



## **Committee and Date**

Audit Committee

27 June 2019

## **MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 25 FEBRUARY 2019**

**1.30 - 3.35 PM**

**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

### **67 Apologies for Absence / Notification of Substitutes**

67.1 No apologies for absence/notification of substitutes had been received.

### **68 Disclosable Pecuniary Interests**

68.1 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.

### **69 Minutes of the previous meeting held on the 6 December 2018**

#### **69.1 RESOLVED:**

That the minutes of the meeting held on 6 December 2018 be approved and signed by the Chairman as a correct record.

### **70 Public Questions**

70.1 No public questions had been received.

### **71 First Line Assurance: Digital Transformation Programme update**

71.1 The Committee received the report of the Director of Workforce and Technology – copy attached to the signed Minutes – which provided Members with an update on each of the Projects within the Digital Transformation Programme.

71.2 In relation to the Social Care Project the Director of Workforce and Technology confirmed that the Children's modules had gone live in Liquidlogic that Monday and

were working well. In relation to the Customer Experience Project, My Shropshire Live was due to go live the following week. The Director of Workforce and Technology informed the meeting that a dress rehearsal for the new ERP was currently under way and was on track to go live on 1 April 2019. She confirmed that the gap in the feedback loop had been closed to ensure that what was agreed by the Governance Assurance Team was fed back to the Board.

71.3 In response to comments by Members about complaints received from members of the public who could not get in touch with the correct person, the Director of Workforce and Technology confirmed that Webchat and the MyShropshire portal would resolve this issue as calls could be tracked by the system, which was automated, allowing progress to be reported back. She confirmed that it was hoped that the Members' portal would go live in October.

71.4 In response to a query, the Director of Workforce and Technology confirmed that although the main tranche of the ERP would go live on 1st April, some modules were still to be written. She assured the Committee however that the Business Case would be fulfilled but that it would take time. Further updates would be reported to future meetings of the Audit Committee. She was pleased to inform Members that Shropshire Council's IT function was no longer a strategic risk.

71.5 Members were concerned that it would be extremely challenging for the Council to achieve those savings required, following a report to Cabinet which indicated that this was the main risk the Council now faced. In response, the Director of Workforce and Technology confirmed that £1.7m savings were already in place for 2019/20 and had been delivered early. Further savings, potentially bringing the total to £9m, were not due until the following financial year.

71.6 **RESOLVED:**

To note the progress that each of the projects within the programme are making and the mitigations that are being put in place to address the issues within each work stream.

72 **Second line assurance: Treasury Strategy**

72.1 The Committee received the report of the Director of Finance, Governance and Assurance (Section 151 Officer) – copy attached to the signed Minutes – which proposed the Treasury Strategy for 2019/20 and recommended Prudential and Treasury Indicators for 2019/20 to 2021/22.

72.2 The Director of Finance, Governance and Assurance (Section 151 Officer) informed the Committee that the Council was now required to produce a Capital Strategy report by 31 March 2019 which would help to inform the Treasury Strategy and Capital Programme. He drew Members attention to the key points set out at paragraph 1.1 and the increase in the bank base rate, the Council's loans to two Housing Associations and the Council's purchase of the Shrewsbury Shopping Centres which had all been taken into account when proposing the Treasury Strategy.

72.3 In response to a query, the Director of Finance, Governance and Assurance (Section 151 Officer) confirmed that the Council's borrowing had been taken out at a fixed rate

so the Council had no variable rate external debt. In response to a further query in relation to funding for the North West Relief Road, the Director of Finance, Governance and Assurance (Section 151 Officer) explained that this would link into the Capital Strategy and he explained how the Council decided when borrowing was required.

72.4 The Director of Finance, Governance and Assurance (Section 151 Officer) explained that the Council's risk appetite was more concerned with security rather than with yield. He reported that cash balances were expected to drop over the next twelve months. In response to a query the Director of Finance, Governance and Assurance (Section 151 Officer) reported that following a cut in the base rate he would expect return on investments to fall. However, he informed the Committee that several risk factors had been built in to limit the impact.

72.5 In response to a query, the Director of Finance, Governance and Assurance (Section 151 Officer) explained that £5-10m of the Council's loans would be paid off in the next 2-3 years. He stated that as the Council had very healthy cash balances, when debts were maturing the Council was not having to refinance. However, if the Capital Strategy was delivered and the Council started spending millions of pounds, the cash balances would see a hit and more money would have to be borrowed.

72.6 A member queried whether it would be worth having an Equity Protection Plan in place to limit the loss to the Council. In response, the Director of Finance, Governance and Assurance (Section 151 Officer) explained that risk-adjusted returns were expected in the short term from the current strategy and that the cost of managing an increased risk would likely outweigh any potential returns.

**72.7 RESOLVED:**

That the Treasury Strategy 2019/20 be endorsed.

**73 Second line assurance: Strategic Risks Update**

73.1 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 following completion of the December 2018/January 2019 quarterly review.

73.2 The Risk and Insurance Manager informed the Committee that there were currently 16 strategic risks, with changes to the scoring having been made for six of the risks, two scores increasing and four reducing, as set out in Paragraph 3.7 of the Report. The Risk and Insurance Manager reported that the next review would begin in March when the target scores would be looked at to see whether the targets would be achieved by year end.

73.3 In response to a query, the Risk and Insurance Manager explained that the review looked at the current risk, whether controls had been put in place and whether it achieved its target score by year end. The Risk Register was updated quarterly and the year end report showed the direction of travel and whether this was as anticipated. The Risk and Insurance Manager reminded Members that they could call in any risk in further detail if they had any concerns.

73.4 If the Risk and Insurance Manager had any concerns, these would be raised with the Director of Finance, Governance and Assurance (Section 151 Officer) for discussion with Directors and would change assurance levels if they were not comfortable.

73.4 In response to a query in relation to the Commercial Strategy, the Director of Finance, Governance and Assurance (Section 151 Officer) explained that the risk was shared by the Management Team as they were aware that it needed to be managed more robustly and additional controls had been identified and were in place. The Head of Audit explained that this was where the three lines of defence lined up and where they did not, the Audit Committee should challenge them.

**73.5 RESOLVED:**

That the position as set out in the report be accepted.

**74 Governance Assurance: Draft Audit Committee annual work plan and future training requirements**

74.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which provided a proposed Audit Committee work plan and sought discussion and agreement around a learning and development plan for Members to ensure they were well informed and appropriately skilled to fulfil their role.

74.2 The Head of Audit drew Members' attention to the workplan attached at Appendix A and the proposed amendments contained therein, for which approval was sought, highlighted in bold and underlined. Members' attention to Paragraph 5.5 which set out those topics covered by training during 2018/19 and she confirmed that provisional dates for training during 2019/20 had been circulated to Members of the Committee.

74.4 In response to a query in relation to the Council's property portfolio, it was confirmed that the Audit Committee could review the internal control environment and how robust the processes were but it was for the relevant Scrutiny Committee to assess performance. The Section 151 Officer explained that performance of the three Shrewsbury Shopping Centres was monitored through Cabinet.

**74.5 RESOLVED:**

- a) That the Audit Committee work plan for 2019/20 be approved.
- b) That a learning and development plan for members of the Committee taking into account information in Appendices A and B be approved.

**75 Third line assurance: Report of the Audit Review of Risk Management**

75.1 The Committee received the report of the Principal Auditor – copy attached to the signed Minutes – which summarised the detailed findings identified in the Internal Audit review of Risk Management. He informed the Committee that the overall control environment for the Risk Management system had been assessed as good, the highest rating that could be given and that no control weaknesses had been identified.

**75.2 RESOLVED:**

That the findings from the review of Risk Management by Internal Audit be endorsed.

**76 Third line assurance: Internal Audit performance report and revised Annual Audit Plan 2018/19**

76.1 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 three months since the previous Audit Committee report.

76.2 The Head of Audit informed the Committee that 77% of the revised plan had been achieved, which was slightly lower than in previous years however the team was on target to deliver 90% of the plan by year end. She drew Members' attention to the Audits completed since November, the Assurance levels awarded and the overall spread of recommendations set out in Paragraphs 5.8, 5.9 and 5.10 respectively. The unsatisfactory and limited assurance opinions were set out in table 3 of the report.

76.3 In response to a query, the Head of Audit reported that her role with the Midlands Heads of Internal Audit Group did not significantly impact on her work and consisted of two days annually. However the benefits of networking and training and development opportunities far outweighed any impact.

76.4 The Head of Audit requested that if Members had any queries in relation to the unsatisfactory and limited assurance opinions, set out at Table 3 of the report (page 113) to let her know and she would seek a response from the relevant Manager. Members requested that the Manager with responsibility for the Commercial Strategy be invited to a future meeting of the Audit Committee to give an update and provide assurance.

**76.5 RESOLVED:**

A) That the performance to date against the 2018/19 Audit Plan set out in this report be endorsed and that the action to be taken by the Audit Committee in response to the low assurance levels and the residual control environment, delivery against the fundamental recommendation and where a recommendation has been rejected, as detailed in the report, be noted.

B) That the adjustments required to the 2018/19 plan to take account of changing priorities set out in **Appendix B** be endorsed.

C) That the Manager with responsibility for the Commercial Strategy be invited to a future meeting of the Audit Committee to give an update and provide assurance.

**77 Third Line Assurance: Draft Annual Internal Audit risk based plan 2019/20**

77.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which provided Members with the proposed risk based Internal Audit Plan for 2019/20. The Head of Audit drew attention to the summarised Internal

Audit Plan set out at Appendix A which confirmed that 1,600 days had been planned for Shropshire Council audit work and 228 days for external clients.

77.2 The Head of Audit also drew attention to Appendix B, which set out those audit areas of high priority for which no provision had been made in this year's internal audit plan, and Appendix C which shows those low risk areas that would not be considered for review by Internal Audit on a rolling basis.

77.3 In response to a query, the Head of Audit explained how the reducing resources within the Council had impacted upon the work of the Internal Audit team and she informed Members that external resources had been used in 2018/19 to support the internal team. In 2019/20 external resources will not be used to deliver the plan, but it had been decided that this could be looked at any time during the year if she was not confident of achieving 100% of the plan within the resources currently available.

**77.4 RESOLVED:**

That the approach taken to create the proposed Internal Audit Plan for 2019/20 be endorsed and that its adoption be approved.

**78 Third line assurance: External Audit, Audit progress report and sector update**

78.1 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.

78.2 The External Auditor drew attention to the additional fee of £12,265 for additional work undertaken in relation to the audit of the shopping centres which had now been agreed by the PSAA (Public Sector Audit Appointments). He reported that interim work on the audit was in progress and that no issues had been identified. He confirmed that the value for money risk assessment of financial resilience had been undertaken, however work on the Pooling of Capital Receipts claim had not yet been completed.

78.3 Turning to the Sector update, the External Auditor highlighted the PSAA report on the results of auditors' work for 2017/18 which showed that 87% of local authorities received an audit opinion by the new accounts publication date, whilst 7% received a qualified value for money conclusion.

78.4 The External Auditor also drew attention to the National Audit Office local auditor reporting and local authority governance reports along with the Institute of Chartered Accountants in England and Wales (ICEAW) expectations gap report.

**78.5 RESOLVED:**

That the contents of the report be noted.

**79 Third line assurance: External Audit, Audit plan**

79.1 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 Shropshire Council for those charged with governance.

79.2 In response to a query, the External Auditor explained the concept of materiality as Members felt it was extremely high. The External Auditor stated that materiality was set at 2% of the Council's forecast gross expenditure for the year. In relation to IP&E, the External Auditor explained that the accounts for this dormant company were being closed and it was hoped to complete this in the next financial year.

**79.3 RESOLVED:**

That the Audit Plan for Shropshire Council be noted.

**80 Third line assurance: External Audit, Follow up of Recommendations**

80.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – which provided an overview of the post-audit Action Plan for Shropshire Council.

80.2 The External Auditor drew Members' attention to the first three recommendations and management responses, which related to work carried out in the previous financial year. In response to a query in relation to recommendation 6, the Director of Finance, Governance and Assurance (Section 151 Officer) explained that IT literacy tests had been developed along with an E-learning test to identify specific problems with the level of IT literacy in staff and that a lot of resource had been put aside to train staff to levels to use the system and as the system evolved, training would continue.

**80.3 RESOLVED:**

That the contents of the report be noted.

**81 Third line assurance: External Audit, Informing the risk assessment**

81.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – which contributed towards the effective two-way communication between auditors and the Council's Audit Committee, as 'those charged with governance'.

81.2 The External Auditor drew Members' attention to the responses received from the Council's management to the questions raised on those areas where External Audit were required to gain an understanding of management processes and the Audit Committee's oversight of those areas. The Committee confirmed that they were comfortable with the management responses.

**81.3 RESOLVED:**

That the contents of the report be noted.

**82 Date and Time of Next Meeting**

82.1 Members were reminded that the next meeting of the Audit Committee would be held on the 27 June 2019 at 1.30pm.

**83 Exclusion of Press and Public**

**83.1 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.

**84 Exempt Minutes of the previous meeting held on the 6 December 2018 (Exempted by Categories 1, 2, 3, 5 and 7)**

**84.1 RESOLVED:**

That the exempt minutes of the meeting held on 6 December 2018 be approved and signed by the Chairman as a correct record.

**85 Third Line Assurance: Fraud and Special Investigation Update (Exempted by Categories 1, 2, 3, 5 and 7)**

85.1 The Committee received the exempt report of the Principal Auditor – copy attached to the exempt signed Minutes – which provided a brief 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.

**85.2 RESOLVED**

That the contents of the report be noted.

Signed ..... (Chairman)

Date: .....