



### **Committee and Date**

Audit Committee

28 June 2018

## **MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 1 MARCH 2018**

**1.30 - 3.20 PM**

**Responsible Officer:** Michelle Dulson

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### **Present**

Councillor Peter Adams (Chairman)

Councillors Chris Mellings, Michael Wood and Gerald Dakin (Substitute) (substitute for Brian Williams)

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

65.1 An apology for absence was received from Councillor Brian Williams. Councillor Gerald Dakin substituted for Councillor Williams.

### **66 Disclosable Pecuniary Interests**

66.1 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.

### **67 Minutes of the previous meeting held on the 30 November 2017**

#### **67.1 RESOLVED:**

That the minutes of the meeting held on 30 November 2017 be approved and signed by the Chairman as a correct record.

### **68 Public Questions**

68.1 No public questions had been received.

### **69 Management Report: Highways Permits**

69.1 The Committee received the report of the Highways, Transport and Environmental Manager – copy attached to the signed Minutes – which set out progress against the recommendations made following an audit of the service.

69.2 The Highways, Transport and Environmental Manager explained the role of the Street Works teams and why the audit had been requested. Significant progress had

been made to meet the requirements of the recommendations, set out at paragraph 6 of the report.

69.3 In response to a query, the Head of Audit reported that it was planned to revisit the service in 2018/19. In response to a query, the Highways, Transport and Environmental Manager reported that in 2015/16 a total of £730k was generated due to over run works, £1.1m in 2016/17 and £927k so far this year.

**69.4 RESOLVED:**

- A. That the contents of the report be endorsed.
- B. That Internal Audit revisit the Street Works team once all recommendations have been implemented to review and monitor the controls previously assessed and confirm that they are happy that the management control objectives are now being met satisfactorily.

**70 Management Report: Transport Operations Group**

70.1 The Committee received the report of the Director of Place and Enterprise – copy attached to the signed Minutes – which provided an update on the progress made and actions taken as a result of the audit of the Council's Transport Operations Group (TOG).

70.2 The Transport Commissioning Manager explained that a number of opportunities for savings and efficiencies had been identified including reducing the size of the fleet to 200, a new term maintenance contract and the procurement of a new council fuel contract. In response to a query, the Transport Commissioning Manager explained that Kier would be taking over the management and servicing of some of the vehicles which would remain at the same depot.

70.3 In response to a query, the Head of Finance, Governance and Assurance explained that the new Tranman IT system is for the on-going management of vehicle maintenance processes.

70.4 In response to a query, the Transport Commissioning Manager explained that based on volume, the procurement of a new fuel contract would lead to some savings.

**70.5 RESOLVED:**

That the significant progress and improvements that have been made to the TOG area as detailed in Appendix 1 be noted.

*It was agreed to take Agenda Item 8 (Management Report: Income Generation) next.*

**71 Management Report: Income Generation**

71.1 The Committee received the report of the Head of Finance, Governance and Assurance – copy attached to the signed Minutes – which set out the budgeted gross income position for the Council for 2018/19. Detailed information was included in

Appendix 1 to enable Members to consider the overall risks and assurances associated with the income and resources received by the Council and also to allow Members to consider areas for direct questioning and further consideration, should this be considered necessary.

71.2 The Head of Finance, Governance and Assurance explained that the report gave a breakdown of the income and resources received in the gross budget which focuses on delivering more income by discretionary means, whilst the Appendix gave a breakdown of all the income received by the Council including Council Tax, Business Rates, grants, fees and charges etc together with an explanation of the key elements of governance and where this was made available to Councillors and the public.

71.3 The Head of Finance, Governance and Assurance drew attention to section 6 of the report which identified areas where the Council's aspirations were, including two areas of income generation: areas where the Council currently collected income (by increasing, extending or charging new rates) and areas which are being looked at in the future as part of the Commercial Strategy.

71.4 A further report was requested in six months' time when further information would be available. In response to a query, the Head of Finance, Governance and Assurance explained that the impact of lower Council Tax payment rates would not be known until the end of the year. The Head of Finance, Governance and Assurance answered a number of queries from Members of the Committee in relation to Service Reviews looking at whether existing services could be sold to external clients, the Council's ability to effectively collect income, in particular around aged debt and sales ledger.

71.5 In response, the Head of Finance, Governance and Assurance explained that it was hoped that the new ERP system would be a solution to some of the collection issues currently experienced. In response to a comment, the Head of Finance, Governance and Assurance agreed to add a further column into the quarterly monitoring reports showing the variants in income collection.

#### 71.6 **RESOLVED:**

That the contents of the report be noted.

## 72 **Management Report: IT Update**

72.1 The Committee received the report of the Head of Human Resources – copy attached to the signed Minutes – which provided updates on the following areas: Service Improvement and Compliance; DR/BC Project; Infrastructure and Architecture Project; and Digital Transformation.

72.2 The Head of Human Resources informed the Committee that she was pleased with the progress that had been made and with the outcome of the most recent audit, which was reasonable. She explained that a good outcome would not be possible until a live test had been undertaken, which would take place later in the year. Members were pleased with the report and that the whole project was still under budget.

72.3 Turning to the Digital Transformation Programme, the Head of Human Resources informed the Committee that the CRM project was going well with Hitachi, who were the first organisation who had aligned the Council's vision and strategy with the rollout it wished to achieve. New telephony had been rolled out, the CRM portals would be rolled out in June/July. The Social Care project was also progressing well. The ERP project, however, was a little behind schedule due to a lack of resources available to deliver the project.

72.4 Members were pleased to note that those projects previously rated as red were now amber and that the Governance and Assurance Board who had access to the whole project were not afraid to challenge the process and was working well.

72.5 In response to a query, the Head of Human Resources reported that the new telephony was performing as expected however for that part of the project, other things needed to happen before any cost savings were realised.

**72.6 RESOLVED:**

That progress in the improvement of Shropshire Council's IT function be noted in that the improvements continue to be validated through improved audit report outcomes.

**73 Management Report: Strategic risks update**

73.1 The Committee received the report of the Risk and Insurance Manager – copy attached to the signed Minutes – which set out the current strategic risk exposure following completion of the January 2018 review.

73.2 The Risk and Insurance Manager informed the Committee that there were currently 15 strategic risks, with changes to the scoring having been made for three of the risks, as follows: The reputation risk had increased from a low risk to a high risk; the Failure to Safeguard Vulnerable Adults risk had been reduced from high to medium; whilst the Failure to Safeguard Vulnerable Children had reduced from a 12 to an 8 keeping it at a medium risk level.

73.3 The Risk and Insurance Manager reported that the Council's overall risk exposure was 60% high and 40% medium. The target scores will be reviewed with Directors in April 2018 and set for the next 12 months. Both Children's and Adults' Safeguarding had already hit their targets.

73.4 One new emerging risk had been identified within Safeguarding Children relating to the ongoing service improvements around the new IT system. In response to a query with regards to Vulnerable Adults and the risk around the deprivation of liberty, the Risk and Insurance Manager confirmed that she was comfortable with the current level of risk.

73.5 In response to a further query, the Risk and Insurance Manager explained that staff sickness absence was monitored and reasons for work related stress had been considered. The Risk and Insurance Manager confirmed that the impact of GDPR had been considered with Terms and Conditions being updated in light of the new requirements.

**73.6 RESOLVED:**

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

#### **74 Internal audit report of the review of Risk Management 2017/18**

74.1 The Committee received the report of the Principal Auditor – copy attached to the signed Minutes – which summarised the detailed findings identified in the Internal Audit review of Risk Management. She informed the Committee that the overall control environment for the Risk Management system had been assessed as good, the highest rating that could be given.

##### **74.2 RESOLVED:**

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

#### **75 Draft Audit Committee annual work plan and future training requirements**

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

75.2 The Head of Audit drew attention to Paragraph 5.3 which set out information which may be helpful for Members when considering the proposals for changes set out in Appendix A. The Head of Audit explained that three half day training sessions were being proposed for the next 12 months. She reported that, as requested by Members, an associate of CIPFA would be facilitating the Committee in reviewing its own effectiveness at the next training session due to take place on 8 March.

##### **75.3 RESOLVED:**

- a) That the Audit Committee work plan for 2018/19 be approved.
- b) That a learning and development plan for members of the committee taking into account information in Appendices A and B be approved.

#### **76 Management Report: Treasury Strategy 2018/19**

76.1 The Committee received the report of the Head of Finance, Governance and Assurance – copy attached to the signed Minutes – which proposed the Treasury Strategy for 2018/19 and recommended Prudential and Treasury Indicators for 2018/19 to 2020/21.

76.2 Although the Audit Committee usually had sight of the Treasury Strategy beforehand, it was confirmed that on this occasion the Treasury Strategy had already been presented to Cabinet and Council. Members of the Audit Committee requested that in future the Strategy be reported to them prior to Cabinet and Council.

76.3 The Head of Finance, Governance and Assurance drew Members attention to the key points set out at paragraph 1.1 and in particular the Council's recent purchase of the Shrewsbury Shopping Centres.

#### 76.4 **RESOLVED:**

- A) That the Treasury Strategy 2018/19 be endorsed.
- B) That the changes to the CIPFA Treasury Management Code of Practice and Prudential Code and outstanding consultation exercises be noted.

#### 77 **Internal Audit performance report and revised annual audit plan 2017/18**

- 77.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which provided Members with an update of work undertaken by Internal Audit in the three months since the last report in November 2017.
- 77.2 The Head of Audit informed the meeting that the team were on track to deliver the target of 90% by year end. She drew Members' attention to the Audits completed since October, the Assurance levels awarded and the overall spread of recommendations set out in Paragraphs 5.6, 5.7 and 5.8 respectively. The unsatisfactory and limited assurance opinions were set out in table 3 of the report. The Head of Audit informed Members that two recommendations had been rejected by management (set out at paragraph 5.16 of the report).
- 77.3 Turning to Direction of Travel, the Head of Audit explained that the number of lower level assurances (41%) were lower than the outturn for 2016/17 of 49%, however there was no one area giving cause for concern.
- 77.4 In response to a query, the Head of Audit explained that if Members were concerned about the lower assurance levels in Commissioning, they could invite the Head of Commissioning to a future meeting in order to address their concerns. Concern was raised in relation to Adult Services which had received its third limited assurance.

#### 77.5 **RESOLVED:**

- A) That the performance to date against the 2017/18 Audit Plan set out in this report be endorsed.
- B) That the adjustments required to the 2017/18 plan to take account of changing priorities set out in **Appendix B** be endorsed.
- C) That the action to be taken by the Audit Committee in response to the limited and unsatisfactory areas reported and the residual control environment where a recommendation has been rejected, as detailed in the report, be noted.
- D) That the Director of Adult Services be invited to a future meeting in order to explain the issues within the control environment and how these could be improved.

#### 78 **Draft Internal Audit risk based plan 2018/19**

78.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which provided Members with the proposed risk based Internal Audit Plan for 2018/19. The Head of Audit drew attention to the summarised Internal Audit Plan set out at Appendix A which confirmed that 1,764 days had been planned for Shropshire Council audit work and 226 days for external clients.

78.2 The Head of Audit also drew attention to Appendix C which set out those audit areas of high priority for which no provision had been made in this year's internal audit plan. The Head of Audit informed the Committee that they could seek the necessary assurances from Management on these areas and also on those areas considered to be low risk.

**78.3 RESOLVED:**

That the approach taken to create the proposed Internal Audit Plan for 2018/19 be endorsed and that its adoption be approved.

**79 External Audit: Certification summary report**

79.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – detailing the Certification Work for 2016/17 relating to the Housing Benefit subsidy claim. It was explained that due to two issues that had been identified, the claim had been qualified. Details of the errors were set out on page 2 of the report.

**79.2 RESOLVED:**

That the contents of the report be noted.

**80 External Audit: Audit Plan**

80.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – which provided an overview of the planned scope and timing of the statutory audit of Shropshire Council for those charged with governance.

80.2 The External Auditor drew attention to page 3 of the report which set out the key areas looked at. In response to a query the External Auditor explained why the Management over-ride of controls was a risk. In relation to the Council's resilience and use of reserves, the External Auditor felt that the Council had a reasonable level of reserves with a good history of savings plans in place however as it was unknown how long this could continue and with changes to funding happening in 2020/2021, External Audit needed to look at what that would mean for the financial stability of the Council.

**80.3 RESOLVED:**

That the Audit Plan for Shropshire Council be noted.

**81 External Audit: Informing the risk assessment**

81.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – which contributed towards the effective two-way communication

between auditors and the Council's Audit Committee, as 'those charged with governance'.

81.2 The External Auditor drew Members' attention to the responses received from the Council's Management to the questions raised on those areas where External Audit were required to gain an understanding of management processes and the Audit Committee's oversight of those areas. The Committee were required to consider whether the responses were consistent with its understanding of the Council.

**81.3 RESOLVED:**

That the contents of the report be noted.

**82 External Audit: Audit Committee update**

82.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – which provided Members with a progress report.

82.2 The External Auditor drew Members' attention to the findings from their interim audit which were summarised on pages 6 to 9 of their report. He confirmed that he was happy with the Council's control environment and reported that the initial risk assessment in relation to the Value for Money Conclusion had been undertaken.

82.3 In response to a query about whether it was good practice for the Portfolio Holder for Finance to meet with External Audit, it was confirmed that this would be discussed with the Head of Finance, Governance and Assurance and the Chief Executive.

**82.4 RESOLVED:**

That the contents of the report be noted.

**83 Date and Time of Next Meeting**

83.1 Members were reminded that the next meeting of the Audit Committee would be held on the 28 June 2018 at 1.30pm.

**84 Exclusion of Press and Public**

**84.1 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.

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

85.1 The Committee received the exempt report of the Principal Auditor – copy attached to the signed Minutes – which provided an update on current fraud and special investigations undertaken by Internal Audit and the impact these have on the internal



control environment, together with an update on current Regulation of Investigatory Powers Act (RIPA) activity.

**85.2 RESOLVED:**

That the contents of the report be noted.

Signed ..... (Chairman)

Date: .....