

**Committee and Date**

Audit Committee

1 March 2018

**MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 30 NOVEMBER 2017
1.30 - 4.45 PM****Responsible Officer:** Michelle Dulson

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Present

Councillor Peter Adams (Chairman)

Councillors Ioan Jones, Chris Mellings and Brian Williams (Vice Chairman)

46 Apologies for Absence / Notification of Substitutes

46.1 An apology for absence was received from Councillor Michael Wood. Councillor Gerald Dakin substituted for Councillor Wood.

47 Disclosable Pecuniary Interests

47.1 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.

48 Minutes of the previous meeting held on the 7 September 2017**48.1 RESOLVED:**

That the Minutes of the meeting held on 7 September 2017 be approved and signed by the Chairman as a correct record.

49 Public Questions

49.1 No public questions had been received.

50 Management Report: Ofsted - Children's Services update

50.1 The Committee received a verbal update from the Director of Children's Services following the recent Ofsted inspection of Shropshire Council's Children's Services which received a 'good' rating placing it amongst the top 53 Council's in the Country.

50.2 The Director of Children's Services informed the Committee that the inspection had taken place over 4 weeks in September and had looked at children in need of help and protection together with the safeguarding of Looked after Children (LAC) and

those leaving care. The outcome of the inspection was good for Shropshire Council but was also good for children and families, stakeholders and partners.

50.3 The Director of Children's Services went on to give some detail about what the Inspectors said, as follows:

- Skilled and confident practitioners. Social workers know families well;
- Leadership/management and governance was good;
- Systematically developed and improved services since the last inspection;
- LAC/Care leavers – requires improvement to be good. Recommendations were around permanency planning, support to be more independent etc
- Adoption/Foster services were deemed good.

50.4 A number of recommendations had been identified in the inspection report, one of which was around developing an Action Plan which had to be submitted to Ofsted in March 2018. The Director of Children's Services reported that the Action Plan would be presented to the People Overview Committee for approval.

50.5 In response to a query, the Director of Children's Services explained that trafficked children who went missing was a national issue as they were a flight risk, however, the Council had done all it could to mitigate the risk and some of those who had gone missing from Shropshire had subsequently been found.

50.6 In response to a query about what the main pressure areas would be going forward, the Director of Children's Services felt these would be the same as the current pressures, including young people with more complex backgrounds, not just unaccompanied asylum seekers but highly specialist needs and disabilities; the cost of accommodating LAC; the significant number of e.g. foster carer breakdowns etc. She reported that residential placements were becoming more and more costly from £3,500 per week up to £6,700 per week.

50.7 Members praised the Director of Children's Services for achieving a good rating.

50.8 RESOLVED:

To note the contents of the update and that an Action Plan is to be developed to address the recommendations contained in the Ofsted inspection report.

51 Management Report: Estates update

51.1 The Committee received the report of the Head of Business Enterprise and Commercial Services – copy attached to the signed Minutes – which set out the management action that had been undertaken to address the recommendations set out in the internal audit report dated 21 April 2017 in respect of the corporate landlord function and estate management at the Council.

51.2 The Head of Business Enterprise and Commercial Services informed the Committee that there had been 19 recommendations set out in the Internal Audit report, one of which was fundamental, eight were significant and ten required attention. He reported that management actions had now been put in place to address the recommendations, which included additional staffing resources and more effective

controls and processes in order to ensure that all rent associated with leased out property was identified, invoiced and collected in a timely manner. It was hoped that the new Enterprise Resource Planning (ERP) system would provide an opportunity to move the Asset Management data onto one system.

- 51.3 The Head of Business Enterprise and Commercial Services reported that an independent review of the assets and estate function had been commissioned in order to identify where/how improvements could be made. The full report was expected during the second/third week of January 2018. He also informed the Committee that an independent review had been commissioned of all systems and processes that were undertaken within the Council to ensure that they supported economic growth and commercial strategies.
- 51.4 In summary, the Head of Business Enterprise and Commercial Services reassured Members that management action was being taken in order to address the issues raised in the Internal Audit report and such actions were reviewed on a quarterly basis. In response to a query, the Head of Business Enterprise and Commercial Services drew Members attention to Appendix B of the report which set out the management responses to the recommendations contained in the Internal Audit report together with dates when the actions were to be completed. He stated that it was hoped that all of the actions would be completed by Easter 2018.
- 51.5 The Portfolio Holder for Corporate Support explained that the role had changed significantly since the Internal Audit report had been issued and he reminded members that the Audit report was backward looking. He stressed the importance of looking forward as the service was currently in a different position and the focus was changing quite rapidly. He was however satisfied that sufficient resources were now in place in order to address the recommendations.
- 51.6 In response to a query the Head of Audit confirmed that Estate Management would be revisited by Internal Audit in 2018/19 which would allow more time for implementation of the changes. In response to a further query, the Head of Business Enterprise and Commercial Services explained that there had been no lost income but some income could have been collected earlier. The focus was now on obtaining the right information about the leases and knowing when to raise invoices etc. A report on progress was requested for a future meeting.

51.7 RESOLVED:

That the progress made to address the recommendations in the Audit report of 21 April 2017 to ensure that all improvements be effectively implemented and monitored via the action plan for estate management be noted and that a further update report be presented to the Committee at its June 2018 meeting.

52 Management Report: Digital Transformation Programme update

- 52.1 The Committee received the report of the Head of Human Resources and Development – copy attached to the signed Minutes – which provided an update on the progress of the digital transformation programme including the most recent position for each project in the programme and the overarching programme as a whole.

52.2 The Section 151 Officer took Members through the report. He confirmed that a lot of the requirements for the social care project had already been completed whereas the ERP was more challenging as there had been a delay in getting the contract signed due to protracted negotiations with the supplier. The design stage had therefore been extended from the end of November 2017 until mid-January 2018. The Section 151 Officer stressed the importance of getting the design stage correct. He reported that the customer experience project was progressing well and it was hoped that this would be in place by February/March 2018. Work was ongoing with CRM following an issue with the original supplier. A new option was now being pursued with a different provider.

52.3 The Section 151 Officer informed the Committee that an Infrastructure and Architecture Board had been formed and had begun to work through all of the legacy systems in order to prioritise the transfer of these systems on to the new platform, whilst the Programme Assurance team had oversight of the whole programme. It was reported that a new project manager had been employed to work on the Infrastructure and Architecture project.

52.4 The Section 151 Officer confirmed that the budget was being monitored as the projects were worked through, and it was felt that there would be an underspend. Finally, the Section 151 Officer reported that a new overarching programme manager was in place who had a better understanding of the overall approach.

52.5 In response to a query, the Section 151 Officer explained why the design phase had been extended. Due to the Council's low staff/low cost policy, there was often only one person within the authority with the relevant knowledge to do a job well. So although the resources issue may be red, it may move to amber, but would never be green because there was simply not enough staff.

52.6 In response to a query, the Section 151 Officer explained that the Council had a Data Protection Board, chaired by the Head of Legal and Democratic Services which would ensure that the requirements of the new data protection legislation were adhered to. The Risk and Insurance Manager informed the Committee that the Council were covered under its insurance for any liabilities incurred under the new data protection legislation. In response to a further query, the Section 151 Officer estimated that the majority of systems would be in place and up and running by October 2018.

52.7 **RESOLVED:**

That the contents of the report be noted and that a further update report be presented to the Committee at its June 2018 meeting.

53 **Management Report: Strategic risks update**

53.1 The Committee received the report of the Risk and Insurance Manager – copy attached to the signed Minutes – which set out the current strategic risk exposure following completion of the October review, outcomes of which were reported to Directors and Informal Cabinet.

53.2 The Risk and Insurance Manager reported that the Risk Profile and Action Plan which included target scores for each strategic risk had also been revisited. There had been no change to the 15 strategic risks, with the exception of the impact of Brexit risk which had been given a medium score. A new emerging risk had been identified in relation to Safeguarding Children and the financial capacity of the service to meet the needs and demands of delivering the service and looking after vulnerable children.

53.3 If Members wished to have a more detailed examination of any of the strategic risks, the risk owner could be invited to a future meeting of the Committee in order to discuss their risks.

53.4 RESOLVED:

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

54 Management Report: Treasury Strategy Mid-Year Report 2017/18

54.1 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 2017/18; 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 2017/18.

54.2 The Section 151 Officer reported that the internal treasury team had outperformed its benchmark by 0.33%, delivering additional income of £265,650 and that all treasury management activities had been in accordance with the approved limits and prudential indicators set out in the Council's Treasury Strategy.

54.3 The Section 151 Officer drew attention to paragraph 10.2 of the report which informed Members of the formation and operation of the Capital Investment Board. In response to a query, the Section 151 Officer informed the meeting that the current investment list represented the best deals that could be obtained at that particular time and for the length of time needed to invest.

54.4 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 (see paragraph 10.3 of the report).

55 Annual Review of Counter Fraud, Bribery and Anti-Corruption Strategy and activities, including an update on the National Fraud Initiative

55.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which outlined the measures undertaken in the last year 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 provides an update on the action plan to ensure continuous improvement. It was confirmed that no changes were being proposed to the existing strategy. The Head of Audit drew attention to the Action Plan set out at paragraph 6.2 of the report.

55.2 In response to a query, the Head of Audit explained that the areas covered by procurement fraud were broken down into various categories e.g. false invoicing etc. In relation to Blue Badges the Head of Audit agreed to find out more information about the steps taken to request return of Blue Badges once notified of a death.

55.3 RESOLVED:

To continue to monitor systems to manage associated risks with the aim of prevention, detection and subsequent reporting of fraud, bribery and corruption.

56 Annual review of Audit Committee Terms of Reference

56.1 The Committee received the report of the S151 Officer – copy attached to the signed Minutes – which set out minor changes being proposed to the Audit Committee Terms of Reference shown in bold and underlined in Appendix A of the report. The only major amendment being the inclusion of an option to co-opt an independent member on to the Audit Committee, should this be considered appropriate in the future.

56.2 Members felt it was important that the words ‘remain apolitical’ in the first line of paragraph 1 of the Audit Committee Terms of Reference be kept in. It was proposed that the words ‘suitably qualified’ be added to Paragraph of 3 and that paragraph 40 be expanded to include the areas considered by the Audit Committee throughout the year in order to highlight the value added by the Committee.

56.3 RESOLVED:

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

57 Annual Audit Committee Self-Assessment

57.1 The Committee received the report of the 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.

57.2 The S151 Officer drew attention to a number of areas of partial/non-compliance that had been identified, including not having an Action Plan to improve areas of weakness.

57.3 Concern was raised that the Analysis of training requirements based on 2017 self-assessments, set out at Appendix B, was only based on 4 out of 9 self-assessments. A brief discussion ensued in relation to Substitute Members on Audit Committee. It was felt that as Substitutes were not called upon very often, they may be unlikely to attend the training and therefore not be able to assess their own skills and

weaknesses. It was therefore felt that perhaps Substitutes should not be appointed to the Audit Committee as they were not suitably trained and added little value whilst only attending one meeting.

57.4 RESOLVED:

- A. That the self-assessment of good practice be further enhanced by exploring options for external facilitation in order to assess the skills and overall effectiveness of the Committee against best practice.
- B. That an action plan be created in order to improve areas of weakness.

58 Internal Audit Charter

58.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which set out the changes being proposed to the Internal Audit Charter following a refresh of the Public Sector Internal Audit Standards (PSIAS) in March 2017. The Charter had also been refreshed to reflect learning points identified following the external review of Internal Audit by the Chartered Institute of Public Finance and Accountancy (CIPFA) which had been reported to the Committee in February 2017.

58.2 The Head of Audit drew attention to the new standard for the head of internal audit about roles or responsibilities that fall outside of internal audit, for example corporate counter fraud. The new standard was introduced to limit impairments to the independence or objectivity of the head of internal audit. It was felt that as the Head of Audit did not have direct managerial responsibility for any of the areas examined in relation to corporate counter fraud, her independence was demonstrated.

58.3 It was agreed to change the word 'rich' in the first line of paragraph 29 of the Charter, to read 'suitable'.

58.4 RESOLVED:

That the proposed adjustments to the Internal Audit Charter be noted.

59 Internal Audit Performance Report and Revised Annual Audit Plan 2017/18

59.1 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 two and a half months since the last report in September 2017.

59.2 The Head of Audit informed the meeting that 58% of the revised plan had been completed which was in line with the target to achieve 90% delivery by year end, and which was slightly ahead of the previous year. She reported that three good and fourteen reasonable assurance opinions had been issued together with sixteen limited and four unsatisfactory assurance opinions. She went on to say that thirty seven final reports had been issued which contained 409 recommendations, none of which were fundamental. The Head of Audit explained that one of the recommendations had been rejected by management in relation to lone working.

59.3 The Head of Audit drew attention to the Direction of Travel set out at Paragraph 5.18 of the report which showed that the lower level assurance levels had decreased from 48% in 2016/17 to 36% year to date. The unsatisfactory assurance opinions were listed by service area in Appendix A, Table 3 of the report.

59.4 In response to a query the Section 151 Officer explained that debt recovery was the area of greatest concern, with 10 significant recommendations being identified in this area. By directing the audit here, however, it would enable any problems to be flushed out before the new system was in place. Once the new ERP system was in place a follow up audit would be undertaken.

59.5 In response to a further query, the Section 151 Officer reported that although the Council was not at risk of losing income there was a risk of non-collection in some areas.

59.6 Members were requested to advise the action they wished to follow in relation to both the limited and unsatisfactory assurance levels and the residual control environment where a recommendation had been rejected. In relation to the unsatisfactory assurance levels, Members requested management reports be presented to the Committee at its March 2018 meeting on Transport Operations Group and Highways Permits. In relation to limited reports, commended that the Head of Audit monitor the situation and report back to Audit Committee as part of the Direction of Travel update. If there had been no improvement then this would be followed up and escalated to Directors. In relation to the residual control environment, Members wished the Head of Audit to report back to the managers of those areas informing them that the Audit Committee urged them to comply with the recommendation.

59.7 RESOLVED:

- a) That performance to date against the 2017/18 Audit Plan as set out in the report be noted;
- b) That the adjustments required to the 2017/18 plan to take account of changing priorities, as set out in Appendix B of the report, be endorsed.
- c) That the actions to be followed in relation to the limited and unsatisfactory areas reported and the residual control environment where a recommendation had been rejected, set out at paragraph 59.6 above, be noted.

60 External Audit: Annual Audit Letter 2016/17 Shropshire Council

60.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – which summarised the key findings arising from the work carried out for the year ended 31 March 2017.

60.2 The Senior Manager introduced the report and drew attention to the unqualified opinion given on the Council's Financial Statements along with the Value for Money Conclusion for 2016/17. She explained that financial sustainability remained a risk for the Council. The Senior Manager went on to draw attention to the unqualified opinion given on the Shropshire County Pension Fund along with the final fees which were set out on page 122.

60.3 RESOLVED:

That the contents of the report be noted.

61 External Audit: Audit Committee update

61.1 The Committee received the report of the External Auditor - copy attached to the signed Minutes - which provided Members with a report on progress. The Senior Manager reported that an update on progress would be reported to each meeting. She confirmed that confirmation in relation to the pooling of receipts was still awaited.

61.2 The Senior Manager drew Members' attention to the technical matters and sector issues. It was confirmed that the Head of Finance, Governance and Assurance (Section 151 Officer) was aware of the changes to the Code of Practice on Local Authority Accounting in the UK 2017/18 and the forthcoming changes to IFRS9 and 15 (lease accounting and revenue recognition).

61.3 RESOLVED:

That the contents of the report be noted.

62 Date and Time of Next Meeting

62.1 Members were reminded that the next meeting of the Audit Committee would be held on 1 March 2018 at 1.30pm.

63 Exclusion of Press and Public

63.1 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.

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

64.1 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.

64.2 RESOLVED

That the contents of the report be noted.

Signed (Chairman)
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Date:

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