

**Committee and Date**

Audit Committee

27 June 2024

**MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 22 FEBRUARY 2024
10.00 AM - 12.50 PM****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

73 Apologies for Absence / Notification of Substitutes

No apologies were received.

74 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.

75 Minutes of the previous meeting held on the 23 November 2023**RESOLVED:**

That the Minutes of the meeting of the Audit Committee held on the 23 November 2023 be approved as a true record and signed by the Chairman.

76 Public Questions

There were no questions from members of the public.

77 Member Questions

There were no questions from members.

78 Second line assurance: Treasury Strategy 2024/25

The Committee received the report of the Executive Director of Resources (Section 151 Officer) – copy attached to the signed Minutes – which proposed the Treasury Strategy for 2024/25. It set out the arrangements for how the council would appropriately manage its arrangements for banking, cash flow management,

investments, and borrowing, supporting the delivery of the MTFs and The Shropshire Plan.

In response to a query, the Executive Director of Resources (Section 151 Officer) explained that Link Group Advisers was the name of the advisers used by the Council over many years (in common with other local authorities). They were part of Capita and provided treasury advice, background information around where the economy was and any projections around that and their advice was sought in any treasury decisions undertaken by the Council. They provided daily advice around any organisation on the Council's lenders list, for example, if they felt it was not an organisation that the Council would want to lend with etc, as well as regular, more long-term information and data analysis for use in managing the Council's position.

In response to a further query, the Executive Director of Resources (Section 151 Officer) explained that the Council had an agreed lenders list, which set out those organisations that the Council was willing to invest in, and although the list did not change significantly, if any advice provided gave rise to any questions they could go back and ask for that to be investigated. On the back of that a schedule was then produced which was signed by himself and circulated to those officers who could make those investments, so they did not inadvertently invest in an organisation which the Council had decided it did not wish to invest in.

In response to a query around general reserves and the amount of savings required, the Executive Director of Resources (Section 151 Officer) reported that there was a link between the level of reserves held and the level of cash held, in the same way that there was a link between the level of capital receipts, section 106 monies, debtors and creditors etc which were all cash within the system. There were examples around the country whereby organisations had issued a section 114 notice although their treasury position had not changed. So, although not illiquid, the cash held within the organisation was robust but the amount of cash coming in for services and accounted for within a year was less than the amount going out from an accounting point of view.

The bigger issue for Shropshire was that the amount of cash held by the authority had reduced over a period of time due in part to loans that had matured not being replaced as cash balances were so high. However, over time, as capital receipts and reserves were being spent and long-term loans paid off, cash balances had reduced to £50m which was still quite a healthy amount. The Executive Director of Resources (Section 151 Officer) explained that the management of the cash was not entirely separate but was considerably separate to the accounting position in terms of the services provided by the Council and he gave an example. He explained that the Council's advisors monitor the cash position/money in/out etc constantly and assess whether the Council was in a liquid state, which, he confirmed, it was. He also confirmed that although the Council could not borrow internally to finance revenue, it could borrow against an asset.

A brief discussion ensued and the Executive Director of Resources (Section 151 Officer) answered a number of queries from Members. He confirmed that the Council did not undertake any long-term borrowing to support any revenue deficits however through the year there was always the potential for borrowing cash for eg a day, to fund an unexpected payment, for example. Following concerns raised by Members, the Executive Director of Resources (Section 151 Officer) stated the

reasoning behind investing in local authorities whose cash position was very different to its accounting position, and which could not go bust. He explained that the Council's Advisors were constantly looking across the piste at the investability of all the institutions that the Council worked with so if there was a hint that there may be some issues in terms of the return of its money from a particular institution, that would be flagged and would be built into the borrowing list. It was felt that the return of the Council's money was more important than its return on that money.

In response to a query, the Executive Director of Resources (Section 151 Officer) explained that the Treasury Strategy limited borrowing from local authorities to 12 months however, as far as he could recall, the Council very rarely invested with local authorities over that sort of period but was happy to take the point back and advise that the Audit Committee were reluctant to invest in local authorities or that more due diligence was required. The point would be reviewed and a response brought back.

RESOLVED:

To endorse the Treasury Strategy 2024/25.

79 Governance Assurance: Draft Audit Committee work plan and future training requirements

The Committee received the report of the Head of Policy and Governance – copy attached to the signed Minutes – which provided a proposed Audit Committee work plan and sought discussion and agreement around a learning and development plan for Members to ensure that they were well informed and appropriately skilled to fulfil their role.

RESOLVED:

To approve the Audit Committee work plan for 2024/25, set out at Appendix A; and to approve the learning and development plan for Members of the committee taking in to account information in Appendices A and B.

80 Third line assurance: Internal Audit Performance Report and revised Annual Audit Plan 2023/24

The Committee received the report of the Head of Policy and Governance – copy attached to the signed Minutes – which provided members with an update of work undertaken by Internal Audit in the three months since the November Audit Committee. 71% of the revised plan had been completed which was in line with previous delivery records and the team was on track to deliver a minimum of 90% of the revised annual plan by year end.

The Head of Policy and Governance informed the Committee that it had been a challenging year with reduced resources available and various recruitment drives having been unsuccessful which although it had impacted on their work, it had not impacted the core work undertaken to enable an opinion to be formed on the Council's internal control environment. He reported that a further recruitment drive was currently underway to hopefully increase capacity.

The Head of Policy and Governance reported that twelve final reports containing 86 recommendations had been issued in the period (set out at Paragraph 8.9 of the report) with the year-to-date position set out in Appendix A, Table 2. He informed that Committee that seven draft reports were awaiting responses and would be reported in the next performance report. The number of lower-level assurance levels was 44%, slightly higher than the previous year (41%). Two fundamental recommendations had been identified and these were set out in the confidential part of the Agenda.

The Head of Policy and Governance drew attention to the unsatisfactory and limited assurance opinions (set out at Appendix A, Table 3) and asked Members whether they wished to receive a further report on Much Wenlock Leisure Centre which had received unsatisfactory opinions on multiple occasions.

In response to a query, the Head of Policy and Governance explained where they were at with the recruitment exercise. A further query was raised as to the plan for achieving the rest of the planned audit work (30%). In response, the Internal Audit Manager assured the Committee that they were comfortable that they had sufficient resources in place to deliver the remainder of the plan by year end.

Concern was raised as to why the North West Relief Road audit was mentioned in Appendix 1 Table 2, but did not appear in the list of unsatisfactory assurance opinions listed in Appendix A Table 3, and was to be discussed in the exempt part of the meeting. In response, the Executive Director of Resources (Section 151 Officer) explained the reasons for it being in the exempt part of the meeting, due to a number of elements that were unable to be discussed in public session. Table 2 set out the number of recommendations for each audit which was public information but it did not disclose the issues as they would be picked up within the exempt session. He assured the Committee that the Agenda was very clear that in the exempt session there were two reports around the North West Relief Road that would be discussed.

Councillor Evans felt that there could have been two reports, one in public and the other in private and he was unhappy that it had not been referred to in Table 3 explaining why it had received an unsatisfactory opinion. He confirmed that he would be voting against this item due to the public interest in a particular subject which was not mentioned in it.

In response, the Internal Audit Manager explained that the process for why the particular subject was not included in the report was consistent with other reports that could not be listed publicly, and which related to commercial contracts and followed the Constitution.

A query was raised as to whether there was anything else that the audit team felt needed further consideration by the Committee. In response it was confirmed that the Committee could consider areas that had previously been looked at if, for example, there was a new emerging issue that the Committee felt it wanted further assurance on. The Internal Audit Manager reassured the meeting that follow up audits were always undertaken for any unsatisfactory opinions or fundamental recommendations, and these would be reported back to Committee.

In response to a query about whether there were any fundamental recommendations that had not been implemented, the Internal Audit Manager confirmed that there

were a few audits classed as 'open' whereby the implementation date had not passed but none that need to come to Committee. However if they were not implemented by the time of the follow up audit they would be brought to the attention of the Audit Committee.

RESOLVED:

To note the performance of Internal Audit against the 2023/24 Audit Plan.

Councillor Roger Evans voted against this item.

81 Third line assurance: Report of the Audit Review of Risk Management

The Committee received the report of the Internal Audit Manager – copy attached to the signed Minutes – which detailed the results of the recent Internal Audit review of the Risk Management system which had been assessed as Reasonable, with minor control weaknesses identified. The focus of the review had been on user compliance with processes around operational and project risks.

It was explained that the Audit Committee were required to review annually the adequacy of the Council's risk management arrangements. It had last been undertaken in January 2022 when it was assessed as 'Good' however following the most recent review, this had reduced to 'Reasonable'.

The Internal Audit Manager drew attention to paragraph 6.8 of the report which set out the control objectives that were reviewed and whether they had been achieved. She reported that the main reason for the reduction to 'Reasonable' was the quality of the operational risk registers, some of which had not been updated within the 2023 year.

In response to a query about how the objectives would be achieved, it was explained that the risk manager had put in place a new process whereby separate reports were produced for those areas where they hadn't been updating the register, in order to raise the profile. Members expressed their concern about this reduction along with the increased number of unsatisfactory assurances and wondered whether Managers were aware that it was their responsibility to keep these registers up to date and the consequence of not doing so.

In response, the Internal Audit Manager confirmed that the process was well communicated and in addition the risk management team had, this year, undertaken in person training sessions which every manager who was responsible for a risk register had been invited to and given support to ensure that the risk registers were reviewed and updated. However as it was managed through the Executive Directors and Assistant Directors, any area where they were not being updated, would be passed to their service manager or assistant director to manage. Members requested the Risk Manager provide a brief update on risk management at the next meeting.

A query was raised as to Audit Committee's role within risk management. In response the Internal Audit Manager explained that the strategic risk review was in the Terms of Reference to go to Audit Committee twice a year. However, as part of

the Risk Management Policy a strategic risk review was held with Executive Directors to review all of the strategic risks whereby some may be amended, or the scoring adjusted. The role of the Audit Committee was not to set the risks, although it could comment and feedback on them, but it was for the Committee's wider awareness around the risks facing the Council and to ensure that it was receiving the right information to give a complete picture of the control environment.

The Executive Director of Resources (Section 151 Officer) added that the process was considered by the Internal Audit team and that the Audit Committee could take a view in terms of the risk process, but also, consideration of the risks themselves was also within the remit of the Committee who should be asking whether the strategic risks were known and accepted by the authority and whether officers were accountable for them.

In response to a query around project risks, the Executive Director of Resources (Section 151 Officer) explained that the Audit Committee was charged with reviewing the strategic risks of the organisation. The operational and project risks were all part of the risk management process, but they numbered in the thousands so, for this reason, operational risks would never come to the Audit Committee as it would be unmanageable and unhelpful. However, as part of that process, the operational risks were reviewed every year by the Internal Audit team to see that appropriate systems were working but the process by which those operational risks were managed were independently audited. In addition, there was a process within that which looked at any themes that were identified within the operational or project risks which need to be considered as a strategic risk and if so, would be reported to Audit Committee.

RESOLVED:

To endorse the findings from the review of Risk Management by Internal Audit.

82 Third line assurance: Internal Audit Plan 2024/25

The Committee received the report of the Head of Policy and Governance – copy attached to the signed Minutes – which provided Members with the proposed approach for the risk based Internal Audit Plan for 2024/25.

The Head of Policy and Governance reported that due to an ongoing recruitment campaign any plan produced at this point would require significant revision. It was therefore proposed that a full plan will be brought back to the Audit Committee in July for approval once resources for 2024/25 had been confirmed.

The Head of Policy and Governance explained that the audit risk assessment had been reviewed and that a detailed plan would be developed once resources had been confirmed. The remaining audit work for 2023/24 would be completed between April and June along with outstanding audits from the call up list from 2023/24 and follow up audits of those areas with lower levels of assurance during the year and the previous year.

A query was raised as to whether the Committee should be looking at the role of PWC in advising the Council. In response, the Head of Policy and Governance explained that this would be considered as part of the risk assessment process when

looking at the transformation work and which included any third party engagement that had taken place.

RESOLVED:

To note the position as set out in the report.

83 Third line of assurance: External Audit: Audit Findings Report 2022/23

The Committee received the report of the Engagement Lead – copy attached to the signed Minutes – which provided the Audit Committee with an update on progress by Grant Thornton in delivering their responsibilities as the Council's External Auditors, and other relevant updates and emerging issues.

The Senior Manager took Members through the report and drew attention to two unadjusted misstatements (set out on page 3 of the report), one relating to pension fund assets and the other relating to Other Land and Buildings, neither of which impacted the general fund balance.

In response to a query, the Engagement Lead confirmed that the 2022/23 audit would be signed off and the opinion issued the following Monday along with that for the pension fund accounts.

In response to a query, the Engagement Lead confirmed that he would be continuing as Engagement Lead for the Pension Fund audit but would be stepping away from the Council audit. His colleague, Avtar ??? who would be taking over, had been introduced to the Executive Director of Resources (Section 151 Officer). The Senior Manager would be picking up the management of the pension fund, part of which was to make the audit more efficient and effective across the team for both the Council and the Pension Fund audits. The planning process for the next set of accounts had begun and it was proposed to bring an audit plan for the Council to the next meeting of the Audit Committee. It was hoped to complete the audit by the end of September and that all outstanding audits would be completed by the end of December assuming no issues arose. It was hoped that future years would see a return to a more normal cycle of audit/sign off.

RESOLVED:

That the Audit Committee note the report

84 Date and Time of Next Meeting

The next meeting of the Audit Committee would be held on the 27 June 2024 at 10.00am.

85 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.

Councillor Rosemary Dartnall voted against the recommendation as she believed that Agenda Items 16 and 17 should be taken in public session.

86 Exempt minutes of the previous meeting held on the 23 November 2023

RESOLVED:

That the Exempt Minutes of the meeting of the Audit Committee held on the 23 November 2023 be approved as a true record and signed by the Chairman.

87 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 provided Audit Committee with the outcome of the recent Payroll Audit for 2023/24.

RESOLVED:

To note the contents of the report.

It was agreed to take Agenda Items 16 (North West Relief Road Audit) and 17 (North West Relief Road Management Update) together.

88 Third line assurance: North West Relief Road Audit (Exempted by categories 3 and 5)

89 First line assurance: North West Relief Road Management Update (Exempted by category 3)

The Committee received the exempt report of the Head of Policy and Governance – copy attached to the signed Minutes – which provided Members with an update on the recent unsatisfactory audit of the Northwest Relief Road (NWRR) audit.

The Committee also received the exempt report of the Director of Place – copy attached to the signed Minutes – which provided an update on improvements already made to address the Recommendations contained in the Audit Report and to set out the further measures, managed through the Project governance structure, to address the remaining Recommendations.

RESOLVED:

To note the contents of the reports.

90 Internal Audit: Fraud, Special Investigation and RIPA Update (Exempted by Categories 1, 2, 3 and 7)

The Committee received the exempt 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: