

**Committee and Date**

Audit Committee

6 December 2018

**MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 13 SEPTEMBER 2018
1.30PM – 4:20PM****Responsible Officer:** Michelle Dulson

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Present

Councillor Peter Adams (Chairman)

Councillors Chris Mellings, Brian Williams (Vice Chairman), Gerald Dakin (substitute for Michael Wood) and Pamela Moseley (substitute for Ioan Jones)

31 Apologies for Absence / Notification of Substitutes

31.1 Apologies for absence were received from Councillors Ioan Jones and Michael Wood.

31.2 Councillor Pam Moseley substituted for Councillor Jones and Councillor Gerald Dakin substituted for Councillor Wood.

32 Disclosable Pecuniary Interests

32.1 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.

33 Minutes of the previous meetings held on the 28 June and 24 July 2018**33.1 RESOLVED:**

That the minutes of the meetings held on 28 June and 24 July 2018 be approved and signed by the Chairman as a correct record.

34 Public Questions

34.1 No public questions had been received.

35 First line assurance: Digital Transformation Update

35.1 The Committee received the report of the Head of Workforce and Technology – copy attached to the signed Minutes – which provided Members with an update on each of the Projects within the Digital Transformation Programme.

- 35.2 The Head of Workforce and Technology drew Members attention to the Social Care project which had improved from red to amber with the Adults workstream on track to go live in December and the Children's workstream in February 2019. Turning to the Infrastructure and Architecture Project, the Head of Workforce and Technology reported that work was ongoing in relation to data capture, how to manage data and use it to predict future demand.
- 35.3 Looking at the Customer Experience Project, the Head of Workforce and Technology informed the Committee that Members of the Performance Management Scrutiny Committee had visited the Customer Services section to demonstrate the automation of processes that had been introduced following delivery of the Customer Relationship Management tool.
- 35.4 Finally, it was reported that the status of the ERP project had moved from amber to red, however work was ongoing with the implementation partner and supplier to resolve the issues. In conclusion, the Head of Workforce and Technology assured the Committee that the Project Governance Group had access across all workstreams and that three out of four of the projects were on or ahead of schedule.
- 35.5 Members requested that future reports go out at the same time as the agenda with any updates being reported at the meeting. In response to a query, the Portfolio Holder for Corporate and Commercial Support assured the Committee that he was fully engaged with the process and had monthly meetings with the Head of Workforce and Technology. He explained that oversight of the day to day functions was delegated to the Deputy Portfolio Holder who provided him with monthly updates and informed him of any issues arising.
- 35.6 The Portfolio Holder touched on the changing culture of the organisation and how the Council needed to change how it worked going forward. The Head of Workforce and Technology highlighted the main outstanding strategic and operational risks, including failure to deliver, not being fit for purpose and not delivering the projected savings. However, the indications were that the projects would be delivered.
- 35.7 The Portfolio Holder and the Head of Workforce and Technology answered a number of queries from Members in relation to the cultural changes required within the authority as a result of Digital Transformation, the cashable and non-cashable savings and the limited assurance given to the ERP.
- 35.8 Members requested a follow up report to a future meeting and accepted the invitation from the Head of Workforce and Technology to visit the Customer Service Centre to see some of the new processes in action.

35.9 **RESOLVED:**

To note the progress that each of the projects within the programme is making and the mitigations that are being put in place to address the issues within each work stream.

36 **First line assurance: Information Technology Update**

36.1 The Committee received the report of the Head of Workforce and Technology – copy attached to the signed Minutes – which gave an overview of service achievements in the last six months.

36.2 The Head of Workforce and Technology expanded on the recent successful full failover and recovery test. The Risk Management Officer explained that the service recovery plan set out certain timescales for recovery and was pleased to report that it only took six hours to completely fail over, recover and be operational.

36.3 The Chairman extended the Committee's congratulations to all involved for this very significant move forward.

36.4 RESOLVED:

- A. To note that the team has successfully completed a full failover and recovery to the DR site;
- B. To note the continued progress in the improvement of Shropshire IT function, validated through improved audit report outcomes.

37 First line assurance: Adult Social Care: Financial Assessments Update

37.1 The Committee received the report of the Director of Adult Services – copy attached to the signed Minutes – which set out the actions taken by the Financial Assessment Team and management following the 2017/18 Final Internal Audit report regarding Adult Social Care Financial Assessments which was issued on the 9th November 2017.

37.2 The Benefit Options Team Leader reported that significant progress had been made over the last two months due to the application of the Digital Transformation Programme and he was confident that once implemented all recommendations contained in the Internal Audit report would be completed.

37.3 In response to a query, the Benefit Options Team Leader confirmed that the number of assessments being undertaken by the team were increasing and more complex, especially in relation to Universal Credit which affects the way contributions were calculated. In response to a further query, the Benefit Options Team Leader reported that it was hoped to recruit to the team in the next few months.

37.4 RESOLVED:

- A. To note the progress that has been made to address the recommendations in the 9th November Audit Report and that wherever possible improvements are being effectively implemented;
- B. To note that the change required under recommendation 1 in regards uprating of financial contributions required Cabinet approval and public consultation and that in July 2018 the Cabinet agreed to the recommendation that the Council set the Minimum Income Guarantee for people of pensionable age in line with the Governments Statutory Minimum Income Guarantee level in order for the Council to be seen as consistent in its approach to charging for care;

- C. To note that the main improvements and implementation of the Action Plan associated with the audit which are outstanding are contingent on the Digital Transformation Project which is underway for Adult Social Care and that the recommendations of the audit in regards systems improvement have been fed into the workflow processes to ensure future systems will meet these requirements and will go live on 10th December 2018 as a part of wider system change.

38 First line assurance: Income Report update

- 38.1 The Committee received the report of the Section 151 Officer – copy attached to the signed Minutes – which provided an update on the financial controls and monitoring performed on the levels of income generated for the Council in 2018/19, which were previously reported to the Audit Committee in March 2018.
- 38.2 The Section 151 Officer gave a brief update and drew attention to the gross income detailed in Appendix 1 of the report. He explained that the additional column headed Monitoring Process gave the Audit Committee assurance about whether or not the income was being delivered and how it was being monitored.
- 38.3 In response to a query the Section 151 Officer explained that the Revenue Support Grant had reduced from £67m to just £13m. In response to a further query in relation to aged debt, the Section 151 Officer reported that certain types of debt had to be written off if not recovered within certain timescales. These were monitored although not reported upon. He confirmed that there was a bad debt reserve and that levels were reducing.
- 38.4 The Section 151 Officer explained that collection rate levels for Council Tax had been steadily improving and stood at 98.4%. From 1st April 2018 Council Tax support charges were introduced which led to more people paying than had done so previously. The expectation was that the collection rate would fall and then recover over a period of time and that this had been factored in. It would be difficult to see the impact as it was part way through the year.
- 38.5 The Section 151 Officer informed the Committee that from 2013 Local Authorities had been able to retain 50% of all Business Rates subject to any top up/tariff payments. The Council collected £80m so was able to retain £40m plus £10m top up as there was not enough businesses in Shropshire to cover need. By 2020 the Council would be able to retain 75% of its Business Rates due to fair funding,

38.6 RESOLVED:

To note the contents of the report.

39 Second line assurance: Risk and Insurance Annual Report 2017/18

- 39.1 The Committee received the report of the Risk and Insurance Manager – copy attached to the signed Minutes – which set out the challenges and achievements accomplished by the Risk and Insurance Team during 2017/2018, which has again seen an intense and varied workload.

39.2 The Risk and Insurance Manager reported an amendment to paragraph 1.4 of the report which should read 'policy year 2017/2018' and not '2018/19'. The Risk and Insurance Manager informed Members that following an audit of risk management an assurance level of "good" had been identified. She explained that strategic risks were now reviewed on a quarterly basis whilst operational risks had moved to biannual reviews.

39.3 The Risk and Insurance Manager informed the Committee how the reviews of strategic and operational risks were undertaken along with reviews of the Council's Business Continuity Management arrangements to provide assurance that they were robust (set out at paragraph 6.3 of the report). The Risk and Insurance Manager drew attention to the external work undertaken by the team along with the results of the Benchmarking exercise which, in comparison to other authorities, the Council was second overall under 'Enablers' and top in relation to 'Results'. The team had also been shortlisted for two awards for which they were 'highly commended'.

39.4 Turning to Insurance, the Risk and Insurance Manager confirmed that 745 claims had been received which was an increase of 67% on the previous year mostly due to an increase in the number of pothole claims being received. She explained that 55 claims (7%) received in 2017/2018 related to earlier policy years. Of those claims received, 681 related to liability claims, decisions for which had been reached on 197 with 184 being repudiated (93.4%).

39.5 The Risk and Insurance Manager reported that there were currently 418 open claims with reserves of £4.7m attached. A total of three cases had gone to court which were successfully defended saving over £54k. She drew Member's attention to the Municipal Mutual Insurance (MMI) clawback arrangement. In response to a query, the Risk and Insurance Manager explained that most abuse claims were related to child safeguarding however the majority would have been repudiated as the process and policies at that time had been followed correctly.

39.6 In response to a query in relation to the MMI clawback and where the Council would find the funding for a 50% to 100% levy, the Risk and Insurance Manager informed the Committee that it could be funded through the internal insurance fund or through general fund balances.

39.7 **RESOLVED:**

To accept the position as set out in the report.

40 **Second line assurance: Strategic Risks Update**

40.1 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 a strategic workshop with Directors and the July 2018 quarterly review.

40.2 The Risk and Insurance Manager reported that there were currently 16 strategic risks on the register, as detailed in the report. The Risk and Insurance Manager stated that one risk had been added to the strategic risk register and that changes to the scoring for six of the strategic risks had been made, again as detailed in the report..

40.3 The Risk and Insurance Manager reported that it had been agreed to replace the Enterprising Council risk with two risks, firstly the Failure to deliver Economic Growth Strategy and secondly the Failure to deliver the Commercial Strategy. She confirmed that detailed risk profiles were being drawn up with the new risk owners. Members were reminded that if wished they could ask for individual risk profiles to be brought by the risk owner to future meetings for Members to look at in more detail.

40.4 In response to a query in relation to Work Related Stress, the Head of Workforce and Technology explained that only a proportion of staff had time off for work related stress, in the public sector absence for work related stress accounted for 8 lost days (full time equivalent). The Head of Workforce and Technology informed the Committee what was being done to help reduce the number of staff off sick with work related stress, including the feelgood and mindfulness events and physiotherapy clinics.

40.5 In response to further queries, the Head of Workforce and Technology reported that the increase was in part due to the change in the definition of stress as well as reducing staff and increasing workloads.

40.6 Members requested that a report on the Failure to deliver the Commercial Strategy risk be presented to a future meeting of the Committee, once the review had been completed.

40.7 **RESOLVED:**

To note the position as set out in the report.

41 **Second line assurance: Annual Treasury Report 2017/18**

41.1 The Committee received the report of the Head of Finance, Governance and Assurance (Section 151 Officer) – copy attached to the signed Minutes – which informed members of treasury activities for Shropshire Council for 2017/18, including the investment performance of the Internal Treasury Team to 31 March 2018.

41.2 The Head of Finance, Governance and Assurance (Section 151 Officer) reported that the Internal Treasury Team had outperformed their investment benchmark over the last three years delivering an additional income of £1.557 million.

41.3 **RESOLVED:**

To accept the position as set out in the report.

42 **Third line assurance: Internal Audit Performance Report and revised Annual Audit Plan 2018/19**

42.1 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 four and a half months since the beginning of the financial year and the start of Shropshire Council's approved audit plan implementation.

42.2 The Head of Audit advised Members that 29% of the revised Plan had been completed and it was hoped to achieve 90% completion by year end. She reported

that five good, eleven reasonable and five limited assurance opinions had been issued and that the 21 final reports contained 200 recommendations, none of which were fundamental. 36% of the fraud contingency had been used, compared to 22% last year.

42.3 The Head of Audit drew attention to the reduction in the overall audit plan from 2,256 days to 1,911 days to reflect adjustments in risks and a reduction in available resources. Members noted the areas where Audit had added value in the delivery of work and expressed their pleasure that assurance levels had improved.

42.4 **RESOLVED:**

- A. That performance to date against the 2018/19 Audit Plan set out in this report be noted.
- B. That the adjustments required to the 2018/19 plan to take account of changing priorities set out in **Appendix B**, be approved.

43 **Third line assurance: External Audit: 2017-18 Shropshire Council Annual Audit Letter**

43.1 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 2018.

43.2 The Senior Manager introduced the report and drew attention to the unqualified opinion on both the Council's financial statements and those of the Shropshire County Pension Fund. The key issue arising from the audit of the Council's accounts was the purchase of a Jersey Property Unit Trust (the three shopping centres in the centre of Shrewsbury) with a non-material error being identified on the financial statements.

43.3 The Senior Manager drew attention to the key findings from the Value for Money conclusion, set out on pages 10-12 of the report however they were of the view that risks were being managed and prudential decisions being made.

43.4 In response to a query, the Senior Manager explained that the thresholds that determine the levels of materiality were quite significant and were set out in the International Standards of Auditing (UK) (ISAs) using their own methodology. For public sector auditing purposes, a percentage of gross revenue expenditure was used.

43.5 In response to a query, the Section 151 Officer explained that a form designer was crucial in the design of the new system software. The Senior Manager explained what the fees for non-audit services covered.

43.6 **RESOLVED:**

That the contents of the report be noted.

44 **Third line assurance: External Audit: Shropshire County Pension Fund - Audit Findings Report 2017/18**

44.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – which set out the Audit Findings for Shropshire County Pension Fund for the year ending 31 March 2018. The Senior Manager drew attention to the significant audit risks set out on page 6 of the report and explained that there was a risk that the valuation of Level 3 investments was incorrect.

44.2 RESOLVED:

That the contents of the report be noted.

45 Third line of assurance: External Audit: Shropshire Council Audit Committee Progress Report September 2018

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

45.2 In response to a query, the Engagement Manager reported that they were very happy with the way in which the earlier close down had gone. Communication between the Council and External Audit had been very good and dialogue would continue to be undertaken earlier.

45.3 RESOLVED:

That the contents of the report be noted.

46 Date and Time of Next Meeting

46.1 Members were reminded that the next meeting of the Audit Committee would be held on the 6 December 2018 at 1.30pm.

47 Exclusion of Press and Public

47.1 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.

48 Exempt Minutes of the previous meeting held on the 28 June 2018

48.1 **RESOLVED:** That the exempt minutes of the meeting held on 28 June 2018 be approved and signed by the Chairman as a correct record.

49 Third Line Assurance: Fraud, Special Investigation and RIPA Update (Exempted by Categories 2, 3 and 7)

49.1 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.

49.2 RESOLVED:

That the contents of the report be noted.

Signed (Chairman)

Date: