not sensitive to interpret. Members were assured that the budget was closely monitored to ensure that it stayed within pre-set tolerance bands.

12.10 RESOLVED:

That the report be noted.

13 Annual Statement of Accounts 2016/17

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 2015/16 Accounts and the 2016/17 Accounts.

13.2 The Section 151 Officer explained that there had been a significant change to the dates governing the submission of the accounts. From 2017-18 the Council's accounts had to be signed and submitted by the end of July instead of September. This would bring them into line with the requirements for private companies. He continued that a dry run had been undertaken during this financial year. The accounts had been produced by the end of May this year but had not been checked so additional time was taken for this process.

13.3 Members' attention was drawn to section 7 of the report which outlined a number of changes to accounting policies. In response to a Member's question regarding changes to the way in which depreciation charge was calculated, the Officer replied that he was unaware of any significant increase in workload caused by this change but would make enquires.

13.4 In response to a query the Section 151 Officer confirmed that regarding Council Pension Contributions and the possibility of the employers contribution rate increasing, the Pension Fund Strategy aimed to keep the Employer Contribution stable.

13.5 Members noted that the explanations contained in Appendix 2 were helpful.

13.6 In response to a Member's query regarding debts owed by the NHS, the Section 151 Officer confirmed that this issue had been resolved and work was being undertaken to address the legacy debt.

13.7 RESOLVED:

That the contents of the draft 2016/17 Statement of Accounts be noted.

14 Internal Audit Annual Report 2016/17

14.1 The Committee received the report of the Head of Audit - copy attached to the signed Minutes - which provided Members with details of the work undertaken by Internal Audit for the year ended 31 March 2017. It also reported on delivery against the approved Annual Audit Plan and included the Head of Audit's opinion on the Council's internal controls as required by the Public Sector Internal Audit Standards (PSIAS).

14.2 The Head of Audit reported that final performance had been good with the revised plan being delivered in excess of the 90% delivery target. She continued that payroll was the largest financial system in the Council, the audit had not been completed in 2016/17 but she was satisfied that the data provided for completion early 2017/18 was robust and provided confidence.

14.3 The Head of Audit drew attention to Section 5.8 of her report and the tables showing a comparison of the assurance levels and categorisation of recommendations. Members noted a 3% increase in the higher levels assurance compared to the previous year, offset by a 3% decrease in limited and unsatisfactory opinions.

14.4 The Head of Audit referred Members to section 5.16 of her report which noted the fundamental recommendations made in the year. Hardware replacement remained at an unsatisfactory level with improvements still being embedded that were not reflected fully in the control environment. The Hardware Replacement Programme was to be aligned to the overall IT strategy with a revised implementation date of 30 June 2017.

14.5 Members noted that three recommendations, less than 1% of all recommendations made had been rejected by management. The Head of Audit continued that this was not cause for concern where the risk had been recognised and compensating controls were in place.

14.6 The Head of Audit referred Members to section 5.20 which listed 14 audit IT reviews which received unsatisfactory or limited assurance and further supported qualification of her opinion.

14.7 Members attention was drawn to section 5.22 which listed a number of internal audit reviews conducted to ensure that appropriate controls were in place and operational to counter the risk of fraud. In general sound controls were found to be in place.

14.8 Members noted section 5.24 which set out examples of additional work undertaken by Internal Audit to add value to the Council. In response to a query the Head of

Audit explained that Internal Audit would take on the role of critical friend to ensure that applications for funding were robust.

- 14.9 The Head of Audit explained that on the basis of work undertaken and management responses received she had qualified her overall opinion of the Council's internal control environment. The reason for this was primarily based on the continuing numbers of the internal audit assurances provided on the IT infrastructure and a number of application systems. She continued that she accepted that this had been the case for some time and significant resources had been allocated to manage the risk with improvements being reported, she accepted that it would take several years for the necessary improvements to be implement and sufficiently embedded to attain the appropriate assurance levels.
- 14.10 Members considered the table in section 5.29 which demonstrated Audit Performance by measuring achievement against the plan where the target had been 90% for 2016/17 and 99% had been delivered. Also ensuring compliance against Public Sector Internal Audit Standards. The percentage of customers satisfied with the overall service target had been set at 80% and 89% had been achieved.
- 14.11 Members discussed the situation with IT and causes for concern and reassurance, and commented that there was a clear direction of travel although it may take years for the situation to be fully resolved. They expressed concern that the Accounts would continue to be qualified until the situation changed. The Head of Audit assured Members that the Audit Opinion did not directly impact on the Council's accounts and it was not the accounts that were the subject of her qualified opinion. Members observed that IT was an important focus for the Audit Committee and they expressed confidence in the process outlined but asked that the Committee be kept informed of progress and achievement in relation to timescales for implementation.
- 14.12 Members considered Table 4 in Appendix A, Unsatisfactory and limited assurance opinions since February 2017 listed by Service Area. The Head of Audit agreed to circulate a complete list of all unsatisfactory assurances. She suggested that Members may be minded to suggest topics for future meetings or training events.
- 14.13 Members discussed the issue of the Finance Sales Ledger and considered if the concerns raised would be addressed by the new financial IT system.
- 14.14 **RESOLVED:**
- A. That performance against the Audit Plan for the year ended 31 March 2017 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 2016/17.
 - C. To note the Head of Audit's qualified year end opinion on the Council's internal control environment for 2016/17 on the basis of the work undertaken and management responses received. However the Committee is concerned that this is the fifth year that the Head of Audit's opinion is qualified.

15 Review of the Code of Corporate Governance 2016/17

- 15.1 The Committee received the report of the Principal Auditor - copy attached to the signed Minutes - which clearly identified how the Council achieved effective Corporate Governance in 2016/17.
- 15.2 Members noted that New Guidance had been published by CIPFA and SOLACE in April 2016 and this had replaced the guidance issued in 2007. The Principal Auditor observed that Shropshire Council's Code of Corporate Governance was based entirely on this guidance.
- 15.3 The Council's Code of Corporate Governance had been reviewed against the seven core principles identified in the CIPFA/SOLACE guidance and set out at Paragraph 5.6 of the report. The Principal Auditor drew attention to Appendix A which demonstrates how the Council addressed and met these principles in accordance with best practice identified by CIPFA/SOLACE.

15.4 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 2016/17

- 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.
- 16.2 The Section 151 Officer highlighted the seven core principles set out in paragraph 5.7 of the report and briefly took Members through the Statement. The strategic governance issues identified were set out at paragraph 5.13 of the report.
- 16.3 In response to a Members question, the Section 151 Officer confirmed that information was cascaded to staff from Director level to those who needed it. It was also included in staff work plans.

16.4 RESOLVED:

That the Annual Governance Statement for 2016/17 be approved.

17 Annual review of Internal Audit, Quality Assurance and Improvement Programme (QAIP) 2016/17

- 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 paragraph 5.1 of the report which set out the mandatory Public Service Internal Audit Standards for all principal local authorities, updated in 2017.

17.3 Members consider paragraph 5.7 of the report which set out areas of potential non-conformance.

17.4 In response to a Member's question the Head of Audit explained that where advice and guidance was provided during a development project by one auditor they would not be involved in the pure audit of the process.

17.5 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 2016/17

18.1 The Committee received the draft report of the Section 151 Officer - copy attached to the signed Minutes.

18.2 The Section 151 Officer explained that this report was a reflection on the work undertaken by the Audit Committee and their opportunity to demonstrate the value that they added to the Council. Members particularly endorsed Paragraph 6 which highlighted continuous training as a key priority.

18.3 Members discussed the relationship between the Audit Committee and Scrutiny Committees. Members noted the importance of the Audit Committee identifying issues but had to leave it to Officers to take forward and resolve. The Section 151 Officer confirmed that he updated Directors on issues that were considered by the Audit Committee.

18.4 In response to a Members request, the Head of Audit agreed to provide regular reports on issues that were found to be unsatisfactory and had not been resolved. She observed that it was usual practice to bring information to the Committee on issues where a pattern could be identified.

18.5 RESOLVED:

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

19 Annual Assurance Report of Audit Committee to Council 2016/17

19.1 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.

19.2 RESOLVED:

That the contents of the report be noted.

20 External Audit: Audit Fee Letter 2017/18

20.1 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 2017/18 along with the scope and timing of work to be undertaken by the External Auditors. The Council's scale fee for 2017/18, which had been set by the Public Sector Appointments Limited at the same level as the scale fees applicable for 2016/17, at £133,845.

20.2 Members noted that the fees were for work that had been set out in the statutory guidance, additional work due to the objection to the accounts which had been received might incur an additional charge.

20.3 RESOLVED:

That the contents of the report be noted.

21 External Audit: Audit Committee Update

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

21.2 The External Audit Manager drew attention to the progress to date. She reported that the final accounts audit had begun on site. It was anticipated to complete this by 31 July 2017, as part of the transition to the earlier close down and audit cycle from 2017.

21.3 The Engagement Lead advised that two risks had been identified and would be reported to the September meeting of the Audit Committee. The objection received to the Accounts would be included in the list of Engagements.

21.4 Members discussed the Apprentice Levy detailed in page 16 of the report. They noted that apprenticeships were now available to existing staff and were suitable for middle and higher tier managers.

21.5 The Engagement Lead advised Members that a wide range of publications were available for their use from the Grant Thornton Website with hardcopies available from the Grant Thornton Team if required.

21.6 RESOLVED:

That the contents of the report be noted.

22 Appointment of External Auditors

22.1 The Committee received the report of the Section 151 Officer – copy attached to the signed Minutes – which summarised the appointment arrangements of external auditors through PSAA Ltd, the Local Government Association National Sector Led Body.

22.2 Members observed that they were very satisfied with the work of Grant Thornton as external auditors. The Section 151 Officer advised that under the new arrangements an independent process conducted by the PSAA determined who would be appointed.

22.3 RESOLVED:

That the information provided on the national auditor appointment arrangements with PSAA Ltd be endorsed.

23 Date and Time of Next Meeting

23.1 RESOLVED:

That the next meeting of the Audit Committee would be held on 7th September 2017 with a new start time of 1.30pm.

24 Exclusion of Press and Public

24.1 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.

25 Exempt Minutes

25.1 RESOLVED:

That the exempt Minutes of the meeting held on 22 February 2017 be approved and signed by the Chairman as a correct record.

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

26.1 The Committee received the exempt report of the Principal Auditor – copy attached to the signed Minutes – which provided an 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.

26.2 RESOLVED:

That the contents of the report be noted.

Signed (Chairman)

Date:

