



Committee and Date

Audit Committee

9 December 2021

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 16 SEPTEMBER 2021 10.00 AM - 12.30 PM

Responsible Officer: Michelle Dulson
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Present

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

23 Apologies for Absence / Notification of Substitutes

No apologies were received.

24 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.

25 Minutes of the previous meeting held on the 30 July 2021

RESOLVED:

That the Minutes of the meeting of the Audit Committee held on the 30 July 2021 be approved as a true record and signed by the Chairman.

26 Public Questions

There were no questions from members of the public.

27 Member Questions

There were no questions from Members.

28 **Second line assurance: Risk Annual Report 2020/21 incorporating Strategic Risks Update**

The Committee received the report of the Risk and Insurance Manager – copy attached to the signed minutes – which provided an overview of the activity of the Risk, Insurance & Resilience Team during 2020/2021 and a synopsis of the current risk exposure of the authority in relation to Strategic, Operational and Project risks. It also identified some key activity for 2021/2022.

The Risk and Insurance Manager introduced and amplified her report. She was pleased to report that the Audit review of risk management this year had again identified the assurance level as 'Good'. She explained that all risks were now on a SharePoint site so that risk owners had access to update the risks at any time to allow real time reporting.

The Risk and Insurance Manager reported that each Strategic risk had a detailed profile and Action Plan sitting behind them, along with an implementation date and were linked to the Annual Governance Statement targeted outcomes. Of the 16 strategic risks, there were 11 high, 3 medium, 2 low and no very low risks.

The Risk and Insurance Manager updated members in relation to strategic, operational and project risk management. She explained that the Opportunity Risk Management Strategy was reviewed annually and reported to the Executive Directors, Cabinet and Audit Committee.

Turning to Business Continuity, the Risk and Insurance Manager confirmed that the arrangements remained robust and that the detailed tactical plans were constantly reviewed. Emergency planning continued to be put to the test with the main focus being on the continued response to and recovery from Covid-19.

In response to a query, the Risk and Insurance Manager confirmed that all 128 operational risk registers had a named lead officer as the overall risk owner. The Risk and Insurance Manager explained the key things they looked at when considering a strategic risk including what controls were currently in place and what additional controls were required in order to mitigate the risk. Also, if the implementation date had not been achieved the risk owner would be challenged.

In response to a query, the Risk and Insurance Manager explained the four classification levels for operational risks and that a likelihood of impact matrix was used to ensure that each risk was scored on the same basis.

RESOLVED:

To accept the position as set out in the report.

29 **Second line assurance: Annual Treasury Report 2020/21**

The Committee received the report of the Executive Director of Resources (Section 151 Officer) – copy attached to the signed Minutes – which showed the borrowing and investment strategy, outturn for 2020/21 and investment performance of the Internal Treasury Team, confirming activities align with the approved Treasury Management Strategy.

The Executive Director of Resources (Section 151 Officer) reported that the Internal Treasury Team had outperformed their investment benchmark which had been the case for many years. He confirmed that the Council's Treasury activities during the year had been within the approved prudential and treasury indicators set and have complied with the Treasury Strategy.

The Executive Director of Resources (Section 151 Officer) drew attention to the Debt Maturity Profile, Prudential Indicators and the Council's Borrowing and Investment Strategy and Outturn position for 2020/21, set out in Appendices A, B and C respectively. He confirmed that as part of a future training session for Members of the Audit Committee on Treasury Management they would be looking at prudential indicators.

In response to a query, the Executive Director of Resources (Section 151 Officer) explained that the benchmark was a national benchmark based upon active treasury management and what should be achieved. In response to a further query about why the Council invested in other local authorities, the Executive Director of Resources (Section 151 Officer) explained that they could only invest in certain types of institutions which had to be AAA rated with sovereign backing. He confirmed that Shropshire Council also lent money to other local authorities.

In response to a query, the Executive Director of Resources (Section 151 Officer) explained that internal borrowing was based on having cash available for the short term that would not be called upon. The interest rate was based upon the prevailing rate at the time.

The Chairman noted that there had been no external borrowing and congratulated the Internal Treasury Team for exceeding its benchmark yet again.

RESOLVED:

To accept the position as set out in the report.

30 **Third line assurance: Internal Audit Performance Report and revised Annual Audit Plan 2021/22**

The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which summarised Internal Audit's work to date in 2021/22. The Head of Audit explained that delivery had been lower than normal, and that the plan had been adjusted to reflect the impact of vacancies and support to COVID activities. Lower assurances were highlighted, providing members with an opportunity to challenge further.

The Head of Audit advised Members that 32% of the revised Plan had been completed and that they were on track to deliver 90% by year end. She then drew attention to the proposed reduction of 203 days to 1,797 days due to a reduction in available resources, recruitment delays and initially at the start of the year, the continuing impact of COVID. It was confirmed that these changes had been discussed with and agreed by the Executive Director of Resources (Section 151 Officer).

The Head of Audit drew attention to table 3 (Appendix A) which set out the unsatisfactory and limited assurance opinions issued. She confirmed that no limited assurance opinions had been issued however there had been two unsatisfactory assurance opinions, as detailed in the report.

In response to a query, the Head of Audit expanded on the wellbeing activities available to support staff. In response to a further query, the Head of Audit went on to explain the process behind the decision of which audits were undertaken or otherwise which was dependent on risks and priorities and was quite a fluid plan. She confirmed that the Executive Director of Resources (Section 151 Officer) signed off the plan and that anything of significant concern would be reported back to the Committee and the risks explained.

A brief discussion ensued in relation to the unsatisfactory assurance opinion given for internet security and the Head of Audit explained that when they had gone out to test it was found that not all the policies and procedures were in place or weren't being complied with. She confirmed that fundamental recommendations had been made and agreed by management and would be discussed in the exempt part of the meeting.

RESOLVED:

1. To note the performance to date against the 2021/22 Audit Plan.
2. To note the adjustments required to the 2021/22 plan to take account of changing priorities set out in Appendix B.

31 Third line assurance: Internal Audit: Quality assurance and Improvement Programme (QAIP)

The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which confirmed, following a self-assessment quality assurance review (QAIP), that Internal Audit complied with the

Public Sector Internal Audit Standards (PSIAS) and 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.

It was confirmed that an external assessment was planned for the current year, in compliance with the PSIAS, details of which had been confirmed with the Chairman and Section 151 Officer. The Head of Audit confirmed that a number of quotes had been received and that the contract had been awarded to the Chartered Institute of Public Finance and Accountancy (CIPFA).

In response to a query, the Head of Audit confirmed that a full assessment had been undertaken five years ago but that following several years of self-assessments they were more confident about what was needed, therefore an assessment of the self-assessment was appropriate.

RESOLVED:

To endorse the approach agreed by the Section 151 Officer and Head of Audit in consultation with the Chairman of the Audit Committee for delivery of the external assessment.

32 Second line assurance: Statement of Accounts 2020/21

The Committee received the report of the Executive Director of Resources (Section 151 Officer) along with the revised draft Annual Statement of Accounts – copy attached to the signed Minutes – which presented members with the unaudited outturn position for the financial year 2020/21 and detailed any amendments made to the Draft Statement of Accounts during the audit process to date.

The Interim Director of Strategic Finance took Members through the changes made since they had last seen the Statement of Accounts. She drew attention to paragraph 2.5 and confirmed that this should refer to item 12 and not item 13.

The Interim Director of Strategic Finance informed the Committee that the first draft of the Statement of Accounts had been signed off by the Executive Director of Resources (Section 151 Officer) and published on 31 July 2021 and then sent to Grant Thornton. No material changes had been made, only minor amendments which were set out in paragraph 8 of the report.

The audit of the accounts had started a week late due to illness and to the late receipt of the valuation from the Council's external valuers. External Audit hoped to complete the audit in October and until their opinion was received the accounts would remain draft.

The Executive Director of Resources (Section 151 Officer) queried whether the Committee wished to hold an additional meeting on 22 October or whether it wished to delegate authority to himself to make any final amendments. Members of the Committee felt that as this function had been delegated to the Audit Committee by full Council it would not be appropriate to delegate beyond the Audit Committee.

Councillor Simon Jones voted against the recommendation to set up an additional meeting as he felt that if there were no significant issues the Committee could meet virtually and delegate to the Section 151 Officer.

RESOLVED:

1. To note the revised draft Statement of Accounts attached as Appendix 1.
2. To set up an emergency meeting on 22nd October 2021 for any adjustments to the Statement of Accounts to be reported to the Committee prior to publication on the Council's website.

33 Third line assurance: External Audit: Shropshire County Pension Fund Annual Audit findings (Information) 2020/21

The Committee received the report of the Engagement Lead – copy attached to the signed Minutes – which set out the Audit Findings for Shropshire County Pension Fund for the year ending 31 March 2021.

The Engagement Lead informed the Committee that the Pension Fund Audit was substantially complete and would be presented to Pensions Committee the following day. He confirmed that materiality was set at £20m and that there were no unadjusted misstatements. He drew attention to a £45m difference in valuation which had been adjusted and to two other valuations which had not been adjusted and were due to timing issues.

The Engagement Lead confirmed that no issues had been identified in relation to improper revenue recognition and the only issue in relation to the valuation of level 3 investments was the £45m difference mentioned above. There was also a valuation difference in Level 2 investments of £6.8m however, as this was below the level of materiality, it was not intended to adjust for it.

Finally, it was confirmed that there were no issues around the Fund's ability to continue as a going concern and that it was intended to issue an unqualified opinion.

RESOLVED:

That the contents of the report be noted.

34 Third line of assurance: External Audit: Audit progress report and sector update

The Committee received the report of the Engagement Lead – copy attached to the signed Minutes – which provided Members with a report on progress together with a summary of emerging national issues and developments which may be of relevance to the Council.

The Engagement Manager gave a summary of progress and drew attention to the changes to arrangements for securing Value for Money which included the introduction of an Auditor's Annual Report which it was hoped would be ready by 31 December 2021.

Turning to the Whole of Government Accounts, the Engagement Manager explained that there was a slight delay due to a delay with the workbook which was due sometime in December.

RESOLVED:

That the contents of the report be noted.

35 Third line of assurance: Changes to Arrangements for Appointment of External Auditors

The Committee received the report of the Executive Director of Resources (Section 151 Officer) – copy attached to the signed Minutes – which asked Members to consider and propose the most efficient and effective way of procuring an External Auditor from April 2023, to Council for their consideration and final decision.

The Executive Director of Resources (Section 151 Officer) introduced and amplified his report. He explained that the current arrangement with External Audit was coming to an end and that the Council needed to go through the process of appointing a new External Auditor. He referred to the three options contained in the report.

The Committee felt that options b) and c) would place enormous demand on officer time along with unnecessary expense and therefore agreed that option a) was the most appropriate method for appointing an External Auditor.

RESOLVED:

That option a) Using the Sector Led Body, the PSAA by indicating an option to "opt-in" as the preferred approach be recommended to Council for approval.

36 Date and time of next meeting

Members were advised that next meeting of the Audit Committee would be held on the 22 October 2021 at 10.00 am.

37 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.

38 Exempt Minutes

RESOLVED:

That the Exempt Minutes of the meeting of the Audit Committee held on the 30 July 2021 be approved as a true record and signed by the Chairman.

39 First line assurance: Highways Term Maintenance update

The Committee received the exempt report of the Executive Director of Place – copy attached to signed exempt Minutes – which provided an update on progress towards a resolution of the issues identified by Audit relating to the management of the Councils Term Maintenance Contract with its Highway's provider Kier.

RESOLVED:

To approve the recommendations contained in the report.

40 Third line assurance: Fundamental Recommendations (Exempted by Categories 2, 3 and 7)

The Committee received the exempt report of the Head of Audit – copy attached to the signed Minutes – which set out three of the five fundamental recommendations referred to in the Internal Audit Performance and Revised Annual Audit Plan (the other two were detailed in the Fraud, Special Investigation and RIPA Update report).

RESOLVED:

That the contents of the report be noted.

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

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.

RESOLVED:

That the contents of the report be noted.

Signed (Chairman)

Date: