

**Committee and Date**

Audit Committee

5 December 2019

**MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 12 SEPTEMBER 2019
1.30 - 3.10 PM****Responsible Officer:** Michelle Dulson

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Present

Councillor Peter Adams (Chairman)

Councillors Ioan Jones, Brian Williams (Vice Chairman), Gerald Dakin (Substitute)
(substitute for Michael Wood) and Roger Evans (Substitute) (substitute for Chris Mellings)**31 Apologies for Absence / Notification of Substitutes**

31.1 Apologies for absence were received from Councillors Chris Mellings and Michael Wood.

31.2 Councillor Roger Evans substituted for Councillor Chris Mellings and Councillor Gerald Dakin substituted for Councillor Michael 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 27 June and 23 July 2019**33.1 RESOLVED:**

That the Minutes of the meetings held on 27 June 2019 and 23 July 2019 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: Liquid Logic Project Review Update

35.1 The Assistant Director of Adult Services introduced the report of the Director of Adult Services – copy attached to the signed Minutes – which provided an update following the review of Liquidlogic Adults Social Care System (LAS) Project by Internal Audit,

which concluded that the current level of assurance was 'limited' and that the direction of travel was 'a weakening control environment'.

- 35.2 The Assistant Director of Adult Services confirmed that appropriate action had been taken to address the 6 recommendations (4 Significant and 2 Requires Attention) and all had now been completed. She reported that the project had now been implemented on time and in budget and that a lessons' learnt review would be undertaken in November/December.
- 35.3 Members were pleased that all recommendations had been taken on board however they did not agree that the management controls in place at the time of the audit were robust nor that the limited assurance level was due to the delay in providing information and documents to the audit team.
- 35.4 In response, the Assistant Director of Adult Services confirmed that the limited assurance level had had no impact on service users prior to going live on 10 December. In response to a query, the Assistant Director of Adult Services explained what was meant by 'The functionality in the system...' set out in the second bullet point on page 2 of the report.
- 35.5 In response to a query about whether the Head of Audit was satisfied that the recommendations had been met, she explained that she would not be able to give that assurance until the follow up audit had been undertaken and, in any case, it was for the Managers to provide their assurance. The Assistant Director of Adult Services reported that the Director had been assured by his project team that the control measures in place were robust.

35.6 **RESOLVED:**

To note that the management controls in place as part of the project were robust during the transition of the system into Business As Usual.

36 **First line assurance: Children's Direct Payments 2018/19 Update**

- 36.1 The Committee received the report of the Head of Safeguarding – copy attached to the signed Minutes – which sets out the progress that had been made following the 2018/19 internal audit, the final report of which was issued in March 2019.
- 36.2 The Service Manager informed the meeting that the review had concluded that the level of assurance was limited, having previously been good and that 17 recommendations had been made, 9 of which were significant whilst 8 required attention. Following a management review in June 2019, 3 of the 9 significant recommendations and 5 of the 8 recommendations that required attention were rated green.
- 36.3 Concern was raised by Members that the level of assurance had fallen from being good to being limited with 17 areas of concern. In response, the Service Manager explained that the service had been missing a key post for a significant amount of time which had finally been filled in December 2018, following which, the system control weaknesses in this area were strengthened.

36.4 In response to a query the Service Manager informed the Committee that recommendation 16 in relation to the Personal and Sensitive Data Risk Assessment had been completed with no significant impact on service users.

36.5 A further progress report was requested following the management review being undertaken in October 2019.

36.6 RESOLVED:

- a) To note the review that took place on 19 June in relation to the recommendations made from the audit.
- b) To note the progress that has been made to address the recommendations in the 12 March Audit Report to ensure that all improvements were effectively implemented and monitored via the management responses.
- c) That a further report be provided to a future meeting of the Audit Committee.

37 Second line assurance: Risk Annual Report 2018/19 incorporating Strategic Risks Update

37.1 The Committee received the report of the Risk and Insurance Manager – copy attached to the signed Minutes – which sets out the challenges and achievements accomplished by the Risk and Insurance Team during 2018/2019 (and up to the preparation of this report).

37.2 The Risk and Insurance Manager informed the meeting that the Emergency Planning Unit had recently been incorporated into the team, which had been renamed 'Risk, Insurance and Resilience Team'. She then drew attention to the 'good' assurance level achieved following a risk management audit undertaken by external auditors.

37.3 The Risk and Insurance Manager informed the Committee how the quarterly reviews of strategic risks were undertaken in order to ensure that risk levels were closely monitored. She reported that the last review had been undertaken in June 2019. There were currently 16 strategic risks identified on the register, 8 of which were considered high risk, as detailed in the report.

37.4 Turning to Operational Risks, the Risk and Insurance Manager reported that all operational risks had been moved onto a specific 'SharePoint' site to allow a real time view of current operational risk exposure which could be updated whenever changes were required. She reported that Project Risk Registers would also be moved onto the 'SharePoint' site.

37.5 The Risk and Insurance Manager reported that an additional level of business continuity tactical plans were being developed for HR, Finance and Assets which were currently being finalised and would provide a corporate approach across these areas. She then drew attention to the Business Continuity exercise recently undertaken along with the week-long live exercise undertaken during Business Continuity week in May each year.

37.6 In response to a query, the Risk Management Officer explained how businesses came to be invited to the 'Your Business Matters' facilitated sessions. She reported

that currently the Emergency Planning Team contacts were invited by email, but in future, the Business Growth Team were hoping to extend the invitation to wider businesses. Data from these sessions would be provided next year and would include the percentage of businesses that attended.

37.8 Both the Risk and Insurance Manager and the Risk Management Officer answered a number of queries from Members in relation to the following strategic risks: Staffing, Work Related Stress, Failure to Safeguard Vulnerable Children/Adults and the Economic Impact of Brexit. The Risk and Insurance Manager explained that there were detailed risk profiles sitting behind each risk and reminded Members that if they 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.

37.9 In relation to Failure to Safeguard Vulnerable Children/Adults the Risk and Insurance Manager explained that the impact of the risk could be mitigated by having a lot of controls in place and this may well be the reason for the lower 'likelihood' score for Safeguarding Vulnerable Children. Members requested that both the Director of Children's Services and the Director of Adult Services be invited to the next meeting to discuss the risk profiles.

37.10 Concern was raised about whether the Economic Impact of Brexit should have a higher score as it could have an effect on a number of different areas. In response, the Risk and Insurance Manager confirmed that this was being reviewed as part of the Strategic Risk Update for September and it was felt that the definition needed to be wider. She reported that the Brexit Lead Officer was being updated via the EU Working Group on a weekly basis and that the risk would be escalated if required.

37.11 RESOLVED:

- A. To accept the position as set out in the report.
- B. That the Directors for both Children's Services and Adult Services be invited to attend the next meeting of the Audit Committee to discuss their current strategic risks.

38 Second line assurance: Annual Treasury Report 2018/19

38.1 The Committee received the report of the Director of Finance, Governance and Assurance (Section 151 Officer) – copy attached to the signed Minutes – which informed members of treasury activities for Shropshire Council for 2018/19, including the investment performance of the internal treasury team to 31 March 2019.

38.2 The Head of Finance, Governance and Assurance (Section 151 Officer) reported that the Internal Treasury Team had outperformed their investment benchmark by 0.29% and that performance over the last three years was 0.29% per annum above benchmark delivering an underspend of £5.061 million. This was mainly due to a review of the Minimum Revenue Provision policy.

38.3 The Head of Finance, Governance and Assurance (Section 151 Officer) drew attention to the significant levels of ongoing savings and one-off adjustments and highlighted the minimum reporting requirements for the review and scrutiny of the Council's treasury management policy and activities undertaken by Audit Committee before being reported to full Council for approval.

38.4 RESOLVED:

To accept the position as set out in the report.

39 Third line assurance: Internal Audit Performance Report and revised Annual Audit Plan 2019/20

- 39.1 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.
- 39.2 The Head of Audit advised Members that 35% of the revised Plan had been completed and the team were on target to achieve 90% completion by year end. The Head of Audit drew attention to the reduction in the overall audit plan from 2,362 days to 2,258 days in order to reflect adjustments in risks and a reduction in available resources. She also reported a significant increase in the demand for fraud investigations (from 36% last year up to 50% this year).
- 39.3 The Head of Audit drew attention to the assurance levels and reported that four good, nineteen reasonable, seven limited and four unsatisfactory assurance opinions had been issued. The 34 final reports contained 360 recommendations, two of which were fundamental in relation to Brockton CE Primary School and Legionella which were detailed at paragraph 5.14 of the report.
- 39.4 The Head of Audit highlighted those areas where Audit had added value in the delivery of work and reported that the number of lower level assurances to date (32%) was slightly lower than for the previous year (33%).
- 39.5 **RESOLVED:**
- a) That performance to date against the 2019/20 Audit Plan set out in this report be noted.
 - b) That the adjustments required to the 2019/20 plan to take account of changing priorities set out in **Appendix B**, be approved.

40 Third line assurance: External Audit: Annual Audit Letter 2018/19

- 40.1 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 2019.
- 40.2 The External Auditor drew attention to the unqualified opinion on both the Council's financial statements and the Value for Money conclusion and confirmed that they were on track to complete the Certification of Grants works by 30 November 2019.
- 40.3 The External Auditor discussed the impact of the McCloud ruling on pension liabilities which had led to an increase on the balance sheet of £11.8m which had been processed through the Council's financial statements. He then drew attention to the unadjusted misstatement in relation to the JPUT (Jersey Property Unit Trust).

- 40.4 Turning to the Value for Money Conclusion, the External Auditor reported that there continued to be a funding gap for which the Council needed to put plans in place to address. In relation to the proposed changes to fees, these were being discussed with the Director of Finance, Governance and Assurance (Section 151 Officer).
- 40.5 In response to a query with regards the 2020/21 budget, Members were reminded of the discussion at Full Council in July in relation to the economic growth and revenue generation strategy. The Director of Finance, Governance and Assurance (Section 151 Officer) explained that budget setting was an ongoing process which officers continued to monitor. The position for the next financial year had been broadly updated and the Financial Strategy set for 2020 however, there was no information for the financial year 2020/21 so it was uncertain what this would look like.
- 40.6 In response to a further query, the Director of Finance, Governance and Assurance (Section 151 Officer) explained that the General Fund Balance was not set at 2%, instead it was a risk-assessed target and the balance of £15.5m was the level that officers anticipated would be required. He reported that a risk assessment was undertaken every year to determine the level of the General Fund Balance and he confirmed that he anticipated that the Council would be setting a balanced budget for 2020/21.
- 40.7 In response to concerns, the External Auditor explained that the Council had the opportunity to take action to address the risks and that External Audit would continue to review and report on the situation. He stressed that this was a challenge faced by all Councils, not just Shropshire Council.

40.8 **RESOLVED:**

That the contents of the report be noted.

41 **Third line assurance: External Audit: Shropshire County Pension Fund (Information) 2018/19 letter**

- 41.1 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 2019. The External Auditor drew attention to the unadjusted misstatements set out on page 13 of the report but reported that an unqualified opinion would be given.

41.2 **RESOLVED:**

That the contents of the report be noted.

42 **Third line assurance: External Audit: Audit progress report and sector update**

- 42.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – which provided Members with a report on progress together with a summary of emerging national issues and developments which may be of relevance to the Council.

42.2 The External Auditor drew attention to the progress to date set out on page 4 of the report and he confirmed that External Audit continued to meet with officers as appropriate. In relation to the Annual Certification Letter, it was confirmed that any matters arising from this work going forward would be clarified in the letter.

42.3 RESOLVED:

That the contents of the report be noted.

43 Date and Time of Next Meeting

43.1 Members were reminded that the next meeting of the Audit Committee would be held on the 5 December 2019 at 1.30pm.

44 Exclusion of Press and Public

44.1 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.

45 Exempt Minutes (Exempted by Categories 2, 3 and 7)

45.1 RESOLVED:

That the exempt minutes of the meeting held on 27 June 2019 be approved and signed by the Chairman as a correct record.

46 Third line assurance: Fraud, special investigation and RIPA updates (Exempted by Categories 2, 3 and 7)

46.1 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.

46.2 RESOLVED

That the contents of the report be noted.

Signed (Chairman)

Date:

