



<p><u>Committee and Date</u></p> <p>Audit Committee</p> <p>16 September 2021</p>

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 30 JULY 2021

10.00 AM – 12.40 PM

Responsible Officer: Michelle Dulson

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Present

Councillor Brian Williams (Chairman)

Councillors Caroline Bagnall (Substitute for Rosemary Dartnall), Simon Harris (Vice-Chairman), Nigel Lumby and Roger Evans (Substitute for David Vasmer).

4 Apologies for Absence / Notification of Substitutes

4.1 Apologies were received from Councillors Dartnall and Vasmer. Councillor Bagnall substitute for Councillor Dartnall and Councillor R Evans substituted for Councillor Vasmer.

5 Disclosable Pecuniary Interests

5.1 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 meetings held on the 4 March 2021 and 20 May 2021

6.1 **RESOLVED:** That the Minutes of the meetings of the Audit Committee held on the 4 March 2021 and 20 May 2021 be approved as a true record and signed by the Chairman.

7 Public Questions

There were no questions from members of the public.

8 Member Questions

There were no questions from Members.

9 Second line assurance: Annual Whistleblowing report

9.1 Members received the report of the Assistant Director of Workforce (copy attached to the signed minutes) which presented the Annual Whistleblowing report for 2020/21 which showed that there had been 35 cases reported under the Whistleblowing arrangements, a 43% increase on the previous year.

- 9.2 The Assistant Director of Workforce explained that the Council had an effective strategy in place that was available on the intranet and the Council's website so employees were able to access it outside of work. She explained what was meant by 'Whistleblowing' and drew attention to paragraph 6 and the types of whistleblowing that were eligible for protection (qualifying disclosures) set out at paragraph 6.7 of the report.
- 9.3 The majority of the 35 cases reported in 2020/21 were reported via email however some had been reported via telephone, verbally or in writing. The main themes were grant fraud, financial and benefit fraud, the results of which were set out in the report at paragraph 7.
- 9.4 The Assistant Director of Workforce then drew attention to a challenge to the Whistleblowing Policy and supporting process through an employment tribunal the details of which were set out at paragraph 8.2 of the report along with a link to the full judgment which confirmed that the Council follows its Whistleblowing Policy in practice.
- 9.5 **RESOLVED:**
- That the contents of the report be noted.
- 10 **Third line assurance: Internal Audit Annual report 2020/21**
- 10.1 Members received the report of the Head of Audit, (copy attached to the signed minutes) which provided details of the work undertaken by Internal Audit for the year ended 31 March 2021. 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.
- 10.2 The Head of Audit reported that there were an increasing number of areas of high and medium risk along with areas where business resources had been redirected due to Covid-19 which had led to less improvements being delivered. She drew attention to paragraph 8 of the report and the limited and unsatisfactory assurances since the last report in March 2021.
- 10.3 The Head of Audit advised members that 57% of the opinions delivered had been good or reasonable, a 7% decrease on the previous year. This was offset by a 7% increase in limited and unsatisfactory opinions. A total of 547 recommendations had been made in the 53 reports issued in the year.
- 10.4 Turning to Paragraph 8.11, the Head of Audit reported that the number of significant and fundamental recommendations had increased from 40% to 49% compared to the previous year. Finally, the Head of Audit advised members that she was satisfied that the delivery target of 90% for 2020/21 planned audits had been achieved, in compliance with the Public Sector Internal Audit Standards (PSIAS).
- 10.5 The Chairman understood the effects of Covid-19 but was concerned that in the future Covid-19 should not be accepted as a reason why assurance levels were compromised. In response to a query about the six members of audit staff who had been redeployed to respond to Covid-19 matters, the Head of Audit explained that

whilst most had returned to Audit, one member of staff was still involved with business grants.

- 10.6 In response to a query in relation to the process undertaken for unsatisfactory areas, the Head of Audit explained that a further audit would be timetabled in for the next financial year in order to allow time for improvements to be made and become imbedded. However, the Committee may wish to seek assurance from the Manager that improvements were indeed being undertaken prior to it being re-audited.
- 10.7 A brief discussion ensued in relation to repeat offenders and the Head of Audit explained the process employed including escalation to the Executive Director and Chief Executive. The Head of Audit explained that a self-assessment was used for unsatisfactory and limited assurances which asked whether any improvements had been made – if the answer was no, there was no point re-auditing. If however improvements had been made, due diligence was undertaken but as the improvements had not been tested it would not change her audit opinion.
- 10.8 A query was raised about some of the areas which had attracted limited and unsatisfactory assurances appearing more than once and it was felt that the Committee should concentrate on these areas and invite the managers to Committee in order to seek assurances from them. The Head of Audit explained that these areas would be re-audited and the direction of travel reported. She confirmed that a number of these areas were coming up on the Committee's work plan.
- 10.9 In response to a query the Head of Audit explained that due to capacity issues audits were undertaken of the more risky areas rather than those areas which were low risk to the business but could be changed to add value. In response to a further query, the Head of Audit explained the training provision for staff in order that they remain equipped with appropriate skills to undertake their role.
10. **RESOLVED:**
- a) That performance against the Audit Plan for the year ended 31 March 2021 be noted.
 - b) To note that Internal Audit have evaluated the effectiveness of the Council's risk management, control and governance processes, taking into account 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 2020/21.
 - c) 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 2020/21 based on the work undertaken and management responses received.

11 **Third line assurance: Annual review of Internal Audit, Quality Assurance and Improvement Programme (QAIP) 2020/21**

- 11.1 Members received the report of the Executive Director of Resources (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.

11.2 The Executive Director of Resources (Section 151 Officer) confirmed that the self-assessment carried out had confirmed that Internal Audit complied with the Public Sector Internal Audit Standards (PSIAS) and that where there was some limited partial conformance, this was normal in local government environments and not significant enough for escalation in the Annual Governance Statement.

11.3 The Executive Director of Resources (Section 151 Officer) informed members that the next five-year external assessment had to be undertaken by 31 March 2022. He then drew attention to Paragraph 8 which set out the main areas of potential non-conformance.

11.4 RESOLVED:

a) 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.

b) That the Committee note the approach adopted for the external assessment and agree that the final details of the assessment be agreed by the Section 151 Officer and Head of Audit in consultation with the Chairman of the Audit Committee.

c) That the Committee endorse the decision to go to market for quotations from an external assessor. The outcome of which will be reported back to the Committee.

12 Overall assurance: Annual Governance Statement and a review of the effectiveness of the Council's internal controls and Shropshire's Code of Corporate Governance 2020/21

12.1 Members received the report of the Executive Director of Resources (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 2020/21.

12.2 The Executive Director of Resources (Section 151 Officer) advised members that under the Accounts and Audit Regulations 2015, Regulation 6, 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.

12.3 The Executive Director of Resources (Section 151 Officer) drew attention to the AGS, attached to the report at Appendix A, the Code of Corporate Governance attached at Appendix B along with an Action Plan update for 2019/20 (Appendix C) which identified areas for improvement.

12.4 A query was raised in relation to the significant governance issues referred to on page 84 of the AGS and whether sufficient resources would be available to bridge the funding gap in future. In response, the Executive Director of Resources (Section 151 Officer) explained that funding was a key issue for the authority and that in the last financial year significant government funding had been provided due to Covid-19. As the Council worked its way through the year, funding had become available in different tranches so it had been difficult to plan as the impact of Covid was not known. The pandemic had obviously not gone away however, but the Council still needed to balance its budget.

12.5 He confirmed that additional funding had helped to manage this year but it was difficult to say whether Covid would still be an issue going forward. He then referred to the Government Fair Funding formula which had been delayed for two years and would not be in place for the 2022/23 financial year and he expected that one off funding would continue. This was obviously a significant risk to Council, the implications of which would be worked through and built into the planning process.

12.6 RESOLVED:

A. That the Annual Governance Statement 2020/21 as set out in Appendix A of the report be approved.

B. That the Internal Audit conclusion that the Council has reasonable evidence of compliance with the Code of Corporate Governance be noted.

13 Third line assurance: Annual Assurance report of Audit Committee to Council 2020/21

13.1 Members received the report of the Executive Director of Resources (Section 151 Officer) (copy attached to the signed minutes) which set out the Audit Committee's Annual Assurance Report to Council for 2020/21. He drew attention to the Executive Summary at paragraph 2 of the report and reported that the Audit Committee could provide reasonable assurance.

13.2 In response to a query in relation to the Highways Term Maintenance Contract, the Executive Director of Resources (Section 151 Officer) explained that the control improvements in this service area had not greatly impacted the overall control environment nor the assurance level given.

13.3 Members noted that the Audit Committee would not be as effective without the backing, reports and training from Audit staff and wished this to be referred to in the report to Council.

13.4 RESOLVED:

That the Draft Annual Assurance Report for 2020/21 be approved, subject to the above amendment, and that Council be recommended to accept

14 Second line assurance: Financial outturn report 2020/21

14.1 Members received the report of the Executive Director of Resources (Section 151 Officer) (copy attached to the signed minutes) which provided financial commentary

on the 2020/21 Financial Year; a year dominated by the Coronavirus global pandemic. Despite this, Shropshire Council has delivered £11.7m savings, 96% of its capital programme and a year-end underspend of £0.764m.

- 14.2 The Executive Director of Resources (Section 151 Officer) advised the meeting that the report had been to Cabinet, Full Council and Scrutiny and was brought to the Audit Committee to allow members to consider the controllable expenditure etc before being taken through the detail of the Statement of Accounts.
- 14.3 The Committee were informed that two thirds of the forecast savings had been delivered, details of which were set out in paragraph 8 of the report. The Executive Director of Resources (Section 151 Officer) then drew members' attention to the additional expenditure due to Covid-19 along with the Government grants used to offset this expenditure.
- 14.4 The Executive Director of Resources (Section 151 Officer) explained that the general fund balance as at 31 March 2021 was £14.09m which remained significantly below the risk assessed target of £15.5m.
- 14.5 In response to a query, the Executive Director of Resources (Section 151 Officer) confirmed that the reason why the level of school balances appeared to have increased during the year, was because the 2019/20 balance was depressed due to the dedicated school grant deficit.
- 14.6 **RESOLVED:**
- A. To note that the outturn for the revenue budget for 2020/21 is a controllable underspend of £0.655m (0.11% of the original gross budget of £575.462m).
 - B. To note that the level of the General Fund balance after adjusting for the outturn underspend and insurance position stood at £14.091m, which was an increased balance when compared with March 2020, but was still significantly below the recommended level.
 - C. To note that the Council had been sufficiently provided with revenue funding relating to Covid-19 in 2020/21, and that therefore no additional costs had had to be funded by the Council's base budget.
 - D. To note that the outturn for the Housing Revenue Account (HRA) for 2020/21 was an underspend of (£3.634m) and the level of the Housing Revenue Account reserve stands at £11.341m (£10.140m in 2019/20).
 - E. To note the increase in the level of Earmarked Reserves and Provisions (excluding delegated school balances) of £22.019 in 2020/21 and the reasons for this.
 - F. To note that the level of school balances stood at £5.995m (£1.891m in 2019/20).
 - G. To approve net budget variations of £4.812m to the 2020/21 capital programme, detailed in Appendix 9 / Table 18 and the re-profiled 2020/21 capital budget of £68.566m.
 - H. To approve the re-profiled capital budgets of £157.430m for 2021/22, including slippage of £2.828m from 2020/21, £115.644m for 2022/23 and £15.070m for 2023/24 as detailed in Appendix 9 / Table 19.
 - I. To accept the outturn expenditure set out in Appendix 9 of £65.738m, representing 96% of the revised capital budget for 2020/21.

- J. To approve retaining a balance of capital receipts set aside of £20.036m as at 31st March 2021 to generate a one-off Minimum Revenue Provision saving of £0.708m in 2021/22.
- K. To Approve the write off of the capital loan to SSC No.1 company up to the value of £0.450m with no General Fund impact.

15 Second line assurance: Approval of the Council's Draft Statement of Accounts 2020/21

- 15.1 Members received the report of the Executive Director of Resources (Section 151 Officer) (copy attached to the signed minutes) which provided an overview of the Accounts for the year 2020/21 and details of the reasons for the most significant changes between the 2019/20 Accounts and the 2020/21 Accounts.
- 15.2 The Executive Director of Resources (Section 151 Officer) informed Members of the reason for the revised covering report and analytical review which had been issued the previous day. He explained that the closure of accounts had taken longer this year due to Covid-19 and the delay around the valuation of Property, Plant and Equipment (PPE) which had only been received the previous week. Also, the final valuation of the Shropshire County Pension Fund had changed significantly leading to adjustments having to be made in the accounts otherwise it would have been a material misstatement.
- 15.3 The Executive Director of Resources (Section 151 Officer) apologised to Members and understood that it was unacceptable that they had only received the draft Statement of Accounts the day before the meeting and hence the revised report and analytical review being sent by way of mitigation. As Members were not able to form an opinion on the accounts, the Executive Director of Resources (Section 151 Officer) suggested that Members submit any questions and/or comments to himself and the Interim Director of Strategic Finance in the next couple of weeks who would consider and respond as necessary.
- 15.4 In response to a query the Executive Director of Resources (Section 151 Officer) replied that pages 17-224 were entirely new and that the analytical review pages 7-16 included changes made in the last week. He invited members to look at pages 7-16 to identify any concerns and questions not dealt with in the explanation. He confirmed that the Pension Fund accounts had been reviewed by the Pensions Committee.
- 15.5 In response to a query about why the Auditor's Statement was blank (note section 3) the Executive Director of Resources (Section 151 Officer) explained that once the draft Statement of Accounts had been signed off, they were passed to Grant Thornton who had from 1 August to 30 September to produce their audit opinion and certificate. It was hoped to take this to Council on the 23 September but the Audit Committee would have the opportunity to look at it either in their training session on 10 September or the next Committee meeting on 16 September.
- 15.6 The Interim Director of Strategic Finance took Members through the analytical review and highlighted the most significant areas where there had been material changes (variances) over £8m or over 10%, and explained why these changes had occurred (see Appendix 1).

- 15.7 In response to a query relating to the revised dedicated school grant deficit, the Strategic Financial Accountant referred to note 29 in the accounts and explained that the new regulations allowed for any deficit to be transferred to unusable reserves then ringfenced for future years.
- 15.8 In response to a query about the decrease in assets, the Strategic Financial Accountant explained that this was due to the movement of the net equity position on the balance sheet due to the result of the fall in investment valuation.
- 15.9 In response to a query the Executive Director of Resources (Section 151 Officer) explained that the £3.4m Shopping centre purchase price covered some of the capital works when it was held in Trust. From 1 February 2021 this became part of the Capital Expenditure (note 17) and the £8.5m was the value of the PPE element plus movements. The Executive Director of Resources (Section 151 Officer) explained that the value of the Unit Trust had to be separated out into income/expenditure/cash plus valuation. He agreed to provide more detail if required.
- 15.10 In response to a query about the collection fund (section 8) it was explained that NDR income was down 50% and was prevalent on how businesses were affected during the pandemic when a lot of businesses were given rate relief. The Council usually collected approximately £80m but this was split 50/50 with the Government, however as the Council's £40m was still needed the Government took a reduction and gave the Council a grant.

15.11 RESOLVED:

That the contents of the draft 2020/21 statement of accounts be noted.

16 Third line assurance: External Audit: Audit Plan

- 16.1 Members received the report of the External Auditor (copy attached to the signed minutes) which provided an overview of the planned scope and timing of the statutory audit of Shropshire Council
- 16.2 The External Auditor drew attention to the significant risks identified including the risk that revenue may be misstated (and although rebutted, it was confirmed that External Audit would undertake a significant level of work around this), the valuation of PPE (land and buildings) for which External Audit would appoint their own expert to assist, and the valuation of the net pension fund liability.
- 16.3 The External Auditor highlighted the other risks set out on page 9 of his report and the other work to be undertaken (page 13). Turning to Materiality, it was confirmed that the levels were similar to previous years and that any changes would be reported in the Audit findings report. The External Auditor explained the revised approach to Value for Money work whereby they had to consider whether the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources and whether there were any significant weaknesses.
- 16.4 Finally, the External Auditor drew attention to the proposed increase in fees set out on page 18 of the report. In response to a query, he confirmed that in the normal

cycle, the Audit Plan would be presented to Committee in March, with a progress report in June followed by the Audit findings report in September. Following on from the Value for Money work, an annual report would be produced and presented to Committee in December.

16.5 RESOLVED:

That the contents of the report be noted.

17 Third line assurance: External Audit: Informing the audit risk assessment for Shropshire Council 2020/21

17.1 Members received the report of the External Auditor (copy attached to the signed minutes) which updated the Committee on some important areas of the auditor risk assessment where External Audit were required to make inquiries of the Audit Committee under auditing standards.

17.2 RESOLVED:

That the contents of the report be noted

18 Third line assurance: External Audit: Shropshire Pension Fund audit plan

18.1 Members received the report of the External Auditor (copy attached to the signed minutes) which provided a copy of the external audit plan for the Shropshire County Pension Fund. The External Auditor explained that the Pension Committee were responsible for approving the Pension Fund audit plan which formed part of the Council's accounts and formed part of the Audit Committee's assurance to Council.

18.2 RESOLVED:

That the contents of the report be noted.

19 Date and Time of Next Meeting

19.1 Members were advised that next meeting of the Audit Committee would be held on the 16 September 2021 at 10.00 am.

20 Exclusion of Press and Public

20.1 **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.

21 Exempt Minutes

21.1 RESOLVED:

That the Exempt Minutes of the meeting of the Audit Committee held on the 4 March 2021 be approved as a true record and signed by the Chairman.

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

22.1 The Committee received the exempt report of the Principal Auditor 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.

22.2 RESOLVED:

That the contents of the report be noted.

Signed (Chairman)

Date: