



<u>Committee and Date</u>
Audit Committee
15 September 2022

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 20 JULY 2022 10.00AM TO 12:48PM

Responsible Officer: Michelle Dulson
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Present

Councillor Brian Williams (Chairman)
 Councillors Rosemary Dartnall, Simon Harris (Vice Chairman), Nigel Lumby
 and Roger Evans

4 Apologies for Absence / Notification of Substitutes

No apologies were received.

5 Disclosable Pecuniary Interests

Members were reminded 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.

6 Minutes of the previous meeting held on the 22 February 2022

That the Minutes of the meeting of the Audit Committee held on the 22 February 2022 be approved as a true record and signed by the Chairman.

7 Public Questions

There were no questions from members of the public.

8 Members questions

There were no questions from Members.

9 Second line assurance: Annual Whistleblowing report

Members received the report of the Assistant Director for Workforce and Improvement (copy attached to the signed minutes) which presented the Annual Whistleblowing report for 2021/22 which showed that there had been 25 cases reported under the Whistleblowing arrangements, a 29% decrease on the previous year.

The Assistant Director for Workforce and Improvement introduced and amplified her report. She explained what was meant by 'Whistleblowing'

and drew attention to paragraph 7.3 and the types of whistleblowing that were eligible for protection (qualifying disclosures) set out at paragraph 7.7 of the report.

All 25 cases had been received via email with the most commonly reported theme being financial incident eg theft, tenancy or tax fraud, the results of which were set out in the report at paragraph 8.1. The Assistant Director for Workforce and Improvement confirmed that nine cases, none of which related to employees, had been referred to third parties eg the Department for Work and Pensions and Action Fraud.

In conclusion, the Assistant Director for Workforce and Improvement assured the Committee that the awareness was out there for individuals to raise concerns in a safe way and that any such concerns would be dealt with appropriately.

The Chairman thanked the Assistant Director for Workforce and Improvement for her very reassuring report and was pleased to note the number of cases that had needed no further action.

In response to a query, the Assistant Director for Workforce and Improvement explained that the number of cases fluctuated over the years due to a number of factors and although the numbers had decreased this particular year, they were still healthy numbers and what they would expect.

In response to a further query in relation to the two cases that had been managed via another policy/procedure and the one case where the outcome was described as Management Action, the Assistant Director for Workforce and Improvement explained that two had been dealt with under the Council's internal Disciplinary process and one by way of a more informal process and she confirmed that she was satisfied with the outcomes and had assurance that they were dealt with appropriately, the cases were investigated thoroughly and appropriate action was taken.

RESOLVED:

That the contents of the report be noted.

10 Second line assurance: Strategic Risks update

The Committee received the report of the Risk, Insurance and Resilience Manager (copy attached to the signed minutes) which set out the current strategic risk exposure following the March 2022 quarterly review and the outcome of the annual strategic risk workshop.

The Risk, Insurance and Resilience Manager introduced and amplified her report. She explained that numerous changes had been made to the register following the workshop; ten risk scores had remained the same,

two scores were increased and one reduced, with three risks being archived and one new risk added, which gave 14 current strategic risks.

She explained that one of those scores that had been increased was regards to the 'inability to deliver a balanced budget', which particular strategic risk had an individual scoring mechanism which best suited the risk, and on this occasion the likelihood was reduced to a 4 from a 5 because the Council had achieved a balanced budget for year one but had not achieved one for year two. The impact was increased from a 3 to a 4 to reflect the current status of social care costs, increased costs of living and the financial pressures from Covid.

The other risk where the score was increased was a 'failure to manage and mitigate the mental health and wellbeing of staff', this was due to pressures on HR and the whole Council, the ongoing impact of Covid and general wellbeing which was raised in the pulse survey, and the fact that stress absences were still high, it was agreed that the impact score should be increased to 4, making this a high risk.

She reported that the other score that was changed was the 'ICT infrastructure reliance' and due to the actions that had been taken it was actually considered that the likelihood of failure could be reduced on this occasion from a 3 to a 2 making it a medium risk. This reflected the work that had been undertaken regarding ICT infrastructure.

It had been agreed that several risks could be archived during the workshop, and these were set out in paragraph 7.7.4 of the report. The Risk, Insurance and Resilience Manager drew attention to the one new risk that had been identified, 'Impact of pressures in the wider Health & Care System' and this was marked as a high risk.

During the workshop with Executive Directors, the target scores, slippage and emerging risks were all discussed and there was agreement that slippage of implementation dates for additional controls needed to be monitored more closely by the risk owners and a recognition of the risk of future concurrent events. A workshop was subsequently held because it was recognised that there would be quite a lot of incidents happening at once and how could that be managed in the future.

She explained with the strategic risks being available in real time in SharePoint and the fact the Executive Directors review strategic risks on a cyclical basis at their weekly meetings, it was considered that risks were now fully embedded within the authority and being looked at in real time.

In response to a query in relation to ICT infrastructure being a moment in time and whether that related to a specific action that had been taken, the Risk, Insurance and Resilience Manager explained that originally ICT reliance and cyber were all in one risk but it was decided that they were two different things. It was known that the Council has a very big

exposure with cyber and a lot of work was required around that, but there was a lot of work being done around ICT reliance and additional controls had been completed, so it was felt from the reliance point of view, the Council was in a much better place but recognised from the cyber point of view, more work was required.

In response to a comment about the description of the Cyber Attack risk and that the likelihood remained at 5; it was confirmed that was just a title and there was a more detailed description that sat underneath which detailed this risk and could be sent to Members. It was agreed for the risk definition to be expanded. The Section 151 Officer explained the reason why the likelihood remained at 5. It meant that cyber-attacks were happening and the Council had been the victim of several (benign) attacks in the last few months that had come through and got into the Council's systems. It was known there were vulnerabilities in the system which needed to be managed. Work was ongoing to tighten those up and reduce the likelihood down from 5 to 4.

Concern was raised around the score for the 'Failure to safeguard vulnerable children' risk, as it was felt that the processes in place were robust enough to reduce the likelihood of a failure to safeguard vulnerable children. However, the impact in terms of the Council's reputation should be at the maximum of 5 not the current score of 4. In response the Risk, Insurance and Resilience Manager explained that currently Children's safeguarding was, nationally, one of the main concerns that councils have with regard to lack of social workers, the cost of living, the effects of Covid, etc. The likelihood was reflecting all these concerns.

Concern was raised that the Direction of Travel for the Council's 'response to and recovery from Covid' risk, has not been reducing as it was felt that this risk would have been absorbed by now. In response, the Risk, Insurance and Resilience Manager explained that it had been agreed to do a complete overhaul of the Covid risk to recognise that although we are now living with Covid, there were concerns around the winter period coming up, and that review was currently being undertaken and would be reported to the Committee at its next meeting.

RESOLVED:

To accept the position as set out in the report.

11 Third line assurance: (a) Internal Audit Performance Report and (b) Annual report 2021/22

- (a) 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 final two months of 2021/22 since the previous update at the 22 February 2022 Audit Committee meeting.

The Head of Audit introduced and amplified her report. She advised Members that 97% of the revised Plan had been completed and the team had achieved the target to deliver a minimum of 90% of the revised annual plan by the year end. She went on to report that 14 final reports had been issued, details of which were set out in paragraph 8.4 of the report. One good, six reasonable, four limited and three unsatisfactory assurance opinions had been issued. The 14 final reports contained 110 recommendations, two of which were fundamental and set out at paragraph 8.10 of the report and related to IT Business Administration and Microsoft arrangements.

The Head of Audit drew attention to table 3 (Appendix A) which set out the unsatisfactory and limited assurance opinions issued. In response to Members concerns around these unsatisfactory and limited assurance opinions, it was confirmed that a management report would be requested for the November meeting to allow the relevant manager to provide assurance to the Committee that the recommendations were being implemented.

Concern was also raised in relation to the unsatisfactory audit opinion issued for the Dog Warden's follow up audit for which a fundamental recommendation was made. In response, the Head of Audit explained that the Committee could request the relevant manager to attend a future meeting to seek assurance that improvements were being made. She stated that this would be followed up and reported back but if it moved into Limited a follow up audit would not necessarily be undertaken.

RESOLVED:

- i) That performance against the 2021/22 Audit Plan be noted.
 - ii) To request a management report for the 24 November 2022 Audit Committee meeting in respect of the activity completed against the action plans for the following areas:
 - Information Security Management
 - IT Code of Practice
 - Legacy Infrastructure and Systems
 - IT Business Administration Follow-up
 - Microsoft Management Arrangements
- b) The Committee received the report of the Head of Audit (copy attached to the signed minutes) which provided Members with details of the work undertaken by Internal Audit for the year ended 31 March 2022. The Head of Audit confirmed that she could offer 'limited assurance' on the Council's framework for governance, risk and internal control in her end of year opinion.

The Head of Audit introduced and amplified her report. She reported that 47 reports had been issued (set out in Appendix A, tables 2 and 3) and 389 recommendations made. The Head of Audit drew attention to the revisions made to the audit plan throughout the year and she confirmed that the service had been free from interference. She also explained that although business continuity plans had been in place the whole year which impacted on resources, this did not affect her opinion.

The Head of Audit reported that there were still a number of unsatisfactory assurances for which recommendations had been agreed by management. The total number of fundamental recommendations had increased by 3% compared to the previous year, although the numbers were still low.

The Head of Audit drew attention to the counter fraud activities supported by Internal Audit (paragraph 8.12) along with those activities which added value (8.13), and any other matters which were taken into account (8.17) and which all helped the Head of Audit to reach her opinion. Finally, the Head of Audit drew attention to her conclusion set out at paragraph 8.20.

The Head of Audit reported that the Internal Audit team had been shortlisted by the Institute of Internal Auditors for two awards, Outstanding Internal Audit Team in the Public Sector, and Inspirational Leader, and although they did not win, they were very happy to be shortlisted.

In response to concerns that the recommendation set out at paragraph 3.3 needed to be strengthened, the Chairman confirmed that he was satisfied that Managers would carry out the agreed actions in respect of the recommendations made to address any weaknesses and suggested improvements. The Head of Audit explained that her opinion was based on the work that had been undertaken and that there was a willingness from Managers to improve.

The Chairman took considerable comfort in the fact that the performance of the Council's Internal Audit demonstrated compliance with the PSIAS and that there were no areas of significant concern. He congratulated the team on being shortlisted considering the prestigious company.

RESOLVED:

- i) That performance against the Audit Plan for the year ended 31 March 2022 be noted.
- ii) To note that Internal Audit have evaluated the effectiveness of the Council's risk management, control and governance processes, considering public sector internal auditing standards or guidance, the results of which can be used when considering the internal control environment and the Annual Governance Statement for 2021/22.

iii) To note and support the Head of Audit's limited assurance, year-end opinion, that the Council's framework for governance, risk management and internal control is sound and working effectively for 2021/22 based on the work undertaken and management responses received.

12 Third line assurance: Annual review of Internal Audit, Quality Assurance and Improvement Programme (QAIP) 2021/22

The Committee received the report of the Section 151 Officer (copy attached to the signed minutes) which informed them of the results of a self-assessment of the Internal Audit Service against the requirements of the Public Sector Internal Audit Standards.

The Section 151 Officer introduced and amplified his report. He reported that the self-assessment carried out had confirmed that Internal Audit fully complied with the Public Sector Internal Audit Standards (PSIAS). The Section 151 Officer drew attention to Paragraphs 7.8 and 7.9 of the report which set out those areas of potential non-conformance.

Paragraph 7.8 related to the Code of Ethics: Objectivity Standard and looked at whether internal auditors displayed objectivity by not taking part in any activity or relationship that may impair or be presumed to impair their unbiased assessment. The Section 151 explained that if this was the case, a different member of the team would undertake that particular audit. In response to a query, the Section 151 Officer explained that although that may preclude the best person on the team from doing the audit, it would be seen as 'marking your own homework'.

In relation to Paragraph 7.9 Independent and Objectivity Standard, the reference to 'decisions' did not relate to Committee decisions.

The Chairman informed the Committee that the Audit team had been asked to assist a newly formed Unitary Authority, which he felt to be a real pat on the back for the team.

RESOLVED:

That the Committee note the conclusion that the Council employs an effective Internal Audit to evaluate its risk management, control and governance processes that complies with the principles of the Public Sector Internal Audit Standards and has planned improvement activities to work towards full compliance where appropriate.

13 Overall assurance: Annual Governance Statement and a review of the effectiveness of the Council's internal controls and Shropshire's Code of Corporate Governance 2021/22

The Committee received the report of the Section 151 Officer (copy attached to the signed minutes) which set out the Annual Governance Statement (AGS) and a review of the effectiveness of the Council's Internal Controls and Shropshire Council's Code of Corporate Governance 2021/22.

The Section 151 Officer introduced and amplified his report. He explained that the Council had to produce an AGS to accompany the annual statement of accounts, which must be signed off by the Chief Executive and Leader of the Council. This statement should be considered after a review of the effectiveness of the Council's system of internal controls as required by the Accounts and Audit Regulations.

The Section 151 Officer reported that following the recent peer review it was found that the Council had in place a strong governance approach. The final report was due in the next couple of weeks.

In response to a query, the Section 151 Officer explained that the AGS was a part of the regulatory framework whereby issues, such as those referred to in paragraph 7.11 of the report, would be identified. He went on to explain that the AGS was made up of three parts, a review of the issues identified from the previous year, a review of the previous years' AGS plus issues identified in the current year. Any issues not addressed would be carried forward to the current AGS. These issues were referred to in the Appendices and the overarching process however, it was felt that it would not add any value for individual issues to be pulled out.

RESOLVED:

- i) That the Annual Governance Statement 2021/22 as set out in Appendix A of the report be approved.
- ii) That the Internal Audit conclusion that the Council has reasonable evidence of compliance with the Code of Corporate Governance be noted.

14 Third line assurance: Annual Assurance report of Audit Committee to Council 2021/22

The Committee received the report of the Section 151 Officer (copy attached to the signed minutes) which set out the Audit Committee's Annual Assurance Report to Council for 2021/22.

The Section 151 Officer introduced and amplified his report, he explained that the Annual Assurance Report of Audit Committee was presented to Council to provide assurance of the work that had been undertaken by the Committee throughout the year and included a statement from the Chairman. The Chairman drew attention to paragraphs 14 and 15 of the

Chairman's Statement which acknowledged the experience of the Audit staff and expressed thanks for their hard work and dedication.

In conclusion, the Section 151 Officer reported that the Audit Committee could offer reasonable assurance that the Council has in place adequate and effective governance, risk management and internal control frameworks; internal and external audit functions and financial reporting arrangements that could be relied upon and which contributed to the high corporate governance standards that this Council expects and maintains consistently.

RESOLVED:

That the Draft Annual Assurance Report for 2021/22 be approved, subject to the deletion of a duplicate paragraph (paragraph 8), and that Council be recommended to accept the contents of the report.

15 Second line assurance: Financial outturn report 2021/22

The Committee received the report of the Section 151 Officer (copy attached to the signed minutes) which provided details of Shropshire Council's 2021/22 financial performance for revenue and capital. Shropshire Council ended the financial year better than expected, with a final overspend of £2.5m, which was £1.8m better than the previous estimate.

The Section 151 Officer introduced and amplified his report. He explained that the report had already been to Cabinet and Council and that it would normally come to Audit Committee first but had not due to the meeting being delayed. The Financial Outturn report was for Members' information and sat alongside the Statement of Accounts to help in terms of context and understanding. He explained that the actual performance of the Council had been considered by Cabinet and Performance Management Scrutiny Committee whereas the Audit Committee needed only consider the process, how the report had been pulled together and the implications and issues arising from that process and ensuring that they had an understanding of the position of over and under spends over the year so they could bring that context into the Statement of Accounts which was the over-arching year end position.

In relation to the key variations set out at paragraph 8.3, and highlighted in the Risk Strategy, the Section 151 Officer was asked to comment on these and the risks for the Council in the future which were highlighted in the previous paper and referred to in the last paragraph of the Chairman's report to Council about the Committees' concerns around the structural deficit that may occur in the future.

The Section 151 Officer explained that the key variations identified in paragraph 8.3 were to focus members' minds on those key areas of

variance and there were issues behind each of them. The fundamental issue being that there were a number of initiatives that had not been completed due to the external environment, including two years of the pandemic and staff being repositioned to pick up the necessary work related to the pandemic.

He explained the way in which these kinds of shortfalls/variances were managed where there had been an external implication. Firstly, they would consider whether reasons had been provided for why those initiatives had not been taken forward or could not be completed and would look to see whether there were implications for the future. For example, where there were unachieved savings, whether they could still be delivered but over a longer time, or where there were pressures, for example in Children's Social Care or Housing, they were looking at initiatives that would reduce or potentially remove that pressure, whether that would be quickly or would take a long time would need to be assessed and therefore the budget process enabled those pressures to be taken into account going forward.

The Section 151 Officer informed the Committee that when talking about the funding gap, what they were talking about was the gap after they had considered all the issues from the previous financial year. They then tried to deal with the gap as opposed to not taking it into account.

In response to a query about the General Fund balances, which were below the level that they should be, the Section 151 Officer felt it was important for Members to understand the context of this. When assessing what the level should be, they tried to be as scientific as they could but there was always going to be an element of estimation within that and by trying to quantify the risks that may or may not occur there was a concern. The idea of the General Fund balance was to have it there as a last resort, so they try to manage overspends and budgetary savings within the year so that the end of year comes in close to balance.

They had given an indication this financial year that they had expected an overspend of between £2.5m and £9m. They were able to achieve towards the lower end of that scale. In the short term that does mean that the balances dropped to £11.5m and the risk assessed level comes closer to £18m that was a concern. However, as mentioned at Cabinet by the Portfolio Holder, what they had was the collection fund for Council Tax and Business Rates which had delivered surplus of £4m; the first call on that surplus would be to claw back into the General Fund balance. At the end of year officers could demonstrate that they had dealt with the overspend.

Effectively, on the 1 April that £4m goes in and the balance is now £15m. Whilst not up to the risk assessed level, officers were looking to review the methodology around the General Fund balance calculation which may result in the General Fund balance needing to increase or even reduce and

that would be looked at objectively to see what that comes out at. The important point was to hold a balance that was felt reasonable and if it ever needed to be used, that it was immediately put back, otherwise you would start to move into unsustainable territory whereby you would be unable to deal with funding issues in the year adequately and you would have to start making decisions to try and manage the position. What officers did not want to do was to put the Authority in an unsustainable position whilst trying to find money to put into the General Fund in case it was needed.

RESOLVED:

In respect of the revenue budget:

- A. To note that the outturn is a overspend of £2.505m.
- B. To note that as a result of the outturn position that the level of the General Fund balance stood at £11.522m, which was below the recommended level.
- C. To note the decrease in the level of service-related Earmarked Reserves and Provisions of £8.152m.
- D. To note that the Council has received revenue funding relating to Covid-19 in 2021/22 which covered all Covid-19 costs in the year, and so no additional costs have had to be funded by the Council's base budget.

Relating to ringfenced funding:

- E. To note that the outturn for the Housing Revenue Account (HRA) for 2021/22 was an underspend of (£0.251m) and the resulting level of the HRA reserve is £11.592m.
- F. To note that the level of school balances stood at £8.191m (£5.995m in 2020/21).

In respect of the capital programme:

- G. To approve net budget variations of £3.598m to the 2021/22 capital programme (in Appendix 11) and the re-profiled 2021/22 capital budget of £83.572m.
- H. To approve the re-profiled capital budgets of £132.724m for 2022/23, including slippage of £1.245m from 2021/22, £82.009m for 2023/24 and £34.077m for 2024/25 as detailed in Appendix 15.
- I. To accept the outturn expenditure set out in Appendices 12 and 13 of £82.327m, representing 98.5% of the revised capital budget for 2021/22.
- J. To approve temporary application of capital receipts of £18.273m to generate a one-off Minimum Revenue Provision saving of £0.398m in 2022/23.

16 **Second line assurance: Approval of the Council's Statement of Accounts 2021/22**

The Committee received the report of the Section 151 Officer (copy attached to the signed minutes) which provided an overview of the Accounts for the year 2021/22 and details of the reasons for the most significant changes between the 2020/21 Accounts and the 2021/22 Accounts.

The Section 151 Officer introduced and amplified his report. He explained that the accounts were draft at this point in time and had been produced in line with the timetable set out at paragraph 2.1. He drew attention to the delay to the amendments to the code relating to infrastructure assets which had implications for last years' accounts which were unable to be signed off until the code was published. All the work relating to the change had been done but could not be acted upon.

The Section 151 Officer commended the team for exceeding the target and producing the draft accounts ahead of the 31 July deadline. The deadline for External Audit to complete their preliminary work was 30 September and for the accounts to be published by 30 November.

The Section 151 Officer drew attention to the analytical review, set out in Appendix 2, which highlighted the most significant areas where there had been material changes (variances) over £8m or over 10%, and explained why these changes had occurred.

In response to a query about why the previous years' accounts had not been signed off yet, the Key Audit Partner explained that they were awaiting an update from CIPFA about how infrastructure assets should be treated. The Chairman queried whether the same delays could occur for the 2021/22 accounts. In response, the Key Audit Partner explained that it was always a risk however they were not aware of any evolving technical matters that would impact on the 2021/22 accounts.

RESOLVED:

That the contents of the draft 2021/22 Statement of Accounts be noted.

17 Third line of assurance: External Audit: Audit progress report and sector update

The Committee received the report of External Audit (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.

The Engagement Manager introduced and amplified the report. She drew attention to the Summary of progress and reported that once all outstanding issues had been resolved, it was hoped to complete the 2020/2021 audit closedown and the Auditors Annual Report.

The delay in the closedown of the 2020/2021 accounts had not stopped the work on the 2021/2022 accounts, and although not at a stage to formally issue the Audit Plan for 2021/22, the Engagement Manager reported that two further risks had been identified in relation to the valuation of land and buildings, and the valuation of net pension liability in addition to the previous two risks of revenue recognition and the risk of management over-ride of controls.

A further report addressing these issues would be presented to the September meeting of the Audit Committee. In response to a query, the Engagement Manager confirmed that they were working with the finance team to resolve the outstanding issues. The Key Audit Partner explained that they were awaiting evidence from the Council and would chase this up. It was confirmed that Payroll was under quite a lot of pressure but were trying to resolve any outstanding issues.

RESOLVED:

That the contents of the report be noted.

18 Date and Time of Next Meeting

The Committee were advised that next meeting of the Audit Committee would be held on the 15 September 2022 at 10.00 am.

19 Exclusion of Press and Public

That in accordance with the provision of Schedule 12A of the Local Government Act 1972, Section 5 of the Local Authorities (Executive Arrangements)(Meetings and Access to Information)(England) Regulations and Paragraphs 2, 3 and 7 of the Council's Access to Information Rules, the public and press be excluded during consideration of the following items.

20 Exempt minutes of the previous meeting held on the 22 February 2022

RESOLVED:

That the Exempt Minutes of the meeting of the Audit Committee held on the 22 February 2022 be approved as a true record and signed by the Chairman.

21 First line assurance: Highways Management assurance report incorporating Fix my Street update

The Committee received the exempt report of the Assistant Director Infrastructure (copy attached to signed Exempt Minutes) which provided an update on progress towards resolution of the issues relating to the management of the Highways Service found in previous audits.

RESOLVED:

That the contents of the report be noted.

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

The Committee received the exempt report of the Principal Auditor (copy attached to signed Exempt 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.

RESOLVED:

That the contents of the report be noted.

Signed (Chairman)

Date: