

**Committee and Date**

Audit Committee

28 September 2023

**MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 20 JULY 2023
10.00AM – 12.35PM****Responsible Officer:** Michelle Dulson

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Present

Councillor Brian Williams (Chairman)

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

Independent Member: Jim Arnold (remote)

12 Apologies for Absence / Notification of Substitutes

No apologies were received.

13 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.

14 Minutes of the previous meeting held on the 22 June 2023

It was reported that Jim Arnold, Independent Member of the Audit Committee had been omitted from the list of those present.

RESOLVED:

That the Minutes of the meeting of the Audit Committee held on the 22 June 2023 be approved as a true record and signed by the Chairman, subject to the above.

15 Public Questions

There were no questions from members of the public.

16 Member Questions

There were no questions from Members.

17 Second line assurance: Annual Treasury Report

The Committee received the report of the Assistant Director Finance and Technology - copy attached to the signed Minutes – which set out the borrowing and investment outturn for 2022/23 plus the Treasury Limits and Prudential Indicators. The Executive Director of Finance (Section 151 Officer) reported that all the appropriate CIPFA regulations and indicators had been followed (included within the Appendices) and that the treasury team had outperformed the benchmark by a very small percentage (0.03%) and achieved a return of 1.81%.

The Executive Director of Finance (Section 151 Officer) reminded the Committee that they were tasked with the requirement to oversee the treasury approach and to understand and ensure they were comfortable with the investments that were made. In terms of the performance, the Executive Director of Finance (Section 151 Officer) stated that where we had a market where the interest rates were increasing over a short period of time, by definition, performance would be reduced as although we had investments for up to 12 months, they would have been made by rates that appeared strong at the time and then if interest rates moved very quickly in that 12-month period, which is what has been seen over the last 12 months, then they become less competitive but we are fixed until the end of that period.

The Executive Director of Finance (Section 151 Officer) reported that the Council had not undertaken any external borrowing in the 2022/23 financial year and although there had been an element of that in the treasury strategy should it be needed but in terms of the delivery of the capital programme and the cash flow within the authority, the Council had not needed to borrow. They may look to borrow in the next financial year as the cash balances had started to reduce, which had been expected for a while, so from a cash flow point of view they may need to replace some borrowing.

The Executive Director of Finance (Section 151 Officer) drew attention to the debt maturity over the coming years, set out on page 3 of the report and reiterated that the Council had not undertaken any debt rescheduling for a number of years. In response to a query, the Executive Director of Finance (Section 151 Officer) gave an example of when, from a cashflow point of view, short term borrowing may be undertaken to ensure cash was in the bank on the 20th of the month to ensure the payroll could be made.

In response to concerns, the Executive Director of Finance (Section 151 Officer) explained that treasury staff were experienced as they had borrowed and invested previously however it became difficult when interest rates were low. As interest rates go up there would be more opportunities and areas to invest in and because the Council followed the security, liquidity, yield element, return of your money was more important than return on your money and understanding the importance of how long to tie the money up for rather than just looking for the best deals.

In response to a query about who makes the decision about whether to invest in variable or fixed rate investments, the Executive Director of Finance (Section 151 Officer) explained that this was set out in the Treasury Strategy that had been approved by Council and that any decision would be taken in consultation with the Council's Treasury Advisor. He confirmed that the approach taken would always be

to undertake fixed rate borrowing over the long term and although they could use variable rates over the short term, they tended not to do so.

The Executive Director of Finance (Section 151 Officer) confirmed that if the council exhausted its cash reserves it could undertake borrowing to cover its day-to-day activities and this would be secured against capital assets however they tried to keep a high level of cash balances in the bank but as this falls away the Council would need to borrow to keep that balance up as they could not borrow to cover revenue expenditure.

RESOLVED:

- a. To approve the actual 2022/23 prudential and treasury indicators in this report
- b. To note the annual treasury management report for 2022/23

18 Third line assurance: Internal Audit Performance Report

The Committee received the report of the Head of Policy and Governance - copy attached to the signed Minutes – which summarised the work of Internal Audit in the final quarter of 2022/23 to inform the year end opinion.

The Internal Audit Manager informed the Committee that 94% of the revised plan had been completed which was slightly below the previous year (97%). Three good, six reasonable, five limited and two unsatisfactory assurance opinions had been issued, and of the 126 recommendations made in the 16 final reports, five were fundamental. She reported that there were two outstanding audits at year end but had been assured by the external contractors that the work would commence imminently.

In response to a query, it was requested that the Community Infrastructure Levy (CIL) audit report be referred to the appropriate Scrutiny Committee.

In response to a query the Internal Audit Manager confirmed that there were still vacancies within the audit team but they were currently being recruited to with a closing date at the end of July but they would look to employ external contractors to fill any gaps.

In response to a further query, she drew attention to table 7 on page 39 of the report which set out the process for following up recommendations. She explained that any 'requires attention' or 'best practice' recommendations were left with management to address whereas any 'significant' or 'fundamental' recommendations were reported to the relevant Director for that service area when they became due. In addition, internal audit would do follow-up testing on any fundamental recommendations to confirm there was evidence that they had been implemented whilst any unsatisfactory audit opinion would have a follow-up audit the following year to test that those recommendations had been implemented as agreed.

In response to a query in relation to the refresh of Backup Arrangements which had been due for completion in June, the Head of Policy and Governance gave an update. He reported that the new back up solution had been procured and was now in place and operative however no audit testing had yet taken place since that audit report had been completed and finalised.

In response to concerns around Tree Safety, which had received a fundamental recommendation along with an unsatisfactory audit opinion, the Team Manager, Natural and Historic Environment was invited into the meeting to give an update on how the service was progressing with addressing the unsatisfactory audit. It was also recognised that trees were a vital resource in the fight against climate change and that a cohesive policy was needed to ensure that trees were managed to the best of our ability.

The Team Manager, Natural and Historic Environment explained that the focus of the audit report was around tree safety issues and he gave an overview of the structure of the tree team, for which he was service manager; there was a team leader who was a county arboriculturist who had two full-time equivalent technicians who dealt with enquiries coming into the team; there were four full-time arboricultural officers, two who dealt with tree safety matters and two who dealt with issues on the county's highways network plus two officers who deal with other aspects of the estate eg school safety inspections etc and 2.5 full-time equivalent Tree and Amenity protection officers who provide advice in relation to planning issues. They also had a Trees outside woodlands officer, which was a DEFRA funded post which had been extended up until 2025 and was looking for opportunities for planting trees outside of woodlands, primarily focussed on orchard type planting on farmland. He informed the Committee that they were about to go out to recruit to another externally funded post (woodland accelerator fund) again looking for opportunities for woodland planting across the county primarily in relation to mitigating climate change.

In relation to the audit report, they had an action plan in place, one item of which was an updated Tree Safety Policy and they were working their way through that, one of the issues being capacity for highways officers to undertake an element of the inspections regime and it was hoped to take a report on that to Cabinet later in the year. The Team Manager reported that there were a number of other pieces of work ongoing including looking at the software systems used, whether it was fit for purpose and would give an audit trail across the authority in terms of following through actioning of the tree team's recommendations.

RESOLVED:

1. To note the performance of Internal Audit against the 2022/23 Plan.
2. To refer the Community Infrastructure Levy (CIL) audit report to the appropriate Scrutiny Committee.
3. To note the content of the verbal update on Tree Safety.

19 Third line assurance: Annual Assurance report of Audit Committee to Council 2022/23

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 2022/23 and although the Committee had some concerns (as detailed in the report) it could, on balance, provide reasonable assurance.

RESOLVED:

That Council consider and comment on the contents of the Annual Assurance report for 2022/23 before recommending accepting it.

20 **Third line assurance: Internal Audit Annual Report 2022/23**

The Committee received the report of the Head of Policy and Governance - copy attached to the signed Minutes – which provided Members with a summary of work undertaken by Internal Audit for 2022/23.

The Head of Policy and Governance explained that the plan had provided for a total of 1429 days, any revisions throughout the year were reported to the Committee, with the plan being revised to 1569 days. He explained the matters that he had taken into account when arriving at his opinion, as set out in paragraphs 8.17 and 8.18 and also Appendix A, tables 2 and 3.

The Head of Policy and Governance informed the meeting that there had been 26 good and reasonable assurances made in the year, accounting for 59% of the overall opinions delivered which was a 5% decrease on the previous year which was offset by a 5% increase in limited and unsatisfactory opinions. There had been 5 unsatisfactory and 13 limited assurance opinions issued. On this basis, and based on the management responses received, the Head of Policy and Governance was only able to offer limited assurance on the 2022/23 financial year on the Council's framework of governance, risk management and internal control.

The Head of Policy and Governance reported that despite some significant changes in terms of senior management within the team over the year, the feedback from customers has remained positive.

In relation to the chart set out at paragraph 8.6 (Trend in Internal Audit Recommendations), the Chairman commented that he was pleased to see that the number of unsatisfactory audit opinions, which had increased during the covid years (2019/20, 2020/21 and 2021/22), seemed to have dropped back down again.

In response to a query in relation to the direction of travel of the number of audit days delivered, the Internal Audit Manager explained that in 2021/22 they had planned for 1708 days and had delivered 1655, in 2022/23 there were 1569 planned and 1470 delivered and in 2023/24 there were 1794 planned however there would be some changes reported to the September Committee due to changes in staffing levels. Members were encouraged by this.

The Chairman referred to the highlighted text set out in paragraph 8.20 of the report. He expressed support for that statement and noted that only limited assurance could be offered and, although not the highest level of assurance, it was important that the Committee strongly endorse it.

RESOLVED:

- a) to note the performance of Internal Audit against the 2022/23 Audit Plan.
- b) 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 2022/23.

- c) to strongly support the Chief Audit Executive's Limited assurance, year-end opinion, that the Council's framework for governance, risk management and internal control is sound and working effectively for 2022/23 based on the work undertaken and management responses received.

21 Third line assurance: Annual review of Internal Audit, Quality Assurance and Improvement Programme (QAIP) 2022/23

The Committee received the report of the Section 151 Officer - copy attached to the signed Minutes – which informed Members 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 drew attention to the Appendix which identified those areas with full compliance, along with those areas with only partial compliance and the reasons for this. He stated that these areas were the same as those picked up previously and related to the way in which the Audit Committee was set up.

The Chairman reported that since the previous year the Committee had appointed an Independent Member and were now fully compliant against that standard.

RESOLVED:

To endorse 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 continuing and full compliance where appropriate.

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

The Committee received a verbal update from the Engagement Lead. He reported that for the 2020/21 accounts he had issued an unqualified audit opinion for both the Authority's accounts and for the Pension Fund accounts along with a consistency opinion that stated that the Pension Fund Annual Report figures were consistent with what was in the Council's Statement of Accounts. The Certificate was however still open whilst they worked through an objection to the financial statements and finalised their Value for Money work.

Turning to the 2021/22 accounts, the Engagement Lead informed the meeting that the audit was now substantially complete, apart from finalising their work in relation to the potential changes to the Council's net pensions liability, for which they had some question for the actuary that they needed to resolve, and he would liaise with the Head of Pensions on this. Once a response was received back, they would be looking to conclude the 2021/22 audit.

The Engagement Lead explained that the Pension Fund audit for 2021/22 was complete so once the Council audit was finalised, they would be able to issue the Pension Fund Opinion alongside that.

RESOLVED:

To note the content of the verbal update.

23 Third line assurance: Pension Fund Audit Plan

The Committee received the report of the Engagement Lead - copy attached to the signed Minutes – which provided an overview of the planned scope and timing of the statutory audit of Shropshire County Pension Fund. The Engagement Lead explained that although the Pension Fund Audit Plan had been through the Pensions Committee, the Audit Committee were technically ‘those charged with Governance’ and approved the Council’s accounts of which the Pension Fund formed a part.

The Engagement lead drew attention to the significant risks in relation to the valuation of assets along with the change in their approach to materiality on the income and expenditure account, which effectively set a specific lower materiality on the fund account, the impact of which was increased testing around income and expenditure side of the fund.

The Engagement Lead reported that they were currently finalising their plan for the Council’s 2022-23 audit in relation to a new Auditing Standard Q315 which requires detailed documentation around the IT systems and arrangements. They had however received the draft accounts from the Council and had started to pick some interim samples. They hoped to make progress over the summer and would present an interim report to the September meeting and the final report to the November meeting. A final report on the Pension fund and value for money would be presented to the September meeting.

The Engagement Lead responded to a query about the outstanding objection to the 2020/21 accounts and confirmed that no objections had been received to the 2021/22 or 2022/23 accounts. A brief discussion ensued. Members felt it was unacceptable to take this long to settle two objections and requested an exempt item for the next meeting explaining what this objection was about.

RESOLVED:

- A) To note the Pension Fund Audit Plan;
- B) To note with satisfaction that no new risks had been identified in the Pension Fund accounts for 2022/23;
- C) To request an exempt item for the next meeting around the objection raised on the 2020/21 Statement of Accounts.

24 First line assurance: Dog Wardens Management Update

The Committee received the report of the Interim Assistant Director for Highways and Transport - copy attached to the signed Minutes – which updated Members on

developments within the Dog Warden Service and those measures being taken to address findings and recommendations from previous audit reports.

The Interim Assistant Director for Highways and Transport informed the Committee that the Street Scene and Ground Management service (which included the Dog Warden service) was now part of the Highways portfolio. He gave some background and explained that a full review had been undertaken of the dog warden service including a re-procurement exercise, which gave better control and ability to deal with stray dogs. Work had also been undertaken on a formal contract arrangement and a public protection order which would better able enforcement. He reported that the vast majority of the outstanding audit recommendations had either been completed or were in a far stronger position following the review.

The review had also allowed them to strengthen the administrative arrangements around the stray dog register and better control of how to capture and record the incidents of stray dogs being reported to the Council. In response to a query, the Interim Assistant Director for Highways and Transport confirmed that the Street Scene service now sat under the Highways service and that a management review was currently being undertaken which would lead to a transformation programme similar to the one that Highways Maintenance had been through, and which would result in some management changes which he would be happy to report back.

A brief discussion ensued in relation to dog fouling and it was requested that this be referred to the appropriate Scrutiny Committee.

RESOLVED:

To note the contents of the report.

To refer the issue of dog fouling to the appropriate Scrutiny Committee

25 Second line assurance: Annual Whistleblowing report

The Committee received the report of the Assistant Director of Workforce - copy attached to the signed Minutes – which provided an update on the number of whistleblowing cases raised regarding Council employees over the last financial year.

The Assistant Director of Workforce reported that there had been 29 whistleblowing reports in 2022/23 which was a 14% increase on the previous year. She drew attention to Paragraph 8.2.4 of the report which set out the number of cases reported over the previous five years. Most reports were received via email and telephone with the main theme being financial incident (the main theme in 2021/22 had been grant fraud). Six of these reports had been referred to external agencies.

The Assistant Director of Workforce felt that the Speaking up about Wrongdoing process provided an effective route for employees to raise issues along with elected members, contractors, partners and others and awareness would be raised of the Policy on the intranet. She reported that the Bullying and Harassment Policy was currently being reviewed by a Task and Finish Group.

In response to a query, the Assistant Director of Workforce explained that once investigated some reports were found to have no case to answer and occasionally some of these reports could be malicious.

RESOLVED:

To note the contents of the report.

26 Date and Time of Next Meeting

The next meeting of the Audit Committee would be held on the 28 September 2023 at 10.00am.

27 Exclusion of Press and Public

RESOLVED:

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.

It was agreed to take Agenda Item 18 (Payroll Management Update) next.

28 First line assurance: Payroll Management Update (Exempted by categories 2, 3 and 7)

The Committee received the exempt report of the Assistant Director of Workforce - copy attached to the signed Minutes – which updated Members on the actions taken to address recommendations from the Payroll audit for 2021/22 and also provided information on the revised approach to appraisals, known as Personal Development Planning (PDP), across the organisation.

RESOLVED: To note the contents of the report.

29 First line assurance: Highways Contract Management Update (Exempted by Category 5)

The Committee received the exempt report of the Assistant Director for Highways and Transport - copy attached to the signed Minutes – which provided Members with an update on progress toward a resolution of the issues relating to the Management of the Highways Service found in previous audits.

RESOLVED: To note the contents of the report.

30 Third line assurance: Fraud, special investigation and RIPA updates (Exempted by Categories 1, 2, 3 and 7)

The Committee received the report of the Internal Audit Manager - copy attached to the 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.

RESOLVED: To note the contents of the report.

Signed (Chairman)

Date: