



**Committee and Date**

Audit Committee

10 December 2020

**MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 29 OCTOBER 2020**

**1.30 - 2.45 PM**

**Responsible Officer:** Michelle Dulson

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**Present**

Councillors Ioan Jones, Chris Mellings, Brian Williams (Vice Chairman), Michael Wood and Gerald Dakin (Substitute) (substitute for Peter Adams)

In the absence of the Chairman, the Vice-Chairman, Councillor Brian Williams took the Chair.

**119 Apologies for Absence / Notification of Substitutes**

119.1 An apology was received from Councillor Peter Adams. Councillor Gerald Dakin substituted for Councillor Adams.

**120 Disclosable Pecuniary Interests**

120.1 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 meeting prior to the commencement of the debate.

**121 Minutes of the previous meeting held on the 17 September 2020**

**121.1 RESOLVED:**

That the minutes of the meeting of the Audit Committee held on 17 September 2020 be approved and signed by the Chairman as a correct record.

**122 Public Questions**

122.1 No public questions had been received.

**123 Member Questions**

123.1 No Member questions had been received.

**124 Third line assurance: External Audit: Redmond Review Briefing**

124.1 The Committee received the report of the External Auditor (copy attached to the signed minutes) which updated the Committee in relation to the Redmond Review. The Engagement Lead introduced this item and explained that the Redmond

Review, which had been published in early September, was likely to have a fundamental impact on both the accounts process in the future and on the Audit and how the audit worked.

- 124.2 The Engagement Lead explained the reasons for the review and drew Members' attention to two key issues that had come out of the review, one was that the accounts were too complex and the other was around the Audit process and the audit fees and the need to ensure that the audit market was sustainable and that audit suppliers could deliver the level of audit that the public would expect of them at a fee that would enable them to do that on a sustainable basis.
- 124.3 He then took the Committee through some of the key findings of the review (set out on pages 7 to 12 of the report) along with the recommendations which included the setting up of the Office of Local Audit and Regulation and a removal of PSAA and the FRC from the field, a revised fee structure to ensure that adequate resources could be deployed to all audits in future, and reverting back to the September deadline. Redmond was recommending not only the simplification of the accounts but also the production of an audited accounting summary, that would be more of a public document that would enable a lay person to easily understand the key financial dynamics of the local authority.
- 124.4 The Engagement Lead explained that Grant Thornton's view as a firm very much supported the outcome of the review and very much wanted to help with its implementation. They wanted sustainable arrangements to be put in place so that they could continue with their presence in the public audit market.
- 124.5 In response to a query, the Engagement Lead explained that the first point on page 11 of the report referred to the ability of Audit Committees to effectively consider audit reports. The Director of Finance, Governance and Assurance (Section 151 Officer) was then asked to comment on the last paragraph on page 11 of the report about the need for a greater role for Full Council who had delegated the Audit function to the Audit Committee.
- 124.6 In response, the Director of Finance, Governance and Assurance (Section 151 Officer) felt that the Council as a meeting had a reasonable level of information provided from Audit Committee, which itself had the ability to review the accounts and did go into quite a bit of detail to ensure that the various issues were considered as necessary. He therefore did not agree with the suggestion that there needed to be a greater role, and he deferred to the Engagement Lead to see if there was anything, in relation to his experience in other Local authorities, that would suggest a way forward in terms of either improving that interface or confirming that Shropshire Council was doing what it needed to do already.
- 124.7 In response, the Engagement Lead stated that the Redmond Review looked across the whole of local government. He explained that the responses to the call for views came from a lot of key stakeholders including local authority members and officers and obviously audit suppliers. He confirmed that he agreed that for Shropshire there was a good balance and once the Redmond Review was being implemented and moved forward, new standards would emerge, and it would be for the Council to reflect whether it was meeting those new standards. He explained that some of the feedback received was that the audit process was not always as transparent as it could be to members of the public. However, in the immediate

term there was nothing that he would point to for Shropshire that he thought the Council needed to change.

124.8 Turning to the findings about Audit Committees lacking independent, technically qualified members, it was felt that that was not the case in Shropshire. In response, the Engagement Lead reminded the meeting that members of the Audit Committee did not necessarily have to be Members of the Local Authority and that the appointment of Independent member(s) to an Audit Committee could be a useful way to involve other stakeholders and pull in the expertise of a qualified accountant, for example.

124.9 Members hoped that the appointment of an independent Committee Member would not be a mandatory requirement but that the option would be there if it was felt that it would add value to the process as, it had to be remembered, the responsibility lay with elected Members. It was felt that in Shropshire that independence was visible because as a Committee, they had been prepared to challenge when they've had concerns and the Committee would not hesitate, if they felt it appropriate, to refer any serious issues to Cabinet or Full Council for discussion, indeed, there had been instances in the past where reports from the Audit Committee had gone to Cabinet because the Committee felt there was sufficient concern.

124.10 The Engagement Lead confirmed that the principles of the Redmond Review had been accepted by Government however it would take time for changes to be made as some would require primary legislation so the timescale was unclear at the moment. However, the importance of putting the audit market in a sustainable position had to be a priority as the market could not afford to lose any more suppliers.

124.11 In response to a query, the Engagement Lead reminded the meeting that there were only about 94/96 key audit partners in the country who were able to sign off Accounts, a third of which worked for suppliers that had withdrawn from the market leaving around 65 key audit partners, whose average age was above 50.

124.12 **RESOLVED:** That the contents of the report be noted.

## 125 **Third line assurance: External Audit: Shropshire County Pension Fund Audit Findings 2019/20**

125.1 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 2020. The Engagement Lead explained that this report was being brought to Audit Committee for completeness as it had already been through the Pensions Committee.

125.2 In summary, he explained that the audit this year had been more challenging due to remote working and more challenge being put into the audit because of the valuation issues around investments and the uncertainties due to Covid. The Engagement Lead confirmed that the audit was complete and was in a position to be signed off once the Council's Audit had been completed.

125.3 It was being proposed that his opinion include an emphasis of matter on the material valuation uncertainties on some investments due to Covid. The

Engagement Lead drew attention to one unadjusted mis-statement, on page 12 of his report, of £14m which was an overstatement of asset valuations due to the timing of the valuation and how the market had moved by year end. This was however below the materiality threshold and represented three quarters of 1% of the value of the assets. Finally, the Engagement Lead thanked the Pension Fund team for their support throughout the audit.

125.4 **RESOLVED:** That the contents of the report be noted.

## 126 Audited Statement of Accounts 2019/20

- 126.1 The Committee received the report of the Director of Finance, Governance and Assurance (Section 151 Officer) which presented Members with the final audited outturn position for the financial year 2019/20 and detailed any amendments made to the draft Statement of Accounts during the audit process. The Director of Finance, Governance and Assurance (Section 151 Officer) took Members through the covering report and Appendices. He explained that Appendix 3 was the Audit Findings Report which the Engagement Lead would take Members through.
- 126.2 He reported that the draft Audited Statement of Accounts had been seen by the Audit Committee at its meeting on 31 July 2020 and that the revised Statement of Accounts was attached at Appendix 1. This was largely unchanged from the draft but where there had been changes, these were set out in table 1 on page 3 of the covering report. The report then identified what each of the amendments were and included a summary of the reasoning for that change. None of those changes were particularly concerning.
- 126.3 The Director of Finance, Governance and Assurance (Section 151 Officer) then drew attention to the Annual Governance Statement set out in Appendix 2 of the report which was unchanged from the document seen in July. At the end of the meeting, the set of accounts along with the letter of representation would be signed off. The Engagement Lead then took Members through the Audit Findings report and explained where they were in relation to the audit which was substantially complete with a few small areas outstanding.
- 126.4 In relation to the overall status of the audit, the Engagement Lead was proposing to include an emphasis of matter on the valuation of land and buildings. Also, there were a couple of outstanding issues, namely the shopping centre's valuation and the impact of the pension fund valuations in the accounts and how those needed to be reported. These were minor issues of wording only, for which the Director of Finance, Governance and Assurance (Section 151 Officer) had delegated authority to approve. In terms of the Group accounts, these had been done and the Engagement Lead intended to issue his opinion by Friday of the following week.
- 126.5 The External Audit Manager took Members through the Audit Findings report including the financial statements and arrangements for value for money. In relation to the audit, she reported that Covid in particular had had a significant impact however it was felt that remote working had been a success and they had been able to obtain evidence to support the statements although it had taken significantly longer than anticipated, especially where there had been queries. However, they were now in a position to give their opinion within the next week.

- 126.6 The External Audit Manager highlighted those areas that needed to be worked through including information received from an external valuer in relation to the shopping centres, and receipt of relevant assurances in relation to the Pension Fund. She confirmed that levels of materiality had not changed and remained at £8.7m and that no significant issues had been raised in relation to significant risks or to managements' assessment of going concern for the authority. She reported that there were no unadjusted mis statements.
- 126.7 In response to a query, the External Audit Manager confirmed that the complexity of the Council's underlying financial systems highlighted by remote working was not unique to Shropshire. She elaborated on these complexities and explained that the reason the audit took longer was that assurances were needed throughout every step of the process to ensure all information was genuine and had been extracted from the financial ledger.
- 126.8 A query was raised in relation to pages 21-22 of the Statement of Accounts 2019-2020 which referred to an anticipated budgetary pressure of just under £36m and that although Government funding of £17.918m had been received, this left a shortfall still to be funded of £17.8m. However, it had previously been hoped to receive somewhere in the region of £32m from the Government. In order to respond, the Engagement Lead referred to the Value for Money section of his report and explained that as well as the financial statements, they were required, under the Code of Audit Practice, to give a view on the authority's arrangements for achieving value for money and this was done by focussing on particular risks. This year however they had only focussed on one key risk, which was financial sustainability. He explained that in reaching his opinion, two key aspects had been considered, one was the outcome of the 2019/20 financial year and the other was the impact of Covid on financial planning and the impact it was having on the 2021 financial year.
- 126.9 The Engagement Lead confirmed that he was proposing to issue an unqualified value for money conclusion however, he was recommending that the use of non-recurrent measures to balance the annual budget was not sustainable for the authority and that the Council needed to deliver identified savings and to develop further schemes to support its financial position going forward.
- 126.11 The Engagement Lead then discussed the Council's financial strategy. He explained that the Council had originally received around £18m in funding from the Government. Now however it had received something in excess of £20-£22m with a further £5m loss of income money available. However, the Council still faced a significant financial challenge. The funding gap in 2021/22 was anticipated to be £30m plus with a similar gap for 2022/23. Although there was a planned use of reserves, the scope to use these reserves was diminishing. External Audit felt that the Council had responded well to the Covid challenge but they were clear that the Council still faced a major financial challenge in next two years.
- 126.12 The Engagement lead thanked the Finance team for their support and assistance in getting the audit complete which was very much appreciated.
- 126.13 The Director of Finance, Governance and Assurance (Section 151 Officer) emphasised some of the points made by the Engagement Lead in terms of where the Council was in the current year and the overarching unsustainability of the long term budget, the funding mechanism and the delay to the fair funding formula which

had been put back another year. This had led to the Council relying on one-off funding for this and now next year. Also, the spending review later in the year was only going to cover one year rather than the usual three. There was therefore more certainty in the short term around setting the budget for next year, however this removed the ability to plan in the long term.

126.14 It was requested that Members get sight of the final wording once approved by the Director of Finance, Governance and Assurance (Section 151 Officer) and the Vice Chairman.

**126.15 RESOLVED:**

- A. That the 2019/20 Statement of Accounts be approved and that the Vice Chairman of the Audit Committee signs them (in accordance with the requirements of the Accounts and Audit Regulations 2015).
- B. That the Director of Finance, Governance and Assurance (Section 151 Officer) be authorised to make any minor adjustments to the Statement of Accounts prior to publication on the Council's website.
- C. That the Director of Finance, Governance and Assurance (Section 151 Officer) and the Vice Chairman of the Audit Committee sign the letter of representation in relation to the financial statements on behalf of the Council and send to the External Auditor.

**127 Date and Time of Next Meeting**

127.1 Members noted that the next meeting of the Audit Committee would be held on the 10 December 2020 at 1:30pm.

Signed ..... (Chairman)

Date: .....