

**Committee and Date**

Audit Committee

23 November 2023

**MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 28 SEPTEMBER 2023
10.00 AM – 12.40 PM****Responsible Officer:** Michelle Dulson

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Present

Councillor Brian Williams (Chairman)

Councillors Nigel Lumby, Roger Evans and Rosemary Dartnall

Independent Member: Jim Arnold

31 Apologies for Absence / Notification of Substitutes

An apology was received from Councillor Simon Harris (Vice-Chairman).

32 Disclosable Pecuniary Interests

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.

33 Minutes of the previous meeting held on the 20 July 2023

The Internal Audit Manager updated the Committee in relation to recruitment to the internal audit team. Unfortunately, they had been unsuccessful in the last round of recruitment but would look to advertise again. An update was provided in her Internal Audit Performance report later on in the Agenda.

RESOLVED:

That the Minutes of the meeting of the Audit Committee held on the 20 July 2023 be approved as a true record and signed by the Chairman.

34 Public Questions

There were no questions from members of the public.

35 Member Questions

A question was received from Councillor David Vasmer. Councillor Vasmer attended the meeting remotely to ask his question and the Executive Director of Resources (Section 151 Officer) read the response.

In response, and by way of a supplementary question Councillor Vasmer stressed the urgency of this very serious matter. The Chairman agreed and assured him that officers would make available as much information as was available for the November meeting of the Audit Committee.

A full copy of the question and response provided are attached to the web page for the meeting and also attached to the signed minutes.

36 First line assurance: Freedom of Information (FOI) Management Update

The Committee received the report of the Assistant Director Legal and Governance - copy attached to the signed Minutes – which summarised the Council's compliance with the Freedom of Information Act 2000 (FOIA) and set out the actions taken since the Information Commissioner (ICO) issued an enforcement notice to the Council in April 2023.

The Assistant Director Legal and Governance introduced and expanded on the report. He gave some context to the report and the background to the reason for the enforcement notice being issued. He reported that a number of improvements had been made, as set out in the report and that the development of a dashboard, which was made available to all Executive Directors on a weekly basis, had been extremely helpful, along with the Information Governance, Leadership and Oversight Group which ensured the Directors were aware of the need to prioritise FOI requests or face very serious consequences including the Council being held in contempt of court.

He drew attention to the Action Plan (Appendix A to the report) which had generated quite significant improvements and although there was still work to be done the Council was on an upward trajectory, as set out in paragraph 2.4. He reported that when they had met with the Information Commissioner the previous month, he had been very pleased with their progress, and it was a more positive and constructive interaction than previous meetings.

The Assistant Director Legal and Governance informed Members that the Information Commissioner had been given access to the dashboard so they could see how the Council was doing on a day-to-day basis and that he had welcomed that transparency. The Assistant Director Legal and Governance felt that provided they continued with this upward trajectory that the enforcement notice would be withdrawn. Due to the work of the Head of Policy and Governance backed up by the Information Governance Team Leader there was now a much sharper focus on the issue and a better understanding amongst Directorates and another new appointee was due to start in the next couple of months which would strengthen the team.

The Head of Policy and Governance explained the next steps and that the enforcement notice ran until the 26 October, so they had until then to comply and although well on the way to achieving that, there was more room for improvement. At the end of the 6-month period the Council would have to prepare a written response to the ICO to demonstrate how the Council had complied with the enforcement notice. Members requested sight of that response to the ICO enforcement notice along with an update at the next meeting. It was agreed to circulate the response to Committee Members once it had been sent, outside of the meeting if not available for the November meeting.

In response to a query about the red and amber actions and how many requests for extra time were received, the Head of Policy and Governance explained that the Action Plan was developed back in April when the enforcement notice was first received, and it was a part of the enforcement notice that the Council was required to do this. He confirmed that the red actions were still outstanding however there was work ongoing to develop the training materials in relation to that and it was envisaged that that would be done within the next couple of months, however, due to the resources within the team their focus over the summer months had been to clear the backlog of the overdue requests and to improve the processes within the Council in order to comply with the legislation had been the paramount focus and although training formed part of that, it was important to get it right which took a little bit of time but it was a 'work in progress'.

Members felt that the FOI legislation was a fundamental right and a very important cornerstone of democracy, so it was important for the Council to be as transparent as possible. In response to a query about the time it took to clear the backlog of cases not responded to within the 20 days, the Head of Policy and Governance explained that they were all cleared by June 2023 apart from a very small number from prior to 2022. He agreed to include the average number of days taken to complete each request in the November update. He went on to explain the process for notifying members of the public if their FOI request would not be responded to within 20 days, due to some complexity or exemptions to the release of information, for example. Although this had always been a part of the procedure, the Head of Policy and Governance confirmed that prior to 2022 the Council had not necessarily complied with that element of the legislation, however, from April 2023, steps had been taken to address those points.

Concern was raised that FOI requests were seen as an avoidable burden rather than being accepted as being something that was set out in law that allowed for open democracy. Further concern was raised about the reputational damage to the Council. In response to a query about whether the audit team had ever audited FOI in the past and whether they were now planning to do so, the Head of Policy and Governance reported that the Council's information governance arrangements had been audited previously, which would have included FOI responses, and which would have been reported to the Audit Committee. The Internal Audit Manager informed the meeting that the last audit undertaken specifically for FOI had been in 2018/19 when it had received a limited assurance rating. Further audits on information governance had been undertaken and she agreed to circulate this information outside of the meeting.

Finally, the Executive Director of Resources (Section 1151 Officer) explained that in the past there had been a centralised FOI team however a decision had been taken to devolve this function and it became the responsibility of each individual team however, over time, performance dropped away and although consistent with what the legislation said, deadlines were not being met. When the Resources Directorate was set up, a new post of Head of Policy and Governance was created and which would have control of and responsibility for the Information Governance Team with a view to centralising that function in order to deal with all the issues that had arisen. However, before that could happen, the ICO issued its enforcement notice which had to be complied with so the centralisation of the service was put on hold whilst the current devolved arrangements were strengthened to adhere to the requirements of the enforcement notice.

He assured the Committee that there had never been any resistance to transparency in relation to FOI requests, it was simply around prioritisation, and he confirmed that no short cuts had been taken and that the information that had been given was the best information that the Council was able to provide. All FOI requests were investigated and signed off at a senior level before they were responded to. The Executive Director of Resources (Section 151 Officer) made it clear that the fundamental issue had been that time scales had been allowed to slip and nothing else. He reminded Members that this issue was discussed at Audit Committee on 20 June 2023, as reflected in the Minutes, which was the reason for the request for a progress report to come to this meeting.

RESOLVED:

To endorse the Council's response to the ICO enforcement notice and to receive a further update on progress at the November meeting of the Audit Committee.

37 Governance assurance: AGS Action Plan 2023/24 Update

The Committee received the report of the Executive Director of Resources (Section 151 Officer) - copy attached to the signed Minutes – which provided an update on the agreed action plan as at September 2023.

The Executive Director of Resources (Section 151 Officer) introduced and amplified the report. He explained that the 2021/22 and 2022/23 action plans had been pulled together into one document, appended to the report, and that the latest position as at end of August had been provided by either the senior manager, the Executive Director or the CEO as indicated and should provide the Committee with some assurance.

In relation to reducing the risk of cyber attacks (item 4 of the Action Plan), concern was raised that only 51% of employees had undertaken their data protection training. The Chairman commented that there were also seven members who had not completed their cyber security training and he stated that it was up to Group Leaders to ensure their members had completed this mandatory training and indeed, he would be raising this with his group leader.

In response, the Executive Director of Resources (Section 151 Officer) explained that it was a constant battle, but that the numbers were analysed and measured separately for both officers and members. A paper had been passed by Full Council and a revised process was being drawn up. The Head of Technology and Automation had given him an update the previous day. They were looking to introduce a process whereby if an employee or a member failed to undertake the training and after the various automatic chasing emails were sent, their laptops would be locked and only by telephoning into the IT helpdesk would they be unlocked to allow them to undertake the training. There were a few issues still to be ironed out however before this was rolled out. It was important to remember however, even with all the training being undertaken people could still make mistakes and even a very small error in cyber security, for example, could be catastrophic so it was important to try to get as many people trained as possible to help reduce the risk.

In response to a query in relation to item 3 of the action plan around the Council's ability to fund children's services, it was agreed to request that the relevant Scrutiny Committee investigate why the Supporting Families claims target had not been met leading to Shropshire missing out on funding through payment by results.

In relation to concerns around the number of staff not having completed their cyber security training, the Executive Director of Resources (Section 151 Officer) explained that it was a complicated equation, and he explained the reason for setting the target at 95% was due to a number of factors that could not be controlled in terms of turnover etc. However, when looking at staff numbers there would be some staff who have just started and not yet done their training, there will be people who were about to leave, there were also staff who may only access IT once a month so don't have regular access to the IT systems but were still on the list etc.

He went on to explain that when this had been looked at the previous year, they had a real push across the organisation and spent a lot of time and effort routing out all of those individuals who had not done the training, and it was several hundred, and the IT Business Managers were telephoning people and helping them complete the training to get it done which was incredibly resource intensive and could not be sustained and the level of compliance dropped back down into the mid-80% level. A process was therefore required that was sustainable and not as resource intensive and was built more around the technological processes to keep the percentages high.

A query was raised about the August 2023 budget performance dashboard which showed a deficit of £35m. Members had received assurance at quarter 1 that the Council was on track however there was a predicted £23m overspend within the People Directorate, £7.9 within Place and £3.4m in Resources. In response the Executive Director of Resources (Section 151 Officer) referred Members to the Cabinet meeting of 6 September where, in section 2.8 of the quarter one monitoring report, it was made very clear that the 'Business as Usual' forecast before any planned mitigations (do nothing) the figure was £37.6m this had now become £36.2m by the end of August. What was not shown on the dashboard but was shown within the quarter one report, was that further savings of £11.9m and the demand mitigation figure of £20.5m which led to a planned operating overspend of £5.2m. The information was therefore absolutely consistent with the information that had been provided to members and in terms of the breakdown of that overspend, quarter one gave a very detailed breakdown of all of the overspends in each of the individual teams and service areas, which, in total, came to £37.6m at that point in time.

In response to a query, the Head of Technology and Automation joined the meeting and provided an update in relation to Cyber Security. In response to concerns around the non-compliance of members and staff to complete their cyber security training and what could be done to encourage them to complete it, the Head of Technology and Automation agreed that it was a challenge and that unless there was a concerted effort people did not keep cyber security training at the forefront of their mind so the problem was around how to change that cultural issue.

In response to comments around turning off laptops, he felt that although that would help, it was very much a 'stick' type solution whereas a 'carrot' type solution was needed. So although they could turn off accounts automatically, the problem then became around business processes and once locked out, how do we get them back

in to enable them to do the training. Also, they may have other urgent work to do that they couldn't undertake if their laptop was turned off. There were a few issues that they were trying to work through at the moment in order to address this. It was unclear however whether the threat of having their laptop turned off and having to ring through to log back on would make people do the training.

An example of a 'carrot' type solution could be when people spot phishing emails, they could get an email saying congratulations for not clicking on the link however the current software did not allow this. When it came to cyber security, staff were not the weakest link but were in fact the last line of defence and could make a difference between an organisation being secure or not. He discussed the various reasons why some members of staff may not be completing their training and how they could be helped/guided through. It may be necessary to try different approaches and see what works. The compliance rate would never be 100% and the Council were currently around 85% compliant which was slightly down from the previous year.

A suggestion was made that an announcement be made at a Full Council meeting reminding Members to complete their cyber security/data protection training and suggesting that they complete it after the meeting whilst in the Shirehall so that IT assistance could be requested if necessary. It was agreed to raise this at the group leaders meeting.

Turning to the fundamental recommendations around performance set out in the Performance report (IT Contract Management and Disposal of IT equipment), the Head of Technology and Automation reported that the first (IT Contract Management) had been completed and they had gone further and were now meeting on a more frequent basis to discuss internal contracts so they have a spreadsheet of all the contract information so there were no surprises in relation to which contracts were coming to an end etc.

In relation to the Disposal of IT equipment, he confirmed that there was now a contract in place for the formal disposal of IT equipment that ran for two years following which a new Contract would be procured.

RESOLVED:

To note the actions identified in the Annual Governance Statement Action Plan update at Appendix A.

To request that the relevant Scrutiny Committee investigate why the Supporting Families claims target had not been met leading to Shropshire missing out on funding through payment by results.

38 Third line assurance: Internal Audit Performance Report and revised Annual Audit Plan 2023/24

The Committee received the report of the Head of Policy and Governance - copy attached to the signed Minutes – which provided members with an update of the

work undertaken by Internal Audit in the first four and half months of the approved internal audit plan for 2023/24.

The Head of Policy and Governance explained that significant revisions were being proposed to the plan, as set out in the report, resulting in a reduction of 510 days due to a reduction in available resources. The revisions were however targeted to provide enough cover to inform a year end opinion.

The Head of Policy and Governance reported that 31 final reports had been issued in the previous quarter containing 182 recommendations (detailed at paragraph 8.8 of the report). He confirmed that given the limited data available no strong patterns of lower levels of assurance were emerging.

The Head of Policy and Governance informed the meeting that as at 3rd September 2023, 20 reports had been issued providing good or reasonable assurances (64%) which represented a slight increase in the higher levels of assurance than the previous year (62%), offset by a corresponding decrease in the number of limited and unsatisfactory assurance levels (36%) (38% last year). There were also 10 reports awaiting management responses which would be included in the next performance report. He then drew attention to two fundamental recommendations that had been identified in relation to IT Contract Management and the Disposal of IT equipment (set out in paragraph 8.14 of the report).

The Head of Technology and Automation updated Members in relation to the two fundamental recommendations. He reported that the first (IT Contract Management) had been completed and they had gone further and were now meeting on a more frequent basis to discuss internal contracts so they have a spreadsheet of all the contract information so there were no surprises in relation to which contracts were coming to an end etc.

In relation to the Disposal of IT equipment, he confirmed that there was now a contract in place for the formal disposal of IT equipment that ran for two years following which a new Contract would be procured.

In response to a query around the lack of resources within the Internal Audit team, the Head of Policy and Governance confirmed that internal audit had to comply with the Public Sector Internal Audit Standards (PSIAS) and as such had to provide an internal audit service that covered the right areas in order for them to deliver a year end opinion on the internal control environment hence why they had had to adjust the resources so that they could actually deliver that opinion. Members expressed concern that the actual number of available hours was declining. In response, the Head of Policy and Governance stated that it was a concern due to recent staff turnover being higher followed by an unsuccessful recruitment exercise however this was a national issue and was also being experienced by External Audit.

It was queried whether a self-assessment process could be introduced whereby each department complete their own audits with Internal Audit providing verification that they were being done. In response, the Internal Audit Manager confirmed that self-assessments were used for school audits, for example, but it was difficult to get the evidence to back it up so significant resources were still required to verify the information.

In response to a query around why certain seemingly minor audits were being audited when very short of staff, the Internal Audit Manager explained that although not significant in terms of strategic risks they had to take into account both the strategic risk environment and the available resources within the team and allocate work according to the skills within the team, for example they had a number of trainee auditors so they had to adjust the type of audits undertaken by them however they were excellent for training purposes and they did provide an insight into the activity of the organisation and whilst small in value, gave a feel for how staff were controlling the finances and how they might be dealing with income so gave a flavour of what was going on in the wider organisation.

In response to concerns around the Blue Badge Scheme, Members requested a management update for the next meeting.

A brief discussion ensued in relation to the reduction in resources within the internal audit team and how the Council could attract and retain auditors in order to fill vacant posts. The Head of Policy and Governance explained that it was an issue within the market that it was very difficult to recruit but they were looking at other ways in which to fill that resources gap and it was confirmed that the establishment within the audit team had not been reduced. In response to comments, the Executive Director of Resources (Section 151 Officer) explained that there were a number of options open to the Council in terms of recruitment but that the rates of pay were in line with other local authorities. There were opportunities to pay market supplements if deemed necessary and work was currently being undertaken around the 'shop window' by demonstrating why Shropshire is a good place to work and with an open policy around agile working could recruit from across the country.

RESOLVED:

To endorse the performance of Internal Audit against the 2023/24 Audit Plan.

To request a management update for the next meeting in relation to the Blue Badge Scheme.

39 Second line assurance: Approval of the Council's Statement of Accounts 2021/22

The Committee received the report of the Executive Director of Resources (Section 151 Officer) - copy attached to the signed Minutes – which provided the final approval of the Statement of Accounts for 2021/22, detailing the final amendments to the Draft Statement of Accounts during the audit process.

The Executive Director of Resources (Section 151 Officer) informed the Committee of the standard process for signing off the Council's accounts by 31st July. However, since 2021 there had been a number of issues nationally that had delayed the accounts being signed off. He confirmed that they had only very recently got the 2020/21 accounts signed off and the 2021/22 and 2022/23 accounts were still to be signed off.

The Executive Director of Resources (Section 151 Officer) explained that the full set of accounts had not been appended to the report because it would have meant an

extra 200+ pages each time it came to Committee, and he drew attention to the timeline set out in Paragraph 2.1 of the report which demonstrated the various issues leading to the delays. He informed the meeting that the 2021/22 accounts were almost complete with just a few pieces of information being finalised but there were no major or substantive changes outside of those already indicated. It was hoped to sign off the accounts within the next two weeks and a further report would be presented to the November Audit Committee meeting.

In response to a query, the Executive Director of Resources (Section 151 Officer) explained that in relation to the Reinforced Autoclaved Aerated Concrete (RAAC) issue, his understanding was that an assessment had been undertaken which indicated that no Shropshire Schools were impacted, and the only Council building was Whitchurch Civic Centre. A full assessment would take 8-10 weeks so the plan was that because they had sufficient evidence that this was not an issue it could be identified as a contingent liability within the accounts and providing Grant Thornton were comfortable with that statement, that would allow the accounts to be signed off.

The External Auditor confirmed that he was happy with the suggested way forward but draw the Committee's attention to another national issue that was emerging in relation to equal pay however there were no issues or concerns for Shropshire Council around this but a disclosure letter may be required. He hoped to issue his opinion on the 2021/22 accounts ahead of the next Audit Committee meeting.

RESOLVED:

To approve the amendments made to the 2021/22 Statement of Accounts as a result of the triennial pension valuation.

To note that the audit opinion on the 2021/22 Statement of Accounts would be delayed until the Council could state the potential impact that RAAC (Reinforced Autoclaved Aerated Concrete) would have on the Council's asset base.

40 Second line assurance: Approval of the Council's Statement of Accounts 2022/23

The Committee received the report of the Executive Director of Resources (Section 151 Officer) - copy attached to the signed Minutes – which set out the Statement of Accounts for 2022/23, detailing any amendments made to the Draft Statement of Accounts during the audit process, and progress of the audit of the accounts.

The Executive Director of Resources (Section 151 Officer) drew attention to the timeline set out in paragraph 2.2 of the report. It had been hoped to complete the external audit by 30 September for sign off today however it was now hoped to be in a position to sign off the accounts and for the audit opinion to be issued by the November meeting of the Audit Committee. The adjustments that had been made following the audit work to date were as set out in the report.

In response to a further query in relation to RAAC, the Executive Director of Resources (Section 151 Officer) confirmed that the review was of all the assets owned by the authority, not just schools.

RESOLVED:

To note the amendments currently proposed to the 2022/23 Statement of Accounts and that due to the audit not being completed by the statutory deadline, the approval of the audited Statement of Accounts would be deferred until the November Audit Committee.

41 Third line of assurance: External Audit: Shropshire Council Audit Plan 2022/23

The Committee received the report of the Engagement Lead - 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.

The Audit Manager introduced the report and took Members through the plan. She reported that they were well progressed with the plan and that work was ongoing with the Council's finance team. She drew attention to the key areas of the report which was where they focussed most of their time and which were around those significant risk areas including the presumed risk of fraud in revenue and expenditure recognition and management override of controls (pages 7 and 8 of the report). Although a lot of work was undertaken around these two areas, they have not been identified as significant risks.

Turning to pages 8 and 9 of the report, which looked at the Council's other significant risks of valuation of land and buildings and the net Pension Fund liabilities, which, although consistent with previous years, the Audit Manager highlighted that a detailed risk assessment had been undertaken of the Council's asset portfolio which fell into three categories, other land and buildings, Council dwellings and investment property. Following that assessment, it was felt that Council dwellings were not a significant risk however further work around investment properties had revealed that there had been some movement outside of expectations so that would be moved into the significant risk category.

The Audit Manager drew attention to the other risks identified, set out on page 11 of the report and which took quite a significant amount of audit time, around the completeness of expenditure and cash balances. She went on to discuss the Council's group audit arrangements, their other responsibilities under the Code of Audit Practice and their approach to materiality.

Turning to Value for Money, two risks of significant weaknesses had been identified around financial sustainability and the inadequate rating issued by Ofsted in respect of children in care. In accordance with National Audit Office guidance, a joint report for 2021/22 and 2022/23 had been produced and would be shared over the next few weeks.

The Audit Manager confirmed that the audit was progressing but there had been a slight delay around their IT work on journals however that was back on track and they intended to bring a draft AFR and draft opinion to the November meeting. Finally, she drew attention to the audit fees, set out on pages 22 and 23 of the report, and the other work that they undertake for the Council.

RESOLVED:

To note the contents of the report.

42 Third Line Assurance: External Audit: Informing the Audit Risk Assessment 2022/23

The Committee received the report of the Engagement Lead - copy attached to the signed Minutes – which contributed towards effective two-way communication between Shropshire Council's external auditors and Shropshire Council's Audit Committee, as those charged with governance. It covered some important areas of the auditor risk assessment where they were required to make inquiries of the Audit Committee under auditing standards.

RESOLVED:

To note the contents of the report.

43 Date and Time of Next Meeting

The next meeting of the Audit Committee would be held on the 23 November 2023 at 10.00am.

44 Exclusion of Press and Public

RESOLVED:

That in accordance with the provision of Schedule 12A of the Local Government Act 1972, Section 5 of the Local Authorities (Executive Arrangements)(Meetings and Access to Information)(England) Regulations and Paragraphs 2, 3 and 7 of the Council's Access to Information Rules, the public and press be excluded during consideration of the following items.

45 Exempt minutes of the previous meeting held on the 20 July 2023

RESOLVED:

That the Exempt Minutes of the meeting of the Audit Committee held on the 20 July 2023 be approved as a true record and signed by the Chairman.

46 Third line of assurance: External Audit Accounts Objection update

The Committee received the exempt report of the Engagement Lead – copy attached to the signed Exempt Minutes – which provided the Committee with a summary of the statutory position in respect of inspection and objections rights and the findings from the work related to one eligible objection.

RESOLVED: To note the contents of the report.

47 Internal Audit: Fraud, Special Investigation and RIPA Update (Exempted by Categories 1, 2, 3 and 7)

The Committee received the report of the Internal Audit Manager - copy attached to the signed Exempt 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.

RESOLVED: To note the contents of the report.

Signed (Chairman)

Date: