



Committee and Date

Audit Committee

13 September 2018

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 28 JUNE 2018 1.30PM – 4.35PM

Responsible Officer: Michelle Dulson

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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 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 1 March and 17 May 2018

7.1 RESOLVED:

That the Minutes of the meetings held on 1 March and 17 May 2018 be approved and signed by the Chairman as a correct record.

8 Public Questions

8.1 No public questions had been received.

It was agreed to take agenda Item 5 – First line assurance: Digital Transformation Update after Agenda Item 17 -Third line assurance: External Audit: Audit progress report and sector update.

9 First line assurance: Estates Update

9.1 The Committee received the report of the Head of Business Enterprise and Commercial Services – copy attached to the signed Minutes – which provided Members with an interim update following the report provided in November 2017 which sets out the management action undertaken to address the recommendations set out in the internal audit report dated 21st April 2017.

- 9.2 The Strategic Asset Manager explained the work that had been ongoing in relation to the Technology Forge system to prepare for the move onto the Enterprise Resource Planning (ERP) platform. The data was currently being held on the cloud and once it was ensured that the data was accurate and up to date it would be migrated onto ERP. There was no specific date for this however.
- 9.3 The Head of Business Enterprise and Commercial Services informed the Committee that the work was linked to the Digital Transformation Project and that a better idea of timescales would be available in September when all the actions were due to be completed.
- 9.4 In response to a query, it was confirmed that the three posts that had been recruited to had borne fruit and added capacity and skills to the team. Members requested that an update be provided to the November meeting.

9.5 RESOLVED:

- A. That the progress that had been made to address the recommendations in the 21st April 2017 Audit Report to ensure that all improvements were effectively implemented and monitored via the action plan for estate management be noted.
- B. That the desktop review undertaken by internal audit in March, which acknowledged the comprehensive interim response and Project Plan and the extension of the implementation date to the end of September 2018, due to the size and complexity of the project be noted.
- C. To note that the improvements and implementation of the action plan associated with the audit were being progressed in line with continued implementation of the corporate landlord model and the changes required to reflect the overall change in direction of the Council in respect of its planned future new asset management strategy.
- D. That an update be provided to the November Audit Committee meeting.

10 Second line assurance: Annual whistleblowing report

- 10.1 The Committee received the report of the Head of Workforce and Transformation – 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 HR Services Manager drew attention to the Whistleblowing Policy which was available via the intranet or the website. She informed Members that for 2017/18 there had been 16 whistleblowing cases compared to 15 the previous year and whilst most of last year's cases related to finance abuse and fraud, the 2017/18 cases were more wide ranging in type. She confirmed that 14 had been dealt with by Audit Services, whilst 2 had been dealt with by HR. No formal sanctions had been issued although one did proceed to a formal hearing.
- 10.3 In response to a query, the HR Services Manager confirmed that whistle-blowers were protected from victimisation if the allegations were genuine and that this was

set out in the Policy. Whistle-blowers were also able to remain anonymous, if they so wished. In response to a query, the HR Service Manager explained that a list of prescribed people and bodies were set out in the legislation.

10.4 RESOLVED:

That the report be noted.

11 Third line assurance: Internal Audit Annual report 2017/18

11.1 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 2018. 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).

11.2 The Head of Audit reported that the revised plan had been delivered in excess of the 90% delivery target with seventy good or reasonable assurances being made (64%), which was an increase of 12% on the previous year. This was offset by a 12% decrease in limited and unsatisfactory opinions. The Head of Audit reported that she would be giving an unqualified year end opinion for 2017/18 reflecting significant improvements in key areas of internal control.

11.3 The Head of Audit drew attention to the internal audit reviews, set out at paragraph 2.1 which provided assurance that appropriate controls were in place to counter the risk of fraud.

11.4 Members were pleased that for the first time in several years, the Head of Audit felt able to give an unqualified opinion.

11.5 RESOLVED:

- A. That performance against the Audit Plan for the year ended 31 March 2018 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 2017/18.
- C. To note the Head of Audit's unqualified year end opinion on the Council's internal control environment for 2017/18 based on the work undertaken and management responses received.

12 Overall assurance: Annual Governance Statement and a review of the effectiveness of the Council's internal controls and Shropshire's Code of Corporate Governance 2017/18

12.1 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. The Section 151 Officer gave a brief introduction and explained that the Audit Committee, under their Terms of Reference, were tasked with a review of the overall corporate governance arrangements of the Council for the previous year. He explained that the Annual Governance Statement must be signed off by the Leader and the Chief Executive as Head of Paid Service.

- 12.2 In response to a query, the Section 151 Officer informed the Committee of the approach by which all capital project schemes would be considered and assessed to see whether they would be taken forward. Concern was raised that there was no mention in the Annual Governance Statement of the Council's relationship with the public, the Section 151 Officer felt this was an oversight as the Council did engage with the public and he would look at whether the Statement could be amended to demonstrate the Council's engagement with the public.
- 12.3 A brief discussion ensued in relation to child exploitation identified in Telford and Wrekin. In response to a query, the Section 151 Officer explained the measures taken around safeguarding but cautioned that there was no guarantee that it could be stopped in Shropshire. He confirmed however that there was no indication that any of the currently identified cases related to the geographical border of Shropshire.
- 12.4 In response to a query, the Section 151 Officer informed the Committee that although the Council had a clear long-term budget identified in the five year strategy, years 4 and 5 would have a £27m shortfall. The fair funding review would also have an impact as all assumptions would change. The Council was currently on plan to balance the books for the next two to three years, hence the limited assurance given.
- 12.5 **RESOLVED:**
- A. That the Annual Governance Statement for 2017/18 be approved.
 - B. That the Internal Audit conclusion that the Council has strong evidence of compliance with the Code of Corporate Governance be noted.

13 **Second line assurance: Financial outturn report 2017/18**

- 13.1 The Committee received the report of the Section 151 Officer – copy attached to the signed Minutes – which provided details of the revised revenue and capital outturn position for Shropshire Council for 2017/18. The Section 151 Officer reported that the revised position showed an overall underspend of £0.613m and that this revised figure had been reported informally to Cabinet and would be reported to Full Council at its meeting on 26 July 2018.
- 13.2 The Section 151 Officer explained that the focus for Audit Committee was to look at the underlying process and governance arrangements in place and whether they were happy with the recommendations being made to Council. The Section 151 Officer then drew attention to Paragraph 6 of the report which set out the Gross Expenditure for 2017/18, and Paragraph 7 which set out the RAG ratings in relation to Savings Delivery. The financial outturn for savings delivery for 2017/18 was set out in table 3 on page 5 of the report.

- 13.3 The Section 151 Officer explained that the outturn position had changed since Quarter 3 as a result of further underspends due, in part, to additional income, reduced costs in some areas and further savings as a result of the implementation of a spending freeze.
- 13.4 In response to a query, the Section 151 Officer confirmed that the expectation was that all the identified savings would be delivered at some point in the future. He explained that for reasons beyond the Council's control some of the identified savings had not been realised in the short term, but that these would be monitored closely until they could be delivered.
- 13.5 In response to a query in relation to school balances, the Section 151 Officer informed the Committee that within Shropshire each school was required to identify a reasonable level of reserves for prudent reasons. He confirmed that individual school balances were not reported publicly.

13.6 RESOLVED:

That Council be recommended to:

- A. Note that the Outturn for the Revenue Budget for 2017/18 is an underspend of £0.529m, this represents 0.09% of the original gross budget of £563.3m.
- B. Note that the level of general balance after adjusting for the underspend and insurance position stands at £15.311m, which is above the anticipated level assessed in February 2017.
- C. Note that the Outturn for the Housing Revenue Account for 2017/18 is an underspend of £0.007m and the level of the Housing Revenue Account reserve stands at £8.225m (2016/17 £9.031m).
- D. Note the increase in the level of Earmarked Reserves and Provisions (excluding delegated school balances) of £8.026m in 2017/18 and the reasons for this.
- E. Note that the level of school balances stands at £5.381m (2016/17 £6.280m).
- F. Approve net budget variations of £1.472m to the 2017/18 capital programme, detailed in Appendix 5/Table 11 and the re-profiled 2017/18 capital budget of £59.748m.
- G. Approve the re-profiled capital budgets of £61.795m for 2018/19, including slippage of £10.140m from 2017/18, £25.986m for 2019/20 and £15.568m for 2020/21 as detailed in Appendix 5 /Table 15.
- H. Accept the outturn expenditure set out in Appendix 5 of £49.608m, representing 83% of the revised capital budget for 2017/18.
- I. Approve retaining a balance of capital receipts set aside of £20.857m as at 31st March 2018 to generate a one-off Minimum Revenue Provision saving of £0.485m in 2018/19.

14 Second line assurance: Statement of Accounts 2017/18

- 14.1 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 provided details of the reasons for the most significant changes between the 2016/17 Accounts and the 2017/18 Accounts.
- 14.2 The Strategic Financial Accountant reported that the 2017/18 Statement of Accounts had been prepared in line with the faster closedown timetable by 31st May 2018 and were attached to the report at Appendix 1. The Statement of Accounts would be sent to External Audit for a final audit opinion by the end of July 2018 which would be reported to Full Council at its meeting in July. She drew attention to Paragraph 6 of the report and the Analytical review attached to the report at Appendix 2.
- 14.3 Members thanked the officers for the report and the helpful analytical report. A query was raised about whether the increase in debtors of some £4m was linked to previous issues in relation to sales ledger debt increasing, getting older or being harder to collect. The Section 151 Officer explained that this was difficult to answer but he did not feel that anything different had happened in the past 12 months and that the Statement of Accounts just set out the level of debt at a particular point in time and did not analyse the reason for levels changing from one year to the next.
- 14.4 In response to a query, the Section 151 Officer explained that the debt owed by NHS Bodies was in relation to the cost of continuing health care which had been borne by the local authority, the Clinical Commissioning Group (CCG) had however agreed to split the NHS pay element. This agreement had however fallen down which led to delayed payments of the debt. This debt had always been a moving target as more was being added to it as time went on. The Section 151 Officer confirmed that the long-term debts had been settled.
- 14.5 It was agreed for the Strategic Financial Accountant to provide Members with an update in relation to debtors.

14.6 RESOLVED:

- A. That the contents of the draft 2017/18 statement of accounts be noted.
- B. That the additional accounting policy included in the Statement of Accounts for 2017/18 be noted.

15 Third line assurance: Annual review of Internal Audit, Quality Assurance and Improvement Programme (QAIP) 2017/18

- 15.1 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.
- 15.2 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. He also drew attention to the update against the Improvement Plan set out in Appendix A.

- 15.3 Members consider paragraph 5.7 of the report which set out areas of potential non-conformance and the Section 151 Officer explained that it was difficult to demonstrate the level of objectivity required. It was noted that the report should be read in conjunction with the Internal Audit Annual Report.

15.4 RESOLVED:

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

16 Third line assurance: Audit Committee Effectiveness

- 16.1 The Committee received the report of the S151 Officer – copy attached to the signed Minutes – which provided information on the actions taken to date to improve any identified areas of weakness and sought approval of the resulting action plan.
- 16.2 The Section 151 Officer reminded the Committee that following discussion of the self-assessment of good practice at its meeting in November 2017, Members resolved that options for external facilitation be explored to assess the skills and overall effectiveness of the Committee against best practice. This external facilitation took place following which the Action Plan was drawn up.
- 16.3 The Section 151 Officer drew attention to Paragraph 5.6 of the report which set out the questions for Members to consider in relation to both the self-assessment (Appendix A) and the Action Plan (Appendix B). Members confirmed they were happy with the contents of Appendices A and B and a brief discussion ensued in relation to how the recommendations could be taken forward. It was felt that the current practice of asking ie the Leader / Cabinet Member to attend meetings on an exception basis worked satisfactorily as the information Members acquired from the officers dealing with the particular function usually satisfied the Committee.
- 16.4 Turning to future training sessions, it was suggested that dates of training be put on a more formal basis so that they were included in the Schedule of Meetings which would demonstrate that there was an effective training programme in place.

16.5 RESOLVED:

- A. That the outcome of the external facilitation assessing the Audit Committee's effectiveness against good practice attached at Appendix A be noted.
- B. That the resulting action plan be approved.

17 Third line assurance: Annual Assurance report of Audit Committee to Council 2017/18

- 17.1 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 frameworks; 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.

17.2 The Section 151 Officer drew attention to Paragraph 5.3 of the report which set out the requirements for the Audit Committee to be held to account on a regular basis by the Council as set out in Section 6.34 of CIPFA's Audit Committees, Practical Guidance for Local Authorities and Police, 2013 edition. He also drew attention to Paragraph 13 of the Audit Committee Annual Assurance Report set out in Appendix A of the report which confirmed that the significant improvements in key areas of internal control was reflected in the Head of Audit's unqualified opinion.

17.3 RESOLVED:

That the Draft Annual Assurance Report for 2017/18 be approved and that Council be recommended to accept the contents of the report.

18 Third line assurance: External Audit: Pension fund audit plan 2017/18

18.1 The Committee received the report of the External Auditor - copy attached to the signed minutes - which provided an overview of the planned scope and timing of the statutory audit of the Shropshire Council Pension Fund. It was confirmed that the audit plan had been agreed by the Pensions Committee.

18.2 Attention was drawn to the significant risks identified, set out on page 5 of the report. The Committee were pleased to read that the Pension Fund Account was now fully funded and it was confirmed that the LGPS Central fund was also in balance as at the last actuarial valuation.

18.3 RESOLVED:

That the contents of the report be noted.

19 Third line assurance: External Audit: Audit fee letter 2018/19

19.1 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 2018/19 along with the scope and timing of work to be undertaken by the External Auditors. The Council's scale fee for 2018/19 had been set by Public Sector Audit Appointments Limited at £103,061.

19.2 RESOLVED:

That the contents of the report be noted.

20 Third line assurance: External Audit: Audit progress report and sector update

20.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – which provided the Audit Committee with a report on progress. The Engagement Manager drew attention to the progress to date, set out on page 4

of the report and confirmed that the final accounts audit had begun on 4 June 2018 and that no issues had so far arisen. She explained that assurance could not yet be provided on the Jersey Property Trust as the audit was not yet completed.

20.2 The Engagement Manager informed the Committee that they were on track to deliver the audit opinion and value for money conclusion by 31 July 2018. Turning to the certification of claims and returns, she confirmed that there had been no issues with the Housing Benefit subsidy claim and that the other grant claims would be reported in their certification letter once completed. She reported that following the audit of STAR Housing, the terms of the limited assurance had been agreed however she did not envisage any issues arising from this. Finally, she confirmed that the audit deliverables were on track to be completed.

20.3 RESOLVED:

That the contents of the report be noted.

21 First line assurance: Digital Transformation Update

21.1 The Committee received the report of the Head of Workforce and Transformation – copy attached to the signed Minutes – which provided updates on the Digital Transformation Programme; the Social Care Project; the Infrastructure and Architecture Project; the Business Transformation Project; and the Customer Experience Project.

21.2 It was confirmed that the Appendix to the report (pages 5 to 16) would be taken in private session.

21.3 The Section 151 Officer took Members through the paper. He explained that although some resource issues had been identified, the teams were coping and making progress. The Committee were informed that the status of the Social Care project remained at red and that this had led to the go live date being put back to November. Turning to the ERP, the Section 151 Officer explained that due to resource issues the go live date had been put back to 31 October 2018.

21.4 In relation to the Infrastructure and Architecture Project, the Section 151 Officer informed the Committee that Wi-Fi had been rolled out throughout Shirehall and was now being rolled out to other sites. He went on to say that the Data Migration Hub which automated the flow of data from the old systems to the new system was working well and that the customer service software had now gone live.

21.5 The Section 151 Officer confirmed that the projects were still being delivered within budget and that overall the Quality Assurance Board were satisfied with the reasonable and good outcomes.

21.6 The Section 151 Officer explained that the key risk was that the Council did not have enough people to support the programme, as it was a very lean organisation, however the risk has been flagged and ways to mitigate the risk had been identified. So although these risks were being managed, there were some areas that Directors needed to be assured of before they could be signed off. He confirmed that the issues were not foreseeable and were only identified as the programme developed.

21.7 In response to a query the Section 151 Officer explained that the problems with red ratings were due to testing rather than the original specification work. In response to concerns, the Section 151 explained that university graduates were being recruited to undertake data cleansing

21.8 RESOLVED:

That the progress that each of the projects within the programme was making and the mitigations that were being put in place to address the issues within each work stream be noted.

22 Date and Time of Next Meeting

22.1 Members were reminded that the next meeting of the Audit Committee would be held on the 24 July 2018 at 12noon.

23 Exclusion of Press and Public

23.1 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.

24 Third line assurance: Fraud, Special Investigation and RIPA Update (Exempted by Categories 2, 3 and 7)

24.1 The Committee received the exempt report of the Principal Auditor – copy attached to the exempt 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.

24.2 RESOLVED:

That the contents of the exempt report be noted.

25 First Line Assurance: Digital Transformation Update (Exempted by Category 3)

25.1 The Committee received the exempt Appendix to the report – copy attached to the signed Minutes.

25.2 RESOLVED:

That the contents of the exempt Appendix be noted.

Signed (Chairman)

Date:

