

Shropshire Council
Legal and Democratic Services
Shirehall
Abbey Foregate
Shrewsbury
SY2 6ND

Date: Wednesday, 19 March
2014
My Ref:
Your Ref:

Committee:
Audit Committee

Date: Thursday, 27 March 2014
Time: 10.00 am
Venue: Shrewsbury Room, Shirehall, Abbey Foregate, Shrewsbury,
Shropshire, SY2 6ND

You are requested to attend the above meeting.
The Agenda is attached

Claire Porter
Corporate Head of Legal and Democratic Services (Monitoring Officer)

Members of Audit Committee

Brian Williams (Chairman)
Michael Wood (Vice Chairman)
John Cadwallader

Chris Mellings
Mansel Williams

Your Committee Officer is:

Liz Sidaway Committee Officer
Tel: 01743 252885
Email: liz.sidaway@shropshire.gov.uk

AGENDA

1 Apologies for Absence / Notification of Substitutes

2 Disclosable Pecuniary Interests

3 Minutes of the previous meeting held on the 13 February 2014 (Pages 1 - 6)

The Minutes of the meeting held on the 13 February 2014 are attached for confirmation marked 3.

Contact Liz Sidaway (01743) 252885

4 Public Questions

To receive any questions from the public, notice of which has been given in accordance with Procedure Rule 14.

5 Chairman's Remarks

6 National Fraud Initiative 2012/13 (Pages 7 - 10)

The report of the Audit Services Manager is attached marked 6.

Contact: Ceri Pilawski (01743) 252027

7 Current and Aged Debtors Update

The report of the Head of Financial Management and Reporting is attached marked 7.

Contact: Cheryl Williams (01743) 252035

8 Council Tax and Non Domestic Rates Performance Monitoring Report (Pages 11 - 20)

The report of the Revenues Manager is attached marked 8.

Contact: Phil Weir (01743) 256113

9 Internal Audit Risk Management Report 2013/14 (Pages 21 - 24)

The report of the Senior Group Auditor is attached marked 9.

Contact: Chris Kawlinoski (01743) 252083

10 Draft Audit Committee Annual Work Plan and Future Training Requirements (Pages 25 - 34)

The report of the Audit Service Manager is attached marked 10.
Contact: Ceri Pilawski (01743) 252027

11 Draft Internal Audit Risk Based Plan 2014/15 (Pages 35 - 46)

The report of the Audit Service Manager is attached marked 11.
Contact: Ceri Pilawski (01743) 252027

12 External Audit: Audit Committee Update Report (Pages 47 - 68)

The report of the District Auditor is attached marked 12.
Contact: Grant Patterson (0121) 232 5296

13 External Audit: 2013/14 Audit Plan (Pages 69 - 86)

The report of the District Auditor is attached marked 13.
Contact: Grant Patterson (0121) 232 5296

14 External Audit: 2013/14 Communicating with the Audit Committee (Pages 87 - 106)

The report of the District Auditor is attached marked 14.
Contact: Grant Patterson (0121) 232 5296

15 Protecting the Public Purse Fraud Briefing 2013 (Pages 107 - 120)

The report of the District Auditor is attached marked 15.
Contact: Grant Patterson (0121) 232 5296

16 Chairman's Concluding Remarks

17 Date and Time of Next Meeting

The next meeting of the Audit Committee will be held on the 26 June 2014 at 10.00 am in the Shrewsbury Room.



Committee and Date
Audit Committee
27 March 2014
10.00 am

Item No
3
Public

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON THURSDAY, 13 FEBRUARY 2014

10.00 am to 12.35 pm

Responsible Officer: Liz Sidaway

Email: Liz.sidaway@shropshire.gov.uk

Telephone: 01743 252885

Present

Messrs Cadwallader, Carroll, Mellings, B B Williams, and J M Williams.

Mr G Patterson and Mrs E Mayne from Grant Thornton were also in attendance.

58. Apologies for Absence and Substitutions

58.1 Apologies were tendered from Councillor Michael Wood, Councillor Dean Carroll attended as his substitute.

59. Disclosable Pecuniary Interest

59.1 The Chairman reminded members that they must not participate in the discussion or vote on any matter in which they had a disclosable pecuniary interest and that they should leave the room prior to the commencement of the debate.

60. Minutes

60.1 RESOLVED:

That, subject to the following amendments being made to Minute 54.3 as shown in bold below, the Minutes of the meeting held on the 5 December 2013 be approved and signed by the Chairman as a correct record:

- (a) That the half year performance against the **2013/14** Audit Plan set out in Appendix A be endorsed.
- (b) That the adjustments required to the **2013/14** plan to take account of changing priorities set out in Appendix A be endorsed.

61. Public Question Time

61.1 The Chairman indicated that written responses had been circulated in relation to the series of questions submitted by Mr S Mulloy of Shrewsbury to the last meeting of the Audit Committee in accordance with the Council's Public

Question Time scheme, copies attached to the signed minutes. The Chairman invited Mr Mulloy to put his supplementary questions to the Committee as per the scheme.

- 61.2 Supplementary Question - Sale of Shrawardine Farm - Mr Mulloy questioned whether the documents referred to in respect of the valuation on Shrawardine Farm could be made available. The Chairman indicated that the most appropriate way forward was for Mr Mulloy to submit a freedom of information request.
- 61.3 Supplementary Question - Sale of Land adjacent to 8 Bromfield Drive, Shrewsbury - Mr Mulloy asked the Chairman to set up a meeting with the Chief Executive, the Leader and Mr Evans to discuss the sale. The Chairman indicated that he considered that matter had been adequately dealt with by way of the written response and that a meeting was unnecessary.
- 61.4 Supplementary Question - Using Consultants in Liquidation - Mr Mulloy asked whether an economist could be engaged to consider this matter. The Chairman stated that this would not be undertaken and reminded Mr Mulloy of the option to refer his concerns to the Local Government Ombudsman.

62. Update on Programme Management Controls and Risks

- 62.1 The Committee considered the report of the Programme Management Officer - copy attached to the signed Minutes - giving an assurance on the robustness of governance arrangements for all change related activity including service redesign, new delivery vehicles including IT enablement and mobile and flexible ways of working.
- 62.2 The Programme Management Officer indicated that the Programme Management Office were working closely with the Risk Management Team to ensure adherence to the Council's agreed Risk Management Strategy. He confirmed that any major issues would be referred to the Senior Management Team for close monitoring. Some members expressed concern in respect of the lines of accountability. In response the Programme Management Officer confirmed that liaison with the Leader of the Council and relevant Portfolio Holder was regularly undertaken.
- 62.3 In response to a question, the Programme Management Officer agreed to notify members of the Committee of the names of local authorities operating their management control process through the programme management 'tracking hub' model.
- 62.4 **RESOLVED:**
- (a) That the position as set out in the report of the Programme Management Officer on the governance arrangements for change related activity as set out in the report be noted.
 - (b) That the Leader of the Council be asked to confirm the relevant Portfolio Holder with overall responsibility for Programme Management.

- (c) That an update report be submitted to all future meetings.

63. Benefit Fraud Team Performance Monitoring Reports

- 63.1 The Team Manager - Investigations presented an update report - copy attached to the signed minutes - on performance monitoring information undertaken by officers for the financial year 2013/14 to 17 January 2014 in relation to fraudulent claims for housing benefit, council tax benefit and other welfare benefits.
- 63.2 The Team Manager – Investigations drew Members’ attention to the Housing Benefit and Council Tax Benefit overpayments identified and the actions taken. He confirmed that the administrative penalty recovered for 2012/2013 was £13,301.55 (not as stated in the report of £143,301.55 due to a typographical error).
- 63.3 In response to a question about the level of recovery of benefits overpayment, the Head of Finance, Governance and Assurance (Section 151) explained that responsibility rested with the Benefits Team and indicated that information could be to circulated to members of the Audit Committee at the end of the financial year.
- 63.4 **RESOLVED:**
That the position as set out in the report of the Team Manager - Investigations on the team performance be noted and accepted.

64. Treasury Strategy 2014/15 Mid Year Report

- 64.1 The Committee considered the report of the Head of Finance, Governance and Assurance – copy attached to the signed minutes – on the proposed Treasury Strategy for 2014/15 and the recommended Prudential Indicators for 2014/15 to 2016/17.
- 64.2 **RESOLVED:**
That the proposed Treasury Strategy for 2014/15 and recommended Prudential Indicators as set out in the report by the Head of Finance, Governance and Assurance (Section 151 Officer) be noted and accepted.

65. Annual Review of Audit Committee Terms of Reference

- 65.1 The Committee considered the report of the Head of Finance, Governance and Assurance (Section 151) - copy attached to the signed minutes - on the updated Audit Committee Terms of Reference which had been amended in line with recent CIPFA guidance.
- 65.2 **RESOLVED:**
That the current Audit Committee Terms of Reference be endorsed and accepted.

66. Audit Committee Self-Assessment of Good Practice

66.1 The Committee considered the report of the Head of Finance, Governance and Assurance (Section 151) - copy attached to the signed minutes - which requested members to review and comment on the self-assessment of good practice questionnaire to assess the effectiveness of the Audit Committee and identify any further improvements.

66.2 RESOLVED:

That the Self-Assessment of Good Practice be endorsed and that the Audit Manager be asked to monitor progress on the continued effectiveness of the Committee as detailed in questions 18 to 20 of the Assessment and to draw up an action plan to address any deficiencies.

67. Internal Audit Plan 2013/14 - Third Quarter Report

67.1 The Committee considered the report of the Audit Services Manager – copy attached to the signed Minutes – which summarised the progress and work completed by Internal Audit since the last report in December 2013; summarised as follows:

- 67% of the plan had been completed which was in line with the target of 90% by year end;
- twenty good and reasonable assurances were made, whilst four limited assurances with no unsatisfactory opinions issued since December 2013; and
- twenty four final reports had been issued which contained 164 recommendations including only one fundamental recommendation.

67.2 A 38 day reduction to the revised Internal Audit Plan target had been proposed which was due to the higher than anticipated levels of special investigation work combined with the initial effects of the voluntary redundancy programme.

67.3 RESOLVED:

- (a) That the third quarter performance against the 2014/15 Audit Plan set out in Appendix A be endorsed.
- (b) That the adjustments required to the 2014/15 plan to take account of changing priorities set out in Appendix A be accepted.

68. External Audit (Grant Thornton): Audit Committee Update Report

68.1 The Committee considered the Annual Committee Update for Shropshire Council from the External Auditors (Grant Thornton) - copy attached to the signed Minutes - which highlighted the progress made to date on work undertaken during the year. The External Auditor took Members through the report and highlighted the salient points and stated that no major issues had been identified.

- 68.2 **RESOLVED:**
That the contents of the Audit Committee Update Report for Shropshire Council be noted.
- 69. External Audit (Grant Thornton): Certification Report for 2012/13 for Shropshire Council**
- 69.1 The Committee considered the certification report of the External Auditor – copy attached to the signed Minutes – which summarised the outcome of the grant certification work undertaken during the last financial year.
- 69.2 Members noted that the External Auditors had certified four claims and returns for the financial year 2012/13 which amounted to expenditure of £179 million. The External Auditor confirmed that the fee level for the certification work was £26,650 which was in line with that had previously been reported to the Council.
- 69.3 **RESOLVED:**
That the contents of the report by the External Auditor be noted.
- 70. External Audit (Grant Thornton): Financial Resilience Benchmarking Report**
- 70.1 The Committee considered the External Auditor's Financial Resilience Benchmarking Report - copy attached to the signed minutes - which detailed the review of the Council's arrangements for securing financial resilience.
- 70.2 The External Auditor confirmed that the Council was in a strong position in the majority of indicators in comparison with councils within the benchmark. He stated that the Senior Managers were aware of the areas requiring improvement and confirmed action had been taken to address this.
- 70.3 **RESOLVED:**
That the contents of the report by the External Auditor be noted.
- 71. Date of Next Meeting**
- 71.1 The next meeting of the Committee would be held on Thursday, 27 March 2014 at 10.00am in the Shrewsbury Room.
- 72. Exclusion of Press and Public**
- 72.1 **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 on the grounds that they involve the likely disclosure of exempt information defined by the categories specified against the items.

73. Regulation of Investigatory Powers Act (RIPA) (Exempted by Categories 2 and 7)

73.1 The Service Manager Safer and Stronger Communities presented her exempt report on an update on activities in relation to the RIPA powers.

73.2 RESOLVED:

- (a) That the contents of the exempt report be noted and endorsed.
- (b) That, in future, unless a separate report was required, an update on the use of RIPA in accordance with the Council policy be appended and included within the Fraud and Special Investigation Update report.

74. Fraud and Special Investigation Update - February 2014 (Exempted by Categories 2, 3 and 7)

74.1 The Committee considered the exempt report of the Senior Group Auditor on an update on the current fraud and special investigations undertaken by the Internal Audit Team.

74.2 RESOLVED:

That the contents of the exempt report be noted.

Signed (Chairman)
Date: 27 March 2014



<u>Committee and Date</u> Audit Committee 27 th March 2014 10.00 am

<u>Item</u> 6 <u>Public</u>
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NATIONAL FRAUD INITIATIVE (NFI) 2012/13

Responsible Officer Ceri Pilawski

e-mail: ceri.pilawski@shropshire.gov.uk

Tel: 01743 252027

1 Summary

This report provides details of the outcomes to date arising from the Audit Commission's National Fraud Initiative (NFI) data matching exercise 2012/13. The results of the exercise are reported to and monitored by the Audit Commission using their secure NFI website.

Our active participation in this exercise remains a positive and integral part of this Authority's commitment to the detection and prevention of fraud. The sharing of data and working together significantly improves the detection of fraud and corruption across the public sector and is a cornerstone of the Fighting Fraud Locally Strategy¹.

The estimated financial savings from the 2012/13 exercise is currently identified as £101,929.43. The largest part of which relates to Housing Benefit matches of £90,052.74; investigations are on-going and may reveal more.

NFI data matching currently operates over a two year cycle, but is moving towards more real-time and near real-time fraud prevention activity.

The Authority took part in a pilot for the new flexible batch and real-time services and has recently submitted the live data for council tax and electors real time matching. The outcomes of this, together with further updates on the 2012/13 exercise will be reported to Audit Committee in due course.

2 Recommendations

Members are asked to consider and endorse with appropriate comment, the content of this report and how the work contributes to the Council's counter fraud and corruption culture.

REPORT

3 Risk Assessment and Opportunities Appraisal

- 3.1 Participation in this exercise remains a positive and integral part of this Council's commitment to the detection and prevention of fraud and successfully illustrates the benefit of joined-up working and co-operation between the organisations involved. The national sharing of data allows a number of organisations to effectively identify areas of potential fraud or error, reducing the future risk of such fraud or errors going undetected.

¹ Fighting Fraud Locally Strategy – reported to Audit Committee June 2012

- 3.2 The provision of data for the purposes of NFI is a requirement of the Audit Commission Act 1998 and the output is used by the Audit Commission to help them assess the arrangements that the Council has in place to prevent and detect fraud in accordance with the Code of Audit Practice. The subsequent investigation of the NFI matches ensures that where appropriate any monies lost as a result of identified frauds or errors are identified and recovered and any weaknesses in procedures are addressed to improve the internal control environment and help prevent future fraud or error. The participation in NFI is an integral part of the Fighting Fraud Locally Strategy.
- 3.3 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.

4 Financial Implications

- 4.1 A total of seven days has been included in the 2013/14 Audit Plan to complete the current work; this includes providing the information for council tax and the electoral register and responding to other bodies' queries. In 2012/13, a total of 37 days was spent on providing information, ensuring compliance with the Code of Data Matching and investigating the matches. Matches continue to be investigated by the relevant teams in Housing Benefits; Passenger Transport; Pensions; Payroll; Blue Badge Service; Housing Landlord Services; Revenues; Licensing and Payments. This continues to enable areas to learn directly from any control weaknesses and informs the refinement of their systems to prevent the potential for reoccurrences.
- 4.2 Total savings of £101,929.43 have been identified to date and progress on recovery is on-going. The largest part of the funds to be recovered relates to Housing Benefit matches of £90,052.74.

5 Background

- 5.1 The Audit Commission has run the National Fraud Initiative (NFI) since 1996, an exercise that matches electronic data held within and between public and private sector bodies to prevent and detect fraud.
- 5.2 Local authorities are required by law to participate in the NFI by providing a range of datasets to the Audit Commission for matching. The main NFI data matching is undertaken every two years, the results of these matches is fed into a national report at the end of each cycle.
- 5.3 It should be noted that the NFI will continue following the abolition of the Audit Commission. The Local Audit and Accountability Bill 2013-14 makes provision for the future arrangements for the NFI. The bill transfers the Commission's current data-matching powers to the Secretary of State, who will delegate their operational management to the Cabinet Office's Efficiency and Reform Group when the Audit Commission closes in 2015.
- 5.4 The council's arrangements for the prevention and detection of fraud are a core element of good corporate governance. The value to the council of the NFI, in addition to the identification and recovery of both fraud and error, is in its role as a deterrent for fraud and as a measure of assurance that adequate system controls are in place to prevent and detect fraud or loss.

- 5.5 Matches in relation to deceased pensioners have identified savings of £11,876.69. Other matches have not revealed any financial impact but have resulted in records being updated, such as in respect of previously unknown deceased Blue Badge holders.
- 5.6 As part of the NFI commitment, the Council is required to respond to other participating bodies' requests for further information, this can be done through the NFI secure website. To date we have provided information on investigations for Telford and Wrekin, Shropshire PCT, a number of other Local Authorities and Registered Social Landlords.
- 5.7 Further details of the significant matches identified and examined, together with associated results are detailed below:

Area Investigated	Outcome of Investigation
Deceased pensioner matches	This identified a total of 191 possible deceased pensioners. All matches were investigated. Six deceased pensioners were identified and savings of £11,876.69 are being recovered from the next of kin or executors.
Blue badges to deceased persons	This report identified 509 potential matches, although there were some data quality issues. 194 records have been updated to record the date of death; ten deaths had already been notified to the Council between the data being submitted and the results being published.
Concessionary bus fares to deceased persons	These reports identified 932 matches. The Concessionary Travel team confirmed that all passes had been marked as cancelled, however the applicant record had not been marked as deceased. This has resulted in additional training for Customer Service Centre staff.
Residential care home residents to deceased persons	The reports identified 135 matches; all were already known to the Council or there was a small timing difference, with the exception of four cases which were mismatches.
Housing benefits – various matches	<p>There were a large number of matches and cases with a value of £807 are still under investigation.</p> <p>A total of £89,245 overpayments have so far been confirmed. The overpayments are made up as follows:-</p> <p>Student loans - £2,025 NHS employees - £17,038 Local Government employees - £22,689 Local Government pensioners - £9,995 Taxi drivers - £10,543 Local Government pensioners - £ 22,348</p>

Area Investigated	Outcome of Investigation
	Housing Benefits - £158 Housing Associations - £4,449 Of the above: 14 cases were found to be fraudulent, 36 overpayments were due to customer error and 32 overpayments were due to official error.
Creditor reports	Creditor reports on possible duplicate payments, VAT errors and duplicate supplier accounts were provided. Work is continuing on these.
Housing tenants	These are new reports that match housing tenant records to tenancy records or to other local authorities or registered social landlords records, to identify possible housing tenancy fraud. There were a small number of matches due to timing issues or mismatches. There are a small number of cases outstanding where we have requested additional information from the matched body.
Other Reports	Other reports such as deceased parking permit holders and possible duplicate insurance claims have been investigated and where appropriate records have been updated accordingly. No frauds or savings have been identified from these reports.

- 5.8 The Authority took part in a pilot for the new flexible batch and real-time services and has recently submitted the live data for council tax and electors real time matching. The outcomes of this, together with further updates on the 2012/13 exercise will be reported to Audit Committee in due course.

<p>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</p> <p>National Fraud Initiative checklist for members, Audit Committee, September 2012</p> <p>Results of National Fraud Initiative NFI 2010/11, Audit Committee, September 2012</p>
<p>Cabinet Member (Portfolio Holder)</p> <p>Keith Barrow, Leader of the Council and Brian Williams, Chairman of Audit Committee</p>
<p>Local Member</p> <p>All</p>
<p>Appendices</p> <p>None</p>



Committee and Date
Audit Committee
10.00 am
27 March 2014

Item
8
Public

COUNCIL TAX AND NON DOMESTIC RATES PERFORMANCE MONITORING REPORT

Responsible Officer Phil Weir

e-mail: phil.weir@shropshire.gov.uk

Tel: (01743) 256113

Fax (01743) 251444

1. Summary

The Council's revenues team collects over £225 million of income each year in respect of Council Tax and National Non Domestic Rates (NNDR). This report provides Members with performance monitoring information on the collection of this income for the year to 28 February 2014.

2. Recommendations

Members are asked to note the report.

REPORT

1. The Council raises over 145,000 demands per year with a value of over £225 million to collect Council Tax and NNDR. It is important that this income is collected promptly so as to maximise the amount of interest earned on the Council's revenue balances.
2. The Council require the payment of liability by 10 instalments from April to January in accordance with the statutory instalment scheme for council tax and business rates payments. However, for the 2013-14 financial year the regulations have changed and now any council tax payer can request payment over 12 months rather than ten months. With effect from 1 April 2014 any business rate payer will be able to request payment over 12 months rather than 10 months.
3. The change in regulations has two main effects in relation to council tax collection. Firstly, it affects the Council's cash flow, as more money is due to be collected in February and March. Secondly, it impacts on overall collection rates because if council tax payers fail to pay their February and March instalment it gives the Revenues Team less time to take appropriate action before the end of the financial year.
4. As requested by this committee at its meeting on 19 September 2013 an analysis was undertaken to see how many taxpayers had taken the opportunity to extend their instalments and the findings are detailed at appendix A.

5. During the year 2012/13, 97.2% of Council Tax and 98.2% of NNDR had been collected by 25 February 2013. The Council's aim was to collect 98% of in year debt by 31st March 2013.
6. In the year to 25 February 2014 the Revenues Team had collected 96.8% of its Council Tax debt and 97.3% of its NNDR debt against the Council's target.
7. These collection rates compare well to those of the previous council's whose collection rates we aspire to. Council Tax is slightly down on last year for three reasons. Firstly Council Tax Benefit has been replaced with a local Council Tax Support Scheme, meaning more people are having to pay council tax this year that were formally in receipt of Council Tax Benefit. Secondly, due to the increased discretion available to local authorities there is an increase in the amount of empty property tax to be collected. And thirdly, as mentioned above, due to legislative changes more people are paying their council tax over twelve months rather than the statutory ten months which leaves more debt to be collected in February and March.
8. We are now able to run a report to analyse the collection rate by benefit claimant and different types of council tax discount. The results for the end of January are at Appendix B. (Please note we weren't able to run these reports for the end of February due to annual billing.)
9. Business Rates collection is difficult to compare accurately to last year's figure because last year we were holding a large credit in respect of a rateable value adjustment for the power station, which inflated the collection figure prior to rollover on 1 April.
10. As at 31 March 2013 the total arrears for council tax stood at 7.4 million. Work is continuing to recover this debt. As at 4 March 2014 council tax arrears stood at 4.9 million (a reduction of 2.5 million, see Appendix C).
11. A report categorising the debt stages of all council tax arrears is attached at Appendix D.
12. As at 31 March 2013 the total arrears for business rates stood at 3.2 million. Work is continuing to recover this debt. As at 4 March 2014 business rates arrears stood at 2.6 million (a reduction of 600,000 see Appendix E)
13. A report categorising the debt stages of all business rates arrears is attached at Appendix F.

3. Risk Assessment and Opportunities Appraisal

Effective monitoring of outstanding debt will enable early action to be taken to minimise the risk of financial loss to the Council.

The targets seek to increase the number of income collections transacted electronically.

4. Financial Implications

Failure to collect these debts will have a major impact on the council's ability to deliver services.

5. Background

Council Tax is collected and administered in accordance with The Council Tax (Administration and Enforcement) Regulations 1992. The Local Government Finance Act 1988 introduced business rates in 1990.

6. Additional Information

None

7. Conclusions

Members are asked to note the content of the report.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

N/A

Cabinet Member (Portfolio Holder)

Mike Owen

Local Member

N/A

Appendices

Appendix A – Predicted Instalments comparison

Appendix B – Collection Rate Breakdown

Appendix C - Council Tax Arrears Analysis

Appendix D - Council Tax Aged Debt Analysis

Appendix E - NNDR Arrears Analysis

Appendix F - NNDR Aged Debt Analysis

Appendix A

Financial Year	Number of instalments	Instalment Value Due 16 January - 31 March
2011-12	39406	4,884,460.06
2012-13	37151	4,486,128.12
2013-14	44903	5,607,841.57

Appendix B

01-Feb-14	Debit £000	Payments £000	Collection rate
Total Collection Rate	151,142	143,824	95.2%
Total Benefit Claimants	2,768	2,407	87.0%
former class C exempt	1,656	1,227	74.1%
former class A exempt	160	143	89.4%
second home full tax	1,739	1,644	94.5%
second home job protected	36	35	97.2%
LTE 25% discount (first 6 mths)	737	616	83.6%
LT zero discount	1,521	1,406	92.4%

Glossary of Terms

Total Collection Rate – overall collection rate for Shropshire

Total Benefit Claimants – collection rates for benefit claimants with a council tax liability

Former class C exempt – This is unoccupied and unfurnished property. Prior to 1 April 2013 this property was exempt from council tax for up to 6 months. For the 2013-14 financial year Shropshire Council awards 25% discount

Former class A exempt – unoccupied and unfurnished property that is undergoing or requiring major repair work to make it habitable or undergoing structural alteration. Prior to 1 April 2013 this property was exempt from council tax for up to 12 months. For the 2013-14 financial year Shropshire Council awards 50% discount.

Second Homes – This is furnished property that is no one's main residence. No discount is currently awarded.

Second Homes job protected – Under certain circumstances some second homes retain a 50% discount.

Long Term Empty 25% discount – unoccupied and unfurnished property that has been unoccupied for more than 6 months but less than 12 months

Long Term Empty zero discount – Unoccupied and unfurnished property that has been unoccupied for more than 12 months

Appendix C

COUNCIL TAX ARREARS ANALYSIS AS AT 4th March 2014				
As at rollover 1 April 2013	TOTALS	DR	CR	NET TOTAL
		7,403,096.07	-1,550,520.29	5,852,575.78
As at 4 March 2014		DR	CR	
1993-94		930.31	-5,432.99	-4,502.68
1994-95		581.16	-8,942.64	-8,361.48
1995-96		66.67	-12,184.32	-12,117.65
1996-97		1,782.97	-11,974.20	-10,191.23
1997-98		2,884.64	-10,840.30	-7,955.66
1998-99		4,988.46	-9,466.75	-4,478.29
1999-00		8,548.08	-14,679.86	-6,131.78
2000-01		8,768.02	-11,118.97	-2,350.95
2001-02		14,440.55	-21,456.49	-7,015.94
2002-03		23,181.22	-25,918.80	-2,737.58
2003-04		46,948.16	-30,031.08	16,917.08
2004-05		73,437.96	-41,231.64	32,206.32
2005-06		119,384.05	-62,786.67	56,597.38
2006-07		178,923.05	-66,607.99	112,315.06
2007-08		227,137.32	-66,222.64	160,914.68
2008-09		385,665.13	-121,730.53	263,934.60
2009-10		570,975.52	-243,998.44	326,977.08
2010-11		780,774.50	-159,681.71	621,092.79
2011-12		993,072.37	-117,424.36	875,648.01
2012-13		1,444,180.79	-134,025.98	1,310,154.81
		4,886,670.93	-1,175,756.36	3,710,914.57
Reduction in Arrears		2,516,425.14	-374,763.93	2,141,661.21

Appendix D

Council Tax Aged Debt Analysis 4th March 2014		
	accounts	£ value
14 Day letter	1,137	£536,425.15
Adjourned Committal		
Potential Special Arrangement		
Arrest Warrant - Bail	78	£45,529.76
Charging Order	74	£77,627.96
Attachment of Benefits	790	£278,044.45
Attachment of Earnings	784	£423,093.14
Bailiff Return	300	£174,334.72
Bailiff Return Spa		
Bankruptcy		
Committal - Suspended Sentence	6	£2,761.91
Committal - Sentence Served	1	£0.00
Committal Summons	2	£442.50
Dataload 14 Day	1	£146.00
Dataload Bailiff		
Dataload AOB		
Enforcement Hold	144	£68,797.88
Liability Order Granted		
Mutiple Liability Order	10	£5,190.55
No Enforcement Stage		
Pending Attachment of Benefits	659	£267,974.06
Pending Attachment of Earnings	296	£214,086.28
Pre Committal Letter	1,675	£1,025,249.35
Small Balance Letter	241	£9,631.01
Special Arrangement	1,364	£412,189.84
Special Arrangment Reminder	269	£87,514.06
Tracing Agent	271	£155,345.72
With Bailiff	4,784	£2,678,766.81
Write Off	10	£3,616.00
Write Off Pending	2,035	£647,932.09
Totals		£7,642,056.60

Appendix E

NNDR ARREARS ANALYSIS AS AT 4th March 2014				
As at rollover 31 Mar 2013		DR	CR	
TOTALS		3,232,774.22	-1,156,580.07	2,076,194.15
As at 1 April 2013		DR	CR	
1990-91		0.00	0.00	0.00
1991-92		0.00	0.00	0.00
1992-93		0.00	0.00	0.00
1993-94		0.00	0.00	0.00
1994-95		0.00	0.00	0.00
1995-96		0.00	-352.16	-352.16
1996-97		277.15	-543.55	-266.40
1997-98		1,230.83	-4,400.71	-3,169.88
1998-99		150.82	-3,565.68	-3,414.86
1999-00		0.00	-423.08	-423.08
2000-01		0.00	-5,551.07	-5,551.07
2001-02		0.00	-11,398.07	-11,398.07
2002-03		5.00	-12,779.53	-12,774.53
2003-04		587.58	-10,312.22	-9,724.64
2004-05		1,594.11	-11,862.22	-10,268.11
2005-06		39,465.99	-18,261.87	21,204.12
2006-07		100,417.83	-17,754.42	82,663.41
2007-08		97,411.81	-18,135.18	79,276.63
2008-09		193,686.92	-72,270.44	121,416.48
2009-10		218,796.14	-251,689.79	-32,893.65
2010-11		377,743.25	-93,948.96	283,794.29
2011-12		520,887.98	-89,911.43	430,976.55
2012-13		1,084,019.23	-88,373.15	995,646.08
		2,636,274.64	-711,533.53	1,924,741.11
Reduction in Arrears		596,499.58	-445,046.54	151,453.04

Appendix F

NNDR Aged Debt Analysis 4th March 2014		
	accounts	£ value
Small Balance	20	936.34
7 Day Letter	37	145,011.00
warrant no bail	1	1,053.50
Bailiff Return	226	461,385.16
Insolvency proceeding		
Bankruptcy		
Committal Summons	3	2,326.75
Enforcement Hold	14	67,912.34
Liquidation		
Multiple Liability Order	2	5,090.50
No Enforcement Stage	2	0.00
Pre Committal Letter	131	263,385.82
Spa Reminder	21	52,473.29
Special Arrangement	79	166,795.18
Tracing Agent	21	105,477.24
Warrant with bail	1	988.00
With Bailiff	284	976,722.19
Write Off	227	555,526.00
Totals	1,069	2,805,083.31

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<u>Committee and Date</u> Audit Committee 27 March 2014 10.00 am

<u>Item</u> 9 <u>Public</u>
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INTERNAL AUDIT RISK MANAGEMENT REPORT 2013/14

Responsible Officer Chris Kalinowski

e-mail: chris.kalinowski@shropshire.gov.uk

Tel: (01743) 252083

1. Summary

This report summarises the detailed findings identified in the Internal Audit review of Risk Management. The overall control environment for the Risk Management system is assessed as good, the highest rating that can be given, no control weaknesses were identified.

2. Recommendations

The Committee are asked to consider and endorse, with appropriate comment the findings from the review of Risk Management by Internal Audit.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The management of risk is a key process which underpins successful achievement of our objectives and priorities. It forms part of the Annual Governance Statement and an annual audit is undertaken to ensure that the processes and protocols are established and embedded facilitating effective decision making.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities or climate change consequences arising from this report.

4. Financial Implications

- 4.1 The Internal Audit plan is delivered within approved budgets; the work of Internal Audit contributes to improving the efficiency, effectiveness and economic management of the wider Council and its associated budgets.

5. Background

- 5.1 The Audit Committee's Terms of Reference include a requirement to review annually the adequacy of the Council's Risk Management arrangements. In February 2014 Internal Audit completed a review of Risk Management processes as part of the Internal Audit Plan.

Internal Audit Risk Management Report – Executive Summary

- 5.2 Audit findings are evaluated to provide a level of assurance on the effectiveness of the system of internal control. These evaluations are defined as ‘Good’, ‘Reasonable’, ‘Limited’ and ‘Unsatisfactory’. On the basis of the audit work undertaken the overall control environment for the system of Risk Management has been assessed as **Good**, the highest rating that can be given.
- 5.3 Evaluation and testing confirmed that there is a sound system of controls in place which are designed to address relevant risks, with controls being consistently applied. The risk management processes are embedded within the Council and clearly communicated to all staff.

Control Objective: Conclusion and Summary of Findings

- 5.4 The following table shows the audit opinion on each of the four control objectives; full compliance has been achieved on all objectives:

	AUDIT OBJECTIVE	CONCLUSION AND SUMMARY OF FINDINGS
1.	Risks arising from business strategies and activities are identified and prioritised and management have determined the level of risk acceptable to the organisation.	This control objective is achieved. There are robust procedures in place for the identification and assessment of current and emerging strategic and operational risks. Risks have named owners and are regularly monitored and reported upon. The Opportunity Risk Management Strategy is in place and there is a framework and appropriate structure to embed this within the Council; it has been reviewed to reflect the council’s new delivery model.
2.	Risk mitigation activities are designed to reduce, or otherwise manage, risk at levels that were determined to be acceptable to management and the Cabinet.	This control objective is achieved. During transformation it is expected and accepted that the number of risks and risk exposure will increase. Risks are considered by management and controls are in place for all risks. There is increased focus on managing risks above the accepted tolerance level which are reported monthly to the Senior Management Board and quarterly to Cabinet.
3.	On-going monitoring activities are conducted to periodically reassess risk and the effectiveness of controls to manage risk.	This control objective is achieved. Current insurance and health and safety incidents are reviewed. There is a suitable risk register in place and a working mechanism for the regular review of risks. The risk register is being transferred onto a new system which is more interactive and enables officers to update risks which they are responsible for.
4.	The Cabinet and management receive	This control objective is achieved. Monthly reports are considered by Cabinet and

	periodic reports of the results of the risk management process.	the Senior Management Board.
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5.5 The audit did not identify any control weaknesses and no recommendations have been identified.

<p>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</p> <p>None</p>
<p>Cabinet Member (Portfolio Holder) Keith Barrow, Leader of the Council, Brian Williams, Chairman of Audit Committee and Mike Owen, Risk Management Member Advocate.</p>
<p>Local Member: N/A</p>
<p>Appendices - None</p>

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Committee and Date

Audit Committee
27 March 2014
10.00 am

Item

10
Public

REVIEW OF THE AUDIT COMMITTEE'S ANNUAL WORK PLAN AND FUTURE LEARNING AND DEVELOPMENT REQUIREMENTS 2014/15

Responsible Officer Ceri Pilawski
e-mail: ceri.pilawski@shropshire.go.uk Tel: 01743 252027

1. Summary

It is important that Audit Committee Members have an agreed plan of work for the year ahead and receive appropriate learning and development in order to deliver their responsibilities effectively. This report provides a proposed audit committee work plan and seeks discussion and agreement around a learning and development plan for Members to ensure that they are well informed and appropriately skilled to fulfil their role.

2. Recommendations

The Committee is asked to consider and approve, with appropriate comment the;

- a) Audit Committee work plan for 2014/15, **Appendix A**;
- b) Action Plan following the Audit Committee's self-assessment of Good Practice, reported on the 13 February 2014, **Appendix B**; and
- c) Learning and development plan for Members of the committee taking in to account information in **Appendices A to C**.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 By identifying the key topics to be considered at the Audit Committee meetings and receiving appropriate learning and development sessions in respect of their roles and responsibilities; Audit Committee Members are able to undertake their duties effectively and deliver them to a high standard thereby adding to:
- the robustness of the risk management framework,
 - the adequacy of the internal control environment and
 - the integrity of the financial reporting and annual governance of the Council.

3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities or climate change requirements or consequences of this proposal.

4. Financial Implications

4.1 The Audit Committee work plan and learning and development sessions for members will be met from within approved budgets.

5. Background

5.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) identifies the purpose of an Audit Committee, in its Practical Guidance for Local Authorities and Police 2013 Edition, as providing those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. In local authorities, audit committees are necessary to satisfy the wider requirements for sound financial management, 'ensuring that the financial management of the body is adequate and effective and that the body has a sound system of control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk'¹. With a known work plan, and appropriate and timely learning and development for Members, the committee will be well prepared and members will gain the knowledge and experience needed to carry out their role effectively.

5.2 The work plan shows with tracked alterations any proposals for changes and member approval is sought on these, **Appendix A**. In considering the amendments the following information may be useful:

- a) As part of the majority of audits compliance with financial and contract rules are reviewed and reported upon. It is not felt that specific audits on these areas add any further value on a risk basis to the Committee's assurance levels in these areas and therefore these reviews will be absorbed and reported upon as part of general audits.
- b) Following a reduction of Internal Audit resources, covered in a separate report on your agenda, it has been agreed with the Chairman and the Section 151 Officer to reduce the number of Audit Committee meetings by one. The business of the March committee has been reviewed and will be covered at the February meeting.
- c) A number of details in respect of reports received from the External Auditor have been updated.

5.3 CIPFA identify a key characteristic of an effective Audit Committee as having a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. There is a range of

¹ Accounts and Audit (England) Regulations 2011 (2011 no817)

knowledge and experience that audit committee members can bring to the committee and which will enable it to perform effectively. No one committee member is expected to be an expert in all areas, but there are some core areas of knowledge that committee members need to acquire in addition to a need for regular briefings and training to help members keep up to date or to extend their knowledge

- 5.4 It is important that the learning and development plan is considered, agreed and put in place to support Members in their roles. During 2013/14 Members have received four half day sessions that covered a number of topics in detail which covered governance arrangements including key roles, Public Sector Internal Audit Standards, treasury management training from the Council's treasury advisor (Capita Assets Services), counter fraud, the financial sustainability of local authorities, carbon scheme reduction commitment and the role of Public Health at the Council. Training has been delivered from a variety of in house resources, along with colleagues from external audit and external speakers as appropriate.
- 5.5 Members are asked to consider their preferred learning and development approach for 2014/15. It is proposed that training is provided in three half day sessions over the next twelve months in May 2014, October 2014 and January 2015, dates to be agreed. Following the Audit Committees' self-assessment against good practice as set out in CIPFA's Audit Committees, Practical Guidance for Local Authorities, as reported to Members at the February committee. An action plan has been drafted and attached at **Appendix B**. At the February meeting, members agreed to evaluate the effectiveness of the Audit Committee at a future training session and consider its approach against this new guidance and members' individual needs against the revised knowledge and skills framework. It is proposed that the information from this training, proposed for delivery in May and the related knowledge and skills assessments is used to revise any development plans agreed by the committee today.
- 5.6 In addition, **Appendix C** identifies the training topics for Audit Committee Members to consider. Training topics are identified as core areas of knowledge that all Audit Committee Members should seek to acquire and specialisms that can add value to the committee. Whilst members are asked to confirm the initial sessions for learning and development, this will not prevent any additional items being added during the year or changes being made if these are felt to be of value.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Previous training session records

CIPFA's Audit Committees Practical Guidance for Local Authorities and Police 2013 Edition

Cabinet Member (Portfolio Holder) Keith Barrow (Leader of the Council) and Brian Williams (Chairman of Audit Committee)

Local Member n/a

Appendices

Appendix A – Audit Committee Work Plan 2014/15

Appendix B – Action Plan following the Audit Committee's self-assessment of Good Practice, reported on the 13 February 2014

Appendix C – Audit Committee Members development topics

Appendix A

Audit Committee Work Plan 2014/15	26 June 2014	18 Sept 2014	27 Nov 2014	23 Feb 2015	Mar-20xx	Report originator
	Proposed target dates for reports					
Internal Audit Annual Report	✓					Internal Audit
Review of Annual Statement of Accounts Reports	✓					S151 Officer
Annual Governance Statement and a review of the effectiveness of the Council's system of internal control.	✓					S151 Officer
Review of Code of Corporate Governance Report	✓					S151 Officer
Annual review of the effectiveness of the system of Internal Audit and Quality Assurance and Improvement Programme	✓					S151 Officer
Annual Assurance Report of Audit Committee to Council	✓					Internal Audit
External Audit Annual Fee Letter 2014/15	✓					External Audit
Revenue Outturn Report	✓					S151 Officer
Capital Outturn Report	✓					S151 Officer
Annual Whistleblowing report	✓					Head of Human Resources
Quarterly Update on Transformation Programme Management Controls and Risks Update on Programme Management Controls and Risks	✓	✓	✓	✓	✗	Manager, Programme Management Office
Council Tax and NNDR Performance Monitoring Report	✓		✓		✗	Revenues and Customer Contact Manager
Housing Benefit Overpayment Performance Monitoring Report		✓				Head of Service Support, Marketing and Engagement
External Audit Findings Report 2013/14		✓				External Audit
External Audit Shropshire County Pension Fund Findings Report 2013/14		✓				External Audit
Results of National Fraud Initiative		✓				Internal Audit
Audited Annual Statement of Accounts		✓				S151 Officer
Risk Annual Report		✓				Risk Management Team Leader
Annual Treasury Report		✓				S151 Officer
Annual review of Audit Committee Terms of Reference			✓			Internal Audit
Annual review of Internal Audit Charter			✓			Internal Audit

Appendix A

Audit Committee Work Plan 2014/15	26 June 2014	18 Sept 2014	27 Nov 2014	23 Feb 2015	Mar-20xx	Report originator
Annual review of Counter Fraud, Bribery and Anti-Corruption Strategy			✓			Internal Audit
Half year audit report update and revised Annual Audit Plan			✓			Internal Audit
External Audit Annual Audit Letter 2013/14			✓			External Audit
Treasury Strategy Mid-Year Report			✓			S151 Officer
Annual Audit Committee Self-Assessment			✓			S151 Officer
Benefit Fraud Team Performance Monitoring Reports				✓		Head of Public Protection
Three quarter audit report update				✓		Internal Audit
Treasury Strategy				✓		S151 Officer
Internal Audit report on compliance with Financial Rules (every two years)						Internal Audit
Internal Audit report on compliance with Contract Rules (every two years)						Internal Audit
2013/14 Certification Report	✓					External Audit
2013/14 Financial Resilience Benchmarking Report				✓		External Audit
2014/15 Communicating with the Auditor Report				✓		External Audit
2015/16 Fee letter	✓					External Audit
Audit Plan for the Pension Fund 2013/14	✓				✗	External Audit
External Audit Plan 2014/15				✓	✗	External Audit
Internal Audit report of the Review of Risk Management Audit				✓	✗	Internal Audit
Draft Internal Audit Risk Based Plan				✓	✗	Internal Audit
Draft Audit Committee annual work plan and future training requirements				✓	✗	Internal Audit
External Audit – Audit Committee update	✓		✓	✓	✗	External Audit
Internal Audit Fraud Updates (part 2)	✓	✓	✓	✓	✗	Internal Audit

Action Plan following the Audit Committee's self-assessment of Good Practice, reported on the 13 February 2014

Good practice questions	Partly	Action required	Who?	When?
Audit Committee purpose and governance				
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?	<p>The preparation of the annual report by the committee should be reviewed and revised to ensure compliance with these aspects:</p> <ul style="list-style-type: none"> • Whether the committee has fulfilled it agreed terms of reference. • Whether the committee has adopted recommended practice. • Whether the development needs of committee members have been assessed and whether committee members are accessing briefing and training opportunities. • Whether the committee has assessed its own effectiveness or been the subject of a review and the conclusions and actions from that review. • What impact the committee has on the improvement of governance, risk and control within the Council. 	Chairman of Audit Committee	May/ June 2014
		CIPFA provides guidance on evaluating the effectiveness of the Audit Committee and it is proposed that a future training session is set aside to consider the approach of the	Audit Services	May 2014

Good practice questions		Partly	Action required	Who?	When?
			committee against this new guidance and members' individual needs against the revised knowledge and skills framework. This approach would satisfy and provide clarity on the following questions which can presently only be answered in part.	Manager	
Functions of the committee					
15	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?		<p>Members have been assessed against previous knowledge and skills frameworks and training plans developed, but not under the new CIPFA guidance which will have similarities but may have new aspects to it. It is proposed to assess members under the new skills framework prior to detailed development plans being agreed</p> <ol style="list-style-type: none"> 1. Complete initial self-assessment 2. Consider the effectiveness of the Audit Committee against the new CIPFA guidance at a training session in May 3. Revisit self-assessment and development needs of members 	Audit Services Manager	<p>April 2014</p> <p>May 2014</p> <p>Sept 2014</p>
Effectiveness of the committee					
18	Has the committee obtained feedback on its performance from those interacting with		Audit Committee delivers an influential role within the Council, demonstrated by the outcome of various recommendations made and by officers and others relying on the committees	Audit Committee	May 2014

Good practice questions		Partly	Action required	Who?	When?
	the committee or relying on its work?		output. A more detailed review in these aspects, against the new framework as part of the training session in May, may inform further improvements	Chairman	
19	Has the committee evaluated whether and how it is adding value to the organisation?		The annual report to Council demonstrates this and a review, as mentioned above, of the reports contents will help to ensure that all aspects of the committee's responsibilities are demonstrated. See actions for question six	N/A	N/A
20	Does the committee have an action plan to improve any areas of weakness?		<p>The committee could demonstrate compliance under the previous CIPFA guidance. A detailed evaluation of some aspects of the new guidance is required to ensure that the committee is complying, where appropriate, with the guidance and this may result in an improvement plan, which, when delivered will provide further evidence of compliance.</p> <p>This action plan is designed to identify and address any weaknesses.</p>	N/A	N/A

Audit Committee Members development topics

Core areas of knowledge

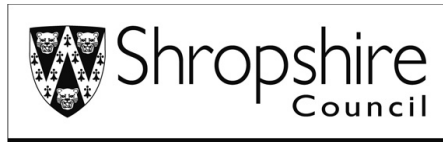
- Organisational knowledge
- Audit committee role and function
- Governance
- Internal audit
- Financial management and accounting
- External audit
- Risk management
- Counter fraud, bribery, corruption and whistleblowing
- Values of good governance
- Treasury management

Specialist knowledge that adds value to the Audit Committee

- Accountancy
- Internal audit
- Risk management
- Governance and legal
- Service knowledge relative to the different Council functions
- Programme and project management
- IT systems and IT governance

Core skills

- Strategic thinking and understanding of materiality
- Questioning and constructive challenge
- Focus on improvement
- Able to balance practicality against theory
- Clear communication skills and focus on the needs of users
- Objectivity
- Meeting management skills



<u>Committee and Date</u> Audit Committee 27 March 2014 10.00 am

<u>Item</u> 11 <u>Public</u>

DRAFT INTERNAL AUDIT ANNUAL PLAN 2014/15

Responsible Officer Ceri Pilawski
e-mail: Ceri.pilawski@shropshire.gov.uk Tel: 01743 252027

1. Summary

This report provides Members with the proposed risk based Internal Audit Plan for 2014/15. The annual plan will provide coverage across the Council's services and deliver internal audit services for a range of external clients. It takes account of issues identified by the clients risk management frameworks, including the risk appetite levels set by management for the different activities or parts of the organisations audited. The proposed plan takes into account the requirement to produce an annual internal audit opinion and assurance framework. Some minor adjustments may be needed to the plan before it is finalised; if significant these will be agreed by the Section 151 Officer and reported to the next Audit Committee.

2. Recommendations

The Committee are asked to consider and endorse, with appropriate comment, the approach taken to create the proposed Internal Audit Plan for 2014/15 and approve its adoption.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 Under the Audit Committee's Terms of Reference, reviewing the risk based audit plan, including internal audit resource requirements, the approach to using other sources of assurance and any other work required to place reliance upon is an important responsibility. In devising this plan Members should be assured that the plan is linked to the Council's key risks and provides sufficient coverage to ensure a reasonable opportunity to identify any weaknesses in the internal control environment that are critical to the Council's operations which will be reported and rectified where possible and viable.
- 3.2 Areas to be audited within the plan have been considered with the knowledge of risk register information both operational and strategic.

3.3 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.

3.4 Provision of the Internal Audit Annual Plan satisfies both the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2011, part 2, section 6 in relation to internal audit which state:

'A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.'

4. Financial Implications

4.1 The proposed plan will be met from within the approved Internal Audit budget.

5. Background

5.1 The provision of a risk based Internal Audit Plan consistent with the Council's goals is an essential part of ensuring probity and soundness of the Council's internal controls, risk exposure and governance framework. The plan has been constructed to ensure that it delivers against the PSIAS and the requirement to produce an annual Head of Internal audit opinion and assurance framework. In doing this it can be confirmed that the plan covers the following activities:

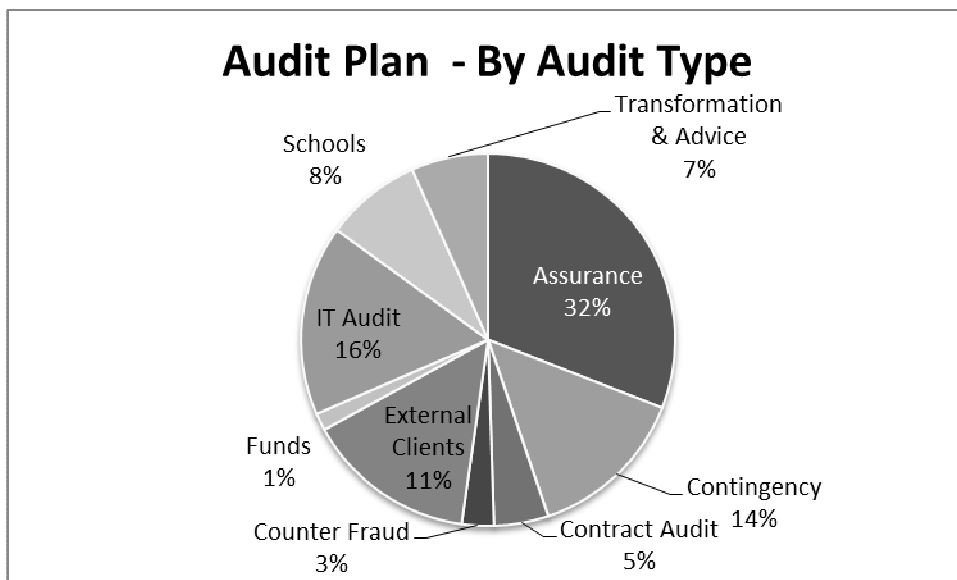
- Governance processes
- Ethics
- Information technology governance
- Risk management and
- Fraud management.

5.2 The audit risk assessment is reviewed annually with Directors, Area Commissioners, Heads of Service and the Section 151 Officer to ensure that it remains robust and relevant to the needs and risk profile of the Council. The process also recognises that the Council is continuing to strive to improve services and use innovative approaches in addressing service delivery against a background of reducing resources and the transformation into a commissioning organisation. Internal audit resources are therefore targeted across Council services to support project teams through this change helping to maximise the effectiveness of internal controls. Where projects are in their early stages a "transformation" contingency is provided to respond to new areas of work and redesign of services. In addition, a separate IT risk based assessment is used to inform specialist, technical reviews incorporating knowledge based information of material, existing systems and new areas.

5.3 When considering the risks affecting audit areas account has been taken of:

- changes to and the introduction of new services;
- the redesign/ transformation programme and business plans of the Council;

- budget pressures and saving commitments;
 - previous audit findings;
 - opening and closure of establishments;
 - comments from the external auditors on scope and coverage to ensure the work of Internal Audit does not duplicate that of external auditor;
 - Audit Committee Terms of Reference;
 - increased partnership working or different delivery models for future service delivery;
 - risks identified by the risk management process;
 - large contracts to be undertaken.
- 5.4 Top risks facing councils continue to include pressures on finances and resources; changes in demands and demography and the impact of welfare reforms. These have been considered when refining the plan.
- 5.5 **Appendix A** provides the summarised audit plan and identifies a planned day requirement of 1,795 days. These days are broken down by type in the chart below.



Resources

- 5.6 The Internal Audit service has seen a rationalisation of resources since Unitary Council status in 2009. This continues seeing team resources reduce further from 14.9 full time equivalents (FTE) in the current year to 11.9 FTE in 2014/15 and a further 0.5FTE reduction in March 2015, Appendix C. Whilst the team will retain skills in areas of finance, information technology, contracts, establishment, systems, counter fraud, investigations, governance and project management some of these will need further development given the loss of experienced resources. To supplement the internal teams' resources and respond to skill needs during this period of change, additional internal audit reviews continue to be purchased from external suppliers from the framework contract. The team will continue to seek a mixed approach to its provision going forward in 2014/15 providing flexibility to respond to any

potential budget reductions and to cover temporary absences, including the two vacancies and two continuing maternity leaves that will impact on next year's resources. The team continues to report directly to the Head of Finance, Governance and Assurance, the Section 151 Officer.

5.7 In preparing the plan for 2014/15 and in recognition of the reduced resource availability the key items to note this year are:

- Days continue to be included in the plan to cover the fundamental systems audit work on which reliance may be placed by the external auditors as they assess the Council's final accounts. A number of these areas have been impacted upon following structural changes to the council and assurance will be required to ensure that internal controls are still maintained appropriately.
- A contingency of 100 days is allocated to transformation projects, where projects are known they are included as specific areas in the plan. The remainder of these projects are yet to be clearly identified and scoped but will include:
 - procurement and commissioning initiatives;
 - reviewing different delivery models (shared services, ip&e, outsourcing, trusts and partnerships);
 - project assurance;
 - advising on changes to processes and internal controls as a result of structural change, staffing reductions and process reengineering;
 - Government/legislative changes to systems and
 - IT developments supporting transformation.
- Given the on-going changes to services and processes to deliver efficiencies and therefore cost savings, it is envisaged that these will impact on internal controls, i.e. the reduced workforce may impact on separation of duties and the economic climate may encourage potential frauds. The counter fraud and investigation contingency therefore remains at 200 days. This is reflective of the demands in this area seen over the last three years and in addition to National Fraud Initiative and other pieces of work conducted in various reviews that help to counter fraud activity. Twenty five days are also allocated to Counter Fraud work.
- Schools will be in their third year of the Schools Financial Value Standard (SFVS), under which they are expected to conduct an annual assessment by the 31 March 2014. Copies of the statements are provided to Internal Audit to determine if the statement appears reasonable based on previous audit testing. Where appropriate Audit Services may undertake a more in depth assessment of the answers given and this might include an audit and/or discussion with the Head Teacher and/ or governors. In all cases, the contents of these statements are taken into account in planning our future programme of school audits. A review of the specific risks in relation to schools looks at the SFVS statements, planned income and expenditure, any surplus or deficit and the date and assurance from the last audit in

determining the priority for audit reviews. The current plan aims to allow for a review of primary schools every five years and secondary schools every three. Time is also allocated this year to review and report upon the Council's exit strategy for schools transferring to Academy status.

- Days are allocated to provide Internal Audit Services to our external clients: Shropshire Fire and Rescue, Just Credit Union, Shropshire Pension Fund, West Mercia Energy and Oswestry Town Council. In addition ip&e have also shown an interest in purchasing some internal audit support and time has been allocated for audit based risk assessment plans to be worked on to address this.
- Increased time on ICT audits is planned, with support for the IT Auditor from other trained team members and external providers, to reflect the changes in IT applications and the consideration of replacement systems and new technology.
- With planned initiatives in the area of procurement and commissioning, the area of contract auditing continues to be invested in with planned work on financial evaluation of companies tendering for work, procurement cards, key supply contracts and service level agreements. In addition exit reviews are planned where services are moving to new delivery models to ensure that transfers are conducted appropriately and at minimum risk to the Council.
- Discussions with senior managers have identified a number of areas considered low risk from an internal controls/ materiality perspective where managers are receiving a mix of assurances from their systems, personnel and/ or third party's on which they can place reliance. These areas are identified in **Appendix B** and will not be considered for review by Internal Audit on a rolling risk basis. Members may wish to ask senior managers to provide assurance directly to committee on these areas if required.
- The plan provides continual professional development and training for auditors during the year. This helps to retain staff, future proof the skills of team members and build skills in areas where knowledge requires further development, to the benefit of the Council, external clients and the auditors.

5.8 A copy of the draft plan for Shropshire Council and those of our external clients will be forwarded to the appropriate external auditors inviting their comments on coverage and to maximise any shared learning from each other's work.

5.9 Whilst every effort has been made to include all key audit areas required in the plan, if other items are identified from discussions with our colleagues from the Audit Commission, or as knowledge becomes available from other sources, these will be agreed with the Section 151 Officer and reported to a future Audit Committee.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Audit universe and resources analysis
Public Sector Internal Audit Standards 2013
CIPFA Audit Committees, Practical Guidance for Local Authorities and Police, 2013 edition

Cabinet Member (Portfolio Holder) Keith Barrow (Leader of the Council) and Brian Williams (Chairman of Audit Committee)

Local Member n/a

Appendices

Appendix A – 2014/15 Summary of Draft Internal Audit Plan by Service
Appendix B – 2014/15 Audit areas where managers will seek and provide any necessary assurance
Appendix C - 2014 IA structure

2014/15 SUMMARY OF DRAFT INTERNAL AUDIT PLAN BY SERVICE

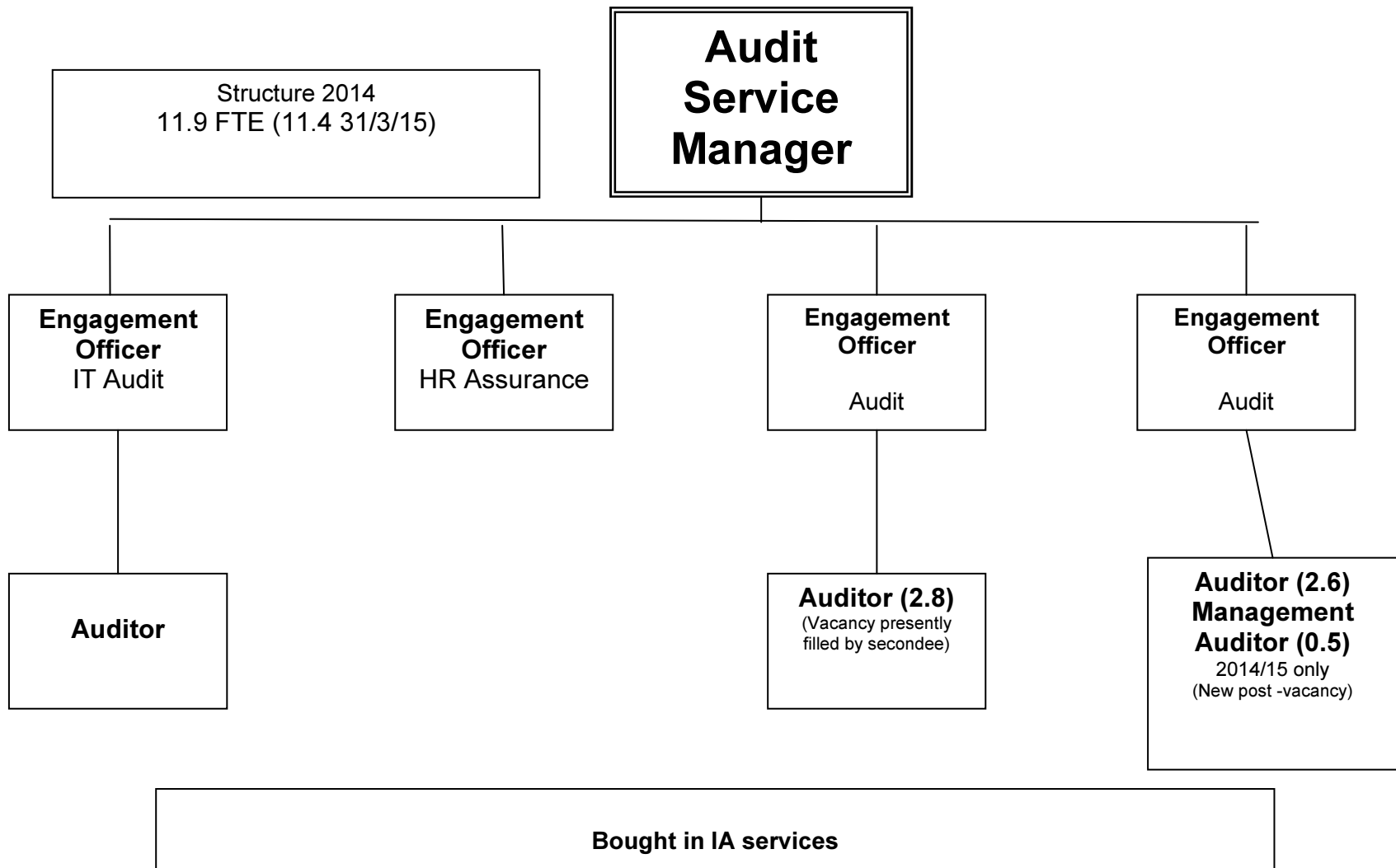
	Days
CHIEF EXECUTIVE	
Governance	18
ADULT SERVICES	
Social Care Operations	
Provider Services - Comforts Funds	8
Provider Services - Establishments	6
Provider Services - Group Homes	8
Provider Services - Trading Accounts	2
Development Support	8
Long Term Support	81
Total Adult Services	113
COMMISSIONING	
Waste Services	10
Business & Enterprise	10
Highways & Transport	14
Development Management	9
Visitor Economy	5
Environmental Health	5
Housing Services	51
Total Commissioning	104
CHILDREN'S SERVICES	
Children's Placement and Joint Adoption	27
Business Support	22
Children's Placement and Joint Adoption	15
Education Improvements	31
Primary/Special Schools	115
Secondary Schools	35
Total Children's Services	245
PUBLIC HEALTH	30
RESOURCES AND SUPPORT	
Commercial Services	
Estates & Facilities	5
Property Services	25
Shire Services	8
	<u>38</u>
Customer Involvement	
Benefits	30
Customer Services	12
ICT Implementation & Architecture	45
ICT Operations	128
	<u>215</u>

	Days
Finance Governance & Assurance	
Financial Advice (S.151)	132
Financial Management	73
Procurement	40
Revenues	40
Risk Management	5
Treasury	16
	<u>306</u>
Human Resources	
Payroll and HR	57
Legal, Strategy and Democratic	
Democratic Services	2
Election Services	4
Information Governance	4
Legal Services	10
	<u>20</u>
Total Resources and Support	<u>636</u>
CONTINGENCIES	
IT Advice Contingency	20
Advisory Contingency	20
Fraud Contingency	200
Liquidations Contingency	1
Transformation Projects	100
Unplanned Audit Contingency	48
Other non-audit chargeable work	260
Total Contingencies	<u>649</u>
Total Shropshire Council	<u>1,795</u>
External Clients	265
Total Audit Plan	<u><u>2,060</u></u>

2014/15 Audit areas where managers will seek and provide any necessary assurance		
Director of Children's Services Leaving Care Multi Agency Teams Social Care and Health Training County Training - future delivery County Training IT Arrangements Education Welfare Service Idsall School Ludlow Training Centre Schools Advisory Service - Administration Shrewsbury Training and Development Centre Shropshire Children's Trust Shropshire Music Service Standards Fund The Gateway Education and Arts Centre Wellington Hair Dressing Salon Whitchurch Training Centre	Area Commissioners Albrighton Library Bayston Hill Library Bishops Castle Library Bridgnorth Library Broseley Library Church Stretton Library Cleobury Mortimer Library Craven Arms Library Ellesmere Library Galaxy - Libraries System Gobowen Library Highley Library Libraries General Library Fines and Charges Library HQ Library Procurement through WM Consortium Library Stock Management and Control Ludlow Library Market Drayton Library Much Wenlock Library Oswestry Library Pontesbury Library Schools Library service Shawbury Library Shifnal Library Wem Library Whitchurch Library Community Strategy Lone Working Arrangements Bio Digester Positive Activities Projects - Youth Service – administration The Lantern	Head of Economic Growth and Prosperity AONB - Craven Arms Arts Developments and Grants Arts Festivals and Events Countryside Access General Culture and Leisure Business Development Culture and Leisure Grants Culture and Leisure Marketing and Performance Datawright Planning Development Ecology and Biodiversity Economic Development General Enterprise and Business Grants allocated Historic Environment and Listed Buildings Ludlow Museum and Resource Centre Museums and Audience Development Grant Arrangements North Shropshire Countryside Rangers One App Online Planning Portal Application Parks and Countryside Sites General PLUMS - Planning Policy Control Public access mapping server/e-planning Pump House Records Management Recruitment and Management of Volunteers Severn Valley Park Shropshire Archives SMR - Sites and Monuments Record Sustainability Tourism Tree Safety

2014/15 Audit areas where managers will seek and provide any necessary assurance		
	Waste - Policy and Management Arrangements Waste - Statistics and Administration Community Transport Initiatives (SCOTI, OCTI etc.) Flood Risk Management Arrangements Highways Development Control Highways Land Search Arrangements Land Drainage Leisure Catering and Vending Operations Local Bus Network Passenger Transport Efficiency Operations Public Transport - Publicity Road Safety Special Transport/ Routing Arrangements Sports Development Street Scene - Dog Wardens Surplus Seats Traffic Management and Regulation	
Head of Commercial Services Asbestos Fishing and Sporting Rights Furniture Design Group and County Furniture Group Internal Catering arrangements Legionella Post Opening Procedures Shirehall Lettings Shirehall Restaurant SLA's and Invoicing Arrangements - estates Smallholdings Estate Travellers Site at Craven Arms Travellers Site at Cross Houses Travellers Site at Manor Lane, Prees Travellers Site at Park Hall	Head of Public Protection Animal Health and Welfare Contaminated Land Domestic Abuse Environmental Enforcement and Byelaws Fair Trading and Education Health and Safety Incase Fraud Management system Management and Control of CCTV Operations Pest Control Regulation of Investigatory Powers Act (RIPA)	Director of Adult Services Avalon Court Day Opportunities CMHT Bridgnorth CMHT Ludlow CMHT Market Drayton CMHT North Shrewsbury CMHT Oswestry CMHT South Shrewsbury Friars Walk Day Opportunities at Helena Lane Helena Lane Day Centre Innage Lane Day Opportunities Oak Farm Ditton Priors Occupational Therapy People to People Shropshire Partners in Care (SPIC) Substance Misuse Team The Meres Day Centre Wayfarers Day Opportunities

2014/15 Audit areas where managers will seek and provide any necessary assurance		
Director of Commissioning Community Working My place grant money contract review Shropshire Youth - Central Administration The Old Mortuary (Boxing Ring)	Director of Public Health Coroners Public Health - Joint Commissioning Strategy and Operational Public Health Joint Commission Team	Head of Governance, Finance and Assurance Inventories Management
Head of Human Resources Diversity Arrangements Flexi/ Annualised Time System Grading of PO Posts - Moderation Job evaluation governance	Head of Legal, Strategy and Democratic Advanced Case Management System (AIM) Application Code of Conduct - Gifts and Hospitality Register of Electors Performance Management and PI's Performance Plus Online Register	Head of Service Support, Marketing and Engagement ISO 27001 IT Security Mobile Phone Billing Arrangements Printing



Audit Committee Update for Shropshire Council

Year ended 31 March 2014

March 2014

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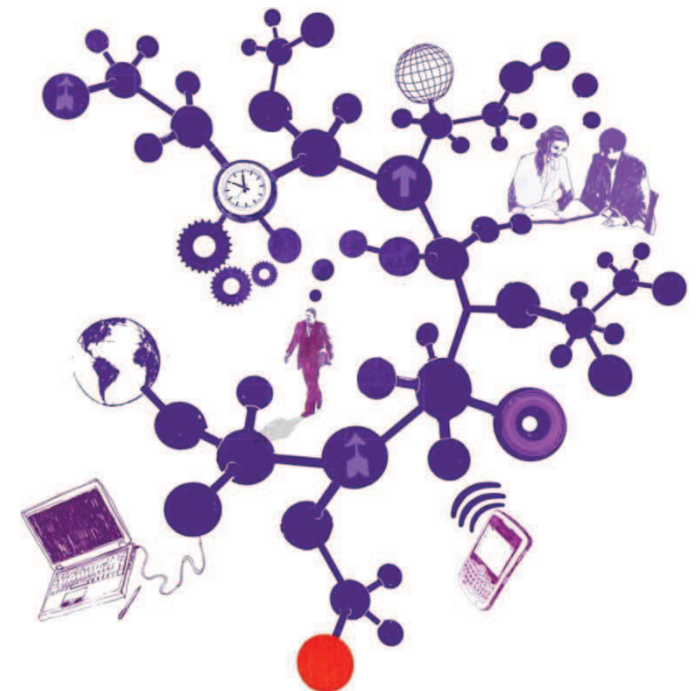
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Agenda Item 12

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a unitary Council
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

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Progress to date

Work	Planned date	Complete?	Comments
<p>2013/14 Accounts Audit Plan</p> <p>We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2013/14 financial statements and provide a value for money conclusion.</p>	February 2014	Yes	The Audit Plan will be presented to the March 2014 Audit Committee.
<p>Interim accounts audit</p> <p>Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Council's control environment • updating our understanding of your financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 	December 2013 – March 2014	In progress	<p>We have liaised with Internal Audit on their work for 2013/14.</p> <p>We have undertaken our initial on-site work at the Council which has informed the work plan for our follow up on-site work and our final accounts visit. We met with the Head of Financial Management & Reporting & Deputy S151 Officer in January 2014 to discuss and review the final accounts process in 2012-13 to identify improvements which will support the 2013-14 experience.</p> <p>We have meetings in place with key Directors to update our cumulative audit knowledge and understanding.</p>
<p>2013/14 final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2013/14 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	June – September 2014	No	Not yet started.

Progress to date

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2013/14 VfM conclusion requires conclusions on whether:</p> <ul style="list-style-type: none"> • The organisation has proper arrangements in place for securing financial resilience. • The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. 	<p>January – July 2014</p>	<p>In progress</p>	<p>There are no changes to the key criteria from last year. We will take into account updated guidance from the Audit Commission where appropriate. The areas of audit focus we anticipate at this time for 2013/14 will include reviewing the Council's progress in delivering:</p> <ul style="list-style-type: none"> • the required savings of £24m to support in year financial balance for 2013/14, and • its new Business Plan and Financial Strategy for achieving recurring financial balance, delivering the £80m funding gap identified and setting out the Council's plans for the next 3-5 years.
<p>Grant work</p> <p>We currently anticipate being required to certify the following grant claims related to the 2013/14 financial year:</p> <ul style="list-style-type: none"> • Pooling of Housing Capital Receipts • Teachers' Pensions, and • Housing and Council Tax Benefit Subsidy. <p>Following the changes to the business rates regime there is currently uncertainty as to whether we will be required to certify a National Non Domestic Rates (NNDR 3) return or its equivalent. Once we have clarity we will inform the Council.</p>	<p>July – November 2014</p>	<p>No</p>	<p>Work on 2013/14 claims and returns has not yet started. We anticipate meeting the certification deadlines on all 2012/13 claims and returns. Details of audit work and any key findings will be provided in our certification report which we expect to issue in December 2013.</p>
<p>Other areas of work</p> <ul style="list-style-type: none"> • Non-audit services • 2013/14 Pension Fund audit 		<p>Yes</p> <p>No</p>	<ul style="list-style-type: none"> • Our valuations department has completed work for the Head of Finance, Governance and Assurance • We have held a planning meeting with the Pensions Team and interim work is in progress. Primary reporting will be through the Pensions Committee.

Councils must continue to adapt to meet the needs of local people

Sector issues

Audit Commission research - Tough Times 2013

The Audit Commission's latest research, <http://www.audit-commission.gov.uk/wp-content/uploads/2013/11/Tough-Times-2013-Councils-Responses-to-Financial-Challenges-w1.pdf> shows that England's councils have demonstrated a high degree of financial resilience over the last three years, despite a 20 per cent reduction in funding from government and a number of other financial challenges. However, with uncertainty ahead, the Commission says that councils must carry on adapting in order to fulfil their statutory duties and meet the needs of local people.

The Audit Commission Chairman, Jeremy Newman said that with continuing financial challenges 'Councils must share what they have learnt from making savings and keep looking for new ways to deliver public services that rely less on funding from central government'.

Key findings:

The Audit Commission's research found that:

- the three strategies most widely adopted by councils have been reducing staff numbers, securing service delivery efficiencies and reducing or restructuring the senior management team;
- three in ten councils exhibited some form of financial stress in 2012/13 – exhibited by a mix of difficulties in delivering budgets and taking unplanned actions to keep finances on track;
- auditors expressed concerns about the medium term prospects of one third of councils (36 per cent)

Issues to consider/challenge questions:

- How have members satisfied themselves that the Council can deliver a balanced budget, that the medium term strategy/budget has been subject to appropriate challenge and that the Council's finances are resilient over the medium term (3 years) and beyond?

79% of Councils anticipate Tipping Point soon

Sector issues

2016 tipping point? Challenging the current

This report http://www.grant-thornton.co.uk/Global/Publication_pdf/LG-Financial-Resilience-2016-tipping-point.pdf is the third in an annual series which assesses whether English local authorities have the arrangements in place to ensure their sustainable financial future.

Local authorities have so far met the challenges of public sector budget reductions. However, some authorities are predicting reaching tipping point, when the pressure becomes acute and financial failure is a real risk. Based on our review of forty per cent of the sector, this report shows that seventy nine per cent of local authorities anticipate some form of tipping point in 2015/16 or 2016/17.

Our report rates local authorities in four areas - key indicators of financial performance, strategic financial planning, financial governance and financial control. It also identifies a series of potential 'tipping point scenarios' such as local authorities no longer being able to meet statutory responsibilities to deliver a range of services.

Our report also suggest some of the key priorities for local authorities in responding to the challenge of remaining financially sustainable. This includes a relentless focus on generating additional sources of revenue income, and improving efficiency through shared services, strategic partnerships and wider re-organisation.

Challenge questions

- Our report includes a good practice checklist designed to provide senior management and members with an overview of key tipping point risks. Has the Head of Finance, Governance & Assurance completed the checklist and reported it to the Audit Committee?
- The report also includes good practice case studies in strategic financial planning, financial governance and financial control. Has the Head of Finance, Governance & Assurance reviewed these case studies and considered whether there is scope to adopt these?

Austerity continued – further cuts in spending powers

Sector issues

Final local government finance settlement 2014/15

On 5 February 2014 the government published the final local government finance settlement for 2014/15. This confirmed the proposals laid out in the provisional finance settlement. The government has proposed that any council tax increases made by billing or precepting authorities of 2 per cent or more will be subject to a referendum. This proposal needs to be accepted by Parliament.

Excluding the Greater London Authority, the spending power for local authorities in England will fall by 2.9% in 2014/15 compared to 2013/14. As in previous years, councils will have their funding reduction capped at 6.9%. Indicative funding levels for 2015/16 have also been provided to assist local authorities with their medium term financial planning. The settlement will be finalised in February 2014.

Challenge questions:

- Has your Head of Finance, Governance & Assurance reviewed the proposed settlement and assessed the impact on your Council?

Joint Health and Social Care Plans to be in place by 4th April

Sector issues

Better Care Fund

In the June 2013 Spending Round the Government announced the prospective implementation of the Better Care Fund (formerly the integration transformation fund). The key aim is to ensure a transformation in integrated health and social care through local single pooled budget arrangements. Pooled budget arrangements are formally underpinned by Section 75 of the NHS Act 2006.

Key issues

- £3.8 billion for funding will be available from 2015/16, largely through a top slice of existing Clinical Commissioning Group (CCG) budgets;
- Local Authorities with Adult Social Services, CCGs and NHS Trusts will need to collaborate through a single pooled budget arrangement to support the delivery of health and social care services in their designated local areas;
- finalised joint health and social care plans must be in place setting out how pooled budgets will be spent – draft plans must be formally signed off by each statutory Health and Well Being Board and submitted to NHS England area teams by 14 February, with a 4 April 2014 deadline for submission of finalised plans

Issues to consider/challenge questions:

- Is the local Health and Wellbeing Board on track to finalise and sign off the joint health and social care plan for submission to the NHS England area team?
- Has the size of the pooled budget been clarified?
- Is the Authority collaborating with its partner bodies to work through funding and delivery arrangements?
- Have roles and responsibilities been defined and understood for the Authority and its partner CCGs, NHS Trusts and the Health and Wellbeing Board?

Helping the High Street

Sector issues

Support for UK high streets

On December 6, 2013 the Communities Secretary set out a £1 billion package of support for UK high streets, the stated objectives being to:

- support business and the private sector to have a greater stake in their high streets;
- make it easier to diversify town centres;
- ensure town centres remain accessible to visitors;
- promote the use of technology to modernise town centres.

Key elements of the strategy include:

- a £1,000 discount in 2014/15 and 2015/16 for retail premises with a rateable value of up to £50,000 – including shops, pubs, café and restaurants;
- capping the Retail Price Index (RPI) increase in bills to 2% in 2014/15;
- extending the doubling of Small Business Rates relief to April 2015;
- a reoccupation relief for 18 months with a 50% discount for new occupants of retail premises empty for a year or more;
- assisting business cash flow by allowing businesses to pay their bills over 12 months (rather than 10)

Issues to consider/challenge questions:

- Has the Council assessed the local economic impact of the measures announced by the Communities Secretary?
- Has the Head of Finance, Governance & Assurance assessed the impact of the measures on the Council's finances and the 2014/15 and 2015/16 budgets?

Welfare reforms – what you think of it so far?

Sector issues

Reaping the benefits: first impressions of the impact of welfare reform.

The potential scope of this topic is broad, so our report, <http://www.grant-thornton.co.uk/en/Publications/2014/Reaping-the-benefit-First-impressions-of-the-impact-of-welfare-reform/> focuses on the financial and managerial aspects of welfare reform. This involves:

- Understanding the challenges currently facing local government and housing associations in regard to welfare reform and what organisations have been doing to meet this challenge in terms of strategy, projects and new processes.
- Reporting on the early indications of effectiveness following the implementation of these measures and the impact of reform.
- Providing early insight into challenges facing these organisations in the near future.

We have pulled together information from a variety of sources, including our regular conversations across the local government and housing sectors and surveying local authorities and housing associations in England.

We found that:

- In general, organisations have been very active in engaging with stakeholders and putting in place appropriate governance arrangements and systems to implement specific reforms. A minority of organisations did not fully exploit all the options open to them in preparing for reform.
- So far, the indication is that the impact of reform experienced by local authorities and partners has been managed effectively. This may be because the full impact has not yet been felt. Some worrying signs are emerging, including rising rental arrears, homelessness and reliance on food banks, which may be linked to the reforms.
- Looking ahead, further reforms, such as the implementation of universal credit and the move to direct payments present significant uncertainties and challenges over the next few years.

Challenge questions

- Has the Head of Commercial Services kept members informed of progress with stakeholder engagement and changes to governance arrangements to implement specific reforms?
- What impact assessment is the Authority carrying out on council tax localisation, the benefit cap and housing benefit, the spare room subsidy and changes to the Social Fund?
- Does the Authority have a plan in place or in development for the introduction of universal credit?

Councils keep New Homes Bonus

Sector issues

Help for housing building

In the Autumn statement (5 December 2013) the government announced plans to secure a £1 billion 6 year investment in house building, to simplify the local authority planning process and help to achieve the stated objective of delivering 250,000 new homes.

Key objectives:

- nationally to increase the housing supply in England through a £1 billion 6 year investment programme;
- at a local level helping councils to increase the supply of affordable social housing supply in their area by allowing them to bid for up to £300 million of additional borrowing against their housing revenue account;
- improving labour market mobility by introducing a Right to Move for those needing to move to take up a job or training;
- Allowing councils outside London to keep all of their **New Homes Bonus** and have full control over how they use it to support new homes in their area – the New Homes Bonus is a grant paid by central government to local councils for increasing the number of homes and their use, is paid each year for 6 years and is based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use.

Issues to consider/challenge questions:

- Has your Head of Finance, Governance & Assurance assessed the implications and potential financial impact for the Council of the help for housing building measures announced in the Autumn statement?

Councils choosing their auditors one step closer

Sector issues

Local Audit and Accountability Act

The Local Audit and Accountability Act received Royal Assent on 30 January 2014.

The key points, amongst other things are:

- the Act makes provision for the closure of the Audit Commission on 31 March 2015;
- arrangements are being worked through to transfer residual Audit Commission responsibilities to new organisations;
- there will be a new framework for local public audit due to start when the Commission's current contracts with audit suppliers end in 2016/17, or potentially 2019/20 if all the contracts are extended;
- the National Audit Office will be responsible for the codes of audit practice and guidance, which set out the way in which auditors are to carry out their functions;
- Local Authority's will take responsibilities for choosing their own external auditors;
- recognised supervisory bodies (accountancy professional bodies) will register audit firms and auditors and will be required to have rules and practices in place that cover the eligibility of firms to be appointed as local auditors;
- Local Authority's will be required to establish an auditor panel which must advise the authority on the maintenance of an independent relationship with the local auditor appointed to audit its accounts;
- existing rights around inspection of documents, the right to make an objection at audit and for declaring an item of account unlawful are in line with current arrangements;
- transparency measures give citizens the right to film and tweet from any local government body meeting.

Issues to consider/challenge questions:

- Have members considered the implications of the Local Audit and Accountability Act for the Council's future external audit arrangements?

Alternative Delivery Models – are you making the most of them?

Governance issues

Alternative delivery models in local government

This report: <http://www.grant-thornton.co.uk/en/Publications/2014/Responding-to-the-challenge-alternative-delivery-models-in-local-government/> discusses the main alternative delivery models available to local government. These are based on our recent client survey and work with local government clients. It aims to assist others as they develop their options and implement innovation strategies.

Local government has increased the variety and number of alternative delivery models it uses in recent years including contracts and partnerships with other public bodies and private sector organisations, as well as developing new public sector and non-public sector entities. With financial austerity set to continue, it is important that local authorities continue innovating, if they are to remain financially resilient and commission better quality services at reduced cost.

This report is based on a brief client survey and work with local authority clients and:

- Outlines the main alternative delivery models available to local authorities
- Aims to assist other authorities as they develop their options and implement innovation strategies
- Considers aspects of risk.

Challenge question

- Our report includes a number of case studies summarising how public services are being delivered through alternative service models. Has the Authority reviewed these case studies and assessed whether there are similar opportunities available to it?
- Our report includes three short checklists on supporting innovation in service delivery, setting up a company and questions that members should ask officers when considering the development of a new delivery model. Are the checklists being considered as part of the development of the Authority's commissioning strategy?

Revaluing your assets – clarification of accounting guidance

Accounting and audit issues

Property, plant and equipment valuations

The 2013/14 Code has clarified the requirements for valuing property, plant and equipment and now states explicitly that revaluations must be 'sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period.' This means that a local authority will need to satisfy itself that the value of assets in its balance sheet is not materially different from the amount that would be given by a full valuation carried out on 31 March 2014. This is likely to be a complex analysis which might include consideration of:

- the condition of the authority's property portfolio at 31 March 2014
- the results of recent revaluations and what this might mean for the valuation of property that has not been recently valued
- general information on market prices and building costs
- the consideration of materiality in its widest sense - whether an issue would influence the view of a reader of the accounts.

The Code also follows the wording in IAS 16 more closely in the requirements for valuing classes of assets:

- items within a class of property, plant and equipment are to be revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates
- a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

There has been much debate on what is a short period and whether assets that have been defined as classes for valuation purposes should also be disclosed separately in the financial statements. These considerations are secondary to the requirement that the carrying value does not differ materially from the fair value. However, we would expect auditors to report to those charged with governance where, for a material asset class:

- all assets within the class are not all valued in the same year
- the class of asset is not disclosed separately in the property, plant and equipment note.

Challenge question:

- Has your Head of Finance, Governance & Assurance consulted you on the programme of valuations and the proposals for disclosing information about classes of assets?

Estimating the impact of business rate appeals

Accounting and audit issues

Business rate appeals provisions

Local authorities are liable for successful appeals against business rates. They should, therefore, recognise a provision for their best estimate of the amount that businesses have been overcharged up to 31 March 2014.

However, there are practical difficulties which mean that making a reliable estimate for the total amount that has been overcharged is challenging:

- the appeals process is managed by the Valuation Office Agency (VOA) and so local authorities are reliant on the information provided to them by the VOA
- some businesses may have been overcharged but not yet made an appeal.

We would expect local authorities:

- to work with the VOA to make sure that they have access to the information they need
- where appeals have been made, to determine a methodology for estimating a provision and to apply this methodology consistently
- where appeals have not been made:
 - to consider the extent to which a reliable estimate can be made (for example, in relation to major businesses)
 - to recognise a provision where a reliable estimate can be made
 - to disclose a contingent liability where a reliable estimate cannot be made
 - to provide a rationale to support their judgement that a reliable estimate cannot be made
 - to revisit the estimate with the latest information available immediately before the audit opinion is issued.

Challenge questions:

- Is your authority confident of obtaining the information it needs from the VOA?
- Has your authority recognised a provision where it is possible to make a reliable estimate? Has a robust methodology been used?
- Has your authority provided a robust rationale where it has decided it cannot make a reliable estimate? Is it planning to disclose a contingent liability?
- Is your authority planning to revisit its provision and contingent liability before the audit opinion is issued?

Disclosures in the financial statements

Accounting and audit issues

Changes to SeRCOP – new public health line

SeRCOP for 2013/14 introduces a new cost of service line for 'Public health'. This has been introduced to reflect new responsibilities placed upon local authorities following restructuring in the NHS. We expect this new service line to be presented on the face of the CIES within cost of services. If there were material amounts relating to this service in 2013/14, we would expect comparative figures to be restated.

Challenge question:

- Is your Head of Finance, Governance & Assurance confident that he can provide accurate information and a robust audit trail for the public health line within cost of services?

Private Finance Initiative Schemes and Service Concessions

Updating the accounting model during the operational phase

Most authorities derive their accounting entries from an accounting model which, in turn, is derived from the operators costing model. The initial accounting model will have included a range of assumptions, such as inflationary increases. We would expect authorities to update the accounting model for actual information, such as inflationary increases and performance variations, during the contract.

Disclosing the impact of inflation on commitments

We expect authorities to disclose the impact of inflation on their service concession commitments. These commitments are affected by:

- past inflation – previous price rises will be built into future payments
- fluctuations in future inflation – this gives rise to uncertainties about future payments.

Disclosing the fair value of the service concession liability

Service concession liabilities are financial instruments. Therefore, we would expect authorities to disclose the fair value of the liability unless this is not materially different from the carrying value. In most cases we would expect the fair value for operational schemes to be higher than the carrying value. This is because once a scheme is operational, authorities have access to lower interest rates for refinancing. This is because the pre-construction interest rate reflects the risks associated with construction.

Challenge questions:

- Does your Head of Finance, Governance & Assurance regularly update the accounting model?
- Has your authority disclosed the impact of past and future inflation on its commitments?
- Has your authority disclosed the fair value of its PFI liability?

How do you recognise a PFI?

Accounting and audit issues

Private Finance Initiative Schemes and Service Concessions

The Government financial reporting manual (FReM) and the Local Government CIPFA Code of Practice have now adopted IPSAS 32 (International public sector accounting standards) – Service Concession Arrangements.

Previously under IAS 17 (International Accounting Standards – Leases), the recognition point for an asset and a liability in the financial statements for such a scheme was at the commencement date of the contract, when the asset was handed over to the public sector and ready for use.

Now under IPSAS 32, the recognition point is when:

- it is probable that future economic benefits associated with the asset will flow to the organisation
- the cost of the asset can be measured reliably.

This suggests that some authorities may need to consider recognising service concession assets during the construction phase as assets under construction. In reaching a judgement as to whether to recognise an asset under construction, we would expect authorities to consider the extent to which they bear construction risk and whether they can get reliable information on the cost of construction from the operator.

Challenge questions:

- Has your Head of Finance, Governance & Assurance considered whether IPSAS 32 is relevant to your Authority?
- Do you have any partially built assets at the year end under such a scheme which would now need to be accounted for differently?
- As the standard is retrospectively applied, do your financial statements require a prior period adjustment for the financial statements year ending 31 March 2013?

Accounting for pensions

Accounting and audit issues

Accounting for and financing the local government pension scheme costs

Accounting issues

The 2013/14 Code follows amendments to IAS 19 and changes the accounting requirements for defined benefit pension liabilities such as those arising from the local government pension scheme (LGPS). This is a change in accounting policy and will apply retrospectively.

The main changes we expect to see are:

- a reallocation of amounts charged in the comprehensive income and expenditure statement (CIES)
- more detailed disclosures.

We do not expect changes to balance sheet items (the net pension liability and pension reserve balance). This means that whilst we would expect the CIES to be restated, a third balance sheet is not required. Actuaries should be providing local authorities with the information they need to prepare the financial statements, including restated comparatives.

Financing issues

The amount to be charged to the general fund in a financial year is the amount that is payable for that financial year as set out in the actuary's rates and adjustments certificate. Some local authorities are considering paying pension fund contributions early in exchange for a discount but not charging the general fund until later.

Local authorities must be satisfied that the amounts charged to the general fund in a financial year are the amounts payable for that year. Where local authorities are considering making early payments, we would expect them to obtain legal advice (either internally or externally) to determine the amounts that are chargeable to the general fund. We would expect this to include consideration of:

- the actuary's opinion on the amounts that are payable by the local authority into the pension fund
- the agreement between the actuary and the local authority as to when these payments are to be made
- the wording in the rates and adjustments certificate setting out when amounts are payable for each financial year.

For example, if a local authority agrees to make a payment to the pension fund in a single year and proposes to charge this amount to the general fund over a three-year period, we would expect the rates and adjustments certificate to show, unambiguously, that the amount payable is spread over the three years.

Challenge questions:

- Is your local authority confident of getting the information from its actuary to meet the changes in the requirements for accounting for the LGPS (including restating the comparatives)?
- If your authority is considering making an early payment to the pension fund, has it set out a reasonable argument for how it proposes to charge this amount to the general fund? Is this supported by legal advice?

Changes to the public services pension scheme

Accounting and audit issues

Changes to the Local Government Pension Scheme

The Public Service Pensions Bill received Royal Assent in April 2013, becoming the Public Service Pensions Act 2013 ('the Act'). The Act makes provision for new public service pension schemes to be established in England, Wales & Scotland. Consequent regulations have been laid to introduce changes to the LGPS in England and Wales from 1st April 2014. (The regulations for the changes in Scotland have not yet been laid and will only impact from 1 April 2015).

These introduce a number of changes including:

- a change from a final salary scheme to a career average scheme
- introduction of a 50/50 option whereby members can choose to reduce their contributions by 50% to receive 50% less benefit
- calculation of contributions based on actual salary which could lead to some staff with irregular patterns of working moving between contribution rate bandings on a regular basis
- changes in employee contribution rates and bandings
- transitional protection for people retiring within 10 years of 1 April 2014 (further regulations are still awaited).

The above changes have implications for all employers involved in the LGPS introducing required changes to their payroll systems to ensure pension contributions are calculated correctly. This has consequent implications for administering authorities to communicate with employers and consider how they will obtain assurance over the accuracy and completeness of contributions going forwards since the calculations are more complex going forwards and less predictable. In addition changes are also required to pension administration/payment systems as well as much more detailed processes around maintaining individual pension accounts for all members to ensure the correct payment of future pensions.

The Act also requires changes to the governance arrangements although regulations for the LGPS have not yet been laid for these and the changes in governance arrangements are not expected to be implemented until 1 April 2015.

Challenge questions:

- Is the authority aware of the detailed requirements and their impact on its current payroll system and processes?
- Is the authority taking appropriate action to ensure implementation of the required changes to its payroll system and processes by 1 April 2014?
- Has the authority liaised with the administering authority over any changes they may need in the assurances provided over the completeness and accuracy of contributions?



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The Audit Plan for Shropshire Council

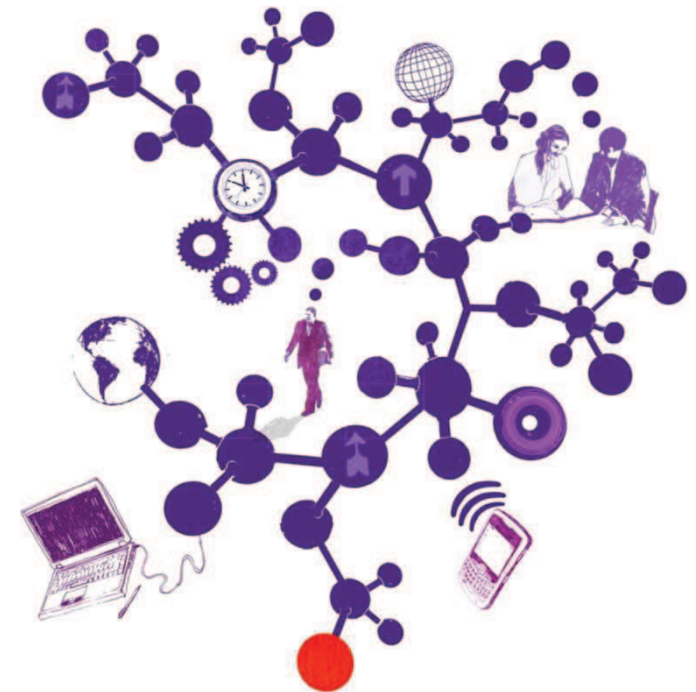
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March 2014

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Agenda Item 13

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below. We will report any findings and conclusions to the Audit Committee.

Challenges / opportunities

1 Reductions in funding

- The funding from Central Government continues to reduce year on year with the latest settlement for 2014/15 further reducing the total local government spending power. This places continued pressure on the Council to identify and deliver savings.
- There is a pressure on budgets and reserves which could have a significant impact on the short term ability to maintain a prudent level of reserves and maintain effective service delivery.
- The Council has made redundancies and further staffing cuts are planned. Systems of working and associated internal controls and corporate governance arrangements are being redesigned to reflect new arrangements.

2. Alternative delivery models

- In its business plan the Council has committed to redesign every element of service delivery to focus on economy, efficiency and effectiveness. Customer orientation will be key to delivering redesigned services ahead of financial necessity.
- The Council is starting to use ip&e as one type of delivery vehicle for a new range of service provider solutions. This will require both investment and governance arrangements to be put in place with associated risks.

3. Decision making and performance management

- In May 2013 the Council adopted the Leader and Cabinet Executive (England) model which is more commonly known as the Strong Leader and Cabinet Model.
- The Council is under continued pressure to perform against its financial and non financial based policies and strategies.
- In 2012/13 Internal Audit provided a qualified Head of Internal Audit Opinion. This was based upon weaknesses within internal control arrangements.

Our response

- We will assess the Council's financial resilience and its financial plans as part of our value for money assessment and going concern assessment.
- The Council is projecting a potential overspend of £1.942m for 2013/14 (0.30% of gross budget). Purchasing care pressure within long term support for adults continues to challenge the Council.
- The General Fund Balance is predicted to be significantly lower than the risk based target in 2014/15 (£10.9 million compared with £15.5 million) but projected contributions are expected to bring the balance in line with the target of £12.1 million by 2016/17.
- We will assess the Council's control environment and its arrangements for processing and accounting for the redundancies as part of our audit of the financial statements.

- We will maintain a watching brief on the Council's plans for alternative delivery models and assess the arrangements as part of our value for money assessment.
- We will review the Council's draft commissioning strategy as part of our value for money assessment.

- We will review a sample of decisions made during 2013/14 to check for compliance against the new constitution as part of our value for money assessment.
- We will monitor performance management reports and assess whether there is any impact on deliver of services.
- We will review the work of Internal Audit to assess the control environment for the key financial systems and other systems examined in 2013/14. This will inform our testing strategy for the financial statements audit and form part of our value for money assessment.

Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

Developments and other requirements

1. Financial reporting

- Changes to the CIPFA Code of Practice.
- Clarification of Code requirements around PPE valuations.
- Changes to NDR accounting and provisions for business rate appeals.
- Transfer of assets to Academies.

2. Legislation

- Local Government Finance settlement.
- Welfare reform Act 2012.

3. Corporate governance

- Annual Governance Statement (AGS).
- Explanatory foreword.

4. Pensions

- The impact of 2013/14 changes to the Local Government pension Scheme (LGPS).
- There have been changes to IAS 19 and the financial reporting disclosures required for pension costs.

5. Financial Pressures

- Managing service provision with less resource.
- Progress against savings plans.

6. Other requirements

- The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion.
- The Council completes grant claims and returns on which audit certification is required.

Our response

- We will ensure that the Council complies with the requirements of the CIPFA Code of Practice and business rate appeals through discussions with management and our substantive testing.
- We will ensure that schools are accounted for correctly and in line with the latest guidance.

- We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate.

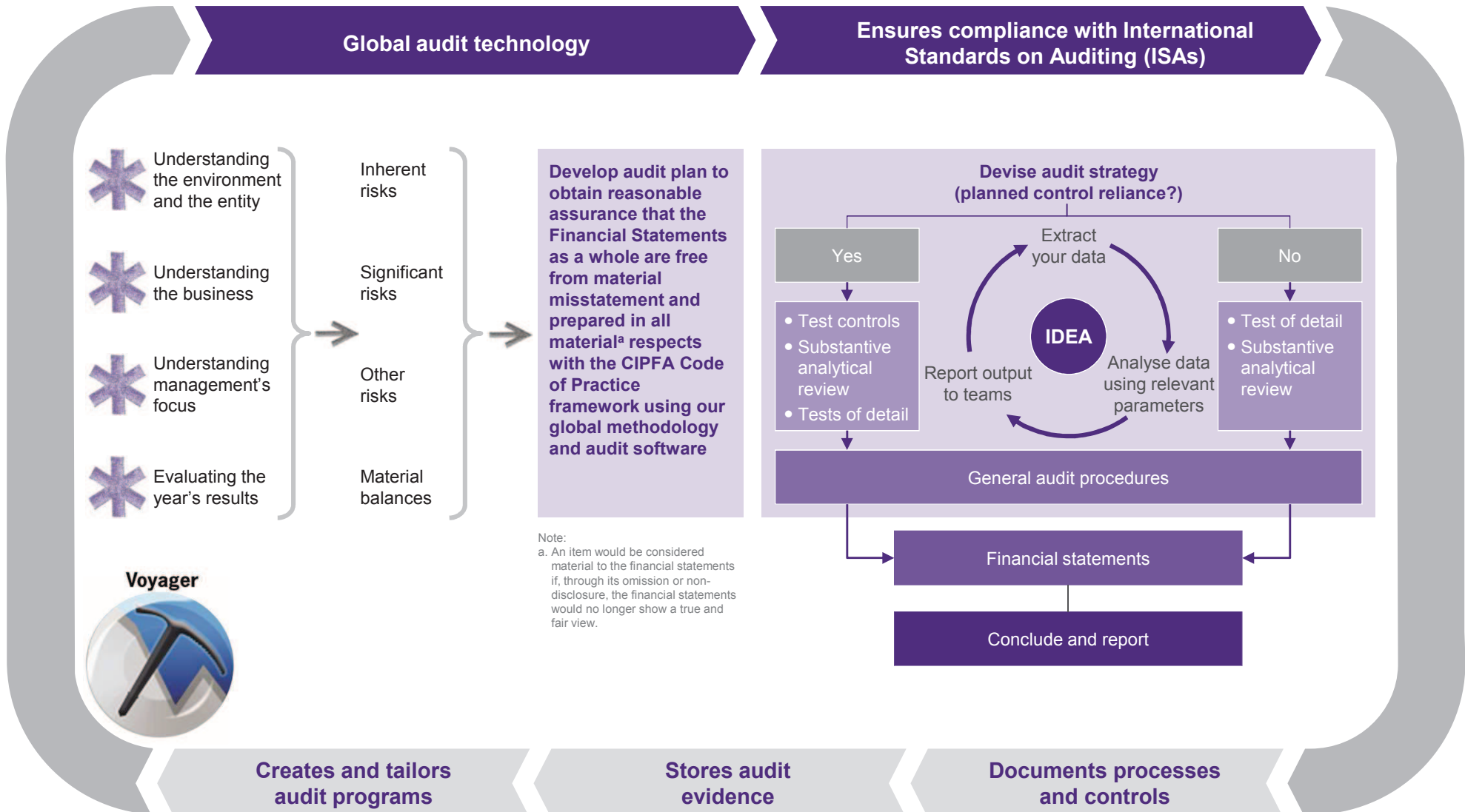
- We will review the arrangements the Council has in place for the production of the AGS.
- We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge.

- We will review how the Council has dealt with the impact of the 2013/14 changes through our meetings with senior management.
- We will ensure that the Council complies with the updated pension disclosure requirements of the CIPFA Code of Practice.

- We will review the Council's performance against the 2013/14 budget, including consideration of performance against the savings plan.
- We will undertake a review of Financial Resilience as part of our VFM conclusion.

- We will carry out work on the WGA pack in accordance with requirements.
- We will certify grant claims and returns in accordance with Audit Commission requirements.

Our audit approach



Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<p>Work completed to date:</p> <ul style="list-style-type: none"> Review of revenue recognition policies <p>Further work planned:</p> <ul style="list-style-type: none"> Testing of revenue recognition policies Performance of substantive testing on material revenue streams
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<p>Work completed to date:</p> <ul style="list-style-type: none"> Discussion of accounting estimates, judgments and decisions made by management Testing of journal entries to December 2013 <p>Further work planned:</p> <ul style="list-style-type: none"> Review of accounting estimates, judgments and decisions made by management Testing of journal entries for January 2014 to March 2014 Review of unusual significant transactions

Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315). In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other reasonably possible risks	Description	Work completed to date	Further work planned
Property, Plant & Equipment (PPE)	<p>PPE activity not valid</p> <p>Revaluation measurements not correct</p> <p>PPE improperly expensed</p>	<ul style="list-style-type: none"> We have documented the processes and controls in place around the accounting for Property, Plant and Equipment. We have carried out a walkthrough test to confirm the operation of controls around completeness and valuation which we consider to present a risk of material misstatement to the financial statements. 	<p>Interim visit:</p> <ul style="list-style-type: none"> Obtain a schedule summarising the capitalisation policies and review for appropriateness and consistency of accounting method with the prior year. Agreement of significant assets to deeds / ownership documentation. Performance of sample testing on additions and disposals. Consideration of 2013/14 capital programme and identification of reasons for any slippage. <p>Final accounts visit:</p> <p>Tests of detail on property, plant & equipment included in the financial statements including:</p> <ul style="list-style-type: none"> Agreement of valuation information disclosed to asset register and valuer's report. Agreement of disclosures in the financial statements to the asset register. Agreement of how schools balances have been accounted for. Agreement of a sample of operating and finance leases to supporting documentation..

Other risks identified - continued

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> We have documented the processes and controls in place around the accounting for operating expenses. We have carried out a walkthrough test to confirm the operation of controls around completeness which we consider to present a risk of material misstatement to the financial statements. 	<p>Interim visit:</p> <ul style="list-style-type: none"> Documentation of the processes in place for month and year end accruals. Collation of payment information to inform our year end trend analysis. Testing of a sample of operating expenses covering the period 1 April 2013 to 31 January 2014 to ensure they have been accurately accounts for and are in the correct period. <p>Final accounts visit:</p> <p>Tests of detail on operating expenses included in the financial statements including:</p> <ul style="list-style-type: none"> Testing of the completeness of the subsidiary interfaces and control account reconciliations. Review of trend analysis of payments. Consideration of any unrecorded liabilities and agreement to supporting documentation. Consideration of any prepayments and agreement to supporting documentation. Cut off testing of purchase orders and goods received notes (both before and after the year end). Testing of a sample of operating expenses covering the period 1 February 2014 to 31 March 2014 to ensure they have been accurately accounts for and are in the correct period.
Welfare Expenditure	Welfare benefit expenditure improperly computed	<ul style="list-style-type: none"> We have documented the processes and controls in place around the accounting for welfare expenditure. We have carried out a walkthrough test to confirm the operation of controls around valuation which we consider to present a risk of material misstatement to the financial statements. 	<p>Final accounts visit:</p> <ul style="list-style-type: none"> Testing in accordance with the methodology required to certify the housing benefit subsidy claim (HB COUNT process).

Other risks identified - continued

Other reasonably possible risks	Description	Work completed to date	Further work planned
Employee remuneration	<p>Employee remuneration accrual understated</p> <p>Payroll tax obligations understated</p>	<ul style="list-style-type: none"> We have documented the processes and controls in place around the accounting for employee remuneration. We have carried out a walkthrough test to confirm the operation of controls around completeness which we consider to present a risk of material misstatement to the financial statements. 	<p>Interim visit:</p> <ul style="list-style-type: none"> Collation of monthly payroll information to inform our year end trend analysis. Testing of a sample of employee remuneration payments covering the period 1 April 2013 to 31 January 2014 to ensure they have been accurately accounted for in the correct period. Collation of information on Senior Officers disclosures and any termination payments known. <p>Final accounts visit:</p> <p>Tests of detail on employee remuneration included in the financial statements including:</p> <ul style="list-style-type: none"> Testing of the completeness of the payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and financial statements. Review of monthly trend analysis of the total payroll. Testing of a sample of employee remuneration payments covering the period 1 February 2014 to 31 March 2014 to ensure they have been accurately accounted for in the correct period. Testing of a sample of payments made in April and May 2014 to ensure payroll expenditure is recorded in the correct year. Review of IAS 19 disclosures and agreement to actuarial information. Agreement of employee remuneration disclosures in the financial statements to supporting evidence, in particular chief officers' remuneration and any termination payments that have occurred in year.

Other risks identified - continued

Other reasonably possible risks	Description	Work completed to date	Further work planned
Housing Rent Revenue Account	Revenue transactions not recorded	<ul style="list-style-type: none"> We have documented the processes and controls in place around the accounting for Housing Rent Revenue Account. We have carried out a walkthrough test to confirm the operation of controls around completeness which we consider to present a risk of material misstatement to the financial statements. 	<p>Interim visit:</p> <ul style="list-style-type: none"> Performance of predictive analytical review on dwelling rents to confirm our expectation of the rental figure in the financial statements. <p>Final accounts visit:</p> <p>Tests of detail on the housing rent revenue account included in the financial statements including:</p> <ul style="list-style-type: none"> Agreement of housing stock numbers to supporting records. Review of year end reconciliations between the rent system and the General Ledger. Agreement of disclosures in the financial statements to the pooling of housing capital receipts return. Review of revenue recognition policies for rental income. Review of the level of credit balances on rent accounts compared to previous years, and corroborate explanations for any significant movements. Review of housing revenue account debtors for any large or unusual balances. Agreement of housing revenue account disclosures in the financial statements to supporting information.

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	<ul style="list-style-type: none"> We have reviewed internal audit's overall arrangements in accordance with auditing standards. Our work has not identified any issues which we wish to bring to your attention. We also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities. 	<ul style="list-style-type: none"> Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council. Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
Walkthrough testing	<ul style="list-style-type: none"> We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding. 	<ul style="list-style-type: none"> Our work has not identified any weaknesses which impact on our audit approach.
Journal entry controls	<ul style="list-style-type: none"> We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements. To date we have undertaken detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention. 	<ul style="list-style-type: none"> Our testing of journals in the first nine months of the year did not identify any significant issues. We will undertake detailed testing on the final three months of the financial year as part of the audit of the financial statements.
Review of Information Technology controls	<ul style="list-style-type: none"> We have undertaken our initial assessment of your information technology controls which informs the level of review undertaken by our IT department. 	<ul style="list-style-type: none"> Our IT colleagues will undertake their review of your information technology controls in April which will further inform our audit approach.

Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
West Mercia Energy	No	Analytical	N/A	Desktop review performed by Grant Thornton
Shropshire Towns and Rural Housing (STARH)	No	Analytical	N/A	Desktop review performed by Grant Thornton
South Shropshire Leisure Limited	No	Analytical	N/A	Desktop review performed by Grant Thornton
ip&e Ltd	No	Analytical	N/A	Desktop review performed by Grant Thornton

Value for money

Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

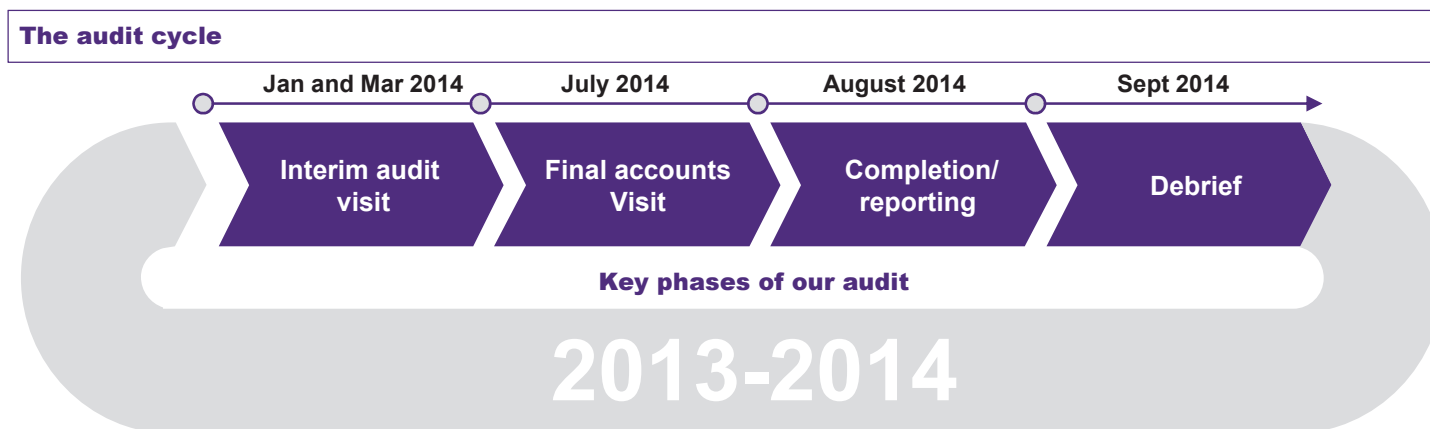
VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- A detailed risk assessment which will support our overall conclusion.
- A review of the Council's financial resilience for 2013/14 and going forward. This will include consideration of the adequacy of the Council's medium term and longer term financial planning.
- A review of the governance and control arrangements which are in place in light of the qualified Head of Internal Audit Opinion in 2012/13 and reduced staffing capacity following a series of redundancies.
- Review of the Council's involvement in the Better Care Fund arrangements.
- Consideration of the Council's progress in implementing the Welfare Reform arrangements.

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

Key dates



Date	Activity
January 2014	Planning
January 2014 and March 2014	Interim site visit
March 2014	Presentation of audit plan to Audit Committee
July 2014	Year end fieldwork
August 2014	Audit findings clearance meeting with Head of Finance, Governance and Assurance & the Chief Accountant
September 2014	Report audit findings to those charged with governance
September 2014	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	177,390
Grant certification	21,100
Total fees (excluding VAT)	198,490

Fees for other services

Service	Fees £
Our valuations department has completed work for the Head of Finance, Governance and Assurance	8,000 + VAT

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

Independence and ethics

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Ethical standards and International Standards on Auditing (ISA) 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you:

- An employee of Grant Thornton UK LLP is now a Parish Councillor in Shropshire with effect from October 2013. This employee will not be involved in the audit, grant certification work or any non audit services work that is carried out.
- An employee of Grant Thornton UK LLP previously worked at Shropshire Council with employment ceasing in July 2011. We have put in place sufficient safeguards to ensure that our independence is maintained regarding this employee.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		✓
Details of safeguards applied to threats to independence		✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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Informing the audit risk assessment for Shropshire Council

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Year ended 31 March 2014

March 2014

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Agenda Item 14

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Purpose

The purpose of this report is to contribute towards the effective two-way communication between auditors and the Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards

Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit Committee's oversight of the following areas:

- Fraud
- Laws and regulations
- Going concern
- Related party transactions
- Accounting estimates

This report includes a series of questions on each of these areas and the response we have received from the Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

Fraud

Issue

Matters in relation to fraud

ISA (UK&I) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls. As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud
- process for identifying and responding to risks of fraud, including any identified specific risks
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.

Fraud risk assessment

Question	Management response
<p>Has the Council assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?</p>	<p>Fraud risks are identified by Internal audit in their audit plan, and all fundamental systems which feed the statement of accounts are reviewed annually to ensure that controls in place are satisfactory. The statement of accounts is also subject to an analytical review each year which considers any significant or material changes to figures, to confirm that the accounts are presented without such misstatements.</p>
<p>What processes does the Council have in place to identify and respond to risks of fraud?</p>	<p>Specific fraud risks are identified in the audit planning process; in identifying key controls to be assessed as part of an audit; in targeted fraud prevention work and by raising awareness of the potential for fraud with staff, members and people working and involved with the Council. This is done through the Counter Fraud, Bribery and Anti-Corruption Strategy, Speaking up about Wrongdoing Policy, online Meritec training package and supporting manual training packages.</p> <p>In addition systems and processes are designed by managers and users to minimise the risk of fraud and corruption. Areas where fraud is more likely to occur reflect nationally targeted areas including procurement with duplicate invoices or contractual frauds; time and resources abuse, payroll and expense claims; housing and council tax benefits; theft of council income; sub-letting of housing property and abuse of subsidised schemes, such as blue badges.</p>
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p>No areas with a high risk of material fraud have been identified. If any risks are identified, recommendations for mitigation are made to managers who then implement as necessary.</p>
<p>Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?</p>	<p>Internal controls, including whether segregation of duties exist, are reviewed by Internal Audit as part of their routine and investigative work; exceptions are reported to managers and inform the Internal audit opinion.</p>
<p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>There is always the potential for an override of controls within systems, however our control framework has established secondary compensatory controls in place that would identify any such override taken place. Financial reporting is produced and balanced from the financial system, and the reporting hierarchy allows for checks to be performed throughout the process, for example by the S151 Officer, Senior Management Team and Cabinet.</p>

Fraud risk assessment

Question	Management response
Are there any areas where there is a potential for misreporting override of controls or inappropriate influence over the financial reporting process?	No, as detailed above, there are compensatory controls in place to flag any overrides of controls.
How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud? What arrangements are in place to report fraud issues and risks to the Audit Committee?	The Internal Audit Risk Based Plan is approved by Audit Committee before commencement each year. Internal Audit complete a robust review of internal controls on a risk basis and reports regularly to Audit Committee. Audit Committee are informed of the audit opinions and seek management reassurance on the improvement of controls where the consequences are considered high risk. At each meeting, Audit Committee members receive an update on instances of actual, suspected or alleged fraud investigations that have occurred since the last meeting and their outcomes.
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	The Council shares the whistleblowing policy with the public and all contractors. The terms and conditions within Council contracts also include ethical considerations for contractors and suppliers. The vision and values for the Council identify the need for staff to act with integrity in all the undertakings we make and this is tested and reviewed via team meetings and engagement surveys undertaken across the whole organisation.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	Staff are encouraged to report their concerns about fraud as set out in the Speaking up about wrongdoing (whistleblowing) policy and the Council's Counter Fraud, Bribery and Anti-Corruption Strategy.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	None identified.
Are you aware of any instances of actual, suspected or alleged, fraud within the Council as a whole since 1 April 2013?	All investigations of fraud are reported to the Audit Committee with internal audit present to consider the implications of the fraud.

Laws and regulations

Issue

Matters in relation to laws and regulations

ISA (UK&I) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	Each year the Council's corporate governance arrangements and risk management arrangements are reviewed and reported upon by Internal Audit and Risk Management teams. The Council has a robust corporate governance and risk management process in place.
How does management gain assurance that all relevant laws and regulations have been complied with?	The Council has a Monitoring Officer and S151 Officer who provide assurance that all relevant laws and regulations have been complied with. Also all Cabinet reports now have a standard section detailing any legislative issues. Any non compliance is reported to management via Internal Audit reports and appropriate plans are put in place to remedy such issues.
How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	All reports on the Council's corporate governance arrangements are presented to Audit Committee to provide assurance that the appropriate arrangements are in place and that they are working well.
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2013, or earlier with an on-going impact on the 2013/14 financial statements?	The Section 151 Officer is not aware of any instances of non-compliance with relevant laws and regulations in 2013/14.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	Risk management, insurance and legal work together to identify and evaluate any potential litigation or claims against the Council. Any potential liabilities are highlighted each year in the Council's Statement of Accounts.
Is there any actual or potential litigation or claims that would affect the financial statements?	The Section 151 Officer is not aware of any actual or potential litigation or claims that would affect the financial statements.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No such reports have been received.

Going concern

Issue

Matters in relation to going concern

ISA (UK&I) 570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

The code of practice on local authority accounting requires an authority's financial statements to be prepared on a going concern basis. Although the Council is not subject to the same future trading uncertainties as private sector entities, consideration of the key features of the going concern provides an indication of the Council's financial resilience.

As auditor, we are responsible for considering the appropriateness of use of the going concern assumption in preparing the financial statements and to consider whether there are material uncertainties about the Council's ability to continue as a going concern that need to be disclosed in the financial statements. We discuss the going concern assumption with management and review the Council's financial and operating performance.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
Does the Council have procedures in place to assess the Council's ability to continue as a going concern?	The Financial Strategy considers the financial position of the authority over the short, medium and long term and is designed to ensure that the Council continues as a going concern. Internal Audit's work plan provides an on-going review of key elements of the Strategy to ensure its delivery or to highlight at an early stage any unforeseen risks.
Is management aware of the existence of other events or conditions that may cast doubt on the Council's ability to continue as a going concern?	No events or conditions have been identified.
Are arrangements in place to report the going concern assessment to the Audit Committee?	The Audit Committee consider a number of financial reports which provide them with assurance that the Council continues as a going concern. These include the Statement of Accounts, Revenue and Capital outturn reports including analysis of reserves held, and Treasury management Strategies. They also receive reports stating that all controls and risks have been managed appropriately and as Members will have access to all reports produced across the Council whether public or exempt.
Are the financial assumptions (eg future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?	The Financial Strategy considers the financial assumptions for the Council over the short, medium and long term. Each year an exercise considers the robustness of estimates and the adequacy of reserves and provisions which provides assurance to members that the Council's budget plans have been based on the best available information and assumptions. This also provides Audit Committee and Scrutiny Panels, as well as Cabinet and Full Council, the opportunity to comment upon and challenge the approaches taken and implications highlighted. Financial monitoring during the course of the year evaluates any variations from budget plans set out in the Financial Strategy and Budget Book, and also considers the effects that any variance has on the Council's General Fund Balance. This is monitored on a monthly basis and the implications and impacts for future years are updated within the Financial Strategy, reported to Cabinet three times during the year.

Going concern considerations

Question	Management response
Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	The Financial Strategy considers any policy or legislative changes affecting the Council in the short, medium and long term and identifies any financial implications arising from such changes and the Council's plans for mitigation.
Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	Although assumptions are regularly challenged by the Audit Committee, no such issues have been raised.
Does a review of available financial information identify any adverse financial indicators including negative cash flow? If so, what action is being taken to improve financial performance?	Financial monitoring has not identified any such adverse financial indicators.
Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?	<p>The Council have the relevant expertise to deliver the Council's strategy and objectives. Despite the on-going voluntary redundancy programme, arrangements have been made to retain appropriate experience.</p> <p>The Council also has a performance review process in place to identify any skill requirements within the staff base and identify appropriate training and support in addressing any gaps in knowledge.</p>

Related parties

Issue

Matters in relation to related parties

ISA (UK&I) 550 covers auditor responsibilities relating to related party transactions.

Many related party transactions are in the normal course of business and may not carry a higher risk of material misstatement. However in some circumstances the nature of the relationships and transaction may give rise to higher risks.

For local government bodies, the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires compliance with IAS 24: related party disclosures. The Code identifies the following as related parties to local government bodies:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council (i.e. subsidiaries)
- associates
- joint ventures in which the Council is a venturer
- an entity that has an interest in the Council that gives it significant influence over the Council
- key officers, and close members of the family of key officers
- post-employment benefit plan (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

The Code notes that, in considering materiality, regard should be had to the definition of materiality, which requires materiality to be judged from the viewpoint of both the Council and the related party.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related party considerations

Question	Management response
Who are the Council's related parties?	The Council's related parties include Central Government; organisations on which it is represented by members including Severnside Housing, West Mercia Energy and Shropshire Fire and Rescue Service; and entities which are controlled or significantly influenced by the Authority which includes the Shropshire County Pension Fund, South Shropshire Leisure Limited and Shropshire Towns and Rural Housing.
What are the controls in place to identify, account for, and disclose, related party transactions and relationships?	A number of arrangements are in place for identifying the nature of a related party and reported value including: <ul data-bbox="741 699 1973 836" style="list-style-type: none">• Maintenance of a Register of interests for Members, a register for pecuniary interests in contracts for Officers and Senior Managers requiring disclosure of related party transactions.• Annual return from senior managers/officers requiring confirmation that read and understood the declaration requirements and stating details of any known related party interests.

Estimates

Issue

Matters in relation to Accounting Estimates

Local authorities need to apply appropriate estimates in the preparation of their financial statements. Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

We need to obtain an understanding of:

- how management identifies the transactions, events and conditions that give rise to the need for an accounting estimate.
- how management actually make the estimates, including the control procedures in place to minimise the risk of misstatement.

We need to be aware of all estimates that the Council is using as part of its accounts preparation. These are set out overleaf. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

Estimate considerations

Estimate	Method	Controls used to identify estimates	Use of an expert	Underlying assumptions - Assessment of degree of uncertainty - Consideration of alternative estimates	Change in accounting method in year?
Property plant & equipment valuations	<p>Full valuation involving an inspection is carried out every 5 years. An impairment and valuation review is carried out as a desk exercise for properties not valued in the year.</p> <p>Other assets are valued on the basis of depreciated replacement cost for specialised properties where there is no market-based evidence of fair value. Depreciated historic cost is used for vehicles, plant and equipment. Historic cost is used for infrastructure, community assets and assets under construction.</p>	Capital Accountant notifies the valuer of the program of rolling valuations or of any conditions that warrant an interim re-valuation.	Use Property Services (RICS valuer) for buildings valuations.	Valuations are made in-line with RICS guidance – reliance on expert. Assumptions are set out in valuer's report.	No
Depreciation & Amortisation	Depreciation is provided for all fixed assets with a finite useful life on a straight-line basis	Consistent application of depreciation method across all assets	No	The asset is not depreciated until it is available for use and each significant part of property, plant and equipment is depreciated separately. Asset lives are determined at acquisition/revaluation. Depreciation is calculated on a straight line basis. The asset lives are recorded in the asset register.	No

Estimate considerations

Estimate	Method	Controls used to identify estimates	Use of an expert	Underlying assumptions - Assessment of degree of uncertainty - Consideration of alternative estimates	Change in accounting method in year?
Estimated remaining useful lives of PPE	<p>The following useful lives have been used in the calculation of depreciation:</p> <ul style="list-style-type: none"> • Council Dwelling – Major Repairs Allowance has been used as an estimate of depreciation. • Other Land and Buildings – average 10 to 60 years range. • Vehicles, Plant, Furniture & Equipment – average 5 years. • Infrastructure – average 40 years 	<p>Specific asset lives applied to buildings. Consistent asset lives applied to each asset category.</p>	<p>Use Property Services (RICS valuer) for buildings valuations. Other assets considered by Property Services Manager and capital accountant</p>	<p>The length of the life is determined at the point of acquisition or revaluation. Major components are depreciated separately.</p>	No

Estimate considerations

Estimate	Method	Controls used to identify estimates	Use of an expert	Underlying assumptions - Assessment of degree of uncertainty - Consideration of alternative estimates	Change in accounting method in year?
Impairments	Assets are assessed at the year-end for any indication that an asset may be impaired. An impairment and valuation review is carried out as a desk exercise for properties not valued in the year. The impairment of Housing Revenue Account assets is subject to an annual review of value in line with the requirements of the CLG; this is based on the previous December's house price statistics published by CLG. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. This assessment is made by the internal valuer for land and buildings and by Property Services Manager and capital accountant (and other relevant officers for the asset type) for other assets	Use Property Services (RICS valuer) for buildings valuations.	Valuations are made in-line with RICS guidance.	No
Bad Debt Provision.	A provision is estimated using a proportion basis of an aged debt listing.	The finance team obtain the aged debt listings for the sales ledger and the aged debt lists for Council Tax, HRA rents and business rates to calculate the provision.	No	Consistent proportion used across aged debt as per the Code.	No

Estimate considerations

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Estimate	Method	Controls used to identify estimates	Use of an expert	Underlying assumptions - Assessment of degree of uncertainty - Consideration of alternative estimates	Change in accounting method in year?
Accruals	Finance team collate accruals of expenditure and income. Activity is accounted for in the financial year that it takes place, not when money is paid or received.	Review financial systems and question service managers to identify where goods have been received but not paid for.	No	Accruals for income and expenditure often based on known values. Where accruals are estimated the latest available information is used.	No
Provisions for liabilities.	Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. Provisions are charged as an expense to the appropriate service line in the CI&ES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties	Charged in the year that the Council becomes aware of the obligation.	No	Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Council	No

Estimate considerations

Estimate	Method	Controls used to identify estimates	Use of an expert	Underlying assumptions - Assessment of degree of uncertainty - Consideration of alternative estimates	Change in accounting method in year?
Non adjusting events - events after the BS date	S151 Officer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date this is an un-adjusting event. A note to the accounts is included, identifying the nature of the event and where possible estimates of the financial effect.	The S151 officer is notified by relevant managers.	This would be considered on individual circumstances.	This would be considered on individual circumstance.	No
PFI finance lease liability	The operators financial model is used as the basis for calculating the liability.	The operators financial model is used as the basis for calculating entries and this is reviewed by Finance on an annual basis.	No	The construction elements of the annual unitary charge is accounted for as a finance lease. Minimum lease payments are made under these leases and assets recognised under these leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.	No
Pension liability	The Council is an admitted body to the Shropshire County Local Government Pension Scheme. The administering authority (the Unitary Council) engage the Actuary who provides the estimate of the pension liability.	Payroll data is provided to the Actuary. Management reconcile this estimate of contributions to the actuals paid out in the year.	Consulting actuary	As disclosed in the actuary's report. Complex judgements including the discount rate used, rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	No



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Protecting the Public Purse

Fraud Briefing 2013

Shropshire Council

15



Agenda

- Introduction and purpose of your Fraud Briefing
- *Protecting the Public Purse (PPP) 2013* report – national picture
- Interpreting fraud detection results
- The local picture
- Questions?

And do not forget

- Checklist for those charged with governance (Appendix 2 of PPP 2013)*
- Questions councillors may want to ask/consider (Appendix 3 of PPP 2013)*

Introduction

- Fraud costs local government in England over £2 billion per year (*source: National Fraud Authority*)
- Fraud is never a victimless crime
- Councillors have an important role in the fight against fraud



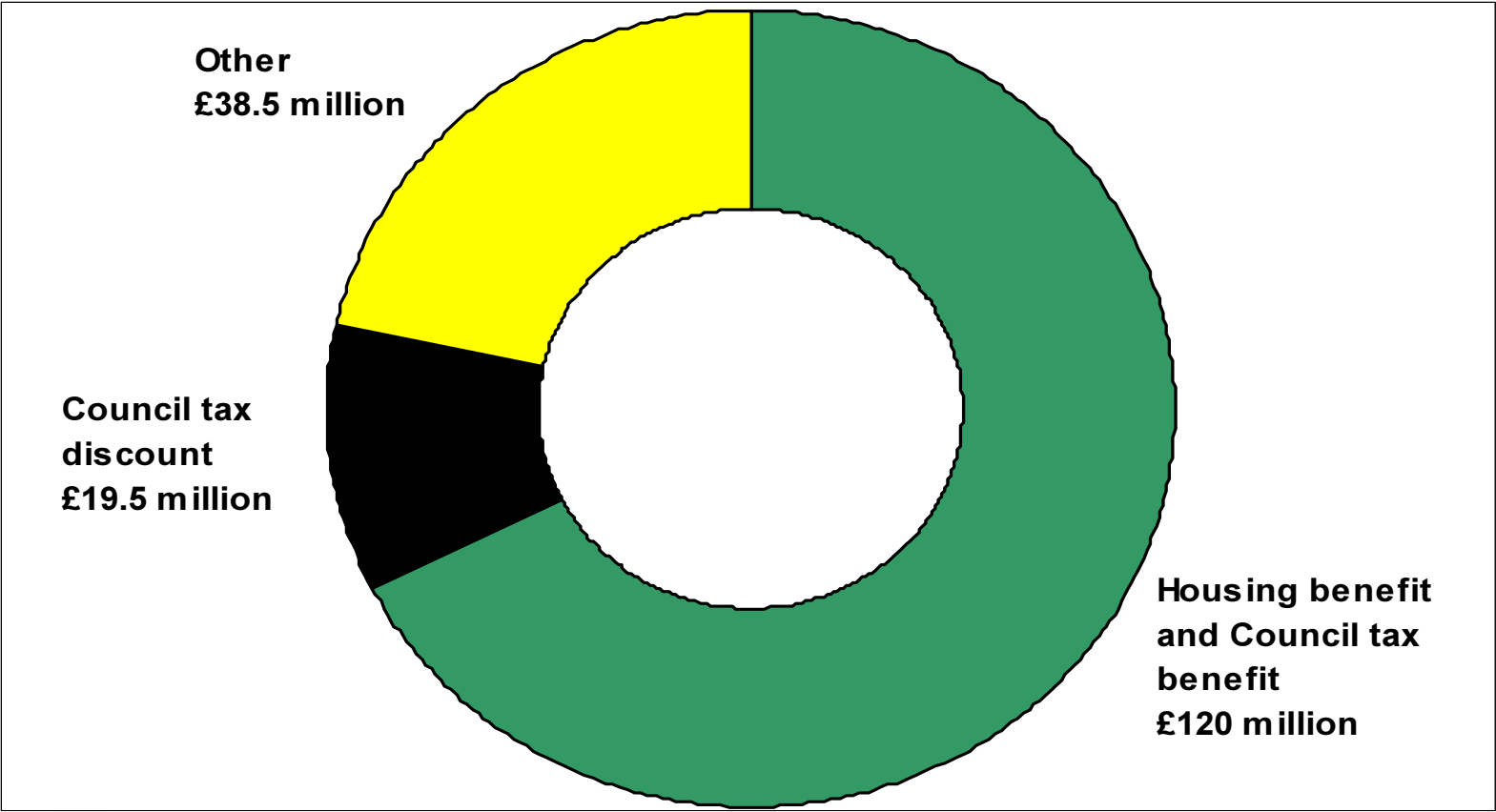
Purpose of Fraud Briefing at your council

- Opportunity for councillors to consider fraud detection performance, compared to similar local authorities
- Reviews current counter fraud strategy and priorities
- Discuss local and national fraud risks
- Reflect local priorities in a proportionate response to those risks

Your council is compared with the metropolitan districts and unitary authorities of the west midlands, east midlands and east of England regions

National Picture 2012/13

Total cases detected 107,000, with a value of £178 million (excluding social housing fraud)



Nationally, the number of detected frauds has fallen by 14% since 2011/12 and the value by less than 1%



Interpreting fraud detection results

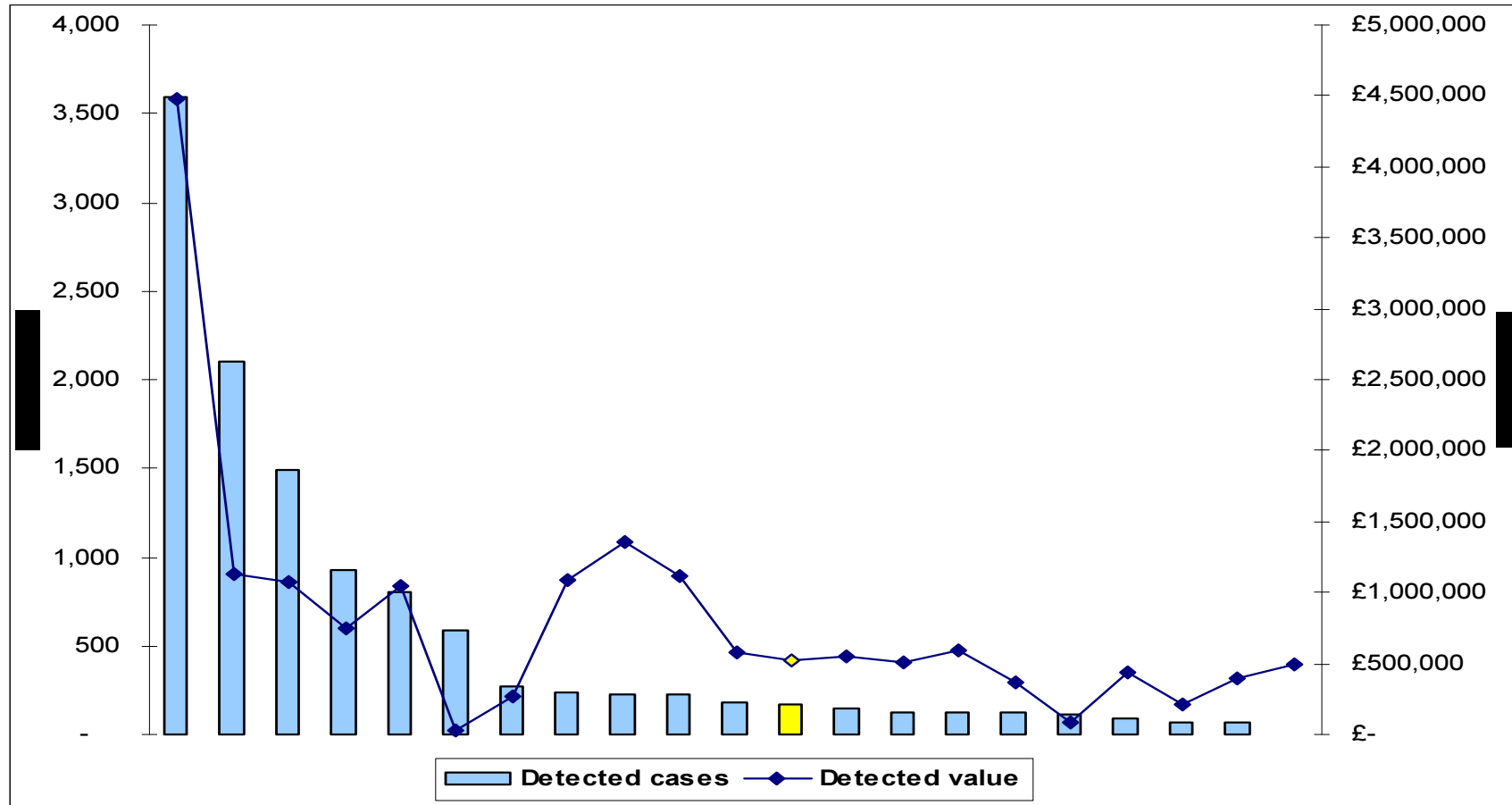
- Contextual and comparative information needed to interpret results
- Detected fraud is indicative, not definitive, of counter fraud performance (Prevention and deterrence should not be overlooked)
- No fraud detected does not mean no fraud committed (Fraud will always be attempted and even with the best prevention measures some will succeed)
- Councils who look for fraud, and look in the right way, will find fraud (There is no such thing as a small fraud, just a fraud that has been detected early)

Your council is highlighted in yellow in the graphs that follow

The local picture

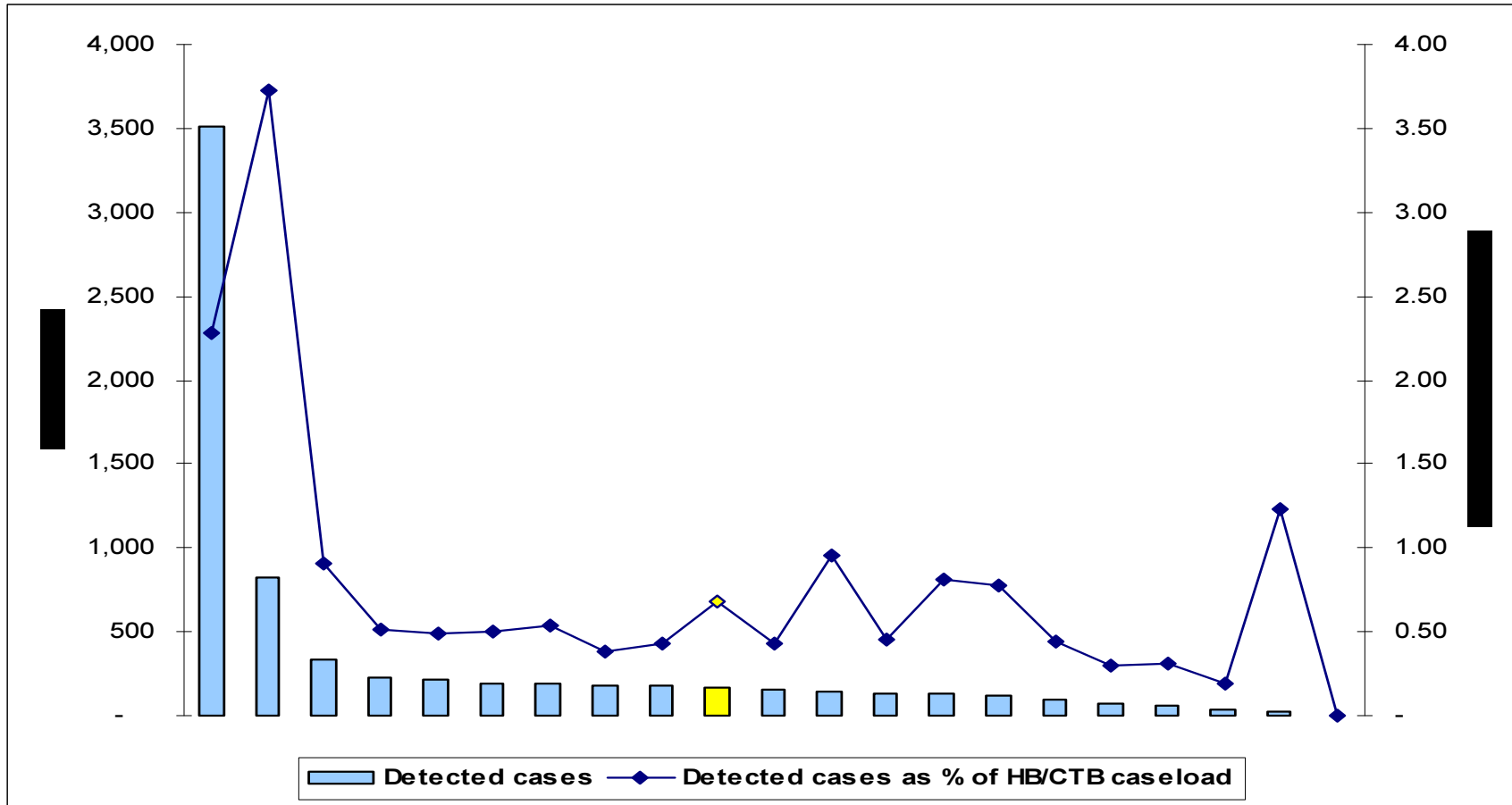
How your council compares to other Midlands and East of England metropolitan districts and unitary authorities

Total detected cases and value 2012/13 (excluding social housing fraud)



Shropshire detected: 174 cases, valued at £523,794

Midlands and East of England metropolitan districts and unitary authorities 2012/13
Housing benefit (HB) and Council tax benefit (CTB) fraud
Detected cases and detected cases as a percentage of HB/CTB caseload



Shropshire detected: 167 cases, valued at £520,794

Midlands and East of England average:

332 cases, valued at £698,296

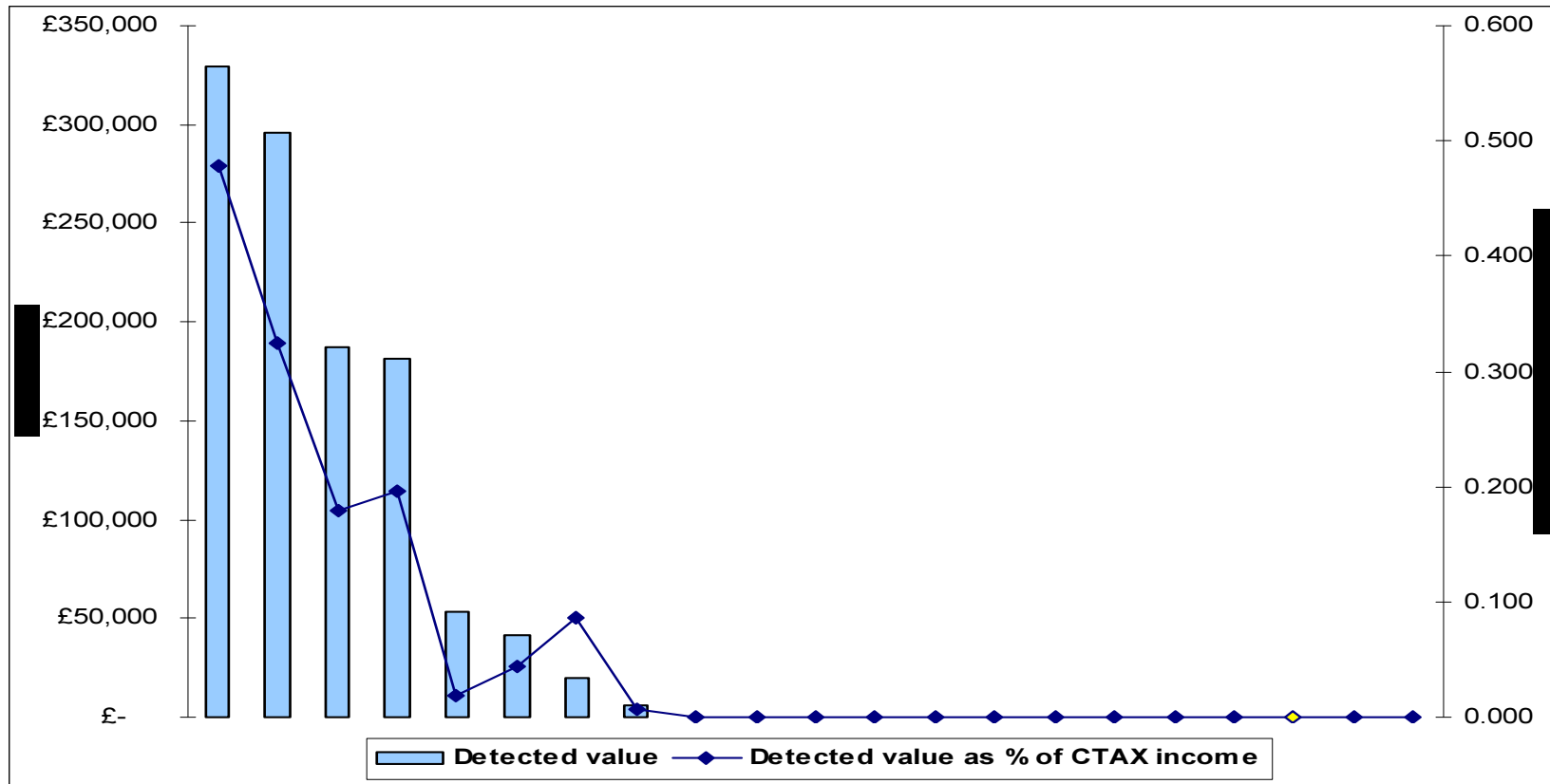


Midlands and East of England metropolitan districts and unitary authorities 2012/13

Council tax (CTAX) discount fraud

Detected value and detected value as a percentage of council tax income

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Shropshire detected: no cases

Midlands and East of England average:

188 cases, valued at £53,054

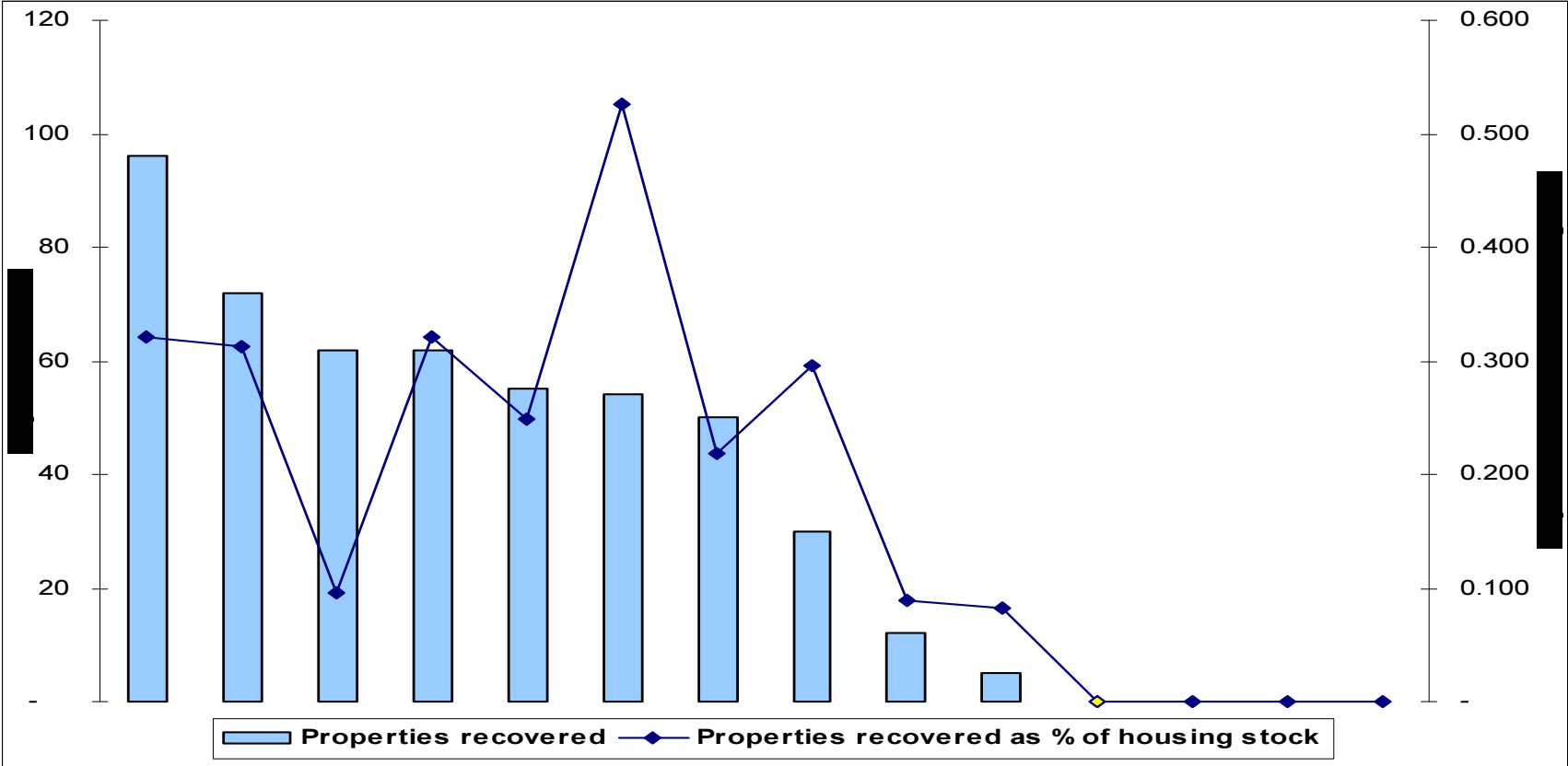


Midlands and East of England metropolitan districts and unitary authorities with housing stock 2012/13

Social housing fraud

Properties recovered and properties recovered as a percentage of housing stock

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Shropshire recovered: no properties

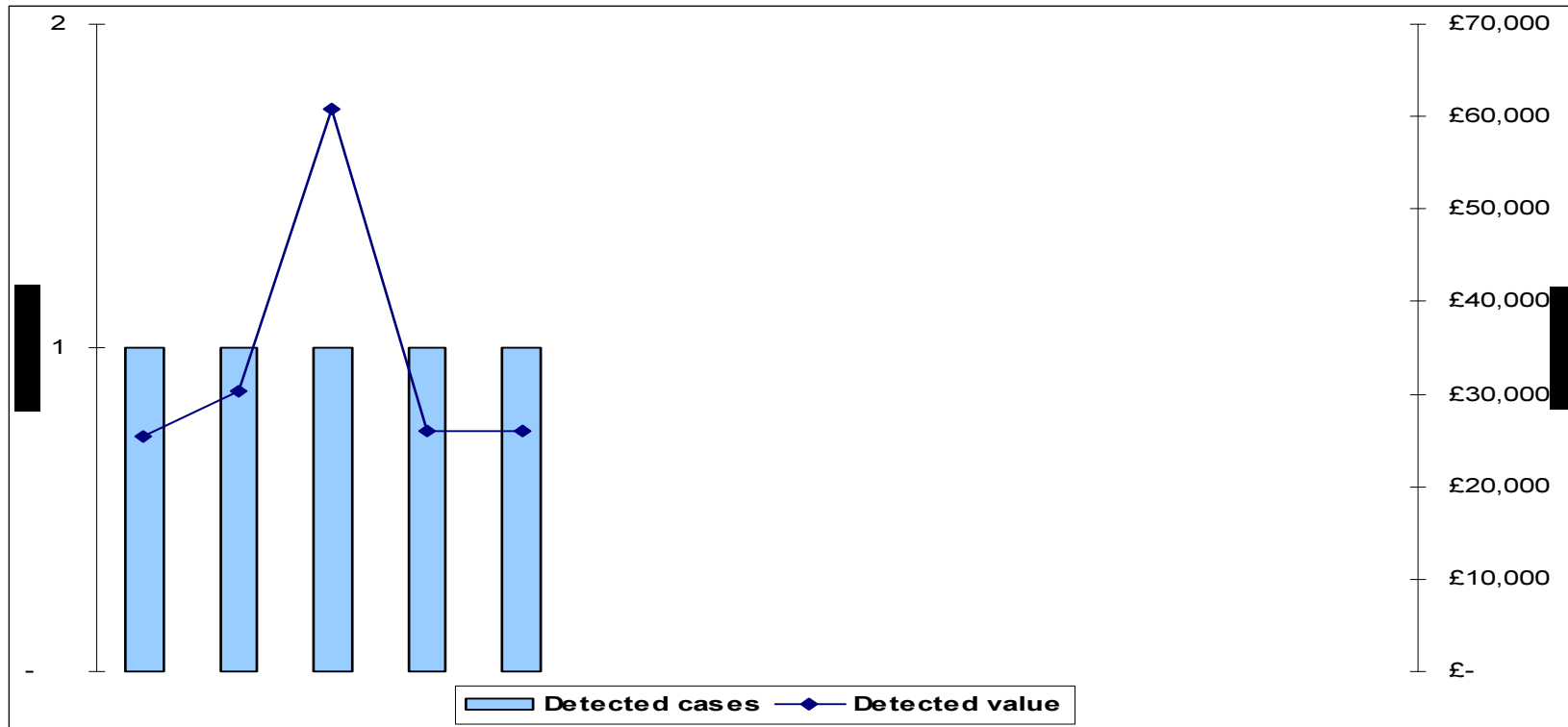
Midlands and East of England average: 36 properties



Midlands and East of England metropolitan districts and unitary authorities with housing stock 2012/13

Right to buy fraud

Detected cases and detected value



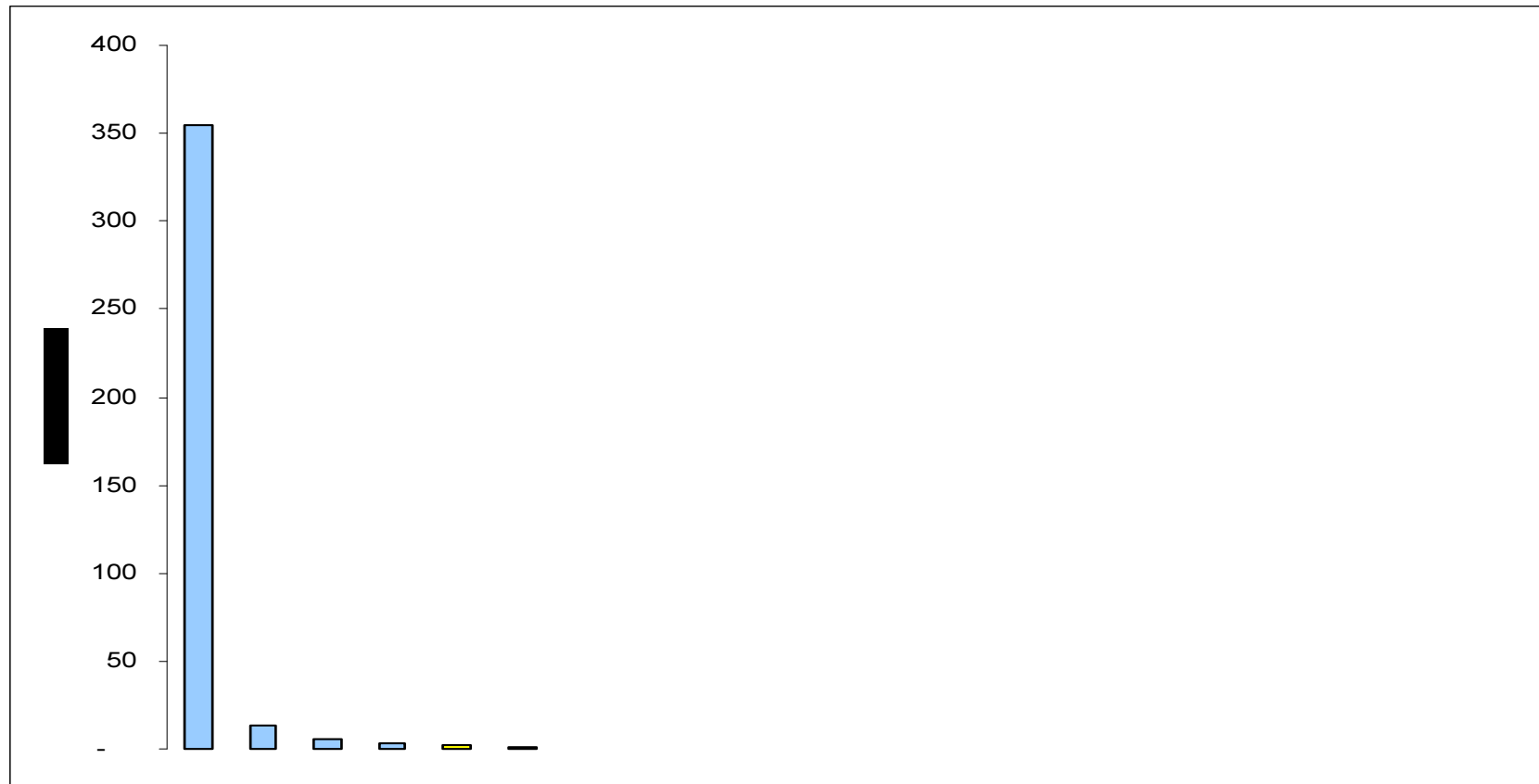
Shropshire detected: no cases

Midlands and East of England metropolitan districts and unitary authorities combined only detected a total of 5 cases, with a total value of £168,590

Midlands and East of England metropolitan districts and unitary authorities 2012/13

Disabled parking (Blue Badge) fraud

Detected cases



Shropshire detected: 2 cases

Midlands and East of England average: 18 cases

Shropshire Council

Other frauds

- Procurement: no cases
(Ave per Midlands and East of England Met & UA: 5 cases, valued at £963)
- Insurance: no cases
(Total Midlands and East of England Met & UA: 3 cases reported, valued at £53,500)
- Social care: no cases
(Total Midlands and East of England Met & UA: 5 cases, valued at £140,874)
- Economic & Third sector: no cases
(Total Midlands and East of England Met & UA: 1 case, valued at £34,730)
- Internal fraud: 7 cases, valued at £12,743
(Ave per Midlands and East of England Met & UA: 6 cases valued at £17,791)

*Correctly recording fraud levels is a central element in assessing fraud risk
It is best practice to record the financial value of each detected case*

Any questions?

