



Committee and Date

Audit Committee

25 February 2019

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 6 DECEMBER 2018

1.30 - 3.00 PM

Responsible Officer: Michelle Dulson

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Present

Councillor Peter Adams (Chairman)

Councillors Brian Williams (Vice Chairman), Michael Wood and Roger Evans (Substitute)
(substitute for Chris Mellings)

50 Apologies for Absence / Notification of Substitutes

50.1 Apologies for absence were received from Councillors Ioan Jones and Chris Mellings.

50.2 Councillor Roger Evans substituted for Councillor Chris Mellings.

51 Disclosable Pecuniary Interests

51.1 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.

52 Minutes of the previous meeting held on the 13 September 2018

52.1 RESOLVED:

That the Minutes of the meeting held on 13 September 2018 be approved and signed by the Chairman as a correct record.

52.2 The Head of Finance, Governance and Assurance (Section 151 Officer) reported that a series of responses to the management recommendations had been completed and would be circulated.

53 Public Questions

53.1 A public question was received from Mr S Mulloy, local resident (copy attached to the signed Minutes). The following response was provided by Ceri Pilawski, the Head of Audit:

Question 1 – Preamble

The Audit Commission was disbanded in August 2010 and the work transferred to the private sector, and at the same time the Standard Board regime was abolished with responsibility for ethical standards handed back to local authorities.

Although the audit committee might not agree, the standards committee process is considered 'not fit for purpose' by many who have referred matters for consideration, but what is more of a concern is that, under the former regime, the Audit Commission had special powers and responsibilities to investigate financial misconduct and illegality including the right to require and seize records even from third parties and demand explanations from officers, councillors and even contractors and those working alongside local authorities.

Under the new regime of audit by the private sector, there is no such powers and a variation fee needs to be negotiated by the auditor for any investigation that might take place. This brings the inherent risk that a private sector auditor may feel less able to act without fear or favour, and moderate their professional scepticism with a view to having their contract renewed.

The police have neither the resources or expertise to investigate so essentially, with the greatest of respect to the internal audit team, there is a vacuum of ownership of local government fraud. This is demonstrated by the loophole whereby any complaints that allege criminal behaviour must be referred to the police, but when they are subsequently 'dropped' by the police, the council's standards committee is not permitted to consider the allegations further, thereby natural justice is not seen to be done.

This is sadly lacking in any democratic accountability, and corrosive to public trust in the police and local authority.

Question 1

In the light of the recent well publicised events relating to the lack of oversight of grants made from public funds, council assets being sold and the valuations not being recorded, abuse of covenants, abuse of LJC financial rules, and councillors failing to declare pecuniary interests with apparent immunity, will this audit committee act before the next crisis hits the public domain, because whatever is being done now, no matter how robust it is claimed to be, it is clearly not working?

Response

Where issues have been brought to light outside the scope of the risk based plan these have and will continue to be reviewed against the evidence provided and within available resources and appropriate action taken. Where necessary recommendations are made to Service Areas to improve the control environment and these are followed up.

Question 2

In light of the succession of recent adverse reports about Grant Thornton (see below), how does Shropshire Council justify its continued use of Grant Thornton as its external auditor and will this relationship be reviewed?

April 2017 - <https://www.bbc.co.uk/news/business-39693134>

August 2018 - <https://www.bbc.co.uk/news/uk-england-manchester-45341315>

November 2018 -Accountancy watchdog to probe Grant Thornton over Patisserie Valerie audits

Response

The Council will not be commenting on the press articles which are unrelated to the work of this Committee.

The appointment of Grant Thornton as External Auditor to Shropshire Council is undertaken by Public Sector Audit Appointments Limited, a national body under the Local Government Association, who act as the appointing person under the provision of the Local Audit and Accountability Act 2014 and regulation 3 of the Local Government (Appointing Persons) Regulations 2015. Grant Thornton have been awarded the contract covering the financial periods 2018/19 to 2022/23. The Council does not have any concerns with this appointment process.

A brief discussion ensued in relation to the Full Council's decision to no longer allow supplementary questions, and it was agreed for the Chairman to raise this issue with the Leader of the Council.

54 First line assurance: Estates update

- 54.1 The Committee received the report of the Head of Business Enterprise and Commercial Services – copy attached to the signed Minutes – which provided a further update following the report provided in June 2018 which set out the management action undertaken to address the recommendations in the internal audit report dated 21 April 2017.
- 54.2 It was confirmed that all 19 recommendations had now been addressed and management action taken across a number of areas, including the roll out of Tech Forge and a further audit was awaited to test the new systems that had been put in place. The additional staff resources that had been appointed have proved to be very successful and would be incorporated into the permanent structure through a pending restructure of the Assets and Estates area to ensure a more commercial / economic development focus.
- 54.3 The Head of Audit reported that a further audit would be undertaken during the next quarter, results of which would be reported back to the Audit Committee. Members expressed their pleasure that managers reported that all the recommendations had been implemented and hoped the service would be successful going forward.
- 54.4 In response to a query, it was confirmed that Sharepoint would provide a more consistent approach to file sharing across the Council. It was explained that the TF Cloud system was a central electronic database of all the Council owned property, captured in one system. In response to a query it was confirmed that the mapping system could be used to signpost Town and Parish Council's to information relevant to their local plans.
- 54.5 **RESOLVED:**
- A. To note the progress that has been made to address the recommendations in the 21 April 2017 Audit Report to ensure that all improvements are effectively implemented and monitored via the action plan for estate management.

- B. To note that the further improvements and implementation of the action plan associated with the audit have been progressed in line with the corporate landlord model.

55 Second line assurance: Treasury Strategy Mid-Year Report 2018/19

- 55.1 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 2018/19; 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 2018/19
- 55.2 The Head of Finance, Assurance and Governance (Section 151 Officer) highlighted the pleasing performance of the Internal Treasury Management Team which had outperformed its benchmark by 0.28% delivering additional income of £161,320 for the first six months of the year. He drew attention to Section 5 of the report which set out the Council's approach to Treasury Management which looked at risk, security, liquidity, yield and capital plans and how these were managed.
- 55.3 The Head of Finance, Assurance and Governance (Section 151 Officer) explained that as from 2019/20 all local authorities are required to prepare a Capital Strategy and that a report setting out Shropshire Council's Capital Strategy would be taken to Full Council in February 2019.
- 55.4 Members were comforted that the Internal Treasury Management Team always outperformed their benchmark and the Head of Finance, Assurance and Governance (Section 151 Officer) informed the Committee that Shropshire did very well in relation to relative risk to relative reward and were one of, it not the highest return for the lowest risk.

55.5 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.
- C. That the updated MRP Policy set out at Appendix D be approved.

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

- 56.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which outlined the measures undertaken 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 provided an update on the action plan to ensure continuous improvement and

provided an update to Members in response to national and local issues. It was confirmed that no major changes were being proposed to the existing strategy.

56.2 The Head of Audit reported that the Council's Anti-Money Laundering procedure and guidance had been updated to reflect The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017. In relation to the National Fraud Initiative, the Head of Audit explained that the results from the data matching exercise were currently being investigated to see whether they were the result of fraud or data errors and would be reported to the Audit Committee at a future meeting.

56.3 In response to a query the Head of Audit reported that Shropshire did not see much fraud in relation to blue badges.

56.4 **RESOLVED:**

To note the measures undertaken and detailed in the report to monitor systems to manage associated risks with the aim of prevention, detection and subsequent reporting of fraud, bribery and corruption.

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

57.1 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, italics and underlined in Appendix A and section six of the report.

57.2 **RESOLVED:**

That the revised Audit Committee Terms of Reference be endorsed.

58 **Governance Assurance: Annual Audit Committee Self-Assessment**

58.1 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.

58.2 The Section 151 Officer confirmed that high levels of compliance had been identified along with a few areas of partial compliance. He explained that the Self-Assessment had been updated in accordance with CIPFAs 2018 guidance and it was confirmed that the Committee had considered the assessment model in some detail at a training session in October 2017 and an externally facilitated session in March 2018.

58.3 The Section 151 Officer drew attention to Appendix B which set out the areas that Members have identified for future focus and refresh sessions and where updated training had been provided, whilst Appendix A set out those areas of partial compliance and the proposed actions to address improvement, which Members were happy with.

58.4 Members commented on the usefulness of the externally facilitated session.

58.5 RESOLVED:

- A. That the self-assessment of good practice attached at Appendix A be endorsed.
- B. That the analysis of training requirements attached at Appendix B be endorsed.
- C. That the action plan be reviewed and revised in order to improve areas of weakness.

59 Third line assurance: Internal Audit Charter

59.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which proposed no changes to the Internal Audit Charter for 2018.

59.2 RESOLVED:

That the Internal Audit Charter be endorsed.

60 Third line assurance: Internal Audit performance report and revised Annual Audit Plan 2018/19

60.1 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 three months since the previous Audit Committee.

60.2 The Head of Audit informed the meeting that 52% of the revised plan had been completed and although slightly down on previous delivery records, the team were still on target to achieve 90% delivery by year end. She reported that one good and two reasonable assurance opinions had been issued together with five limited and one unsatisfactory assurance opinions. She went on to say that nine final reports had been issued which contained 112 recommendations, one of which was fundamental.

60.3 The Head of Audit reported that there had been significant revisions reducing the overall audit plan from 1,911 days to 1,773 days due to adjustments in risk, more complex and sensitive reviews and a continuing reduction in resources. The impact of this on the Head of Audit's opinion was not yet known but was a concern.

60.4 The Head of Audit drew attention to the audits that had been completed and the assurance levels awarded (Paragraphs 5.8 and 5.9). Turning to the fundamental recommendation that had been identified in relation to Environmental Maintenance Grants, the Head of Audit reported that the management of grants had needed improving and management had responded agreeing on actions taken to address the recommendations.

60.5 The one significant recommendation that had been rejected by management was in relation to Section 38 Road Adoptions. There was no evidence of confirmation by legal services that the Council had the right to write off certain amounts of funding under the bond agreements. Management felt that this had been done and sums of money had been signed off at Director level.

60.6 Members expressed concern at the level of assurance that the Head of Audit was able to give considering the current level of staff reduction and she was asked to

highlight in her Annual Report to Council the resourcing issues being experienced together with the knock on effect on the team's ability to carry out the function.

60.7 RESOLVED:

- a) That performance to date against the 2018/19 Audit Plan as set out in the report be noted;
- b) That the actions to be taken in relation to any low assurance levels, the residual control environment, delivery against the fundamental recommendation and where a recommendation had been rejected, be noted.
- c) That the adjustments required to the 2018/19 plan to take account of changing priorities, as set out in Appendix B of the report, be endorsed.

61 Third line assurance: External Audit, Audit progress report and sector update

- 61.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – which provided the Audit Committee with a report on progress together with a summary of emerging national issues and developments which may be of relevance to the Council.
- 61.2 The External Engagement Lead reported that the work for 2017/18 had been completed and that work had begun on the 2018/19 audit. He informed the meeting that the Audit Plan would be presented to the Committee at its next meeting which would contain more detail about their approach and timings.
- 61.3 Turning to the Sector update, the External Audit Lead drew attention to the CIPFA Consultation on Financial Resilience Index which would provide an assessment of the relative financial health of each local authority including its level of reserves. He reported that the Institute of Fiscal Studies: Impact of 'Fair Funding Review' had been published in the summer the impact of which was not yet know.
- 61.4 The External Audit Lead highlighted the Caring Society programme which they were doing work on to facilitate thinking about what social care would look like in the future and how it needed to change. In response to a query it was confirmed that a lot of work had been done on Adult Social Care to get an accurate prediction of need. Shropshire had a high level of older people and out of 550 Local Authorities, Shropshire was 167th and it was felt there was a high risk that funding could not be matched to need. Members expressed concern at the inadequate number of residential home places available in the future. Concern was also raised in relation to Children's Social Care which was harder to predict and it was reported that the number of children that the Council were responsible for had increased from 289 to 369 (80%) this year alone.
- 61.5 In response to a query the External Audit Lead confirmed that financial resilience was a common thread impacting on all councils as their level of reserves were getting increasingly lower.

61.6 RESOLVED:

That the contents of the report be noted.

62 Third line assurance: External Audit, Certification letter

62.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – detailing the Certification Work for 2017/18 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 in Appendix A. The costs for the Council were set out in Appendix B.

62.2 RESOLVED:

That the contents of the report be noted.

63 Date and Time of Next Meeting

63.1 Members were reminded that the next meeting of the Audit Committee would be held on Monday 25 February 2019 at 1.30pm.

64 Exclusion of Press and Public

64.1 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.

65 Exempt Minutes

65.1 RESOLVED:

That the exempt minutes of the meeting held on 13 September 2018 be approved and signed by the Chairman as a correct record.

**66 Third Line Assurance: Fraud, Special Investigation and RIPA Update
(Exempted by Categories 1, 2, 3, 5 and 7)**

66.1 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.

66.2 RESOLVED

That the contents of the report be noted.

Signed (Chairman)

Date:

