

**Committee and Date**

Audit Committee

25 February 2020

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 5 DECEMBER 2019**1.30 - 4.25 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

47 Apologies for Absence / Notification of Substitutes

47.1 No apologies were received.

48 Disclosable Pecuniary Interests

48.1 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.

49 Minutes of the previous meeting held on the 12 September 2019**49.1 RESOLVED:**

That the Minutes of the meeting held on 12 September 2019 be approved and signed by the Chairman as a correct record.

50 Public Questions

50. No public questions had been received.

51 First line assurance: Commercial Strategy Update

51.1 The Committee received the report of the Assistant Director Commercial Services – copy attached to the signed Minutes – which gave an update on progress of audit recommendations after the unsatisfactory assurance level received following an internal audit of the Commercial Strategy and plans for 2018/19.

- 51.2 In response to a query, the Assistant Director Commercial Services explained that the 'Hopper' process was an assessment method used to appraise proposals coming forward with potential commercial prospects. He drew attention to the key recommendations identified in the audit report, set out at paragraph 1.3 of the report, along with the actions undertaken to address these recommendations, set out at paragraph 2.1 of the report.
- 51.3 The risk of failure to deliver the Commercial Strategy and of the Council being unable to meet the corporate outcomes was considered quarterly by Directors and the Cabinet. In respect of the lack of investment fund, the Assistant Director Commercial Services informed the Committee that an investment fund of up to £40m had been identified to help deliver additional revenue. Following a review of all proposed projects, three were currently being delivered, three had been approved by Council and others in the pipeline required further appraisal.
- 51.4 The Assistant Director Commercial Services addressed the issue of the revision of the target to deliver a minimum of £5m of new revenue income down to £2m in the revenue budget. He explained that it had been recognised that the Council had not been on course to achieve £5m in this financial year and it had therefore been accepted that £2m would be a more realistic target.
- 51.5 Referring to paragraph 2.1.2 of the report, the Assistant Director Commercial Services gave an example of what had been learnt whilst going through the process of reviewing the Commercial Strategy. An issue had been identified whereby not all the proposals had gone through the Hopper process and where the commercial opportunities had not been considered.
- 51.6 Concern was expressed about the financial return expected to be achieved when funding of £40m had been identified to achieve £2m of additional income. In response, the Assistant Director Commercial Services pointed out that this was a 5% return and that currently property yields in Shropshire were around 6-7%. 20% had been an ambition but had not been achieved. He reported that work was currently being undertaken to demonstrate how the savings target of £2m as set out in the Financial Strategy would be achieved.
- 51.7 The Head of Commercial Services updated the Committee in relation to the latest position with regard to the review of the Commercial Strategy and the recruitment of additional staff to the team. She explained that other strategic objectives were also considered along with income however all projects must demonstrate that they will generate more money than they cost. She confirmed that a more robust development appraisal procedure was currently being written.
- 51.8 In terms of recruitment, the Head of Commercial Services informed the Committee that a Performance Manager was currently being sought along with crucial finance posts. Job Descriptions and Person Specifications were currently with HR and would be released the following week.
- 51.9 The Assistant Director Commercial Services and the Head of Commercial Services answered a number of further queries from Members of the Committee. The Assistant Director Commercial Services explained that more work was being done with Managers to ensure they think more commercially and consider commercial opportunities before taking decisions on restructuring/staffing.

51.10 In response to a query the Director of Finance, Governance and Assurance (Section 151 Officer) explained that in relation to commercial returns, as costs go up, returns come down. There was an element of risk that things could change, for example the durability of income into the future (eg not one-off but ongoing income) that may have to be mitigated against but each project was assessed to see whether it stacked up. He went on to say that the Council would not always need to borrow money when it had cash balances. If returns were above 10% but there was a risk that a particular project was not viable, this would not be an issue however, at this time, there was an expectation of delivery, but if it did not stack up, the project would not go ahead.

51.11 The Director of Finance, Governance and Assurance (Section 151 Officer) explained that the Financial Strategy had made an assumption of £2m over 4 years being generated from a £20m investment with the cost of borrowing being factored in. The Financial Strategy has since been updated and this £2m removed and replaced by £2m from the Council's property company.

51.12 RESOLVED:

That the contents of the report be noted.

52 First line assurance: Children's Direct Payments Update

52.1 It was confirmed that this item had been deferred to the next meeting of the Audit Committee scheduled to take place on Tuesday 25 February 2020.

53 Second line assurance: Treasury Strategy Mid-Year Report 2019/20

53.1 The Committee received the report of the Head of Finance, Assurance and Governance (Section 151 Officer) – copy attached to the signed Minutes – which provided an economic update for the first six months of 2019/20; including a review of the Treasury Strategy; Annual Investment Strategy, the Council's investment portfolio; the Council's borrowing strategy; any debt rescheduling undertaken and compliance with Treasury and Prudential limits all for 2019/20.

53.2 In response to a query, the Director of Finance, Governance and Assurance (Section 151 Officer) explained that the Council lent money (cash) to other Local Authorities for a return over time. Further to a comment that the interest rate appeared higher than normal, the Director of Finance, Governance and Assurance (Section 151 Officer) explained that the increase in the rate was due to the impact of Bank base rate changes. It was unclear whether the increase would continue and was partly dependent on the outcome of Brexit.

53.3 RESOLVED:

- A. That the position as set out in the report be noted.
- B. To note that any changes required to the Treasury Strategy including the Annual Investment Strategy or prudential and treasury indicators as a result of decisions made by the Capital Investment Board will be reported to Council for approval.

54 Second line assurance: Annual review of Counter Fraud, Bribery and Anti-Corruption Strategy and activities, including an update on the National Fraud Initiative

54.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which outlined the measures undertaken to evaluate the potential for the occurrence of fraud, and how the Council managed these risks with the aim of prevention, detection and subsequent reporting of fraud, bribery and corruption. It also provided an update on the action plan to ensure continuous improvement and provided an update to Members in response to national and local issues.

54.2 The Head of Audit drew attention to paragraph 6.18 of her report, which set out the results of the 2018/19 data matching exercise. The Committee were very satisfied with how efficient the Council were in deterring people who might otherwise commit fraud and felt this should be publicised more widely to create a further deterrent. In response, the Head of Audit explained that there was a Communications Plan in place and that internal controls were indeed robust however further resources would be required if more were to be done.

54.3 In response to concerns around the protection against unfair treatment of whistleblowers, especially in relation to contractors, the Head of Audit confirmed that a whistleblowing contractor would be covered by this protection as a non-employee in the same way as a member of the public.

54.4 In response to a further query, the Head of Audit reported that only those cases where there was enough evidence and a sound business case for doing so would be prosecuted. She agreed to verify how many cases had been prosecuted and would get back to the Committee outside of the meeting.

54.5 RESOLVED:

That the Counter Fraud, Bribery and Anti-Corruption Strategy be endorsed and that the measures undertaken and detailed in the report to monitor systems to manage associated risks with the aim of prevention, detection and subsequent reporting of fraud, bribery and corruption be noted.

55 Governance Assurance: Annual review of Audit Committee Terms of Reference

55.1 The Committee received the report of the Director of Finance, Governance and Assurance (S151 Officer) – copy attached to the signed Minutes – which set out the Audit Committee Terms of Reference, attached at Appendix A. A revision to the Terms of reference was tabled, as follows:

‘Appendix A

Section 1, Membership proposed revision:

Membership

1. The Audit Committee must remain apolitical. It must display unbiased attitudes, treating auditors, the executive and management equally. It can also challenge

the Leader and the Head of Paid Service when required. The Audit Committee will comprise:

- a) Five Members in accordance with the political balance rules ~~being three Conservative, one Labour and one Liberal Democrat~~ **being three Conservative, one Labour and one Liberal Democrat** who may be represented by designated substitutes in their absence. Any designated substitute must be appropriately trained. None of the Members should be Members of the Executive, Scrutiny Chairs or Vice Chairs.
- b) Normally the Section 151 Officer and the Head of Audit will attend every meeting. Should the Section 151 Officer feel there is an item on the agenda which would benefit from the Leader's presence, or the presence of a Portfolio Holder, the Chairman of the Audit Committee would be informed and he could invite the Leader or Portfolio Holder to attend.'

55.2 The following further amendment was also agreed:

- 'a) Five Members in accordance with the current political balance rules ~~being three Conservative, one Labour and one Liberal Democrat~~ **being three Conservative, one Labour and one Liberal Democrat**'

55.3 **RESOLVED:**

That the Audit Committee Terms of Reference be endorsed, subject to the above amendments.

56 **Governance Assurance: Annual Audit Committee Self-Assessment**

- 56.1 The Committee received the report of the Director of Finance, Governance and Assurance (S151 Officer) – copy attached to the signed Minutes – which requested Members to review and comment on the self-assessment of good practice questionnaire which allowed them to assess the effectiveness of the Audit Committee and to identify whether there were any further improvements that could be made which would improve the Committee's overall effectiveness.
- 56.2 The Director of Finance, Governance and Assurance (S151 Officer) confirmed that high levels of compliance had been identified along with four areas of partial compliance, as set out on page 82. Concern was raised in relation to question 4 ('Is the role and purpose of the audit committee understood and accepted across the authority?') and whether this should be partial compliance as it was felt some of the Members, especially the newer ones, did not understand the role and purpose of the Audit Committee. It was suggested that a briefing on the role of Audit Committee be included as part of Councillors Induction training.
- 56.3 The Head of Audit drew attention to page 92 which set out the evidence to back up the assertion of compliance/partial compliance. The Director of Finance, Governance and Assurance (S151 Officer) explained that this question was a challenge back to the Committee in that if they did not feel that they were compliant in this area, what could be done to ensure compliance.
- 56.4 Concern was also raised in relation to question 5 ('Does the audit committee provide support to the authority in meeting the requirements of good governance?') as it was felt that the audit committee did indeed provide this support.

56.5 RESOLVED:

- A. That the self-assessment of good practice attached at Appendix A be endorsed, subject to the above.
- B. That the analysis of training requirements attached at Appendix B be endorsed.
- C. That the action plan be reviewed and revised to improve areas of weakness.

57 Exclusion of Press and Public

57.1 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.

58 Exempt minutes (Exempted by Categories 2, 3 and 7)

58.1 RESOLVED:

That the exempt minutes of the meeting held on 12 September 2019 be approved and signed by the Chairman as a correct record.

59 First line assurance: Theatre Severn update (Exempted by Categories 1, 2 and 3)

59.1 Members received the exempt report of the Interim Head of Culture and Heritage - copy attached to the exempt signed minutes- which gave an update on progress on audit recommendations for Theatre Severn

59.2 RESOLVED:

That the contents of the report be noted.

60 Third line assurance: Highways Term Maintenance Contract Kier 2019/20 (Exempted by Category 5)

60.1 The Committee received the exempt report of the Head of Audit – copy attached to the exempt signed Minutes – which updated Members with the key findings following a review of the Term Maintenance Contract with Kier and actions that management were taking.

60.2 RESOLVED:

That the contents of the report be noted.

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

61.1 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.

61.2 RESOLVED

That the contents of the report be noted.

The following items were considered in public session.

62 Third line assurance: Internal Audit Charter

62.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which proposed only one change being the introduction, for clarity and completeness, of the Overall Assurance Opinion set out in Annex A.

62.2 RESOLVED:

That the Internal Audit Charter be endorsed.

63 Third line assurance: Internal Audit performance report and revised Annual Audit Plan 2019/20

63.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which provided Members with an update of the work undertaken by Internal Audit in the three months since the previous Audit Committee.

63.2 The Head of Audit informed the meeting that the team were on target to achieve 90% delivery by year end. She drew attention to the audit recommendations and the decrease in the higher levels of assurance along with a corresponding increase in unsatisfactory assurances, set out in paragraph 5.9 of the report.

63.3 In response to a query, the Head of Audit explained that it was too early to say whether the reviews to be undertaken in the final quarter would reveal a risk to the internal control environment, but she confirmed that it was a risk to the direction of travel.

63.4 The Principal Auditor responded to a query in relation to the Dog Warden service for which a fundamental recommendation had been made.

63.5 The Head of Audit drew attention to the Limited and Unsatisfactory assurance opinions set out in Table 3 of Appendix A and reminded Members that they could request that a particular Manager(s) be invited to attend a future meeting of the Audit Committee to give an update and provide assurance.

63.6 RESOLVED:

- a) That performance to date against the 2019/20 Audit Plan as set out in the report be noted;
- b) That the adjustments required to the 2019/20 plan to take account of changing priorities, as set out in Appendix B of the report, be endorsed.

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

64.1 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 together with a summary of emerging national issues and developments which may be of relevance to the Council.

64.2 The Engagement Manager drew attention to the progress to date. She confirmed that they were currently finalising the Teachers’ Pension claim for the 2018/19 accounts and that discussions were ongoing with Management in relation to the additional fee relating to additional work undertaken in 2018/19.

64.3 The Engagement Manager then highlighted the risk to the Council’s Value for Money Conclusion and explained that a detailed risk assessment would be undertaken following discussions with the Chief Executive and the Chief Financial Officer.

64.4 RESOLVED:

That the contents of the report be noted.

65 Date and Time of Next Meeting

65.1 Members were reminded that the next meeting of the Audit Committee would be held on Tuesday 25 February 2020 at 1.30pm.

Signed (Chairman)

Date: