

AUDIT COMMITTEE

Minutes of a meeting of the Audit Committee held on Thursday, 27 May 2021 at 6.00 pm in Meeting Point House, Southwater Square, Telford, TF3 4HS

Present: Councillors N A M England (Chair), V J Holt, A Lawrence, K S Sahota, C F Smith (Vice-Chair) and W L Tomlinson

In Attendance: D Rowley and G Patterson (Grant Thornton, External Auditors), K Clarke (Director: Finance and Human Resources), P Harris (Finance Manager), A Lowe (Associate Director: Policy & Governance), R Montgomery (Audit and Governance Team Leader), T Drummond (Principal Auditor) and J Clarke (Democracy Officer).

Apologies:

None.

AU69 Declarations of Interest

None.

AU70 Minutes of the Previous Meeting

RESOLVED – that the minutes of the meeting held on the 28 January 2021 be confirmed and signed by the Chair.

AU71 Review of the Audit Committee Terms of Reference

The Associate Director: Policy and Governance presented the annual review of the Committee's Terms of Reference. The Terms of Reference remained the same as last year but it was suggested that they were reviewed to extend the scope to enable the Audit Committee to look at other areas of governance not covered by the work of other Committees. The recommendation was for the Terms of Reference to be approved subject to amendments which would circulated to Committee for approval and be reported to members at a later stage.

During the debate some Members asked if the Audit Committee remit included the appointments made by the Leader and whether the Audit Committee should meet privately with the External Auditor.

Grant Thornton confirmed that it was good practice for the External Auditors to meet privately once a year with Members under the CIPFA guidance.

The Associate Director: Policy & Governance reminded members that officers supported them meeting with the External Auditors privately in order to gain

good assurance and to speak open and frankly. Such meetings had taken place previously.

The Chair confirmed that this would be put on the Committee's work programme.

Upon being put to the vote it was unanimously:

RESOLVED – that

- a) the Terms of Reference be reviewed by Officers and any amendments circulated to the Committee for approval; and**
- b) the Terms of Reference be adopted by Council at the July 2021 meeting.**

AU72 Informing the Audit Risk Assessment (External Audit Interim Report 2020/21)

D Rowley presented the Informing the Audit Risk Assessment of the External Auditors and gave a brief overview of the key points. There had been effective two way communication during the audit and Management had responded to question around the key areas of control, the calculations and the key accounting estimates. There was a renewed focus on accounting and the ISA 540 standard and this would be important through the year. They would continue to monitor the events, issues and impact of Covid 19 together with financial pressures, government grants and the impact of the uncertainty of the market generally. The value of fixed assets, pension liability and financial statements would also be considered. The External Auditors reported that no material fraud had been identified. The focus of their work had been principally on the possibility of fraudulent financial reporting or material misstatement of accounts. There were robust controls within the environment which was echoed through the interim and previous work that had been undertaken with the Council. Work would be undertaken to review the administration of the grants that the Council had received i.e. covid grants and the potential applications that had come forward. With regard to the impact of laws and regulations the Council had processes in place and regulation ensured compliance and there had been no instances of non-compliance or suspected non-compliance which was a positive outcome and there was nothing coming forward to contradict this going forward. Related parties arrangements were in line with what the External Auditors would expect to see. The key accounting estimates and relevance to External Audit were highly subjective and changes in assumption or underlying input of calculations could lead to material misstatement in relation to PPE valuation, pension valuations and provisions within the accounts. A summary and breakdown of the calculation of the estimates could be found at Appendix A to the report.

During the debate some Members asked what was used to provide an insight and overview of what was happening nationally. Some Members stated that

the Council's accounts were produced fairly speedily and accurately and it would be useful to know comparatively how the Council were performing. It was also asked if there had been any fundamental changes with regard to the accounting standards. Other Members asked for a comparison/benchmark during the pandemic with regard to the Council Tax holiday, was it popular and how other Councils undertook this and if this came under the remit of External Audit.

The External Auditor informed Members that benchmarking was difficult due to the local information, when the audits were completed and the capacity of the auditors. The Councils audit had been well run and gave an overview of what is happening generally under the public interest report. Discussions were ongoing with regard to timelines in response to the audit market. Currently the regulatory market ended in September and going forward this was achievable as the Council were in line with the date of the 1st August. Benchmarking during the pandemic was not included in the report and depended on what Councils could do for their local areas and their cash flow. This could be picked up as part of the accounts under value for money. External Audit could look at the processes and ascertain whether the schemes had worked as they were expected.

AU73 External Audit Fee Letter and Plan for 2021/22

The External Auditors presented the Audit Plan for 2021/22 as there would be no Audit Fee Letter this year. The Plan picked upon past papers that had come before Committee, what were the risks and how the External Auditors could help Members to understand the estimates as well as the context of the audit, the draft Accounts and the Councils strong financial performance against the backdrop of the pandemic. Also reported were the changes in relation to grants, the value for money (vfm) approach together with an overview of the Council's finance in order to identify any significant weaknesses. Whilst External Audit had focussed holistically on governance and financial stability, work would be undertaken on governance arrangements, financial stability, partnership working, efficiency and performance and this was a much broader context. Also reported was the impact of the covid 19 pandemic in relation to home working, the emphasis on matter and valuation of property. The valuation of the markets had moved following the concerns that last year the markets were uncertain. A summary of the plan gave details with regard to NuPlace Group Accounts and the Group Audit and consolidated accounts, management override controls and the consolidation process across the Council as a whole, Governance, Valuation of land and buildings, net Pension Fund liability and the significant risks and fraud recognition. Although the plan was similar to that of the last financial year, materiality measure had moved and the benchmark would differ. Going forward there would be two areas of focus for vfm which would be financial sustainability and governance arrangements together with the group audit on investment properties and work around estimates. Other matters highlighted were the rebuttal around expenditure and the going concern, the change to public sector audits around service provision and financial sustainability. Related parties were making progress and any

recommendations would be picked up at end of year. The audit timetable would run May to July and would be brought back to Committee in September which would contain information in relation to the vfm, and the Annual Audit Report would replace the Audit Letter after September. There was a significant fee variation proposed driven by the increased requirements on auditors due to the raising of the bar for the quality of the audits in relation to pensions and PPE, the changes with regard to vfm and increasing work around estimates. It was suggested that a 60% fee increase was made across the country in line with the PSAA scale fee and this had been accepted by the Finance Team subject to a review by the PSAA. Non-Audit services such a certification of claims and returns, teachers' pensions and housing benefits subsidiary may need to be added to the Committee's Terms of Reference for approval.

During the debate some Members raised queries regarding the extra work on vfm and the significant fee increase and if this was the same for all councils. Other Members asked if the increase was linked to inflation and that this large increase may be questioned by the public.

The External Auditors confirmed to Members that there had been a change to the Codes of Audit Practice and more information was needed for the public to understand what work was being undertaken and to analyse any cause for concern. There had been a more holistic view during the year and the Council had achieved good CQC scores for Adult Social Care but that the External Auditors had to attend more meetings, undertake additional benchmarking and drive performance metrics. There had also been increased engagement at a senior level and at a greater depth which takes more time and incurred additional costs. This increase was consistent across all of their client base. Auditors were regulated and since the original contract had been let the regulatory regime had been changed to a scoring system and incurred additional work to satisfy regulators and demonstrate good accounting standards including estimates and assumptions and going forward looking closely at loans, credit losses and the changes around vfm.

The Director: Finance and Human Resources informed Members that although this was a fairly significant increase discussions had taken place and due to the increase of work around the quality of audits and the Redland Review the fee was still less than it had been in previous years and it was hoped some additional funding would come forward to offset the fee.

AU74 External Audit Progress Report and Update

Grant Thornton gave an update on the External Audit which had been delayed due to the disruption of the covid 19 pandemic. The Accounts would now be signed in November instead of July but this was slightly truncated across the sector. Planning had started in October and the Audit began in January/February with the plan to deliver the Audit in the summer. Due to early testing and planning the first draft of the Accounts may be ready in May/June. No significant findings had been made and no commentary from the outcome of sample testing and there had been an effective collaboration

with the Finance Team with high quality working papers and they were confident that they could deliver a good audit over the summer.

AU75 Draft Statement of Accounts

The Finance Manager presented the draft Statement of Accounts which complied with the accounting regulations and the CIPFA Code of Practice and asked Members for delegated authority for the Chief Finance Officer to approve the Statement of Accounts. The document was lengthy and complex and it was acknowledged that Members may have not had time to digest the whole document and that the Statement of Accounts would be presented to the Committee in September and Members could raise any questions prior to this time. The Audit would start mid-June with adverts being placed in the Shropshire Star and on the Council's website in accordance with the Audit Regulations 2021 and 2021/22. The publication of the accounts would be at the end of September which was earlier than required.

During the debate some Members gave praise for the accounts being prepared ahead of time but asked if a summary of the key points could be included. It was also asked at what point would concerns be raised by the External Auditors with regard to deficits and with regard to the change of benefits regarding the re-measurement liabilities. Other Members raised whether there would be further changes to contribution rates and if so could a longer recovery period be arranged.

The Finance Manager informed Members that a summary version of accounts was now a requirement following the Redland Review. The accounts contained a breakdown of the pension liability which fluctuated according to the markets but useable reserves had not reduced. Assumptions were the way the assets and liabilities were valued and due to inflation liability had increased and the rate of discount decreased and this incurred an increased cost.

The External Auditors explained that it was based on what was affordable to the Council going forward and with regard to pension liability the contribution rates were set every three years. If a council could not meet the liability this would raise concern and the level of usable reserves could not cover any anomaly. It was all dependent of how a council was run and auditors would look at the arrangements and risks in order to ensure there were appropriate arrangements and that a council was fully aware and could manage any risks. With regard to pensions and recovery period the Auditors would work with the employer and employees to secure a longer recovery period.

AU76 The Annual Governance Statement 2021/22

The Audit & Governance Lead Manager presented the Annual Governance Statement which was prepared to accompany the Statement of Accounts and would be signed by the Leader, the Chief Executive Officer and the Chair of Audit as set out in the CIPFA framework for good governance. The main area of the statement to note was the level of assurance from the governance

arrangement for 20/21 which gave a reasonable level of assurance that the Councils governance arrangements were fit for purpose. The basis for the opinion changed in 20/21 mainly due to the pandemic which resulted in a diluted level of internal audit work due to the team supporting the community efforts to tackle the pandemic. There had been positive comments from the External Auditors, peer reviews undertaken and the customer survey. Attached to the report was the local code of good governance including the framework on how governance arrangements were set out and the statement for approval.

Upon being put to the vote it was, unanimously:

RESOLVED – that

- a) the annual Governance Statement for 2020/21 be approved;**
- b) The Local Code of Good Governance be approved; and**
- c) The information report be noted.**

AU77 2020/21 Internal Audit Annual Update Report including the Audit Committee Annual Report and 2021/22 Internal Audit Plan

The Principal Auditor presented the 20/21 Internal Audit Annual Report and the 2021/22 Internal Audit Plan. Planned resources for 2020/21 were set at 878 days which included 47 days for specialist ICT audit provision provided by the Staffordshire framework contract. The Team achieved 38% of the planned work with some items being rescheduled until 2021/22 due to the Covid pandemic. There were no issues regarding gradings with green increasing during 2021 compared to 2019/20. Yellow gradings decreased and amber and red remaining comparable. Customer feedback had been sought electronically and performance remained extremely high with all areas excelling or being very good, which was an improvement. Despite diluted audit coverage due to the pandemic, Internal Audit had performed well and the Section 151 Officer had given reasonable assurance to the Council on the operation of the Council's internal controls, governance and risk management processes for all areas reviewed in 2020/21. The work of the Committee during 2021 was referred to in Appendix 2 of the report and comprehensive agendas came to Committee to provide assurance on audit and governance and risk management arrangements. Internal Audit had a statutory obligation under legislation to provide assurance on corporate governance and the effective management of risk. Resources were limited but to ensure reasonable assurance an audit plan had been developed, influenced by previous work and areas identified by management teams, External Audit requirements strategic and ICT risk registers, external assessments and local, regional and national networking intelligence. During 2021/22 resources had been planned for 824 days and included 47 days specialist ICT work, although due to the ever changing nature of audit it would be reviewed in September in order to inform the Committee of any changes to the plan.

During the debate some Members commented that the resource of audit needed to remain stable and the amount of hours not reduced.

The Audit & Governance Lead Manager assured Members that resources were adequate and where there were fluctuations they were highlighted to the Chair to take his opinion as to whether they would have a detrimental impact of the level of resource.

Upon being put to the vote it was, unanimously:

RESOLVED – that

- a) the Annual Audit Report for 2020/21 be noted;**
- b) the operations of the Audit Committee for 2020/21 be noted; and**
- c) the Internal Audit Plan 2021/22 be approved.**

AU78 Update Report on the work of Internal Audit

The Principal Auditor reported on the progress made against the 2021 internal audit plan and recent work undertaken between 5 January and 3 March 2021. Due to the covid 19 pandemic and the challenges that this presented to the Council, it was agreed that 16 corporate audits were deferred to 2021/22. Of the 68 scheduled audits on the Plan, 16 had been completed and 10 were in progress. There had been 29% yellow reports issued and 71% green reports and the report gave details of previously issued reports and changes to gradings after a follow up. With regard to Section 17 payments, the second follow up remained amber and continued to be a work in progress following a new SDM taking over and changes to the use of purchase cards and the use of case payments. Alternative arrangements were in place due to covid, together with an audit trail system and the sign off for anything over £25 being placed with the SDM. Monthly meetings to check progress was continuing and this would be reviewed again and reported back to the next Committee meeting. All other reports showed improvement.

During the debate some Members asked with regard to primary schools the effect of some audits had greater significance – could this be reported on

The Audit & Governance Lead Manager advised that this could be looked into and reports show low recommendations and advisory points to determine the level of seriousness.

The Principal Auditor confirmed that the plan did show gradings of low, medium or high.

The Legal Advisor commented that previous reports were rated high, medium and low and that this could going forward include an indication of the category

in order that Members could see at a glance what consideration had been given.

Upon being put to the vote it was, unanimously:

RESOLVED – that the work of the Internal Audit undertaken between 5 January 2021 to 31 March 2021 and unplanned work to date be noted.

AU79 The Annual Governance Statement 2020/21 & Local Code of Good Governance

Information Governance & Caldicott Guardian Annual Report 2020/2021

The Audit & Governance Lead Manager presented the Information Governance (IG) & Caldicott Guardian Annual Report and gave an overview of the work undertaken during 20/21. Highlights of the report included slightly less Freedom of Information (FOI) requests received in 20/21, 1030 compared to 1181 in the previous year. The response rate within the statutory deadline for responding to FOI requests was comparable to the previous year with 87% of requests responded within the appropriate deadline. There had been a dramatic increase in the number of subject access requests (whereby people contact the Local Authority for information that is kept about themselves or their children), this had increased by 49% on the previous year. There were no indications of why there was an increase in numbers but it was reassuring to note that no actions had been taken against the Authority by the ICO. One data breach had been reported to the ICO where the threshold had been met for reporting. On discussion with the ICO, they were satisfied that this data breach was a human error and no further action was taken as a result as they were satisfied with how the breach had been managed and contained. A short summary of work undertaken by the Caldicott Guardian, the Director of Adult Social Care, was contained within the report. Progress on the IGS work programme for 20/21 was reported and the suggested work programme for 2021/22 were contained within Appendix 1 and Appendix 2 to the report.

RESOLVED – that

- a) **the Information Governance & Caldicott Guardian Annual Report 2020/21 be noted; and**
- b) **the IG Work Programme for 2021/22 be agreed.**

AU80 2020/21 Anti-Fraud & Corruption Annual Report and updated policy 2021/22

The Audit & Governance Lead Manager presented the Corporate Anti-Fraud & Corruption 2020/21 Annual Report and Anti-Fraud & Corruption Policy. The policy had been reviewed by the Investigation Team and was brought before Committee annually for adoption. During 20/21 the team helped to save £296,000 in relation to fraud which was very favourable compared with

£176,000 in the previous year. It was difficult to identify determining factors and fraud would always be there although in some years there may be more and some years less. Members were asked to note the work that had been undertaken and agree the Anti-Fraud and Corruption Policy 2021/22.

During the debate some Members asked if the Council worked alongside the DWP with exchange of information if required. It was also stated that it would be useful if all agencies worked together with regard to alleged fraud on Covid grants. Other Members asked how much it had cost to retrieve the £296,000 and if amnesties would take place on grants.

The Audit and Governance Lead Manager confirmed that historically fraud work had been separated from the Council and undertaken by DWP. However the DWP were looking to undertake joint working more formally again with the Council. Discussions could take place with regard to sharing costs to bring about savings. There were very positive comments received from the Police, nominated members of staff acted quickly and dynamically when tackling both serious and petty crime and it was an invaluable service. Included in the table on costs the budget for the Investigation Team was just over £93,000 to recover £296,000 which gave a broad idea of the costs involved. Internal Auditors and the Investigation Team were involved in the grants process and covid related business grants were on the audit work programme. Prosecutions were publicised both internally and externally if there were cases of particular note,

Upon being put to the vote it was, unanimously:

RESOLVED – that

- a) the Annual Report on Corporate Anti-Fraud and Corruption activity be noted; and
- b) the updated Anti-Fraud & Corruption Policy be adopted by Council.

AU81 Outline of Audit Committee Business for 2021/22

Members noted the outline of business for 2021/22.

It was also noted that a private session for Members with the External Auditors would take place prior to the September meeting together with a training session on the Accounts.

The meeting ended at 7.36 pm

Chairman: -----

Date: Tuesday, 20 July 2021