

**Committee and Date**

Audit Committee

31 July 2020

**MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 25 FEBRUARY 2020
1.30 - 5.00 PM****Responsible Officer:** Michelle Dulson

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Present

Councillor Peter Adams (Chairman)

Councillors Ioan Jones, Chris Mellings, Brian Williams (Vice Chairman) and Michael Wood

66 Apologies for Absence / Notification of Substitutes

66.1 No apologies were received.

67 Disclosable Pecuniary Interests

67.1 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 room prior to the commencement of the debate.

68 Minutes of the previous meeting held on the 5 December 2019**68.1 RESOLVED:**

That the Minutes of the meeting held on 5 December 2019 be approved and signed by the Chairman as a correct record.

69 Public Questions

69.1 No public questions had been received.

70 First Line Assurance: Children's Direct Payments Update

70.1 The Committee received the report of the Interim Assistant Director of Children's Social Care and Safeguarding – copy attached to the signed Minutes – which informed Members of the progress made to address the recommendations following a review of Children's Direct Payments.

- 70.2 The Interim Assistant Director of Children's Social Care and Safeguarding confirmed that the Action Plan would be circulated following the meeting. She informed the Committee that both an Interim Service Manager and a Short Breaks Reviewing Officer had been appointed. She drew attention to the progress made against the Action Plan and confirmed that only five actions remained outstanding.
- 70.3 The Interim Assistant Director of Children's Social Care and Safeguarding reported that development and implementation of the all age payment service was progressing and was being overseen on a bi-monthly basis by the Strategic Board.
- 70.4 The Committee thanked the Interim Assistant Director of Children's Social Care and Safeguarding for her report which gave them assurance that progress was being made. In response to a query, the Head of Audit confirmed that a follow up audit would be undertaken in 2020/21 once the Action Plan had been completed and was fully embedded.
- 70.5 In response to a query about overpayments, the Interim Assistant Director of Children's Social Care and Safeguarding explained that there would always be some element to recoup, but that it should be referred to as unused payments rather than overpayments. She was not aware how much was attributed to each Client as that was held in a separate account.

70.6 RESOLVED:

- a) That Committee members note the review that took place on 15th January 2020 in relation to the recommendations made from the audit.
- b) That Committee Members note the progress that has been made to address the recommendations since the last report to Cabinet.

71 Second Line Assurance: Treasury Strategy

- 71.1 The Committee received the report of the Director of Finance, Governance and Assurance (Section 151 Officer) – copy attached to the signed Minutes – which proposed the Treasury Strategy for 2020/21 and recommended Prudential and Treasury Indicators for 2020/21 to 2022/23.
- 71.2 The Director of Finance, Governance and Assurance (Section 151 Officer) reported that the Treasury Strategy for 2020/21 had been approved by Cabinet on the 12 February 2020 and would be going to Full Council later that week. He referred to the recent Treasury Strategy training session for Members which had provided more detail. He explained that the Capital Strategy picked up non-treasury (investment) activities, which the Audit Committee could look at separately.
- 71.3 In relation to the Council's Housing Company, an exempt report had been considered by Full Council and delegated authority had been given to the Director of Finance, Governance and Assurance (Section 151 Officer) to make any necessary changes to the Treasury Strategy in relation to the Housing Company.
- 71.4 In response to a query, the Director of Finance, Governance and Assurance (Section 151 Officer) explained that although the Audit Committees' responsibility for 'Scrutiny of Treasury Strategy' could be seen as an 'overview' instead, 'scrutiny' was the

language used in the Code. In relation to a query about whether an external fund manager was to be appointed (Page 41), the Director of Finance, Governance and Assurance (Section 151 Officer) explained that the Council had no intention of appointing any such manager but that it had the power to do so, should it wish and he gave an example of circumstances in which an external fund manager may be appointed.

71.5 In relation to PWLB borrowing, the Director of Finance, Governance and Assurance (Section 151 Officer) explained that they used to be the cheapest source of funding but had increased their margin by 1% the previous year which had stifled the market so that other products became viable and PWLB became more expensive.

71.6 In response to a query about whether borrowing decisions were made in consultation with Cabinet or the Portfolio Holder with responsibility for Finance, the Director of Finance, Governance and Assurance (Section 151 Officer) explained that the vast majority of day to day borrowing decisions were delegated to the Section 151 Officer, with guidance and support from the Treasury Management Team and Asset Managers. Any decisions were then reported back to Committee. He stated that it was a dynamic process and that extra governance would slow the process down. He confirmed that decisions were made in line with the Treasury Management Code.

71.7 In response to a query, the Director of Finance, Governance and Assurance (Section 151 Officer) explained that the process of lending to AAA rated Money Market Funds. Members requested that the appropriate aspects of the Capital Strategy be considered at the next meeting of the Audit Committee.

71.8 RESOLVED:

- a) That the Treasury Strategy 2020/21 be endorsed.
- b) That the appropriate aspects of the Capital Strategy be considered at the next meeting of the Audit Committee.

72 Second Line Assurance: Strategic Risks Update

72.1 The Committee received the report of the Risk and Insurance Manager – copy attached to the signed Minutes – which set out the current strategic risk exposure following the December 2019 quarterly review.

72.2 The Head of Audit reported that there were currently 17 strategic risks on the strategic risk register, which was an increase of one strategic risk relating to the effects of Climate Change, for which Adrian Cooper had been appointed Lead Officer and was in the process of completing the risk profile.

72.3 The Head of Audit confirmed that the Economic Growth Strategy risk had increased from low to medium due to the effects of Brexit on the economy being unknown at the time. The reputation risk had been reduced from high to medium however this had since been increased due to an emergency being announced within highways in

relation to the number of potholes in the county. The risk score for Safeguarding Children had also been reduced from high to medium following the recruitment of more social workers.

72.4 In response to a query about the extent to which the skills capacity of the workforce were reflected in the strategic risks, the Head of Audit confirmed that this was considered and was embedded throughout the strategic risks. However, if it became an issue in itself it would become a separate strategic risk.

72.5 RESOLVED:

That the position as set out in the report be accepted.

73 Governance Assurance: Draft Audit Committee Annual Work Plan and Future Training Requirements

73.1 The Committee received the report of the Head of Audit – 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 they were well informed and appropriately skilled to fulfil their role.

73.2 The Head of Audit informed the Committee that the only proposed change was for the Audit Committee and not Council to approve the final statement of accounts and accompanying documents at its meeting on 31 July 2020 (paragraph 6.3). If approved, the Audit Committee's Terms of Reference would be amended and a change to the Constitution sought.

73.3 The Head of Audit drew attention to paragraph 6.5 which set out those topics covered by training during 2019/20 and she confirmed that provisional dates for training during 2020/21 had been circulated to Members of the Committee. Suggested topics for training were set out in Appendix B whilst Appendix A summarised the Audit Committee Work Plan for 2020/21.

73.4 The Director of Finance, Governance and Assurance (Section 151 Officer) explained that legislation required the accounts to be approved by a Committee of the Council and although up until now this had always been done by Council, due to the faster close down of the accounts, the Council would have to sit on the last day of July, which was not practicable. It was therefore easier for Audit Committee to sit at the end of July.

73.5 In response to a query about what the Committee would be approving as they could not make any changes to the accounts in any case, the External Auditor explained that there may be changes between the draft accounts and the final accounts. The Committee would have to take all information and External Audit findings into account and assess whether the accounts were correct (including any unadjusted misstatements).

73.6 In response to a further query, the Director of Finance, Governance and Assurance (Section 151 Officer) explained that the Financial Monitoring report would still be going to Council along with the outturn report. Audit Committee would report its' year

end assurance in relation to Value for Money / Financial Sustainability to Full Council. The Committee were able to invite the Leader to attend the meeting when the accounts were being signed off.

73.7 RESOLVED:

- a) That the Audit Committee work plan for 2020/21 be approved (Appendix A).
- b) That a learning and development plan for Members of the Committee taking into account information in Appendices A and B be approved.
- c) That delegation to the Director of Finance, Governance and Assurance (Section 151 Officer) to approve a revised Terms of Reference for the Audit Committee to incorporate approval of the Final Accounts Pack, including the Statement of Accounts for the financial year end with the Committee Chair and to seek formal delegation in the Constitution from Council for this activity to be approved.

74 Third Line Assurance: Report of the Audit Review of Risk Management

74.1 The Committee received the report of the Principal Auditor – copy attached to the signed Minutes – which summarised the detailed findings identified in the Internal Audit review of Risk Management. She informed the Committee that the overall control environment for the Risk Management system had been assessed as good, the highest rating that could be given and that no control weaknesses had been identified.

74.2 The Principal Auditor drew attention to paragraph 6.5 of the report which summarised the findings for each of the four control objectives for which full compliance had been achieved.

74.3 RESOLVED:

That the findings from the review of Risk Management by Internal Audit be endorsed.

75 Third Line Assurance: Internal Audit Performance Report and Revised Annual Audit Plan 2019/20

75.1 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 three months since the previous Audit Committee report.

75.2 The Head of Audit informed the Committee that 79% of the revised plan had been achieved, however the team were on target to deliver 90% of the plan by year end. She drew attention to performance against the plan 2019/20 set out on page 103. There had been minor revisions to the plan for a total of 2,217 days (compared to 2,250 days reported in December). In total, 18 final reports had been issued.

75.3 The Head of Audit drew Members' attention to the Audits completed since October, the Assurance levels awarded and the overall spread of recommendations set out in paragraphs 6.6, 6.7 and 6.8 respectively. Turning to paragraph 6.9, the Head of Audit reported that there had been 12 good or reasonable assurances accounting for 66% of the opinions delivered, which was a slight decrease compared to the previous year. This was offset by a corresponding increase in limited and unsatisfactory assurances up from 33% in the previous year to 34% this year.

75.4 The Head of Audit explained that one fundamental recommendation had been identified, which was detailed in paragraph 6.13 of the report including the response from management. Turning to Direction of Travel, the Head of Audit cautioned that the lower level assurances and the higher proportion of areas attracting unsatisfactory and limited assurances were an early indication of a weakening control environment.

75.5 A brief discussion ensued in relation to the control environment in which Members expressed their concerns. In response, the Head of Audit stated that although it was a concern, she needed to see what happened in the last quarter before deciding on her opinion. In response to a query about why processes were not being followed, the Head of Audit explained that it was not just around supply contracts but arrangements for compliance checks and managing contracts going forward.

75.6 The Director of Finance, Governance and Assurance (Section 151 Officer) acknowledged that this was a risk but that any areas of non-compliance were reported directly to the Chief Executive. In response to a query, the Director of Finance, Governance and Assurance (Section 151 Officer) explained that the Commissioning and Assurance Board had been set up two years ago to monitor strategic risks in relation to contract management. He explained that staff had been trained and were aware of their responsibilities in these areas and that there was oversight by senior officers.

75.7 Members requested more information around Contracts to be presented to a future meeting of the Committee.

75.8 **RESOLVED:**

- a) That the performance to date against the 2019/20 Audit Plan set out in this report be endorsed and that the action to be taken by the Audit Committee in response to the low assurance levels and fundamental recommendations as detailed in the report, be noted.
- b) That the adjustments required to the 2019/20 plan as reported in paragraph 6.3 of the report to take account of changing priorities set out in **Appendix B** be endorsed.
- c) That the Committee's concerns about the adverse Direction of Travel be noted.

76 **Third Line Assurance: Draft Annual Internal Audit Risk Based Plan 2020/21**

76.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which provided Members with the proposed risk based Internal Audit Plan for 2020/21. The Head of Audit drew attention to the summarised Internal Audit Plan set out at Appendix A which confirmed that 1,794 days had been planned for Shropshire Council audit work and 171 days for external clients.

76.2 The Head of Audit also drew attention to Appendix B, which set out those audit areas of high priority for which no provision had been made in this year's internal audit plan along with areas requested by managers for which no provision had been made. The Head of Audit confirmed that the Audit Committee may seek assurances from management on any areas for which they were concerned.

76.3 The Head of Audit explained that Appendix C showed those low risk areas that would not be considered for review by Internal Audit on a rolling basis but again, the Committee may seek assurances from management on any areas of concern.

76.4 In response to a query about whether an internal audit of the Flood Risk Management Arrangements and the WSP Contract would be undertaken this year, the Head of Audit explained that audits of these areas would not be undertaken until 2020/21 but that the Committee could ask management to provide assurance.

76.5 RESOLVED:

That the approach taken to create the proposed Internal Audit Plan for 2020/21 be endorsed and that its adoption be approved.

77 Third Line Assurance: External Audit, Audit Progress Report and Sector Update

77.1 The External Auditor gave a verbal update on progress together with a summary of emerging national issues and developments which may be of relevance to the Council.

77.2 The External Auditor informed the Committee that the 2019/20 audit had begun, it had been a slow start due to the time taken to agree the 2018/19 fees, which had now been agreed at £12K. The External Auditor confirmed that the first visit of the 2019/20 audit had been completed and that the next one was due to begin on 9 March for two weeks.

77.3 RESOLVED:

That the contents of the update be noted.

78 Third Line Assurance: External Audit, Audit Plan

78.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – which provided the Committee with the proposed external audit plan for 2019/20 for consideration and approval.

78.2 The External Auditor drew attention to the implementation off the new financial ledger (ERP) which had been identified as a significant risk to the presentation of the accounts. External Audit were keen for the Council to work to cleanse the data in order to reduce the amount of work for the Council in terms of evidence.

78.3 Turning to materiality, the External Auditor reported that this had reduced from £11m to £8m and she explained that any body with a turnover of £1½b could not have materiality higher than 1.5% and this was applied consistently across their clients.

78.4 The External Auditor explained the impact of International Financial Reporting Standard (IFRS) 16 in relation to Leases and how these must be disclosed from April 2020 which would impact on next years' accounts as there would be revenue implications which would need to feed into budgets.

78.5 The risk assessment regarding the Council's Value for Money arrangements had not yet been finalised. Two areas of risk identified were the Council's Financial Strategy for 2024/25 and the operational challenges for Children's Services.

78.6 The External Auditor reported that there was a risk that the audit would not be completed by the end of July target. The Director of Finance, Governance and Assurance (Section 151 Officer) explained that the Council had a responsibility to produce draft accounts by the 31 May and then to have them audited by the 31 July. It would be a problem if they were not approved. The External Auditor confirmed that it was a risk but that the Council's Engagement Lead would report back to the Council if he felt that the target would not be achieved, and in that event, a contingency date would be agreed.

78.7 Finally, the External Auditor drew attention to the audit fee set out on page 16 of the report which had been set at £126,561 an increase of £22,000 from the scale fee that had been set. This increase had been agreed by the Director of Finance, Governance and Assurance (Section 151 Officer) and was subject to PSAA agreement.

78.8 RESOLVED:

- a) That the draft Audit Plan for 2019/20, attached at Appendix 1 be approved.
- b) That the commissioning of Grant Thornton to undertake the audit in accordance with the audit plan be approved.

79 Third Line Assurance: External Audit, Informing the Risk Assessment

79.1 **RESOLVED:** That this item be deferred to the next meeting.

80 Date and Time of Next Meeting

80.1 Members were reminded that the next meeting of the Audit Committee would be held on Thursday 25 June 2020 at 1.30pm.

81 Exclusion of Press and Public

81.1 RESOLVED:

That in accordance with the provisions of Schedule 12A of the Local Government Act 1972 and paragraph 10.2 of the Council’s Access to Information Procedure Rules, the public and press be excluded during consideration of the following items as defined by the categories specified against them.

82 Exempt Minutes of the previous meeting held on the 5 December 2019 (Exempted by Categories 1, 2, 3, 5 and 7)

82. RESOLVED:

That the exempt minutes of the meeting held on 5 December 2019 be approved and signed by the Chairman as a correct record.

83 First Line Assurance: Highways Term Maintenance Update (Exempted by Category 5)

83.1 The Committee received the exempt report of the Director of Place and Enterprise – copy attached to the signed Minutes – which provided Members with an update on progress of the Action Plan following the audit undertaken to review payment mechanisms for the Highways Term Maintenance Contract.

83.2 RESOLVED:

That the recommendation contained in the report be approved.

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

84.1 The Committee received the exempt report of the Principal Auditor - copy attached to the exempt 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.

84.2 RESOLVED

That the contents of the report be noted.

Signed (Chairman)

Date: