



<u>Committee and Date</u>
Audit Committee
20 December 2024

## **MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 28 NOVEMBER 2024 10.00 AM - 12.55 PM**

**Responsible Officer:** Michelle Dulson

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### **Present**

Councillor Brian Williams (Chairman)

Councillors Simon Harris (Vice Chairman), Nigel Lumby, Roger Evans and Kate Halliday

Independent Member: Jim Arnold

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

None received.

### **54 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.

### **55 Minutes of the previous meeting held on the 27 September 2024**

#### **RESOLVED:**

That the Minutes of the meeting of the Audit Committee held on the 27 September 2024 be approved as a true record and signed by the Chairman.

### **56 Public Questions**

A public question had been received from Mr Frank Oldaker in relation to the North West Relief Road. The Head of Policy and Governance read out the question and the Executive Director of Resources (Section 151 Officer) read out the response.

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

### **57 Member Questions**

There were no questions from Members.

### **58 Bishops Castle Community College Management Update**

The Committee received the report of the Headteacher of Bishops Castle Community College which outlined the actions taken by school leaders and the monitoring by Council Officers.

The Chairman expressed the concerns of the Audit Committee about the time it had taken the college to comply with the requirements of the audit as it had been going on for almost a year and he hoped that the Headteacher was in a position to assure the Committee that the situation had been resolved to its satisfaction.

The Headteacher (Mr Thorley) introduced and amplified his report. He drew attention to the Action Plan and management responses to each item and he confirmed that progress was reported back to the Governors on a regular basis. He explained that there were some items still to be addressed including the fundamental recommendation that 'a full review be completed of the financial management of the College by an independent body'. He stated that they had so far been unsuccessful in commissioning an independent body to carry out the review despite approaching a number of bodies and it was proving difficult to ensure cost effectiveness.

In response to a query, Mr Thorley confirmed that 'school leaders' referred to himself as headteacher, the Business Manager who was responsible for implementing the Action Plan and the Resources and Personnel Committee who oversaw the action plan and held them accountable for it. Members felt that one of the problems could be that there needed to be one leader who took responsibility, rather than generic 'leaders'.

A brief discussion ensued around the failure to find an auditor for the accounts. In response, Mr Thorley explained that they had tried 8 different organisations including the local authority, but they either did not have the capacity, or the cost was felt not to be an effective use of funds. The Committee felt that they did not have a choice but to have their accounts audited whether cost effective or not.

In response to a query, Mr Thorley assured the Committee that the Governors had had oversight of the issues which had occurred over a number of years and he addressed the issue of the College's historic deficit which was being paid back over a number of years, as agreed with the local authority and he informed the committee of the steps that had been taken to reduce the deficit including reducing staff and the curriculum offer.

Members congratulated the College on its 'good' Ofsted result but were concerned that if the College converted to an academy that the local authority would pick up the deficit. Mr Thorley clarified that the local authority would only pick up the deficit if the College was forced to academise because it was in special measures, but if it became an academy of its own accord, it would take the deficit with it. Having looked into the possibility, they were unable to become an academy as the Trust did not want the deficit.

**RESOLVED:**

To note that school leaders had formed an appropriate action plan and were taking the necessary actions to remedy the audit report;

To note that monitoring oversight was maintained by the Governing Body, plus termly updates to Council Officers via the Head of Education Quality and Safeguarding.

That the audit of the accounts should be completed by the end of the academic year and reported back to the Committee.

To write to the Education department of the Local Authority asking them to give Bishops Castle Community College every possible support.

#### **59 Customer Journey Project Management Update**

The Chairman informed the meeting that this report was being deferred to the additional meeting in December.

#### **60 Second line assurance: Treasury Strategy Mid-Year Report 2024/25**

The Committee received the report of the Executive Director of Resources (Section 151 Officer) which provided Members with an economic update for the first six months of 2024/25, along with reviews of the Treasury Strategy 2024/25 and Annual Investment Strategy, the Council's investment portfolio for 2024/25, the Council's borrowing strategy for 2024/25, any debt rescheduling taken and confirmed compliance with Treasury and Prudential limits for 2024/25, as agreed by Full Council.

The Executive Director of Resources (Section 151 Officer) introduced and amplified his report. He informed the Committee that in terms of relative performance, there was £22m held in investments and £311m held in borrowing, which was not a high level of borrowing and had been coming down over the last few years as borrowing was paid off as it matured and had not been replaced. In addition, when borrowing had been required for the capital programme, they had internally borrowed, and he explained the reasons for doing so. This had however led to those cash balances being significantly lower than 2-3 years ago and so they would be looking to undertake external borrowing (in the order of £100m) over the remainder of this financial year, which was in line with the Treasury Strategy and Prudential Indicators, and not as a result of the Council's financial position.

In response to a query, the Executive Director of Resources (Section 151 Officer) reiterated that the borrowing being undertaken was to externalise existing borrowing that had been undertaken internally based on the capital programme approved by Council and he reassured the Committee that there were no plans to borrow speculatively outside of the Capital Programme/Strategy.

In response to a query, the Executive Director of Resources (Section 151 Officer) explained how the £0.977m savings on interest payable had been generated and confirmed that the saving was not over the length of the loan but just in this financial year. He thought that this figure was included within the £1,059m referred to in paragraph 5.3 of the report but that he would check and confirm to the Committee. He explained that routine changes to the Authorised Boundary were reported to the Audit Committee as well as Cabinet and Council along with an explanation of why they were changing. It then allowed Council to agree the Mid-Year Strategy which authorised the change in the Authorised Boundary. He went on to explain that

although there was a degree of delegation a change of any magnitude would need Council approval.

In response to a further query, the Executive Director of Resources (Section 151 Officer) agreed to provide Members with a written explanation of the calculations done by the Treasury Team in terms of the Capital Finance Requirement (CFR). There was some confusion as the amount being borrowed was less than the CFR figure and the Executive Director of Resources (Section 151 Officer) explained that the Council would not necessarily borrow the full amount of the CFR.

Following a question about how the Medium Term Financial Strategy (MTFS) could be addressed when the amount of borrowing to be undertaken would be unknown by the end of March 2025, the Executive Director of Resources (Section 151 Officer) explained that the amount of expected borrowing had been built into the Minimum Revenue Provision (MRP) over the last two years however, as it had not been undertaken a saving had been made and if less was borrowed than budgeted for that would also lead to a saving as less interest would have to be paid.

#### **RESOLVED:**

To agree the Treasury Strategy activity as set out in the report.

To recommend to Council the revision to the Prudential Indicators as set out in section 9 of the report.

To note that the changes to prudential indicators reflect the reduction of internal cash balances and the need to externalise debt; this was a straightforward liquidity requirement unrelated to other financial matters and would have been required at this time regardless of the wider financial position.

To note that provision for additional borrowing costs in revenue budgets was included in the 2024/25 budget.

#### **61 Governance Assurance: Annual Audit Committee Self-Assessment**

The Committee received the report of the Executive Director of Resources (Section 151 Officer) which asked Members to review and comment on the self-assessment of good practice questionnaire attached to the report. The questionnaire allowed Members to assess the effectiveness of the Audit Committee and to identify any further improvements that could be made which would improve the Committee's overall effectiveness.

There were three areas of partial compliance as set out in Appendix A of the report for which there was a proposed Action Plan however, given that the Council had its elections in May 2025 and there was a high likelihood that there would be a change to the Audit Committee membership, the areas of partial compliance needed to be addressed over a longer period of time.

In response to a query the Executive Director of Resources (Section 151 Officer) explained that the Committee had the opportunity to have completely unfettered access to External Audit and although that had not happened, the opportunity was there.

A query was raised about whether there was any learning to be had, specifically for the Audit Committee, from those authorities that had issued section 114 notices. In response, the Executive Director of Resources (Section 151 Officer) explained that where Section 114 notices had been issued, there had been some debate around the financial and governance elements that had driven the authority to issue the notice. So, for example, was it a case of not enough money, or bad decision making, or something in between. If the discussion is around bad decision making and the governance processes around that, you automatically look to External Audit and the Audit Committee. He agreed that there were lessons that could be learnt, that there was advice and public interest reports that External Audit had provided on the back of that and that there was opportunity in terms of the Audit Committee's work and programme that could be pulled together and look at.

From Shropshire Council's point of view, the Audit Committee had the opportunity of looking at some of those governance issues contained in the External Auditors reports later in the meeting and he felt that there were recommendations within those reports that the Council needed to address but there was also a role for the Audit Committee to play to ensure that they were seen through and were acceptable and an appropriate plan to be taken forward.

It was agreed to identify some of the learning and best practice from other authorities along with any learning that External Audit may identify and share this at a future training session which could then be built into the self-assessment.

The Executive Director of Resources (Section 151 Officer) clarified that the Council were not looking to issue a section 114 notice as it was not in a position where it needed to do so.

**RESOLVED:**

To approve the self-assessment of good practice attached at Appendix A and D having identified any errors or amendments required.

**62 Third line assurance: Internal Audit Charter and Mandate**

The Committee received the report of the Head of Policy and Governance which set out the Internal Audit Charter. The Head of Policy and Governance introduced his report and explained that in January 2024 the Institute of Internal Auditors issued the new Global Internal Audit standards which were due to be implemented on 9 January 2025. CIPFA were currently undertaking a consultation in relation to their new code which was due to be implemented on 1 April 2025.

Internal Audit had therefore taken the opportunity to review the mandate and charter so that it better aligned with the global internal audit standards and revised UK Internal Audit Code of Practice, leading to some minor amendments which were shown in bold, underlined and italic font.

In response to a query, the Head of Policy and Governance confirmed that he was the Chief Audit Executive referred to in paragraph 7.9 and as such, it was his opinion that was reported at year end on the internal control environment.

**RESOLVED:**

To endorse the Internal Audit Charter as set out in Appendix A of the report.

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

The Committee received the report of the Head of Policy and Governance which outlined the measures undertaken to evaluate the potential for the occurrence of fraud, and how the Council managed those risks with the aim of prevention, detection, investigation and subsequent reporting of fraud, bribery and corruption.

The Head of Policy and Governance stated that the strategy was available on the Council's website alongside the 'Speaking up about Wrongdoing' policies for both staff and the public, and the anti-money laundering procedures and guidance. The review identified minor changes which had been reflected in the strategy and supporting policies, procedures and guidance.

He drew attention to paragraph 8.12 of the report which set out the approved Action Plan that ensured the Council continued to protect its assets and further improve its resilience to fraud and corruption. Section 8 of the report also provided Members with some updates on the national picture including references to some key supporting guidance and documentation.

In response to a query, the Head of Policy and Governance explained how the Whistleblowing Policy was promoted which included via online training for all staff, it was also available on the corporate intranet and was now included in the Chief Executive's newsletter, at the request of Audit Committee. He also discussed the protections afforded to any such whistleblowers including confidentiality.

**RESOLVED:**

To endorse the Counter Fraud, Bribery and Anti-Corruption Strategy along with the measures detailed within the report to manage the associated risks with the aim of prevention, detection, investigation and subsequent reporting of fraud, bribery and corruption.

**64 Governance Assurance: Annual review of Audit Committee Terms of Reference**

The Committee received the report of the Executive Director of Resources (Section 151 Officer) which set out the review of the Audit Committee Terms of Reference. He confirmed that no changes had been made.

**RESOLVED:**

To approve the revised Audit Committee Terms of Reference.

**65 First line assurance: Final Approval Statement of Accounts 2023/24**

The Committee received the report of the Executive Director of Resources (Section 151 Officer) which provided an update on the approval of the 2023/24 Statement of Accounts, and particularly progress on the audit of the accounts.

The Executive Director of Resources (Section 151 Officer) informed the Committee that it had been hoped to bring the audited Statement of Accounts to this Committee but due to a number of reasons (set out in paragraph 8.3 of the report) there was still some work to be finalised. That work was progressing, and it was expected that the audited Statement of Accounts would be presented to the 20 December Audit Committee meeting to allow sufficient time to meet the statutory deadline of 31 December 2024.

Given the slippages that had occurred in the past, Members sought assurance that officers were confident that the Statement of Accounts would be signed off by the deadline. In response, the Executive Director of Resources (Section 151 Officer) assured the Committee that as it currently stood, he could not see any reason why they could not hit the deadline. The Public Sector Audit Senior Manager informed the meeting that she was confident of bringing their Audit Findings report to the meeting on 20 December but that this was dependent upon receipt of the requested information and any further queries that that information may raise.

**RESOLVED:**

To note the progress on the audit of the 2023/24 Statement of Accounts, and that formal approval of the Audited Statement of Accounts would take place in December.

**66 Third line assurance: Internal Audit Performance Report and revised Annual Audit Plan 2024/25**

The Committee received the report of the Head of Policy and Governance which provided Members with an update on the work undertaken by Internal Audit since the September Audit Committee.

The Head of Policy and Governance informed the Committee that, in line with previous delivery records, 49% of the revised plan had been completed. Revisions to the plan provided for a total of 1334 days and were targeted to provide enough activity to inform the year end opinion. He explained that the number of days had been reduced slightly from 1347 days due to a member of the team undertaking an apprenticeship which included the requirement to allow for 20% of their time for training.

In total, 15 final reports had been issued (between 26 August and 20 October 2024) containing 110 recommendations (set out in paragraph 8.5 of the report) and two draft reports were awaiting management responses. Five reports provided reasonable assurance (33%) which was a decrease in the higher levels of assurance for the period compared to last year (60%). This was offset by a corresponding increase in the number of limited and unsatisfactory assurance opinions (67%) compared to 40% the previous year (set out in paragraphs 8.14 to 8.16).

Three fundamental recommendations had been made, detailed at paragraph 8.13 of the report and Members were asked whether they wished for any further updates to be provided from responsible officers to a future meeting of the Audit Committee.

The Head of Policy and Governance drew Members attention to the notable increases in repeated low assurances where follow-up audits indicated that action had not been taken to address the control weaknesses identified and Internal Audit had noticed that Management were suggesting longer implementation dates for significant recommendations (highlighted in table 3). Therefore, evidence-based risks identified by Internal Audit were not being mitigated in a timely manner and could potentially increase the Council's risk appetite as significant weaknesses and deficiencies identified from formal audit work were unaddressed for extended periods of time. Members were therefore also asked whether they wished for any updates to be provided from responsible officers in relation to the unsatisfactory and limited assurances detailed in Table 3.

A discussion ensued in relation to the falling levels of assurance and possible reasons for them. The Committee expressed their concerns, that the important role of audit was not well understood and was just seen as an 'add-on', and they were not comfortable with the longer implementation dates being suggested. The Chairman stated that the Committee had tried, over many years to raise the profile of audit sufficiently that managers at all levels took it as seriously as they should.

In response, the Head of Policy and Governance explained the procedure for following up a fundamental recommendation and for agreeing management responses and an implementation date. If within three months of the audit, then a follow up audit would be undertaken but Internal Audit were seeing an increase in the time scale for implementation, which was very much symptomatic of where the organisation was, however, from a risk perspective, there was a risk in doing that, hence the reason for drawing it to the Committee's attention. As an organisation it was important particularly unsatisfactory areas with associated fundamental recommendations within them were taken seriously and were followed up in a timely manner.

A brief discussion ensued in relation to how much time Internal Audit should spend chasing up unsatisfactory audit opinions for relatively minor issues which would not appear to affect the viability of the Council or cause significant reputational damage. In response the Internal Audit Manager explained that they did not simply look at the high-level financial risks but looked across the strategic risks to determine which to audit and she gave several examples which showed that although small discrete areas in some respects, there were risks that were applicable across the authority when looking at value for money and efficiencies, and if some of these areas were run more efficiently, more income would be generated or less resource expended trying to support them. It was therefore agreed that management updates on all four areas would be presented to the February Audit Committee.

In response to a query the Internal Audit Manager agreed to circulate to Committee Members the total number of days delivered in each year along with an update on resources. She reported that they worked within the resources available but that there were currently vacancies within the team, and she explained that the Council structure for 2025 had not yet been confirmed. She stated that there were currently no plans to go out to recruit but they were comfortable that they had enough



coverage to provide the year end opinion. In response to a query whether there were adequate resources to ensure that the year-end opinion was not limited, the Head of Policy and Governance explained that an additional number of days would not result in a different opinion at year end and reiterated that there was enough cover to provide his opinion.

Members were concerned that unless there was a recruitment plan in place, they were committing themselves to another limited year end opinion and that resources would be pared down even more come April and the Committee sought assurance from senior managers that that was not the case. The Chairman informed the Committee that he had received assurance from the Executive Director of Resources (Section 151 Officer) that the Audit team would be maintained at its current level.

The Executive Director of Resources (Section 151 Officer) clarified that in terms of the budget for the Internal Audit team and the number of posts within the establishment, this had not changed, however they had been unable to recruit and also vacant posts across the Council were being held vacant for financial savings. He explained that there would be changes to the audit budget going forward as the authority was resizing and that would be worked through when it was understood what the new authority would look like in terms of the new operating model and the internal control framework.

He made it very clear that what the Audit Committee were seeing was that recommendations made by the Internal Audit team were not being followed up in a timely manner however, that would not be helped by recruiting more auditors to go out and ask the same questions. It was a fundamental problem that lay with the organisation. So, in theory, you could have just a couple of auditors and still have a substantial opinion provided they were able to look at the key fundamental issues of the organisation in a way that allowed them to do the audit in a few days, for example. So, it did not directly correlate that a small Internal Audit team would automatically lead to a limited assurance. However, there was a risk that a smaller team would have to look at more problematic areas rather than having a lot more auditors finding lots of good practice which was not necessarily adding value.

The Executive Director of Resources (Section 151 Officer) did not think that the problem lay in the Internal Audit function but was the fault of the organisation as a whole and whether it was addressing the issues that were being raised and he was more concerned about that than specifically the size of the team. He explained that the right sizing that the Council was going through would ensure the Council was financially sustainable and that would be applied in the same way to Internal Audit and would provide an opportunity to look at the three levels of defence, the management assurance, the oversight and the independent assurance, and could reconfigure the way that worked across the organisation and if the Internal Audit team were confident that the management assurances and oversight provided good information that enabled the authority to understand its control environment without audit coming in and having to tell it, you would not need to spend 20 days doing the audit, you could do it in three. That was what the Council needed to get right as it was not acceptable that the Council had had limited assurances for the last 4 or 5 years.

The Committee wished the minutes to reflect that they had asked the question and that they had been reassured by the Executive Director of Resources (Section 151

Officer) and the Head of Policy and Governance around the whole issue especially around the issue of resizing, so should the Council ever get to the position where there was not enough coverage to provide the year end opinion at least it could be shown that the Audit Committee had raised a concern about it.

Although reassured, there were still some concerns about the continued limited assurances and the way management were responding to Internal Audit. A brief discussion ensued. In response, the Executive Director of Resources (Section 151 Officer) explained that the organisational redesign would have the cultural changes that they would like to see built in however this would take time but, until then, the Audit Committee could ask questions to gain assurance that things were changing across the organisation.

It was agreed that an Action Plan would be brought to the February meeting setting out a clear indication of the plans around Internal Audit although it was reiterated that the structure for the Council would not be known by February. In that case, it was suggested that a possible additional meeting be arranged prior to the pre-election period to provide an update to the Committee on the structure of Internal Audit, if deemed necessary. The Executive Director of Resources (Section 151 Officer) reassured the Committee that the audits would not stop in the meantime.

**RESOLVED:**

To note the performance of Internal Audit against the 2024/25 Audit Plan.

To receive updates on all four unsatisfactory audits and an update on Audit resources at the February meeting.

**67 Third line of assurance: External Audit: Shropshire Council Audit Findings (Information) 2023/24**

The Committee received a verbal update from the Public Sector Audit Senior Manager in relation to the Audit Findings for 2023/24. She informed the Committee that there were a number of areas where they were awaiting evidence from external bodies and she touched on each area in turn.

In relation to group assurances, the group accounts included a material inventory stock balance in relation to Cornovii housing who were building houses to sell and not to maintain and as such the most efficient way to gain assurance over that balance was to speak to Cornovii's auditors and gain assurance around the work that they've done on Cornovii's financial statements. That work was in progress however should those assurances not be received in a timely manner there were alternative procedures that Grant Thornton could undertake.

Secondly, there were two external valuers where they were waiting for responses to queries and although the majority of Grant Thornton's work was complete, they did need these responses in order to complete these areas.

The final point was around the Pension Fund assurance letters, which had been received in the last couple of weeks so that work was now complete, and the authority was working through the amendments to the financial statements. There were other areas where evidence or explanations were awaited in order to conclude

their sample testing but the majority of those were outside of the finance department, but work was ongoing to complete those areas.

The Public Sector Audit Senior Manager informed the Committee that they would be bringing the Audit Findings report to the December meeting and she had extended the audit teams' time to ensure that these points can be looked at as they come in. She was therefore confident that they could meet the timeline if in receipt of the relevant information from the Council.

**RESOLVED:**

To note the contents of the verbal update.

**68 Third line of assurance: External Audit: Auditors Annual Report 2023/24**

The Committee received the report of the Associate Director which provided a summary of the work undertaken for Shropshire Council during 2023/24 as the appointed external auditor.

The Associate Director introduced his report and explained that the annual report was the conclusion of their value for money work for 2023/24 and also reflected on activity that had happened since the end of March 2024. He drew attention to the three key areas looked at, which were, financial sustainability, governance, and economy, efficiency, and effectiveness (a summary of the findings for each area was set out on pages 5 to 7 of the report).

In terms of financial sustainability, the Associate Director reported that a significant weakness had been raised in relation to the Council's arrangements for value for money and it was noted that over the last three financial years there had been consistent overspends that had put pressure on the level of reserves, which stood at 38.8m at the end of 2023/24 and, given that there was currently a forecast overspend for 2024/25 of £35.1m, there was a risk that this could deplete the reserves to £3.7m which posed a threat to the financial sustainability of the Council.

However, work was ongoing, and the Council were seeking to address these challenges throughout 2024/25 including engaging PWC as a strategic partner and developing a financial dashboard which he commended as a very useful tool for monitoring savings and the financial challenges facing the Council and therefore felt that the Council had a good grip of the financial challenge notwithstanding that it was a particularly challenging outlook. The 2024/25 forecast overspend and challenges for 2025/26 poses significant financial risk to the Council.

Of the £90m of savings needed to be delivered in 2024/25, at the time of reporting, only 41% of savings had been delivered but what he was most concerned about was the 42% that had not yet been planned. It was noted that the Council had established a Savings Delivery Group and was exploring a range of options with MHLGC with regards to addressing the financial challenges. It was also noted that there were a number of one-off items that were required to balance the budget, and he was concerned that these did not address the long-term structural deficit and was not a sustainable approach to financial management.

The Associate Director informed the Committee that the precarious nature of the Council's finances had been echoed in both the LGA Financial Challenge and the recent CIPFA report and on that basis felt that the risk of the Council having to issue a section 114 notice was significant. They had therefore rolled forward a key recommendation from last year around the financial sustainability arrangements. He explained that as some of the issues had been addressed in the previous year, they had slightly reworded their key recommendation to focus on two key areas (as set out on page 17 of his report).

Turning to governance, the Associate Director drew attention to page 7 of his report which showed that in 2022/23 this area had been rated as amber and only an improvement recommendation had been issued, however, since then there had been a deterioration in their judgment for 2023/24 specifically in relation to the governance arrangements of the North West Relief Road (NWRR) and a potential risk of significant weakness was identified. As a result, External Audit undertook a specific piece of work to review the governance arrangements (detailed in Appendix D of the report). The review identified a number of weaknesses in the governance arrangements, particularly in relation to funding of the project and the Associate Director highlighted some of the weaknesses including the lack of a formal Executive Board, the Executive Board had not including standing Members (such as the Section 151 Officer and the Council Leader), exceeding delegated budgets, no detail around the DFT funding, unsatisfactory reporting around the increased costs between the Outline Business Case and Full Business Case and no reference in the risk register to the costs of aborting the project. Therefore, with regard to the value for money view, a significant weakness had been identified in the Council's governance arrangements and a key recommendation has been raised addressing those issues.

Two other key areas of weakness had been identified and although not significant, improvement recommendations had been raised and these were around addressing issues from the internal audit report on risk management including addressing the minor control issues around the operational risk registers and in relation to the limited assurance given by the Head of Internal Audit over the last 5 years. The Associate Director informed the meeting that if steps were not taken to address these issues, they could become significant weaknesses.

Finally, looking at improving economy, efficiency and effectiveness, three improvement recommendations had been identified in relation to the deterioration in the quality of social care practice for children subject to child protection plans raised following the recent Ofsted inspection, contract register not fit for purpose and did not allow for tracking and monitoring of contracts and finally, the use of waivers in tendering and procurement activity with no way of identifying them on the contracts register and not being reported to Audit Committee. It was noted however that the Council operated effectively with its partners and had a strong performance management framework.

In conclusion, the Associate Director stated that the report highlighted the significant financial challenges facing the Council, whose position was precarious, and there was a real risk that the Council would need to issue a Section 114 notice unless the issues contained in the report were addressed. However, the Council were taking steps to try and avert this from happening and had a clear grasp on the scale of the

challenge, which was also well understood across the Council and was being transparently reported.

The Chairman acknowledged that it was a very concerning report and assured the Associate Director that it was being taken very seriously by the Committee.

In terms of financial sustainability, a query was raised as to the statement in the report that the situation was 'precarious but not catastrophic' as, from what had been said by the Associate Director, the situation sounded catastrophic. In response, the Associate Director clarified that precarious meant 'teetering on the edge' however there were other Councils that were treading closer to the edge and in a much more difficult position. The Council were taking steps to address the issues whereas catastrophic would be if the Council were not taking those steps.

It was felt that the report reconfirmed the Committees' concern around the seriousness with which audit and governance were taken by management and indeed that recommendations made by the Audit Committee appeared not to have been addressed. As a Committee, they needed assurance that senior management were taking audit and governance seriously because it did not seem like it from reading the report and it was suggested that they attend a meeting and/or present a report to address in particular the Committee's recommendations and why these had not been looked at.

In response to Member comments, the Executive Director of Resources (Section 151 Officer) explained that, in relation to the precarious/catastrophic question, the LGA peer review had expected the situation to be difficult and were given assurances, however, as they were only assurances, that was why they said the situation was precarious because the Council was close to that edge. There were other authorities who were closer to that edge, including 19 that were given exceptional financial support, the Council was not one of them and he therefore felt that assurance could be taken from that.

In terms of the NWRR specifically, a number of conversations had been had at Audit Committee over the last 12-18 months around that and the Committee had been given management assurances that those things would change and was always based on a point in time in which external audit have reviewed that information but he pointed back to the management assurances that had been given by the relevant Executive Director around the acceptance of those recommendations and the changes that had been made on the back of that. He informed the Committee that Internal Audit would be reviewing that again and once done the Committee would have direct assurance about whether those things had happened or not. At the moment however, all the Committee had to rely on was the management assurances that had been provided.

The Committee felt that they continually got management assurances that things were happening, but it appeared that a specific recommendation made by the Audit Committee had not been addressed. In response the Executive Director of Resources (Section 151 Officer) explained that when reviewed by Internal Audit, they would see the evidence and would provide independent assurance to the Committee.

A brief discussion ensued in relation to the NWRR. Councillor Evans expressed his utter dismay at the information contained in Appendix D and referred to the

assurances received by the Committee that members would be updated about the NWRR in October and that a special meeting of Full Council would be held in November, neither of which had happened. The information contained within this report had been asked for previously and had been refused. He was therefore not prepared to wait for an internal audit report and requested that officers be summoned to attend this meeting to respond to questions about this report as he felt that the Council had been placed at severe risk by the way in which the NWRR had been managed.

The Chairman stated that he had been assured that the NWRR would be on the agenda for the next Full Council meeting in December. This came as a surprise to some members as it had been stated at the last meeting that there would be a special meeting of the Council in November in order to discuss the Full Business Case before it went to the DFT for decision prior to Purdah.

In response to a comment, the Executive Director of Resources (Section 151 Officer) agreed to check whether the CIPFA report had been circulated and if not would ensure that it was circulated to all Members.

In response to a query, the Associate Director explained that the report did also have a forward look as to where the Council was currently, and he reported that the comments in the summary of the report stood that the Council was facing a significant financial challenge and the 2024/25 materialisation of the potential overspend would be critical. With regard to the other areas, it could be seen from the management responses contained within the report that work was already ongoing in some of those areas.

In relation to the NWRR and in response to the suggestion that the Executive Director for Place attend the December meeting to answer questions as to why the Audit Committee's recommendations had not been carried out and to provide assurance around the financial aspects of the project. Concern was raised that if these issues were ignored, what was the point of having an Audit Committee. In response, the Committee was reminded that the Executive Director for Place had attended the last meeting, and that Internal Audit needed time to go back in and report back to the Committee. The Internal Audit Manager explained the timeline for looking at this again and felt that they would not have enough time to complete the audit and give assurance in time for the February meeting, but the Committee could ask the Executive Director and project lead to come back to the December or February meeting. The Committee could also ask the Portfolio Holder to attend or escalate it to the Chief Executive.

A brief discussion ensued about whether to request that the relevant officers attend the December or February meeting. The Chairman expressed his preference for the update to come to the February meeting after the Full Business Case had been presented to Council. Councillor Evans proposed that the appropriate officers be asked to attend the additional meeting of Audit Committee in December. This was seconded by Councillor Halliday however, upon being put to the vote, the proposal fell. The Chairman resolved that the Executive Director of Place would be invited to the February Audit Committee meeting to provide an update regarding the actions taken to address both Internal and External Audit's recommendations.

The Chairman proposed that the Committee note the report and concerns about its content, and although this proposal was not agreed by the whole Committee, upon being put to the vote, the proposal stood.

**RESOLVED:**

To note the report and concerns about its content.

To invite the Executive Director of Place to the February Audit Committee meeting to provide an update regarding the actions taken to address both Internal and External Audit's recommendations.

**69 Third line of assurance: External Audit: IT Findings Report 2023/24**

The Committee received the report of the Engagement Lead which set out the summary of findings, scope of the work, the detailed findings and recommendations for control improvements. In response to concerns that the report had the word 'Confidential' in the top right-hand corner, the Public Sector Audit Senior Manager explained that all of their reports were marked confidential for their own purposes however she had queried whether the Committee would like the report in the public domain and was assured by the Deputy Director of Finance and IT that he was happy that the content did not include any private information.

The report was for information and its purpose was to underpin their opinion on the financial statements and usually formed part of the Audit Findings Report. It also covered the Altair Pension Fund IT system. There was nothing of concern in the report.

In response to a query around cyber security controls, the Public Sector Audit Senior Manager explained that in response to a follow up of a recommendation, they had not been supplied with evidence to say that it had been resolved so it would continue to be reviewed. They were not saying that it had a significant impact on the financial statements audit. The Head of Policy and Governance felt it was a question for the Head of IT in terms of providing that evidence, although there were elements of internal audit work that looked at cyber related controls but that was different to what was being requested. It was suggested that a progress report on the Council's cyber security controls be requested for the February meeting.

**RESOLVED:**

To note the contents of the report and to request a progress report on the Council's Cyber Security Controls for the February meeting.

**70 Date and Time of Next Meeting**

There would be an additional meeting of the Audit Committee to be held on the 20 December 2024 at 10.00am.

**71 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.

**72 Exempt Minutes of the previous meeting held on the 27 September 2024**

**RESOLVED:**

That the Exempt Minutes of the meeting of the Audit Committee held on the 27 September 2024 be approved as a true record and signed by the Chairman.

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

The Committee received the exempt report of the Internal Audit Manager 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 exempt report.

Signed ..... (Chairman)

Date: .....