



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

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

**Committee:
Audit Committee**

Date: Thursday, 27 November 2014
Time: 9.30 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 Substitues

2 Disclosable Pecuniary Interests

Members are reminded that they must not participate in the discussion or voting on any matter in which they have a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate.

3 Minutes of the previous meeting held on the 18 September 2014 (Pages 1 - 6)

The Minutes of the meeting held on the 18 September 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 Management Report: Council Tax and Non Domestic Rates Performance Monitoring Report (Pages 7 - 16)

The report of the Revenues Customer and Contact Manager is attached.

Contact: Phil Weir 01743 256113

6 Treasury Strategy 2014/15 Mid Year Report (Pages 17 - 34)

The report of the Head of Finance, Governance and Assurance (Section 151) is attached.

Contact James Walton 01743 255011

7 Internal Audit: IT Update (Pages 35 - 42)

The report of the Engagement Officer is attached.

Contact Barry Hanson 01743 252089.

8 Annual Review of Counter Fraud, Bribery and Anti-Corruption Strategy (Pages 43 - 70)

The report of the Audit Services Manager is attached.

Contact Ceri Pilawski 01743 252027

9 Annual Review of the Audit Committee Terms of Reference (Pages 71 - 80)

The report of the Head of Finance, Governance and Assurance (Section 151) is attached.

Contact: James Walton 01743 255011

10 Audit Committee Self-Assessment of Good Practice (Pages 81 - 90)

The report of the Head of Finance, Governance and Assurance (Section 151) is attached.

Contact: James Walton 01743 255011

11 External Audit: Annual Audit Letter 2013/14 (Pages 91 - 100)

The report of the External Auditor is attached.

Contact: Emily Mayne 07880 456112

12 External Audit: Audit Committee Update Report (Pages 101 - 116)

The report of the External Auditor is attached.

Contact: Jon Roberts 0121 232 5410

13 Internal Audit Charter - Annual Review (Pages 117 - 130)

The report of the Audit Services Manager is attached.

Contact: Ceri Pilawski 01743 252027

14 Internal Audit Plan 2014/15 - Seven Month Review (Pages 131 - 142)

The report of the Audit Services Manager is attached.

Contact: Ceri Pilawski 01743 252027

15 Date and Time of Next Meeting

The next meeting of the Audit Committee will be held on the 23 February 2015 at 9.30 am in the Shrewsbury Room.

16 Exclusion of Press and Public

To RESOLVE that in accordance with the provision of Schedule 12A of the Local Government Act 1972, Section 5 of the Local Authorities (Executive Arrangements)(Meetings and Access to Information)(England) Regulations and Paragraphs 2, 3 and 7 of the Council's Access to Information Rules, the public and press be excluded during consideration of the following item.

17 Fraud and Special Investigation Update November 2014 (Exempted by Categories 2, 3 and 7) (Pages 143 - 146)

The report of the Engagement Auditor is attached.
Contact: Katie Williams (01743) 252087



Committee and Date

Audit Committee
27 November 2014

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 18 SEPTEMBER 2014 9.30 AM - 12.45 PM

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

Present

Councillor Brian Williams (Chairman)
Councillors Michael Wood (Vice Chairman), John Cadwallader, Chris Mellings and Mansel Williams

26 Apologies for Absence / Notification of Substitutes

26.1 There were no apologies for absence.

27 Disclosable Pecuniary Interests

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.

28 Minutes of the previous meeting held on the 26 June 2014

28.1 RESOLVED:

That the Minutes of the meeting held on the 26 June 2014 be approved and signed by the Chairman as a correct record subject to the inclusion of the following words in Minute 10.2: *'That the report of the Head of Finance, Governance and Assurance be approved as follows.'*

29 Public Questions

29.1 The Chairman indicated that a question had been submitted in accordance with the Council's Public Question scheme.

29.2 Mr Stephen Mulloy of Shrewsbury had submitted a question as follows: Can the Audit Committee give serious consideration to investigating all land sales that were conducted by a particular officer and that all land sales documents are kept for future investigation and made publically available on line. The Audit Service Manager responded and reported on the response by the Information Governance Officer – copies of which are attached to the signed minutes.

29.3 Mr Mulloy was invited to ask a supplementary question and in doing so asked whether other property sales could be added to paragraph 5.10 of Agenda item 12. In response, the Chairman indicated that this was not related to the submitted

question and assured Mr Mulloy that the Council's business was undertaken in accordance with the statutory legislation and in accordance with adopted good practice guidelines.

30 Management Report on Programme Management Controls and Risks including Contract Health Check

30.1 Consideration was given to the report of the Director of Commissioning - copy appended to the signed minutes - which provided a progress update on the Council's programme management controls and contract management activities.

30.2 Members attention was draw to the robustness of the governance arrangements for the change related activities arising from the Council's Business Plan and Financial Strategy. The Director of Commissioning sought to assure members that the Council was managing its risk in a consistent, cohesive and resilient manner.

30.3 RESOLVED:

(a) That the contents of the report by the Director of Commissioning be endorsed and accepted.

(b) That a further update be submitted to the Audit Committee in March 2015.

31 Management Report on Housing Benefit Overpayment Performance

31.1 Consideration was given to the report of the Revenues Manager - copy attached to the signed minutes - which set out the performance monitoring on the collection of income through Council Tax and National Non Domestic Rates for the year up to 31 July 2014.

31.2 RESOLVED:

That the contents of the report by the Revenues Manager be noted and accepted.

32 Management Report on the Implementation of IT Control Improvements and Risks

32.1 The Committee considered the report of the Head of Service Support, Marketing and Engagement - copy attached to the signed Minutes - which provided members with an update on work being undertaken to ensure that the ICT infrastructure was, and continued to be, fit for purpose, robust and PSN compliant. The Committee was advised that the ICT Governance Framework would in future be monitored by the Information Governance Group to ensure the appropriate measures were in place to meet legal and external compliance requirements and to ensure appropriate business continuity measures were in place.

32.2 RESOLVED:

That the progress made as outlined in the report noted.

33 Audited Annual Statement of Accounts 2013/2014

33.1 The Committee considered the report of the Head of Finance, Governance and Assurance (Section 151 Officer) – copy attached to the signed Minutes – which set out the final audited outturn position for the financial year 2013/14 which would be confirmed by Council on the 25th September 2014.

33.2 The Head of Finance, Governance and Assurance (Section 151 Officer) reported that there had been no material changes to the main accounting statement since the version considered by the Committee in June.

33.3 **RESOLVED:**

- (a) That the Statement of Accounts be accepted by the Audit Committee.
- (b) That the Head of Finance, Governance and Assurance (Section 151 Officer) be authorised to make any minor adjustments to the Statement of Accounts prior to the 30 September 2014.

34 **Annual Treasury Report 2013/2014**

34.1 The Head of Finance, Governance and Assurance (Section 151 Officer) presented his report – copy attached to the signed minutes – on the treasury activities for Shropshire Council for 2013/14. He indicated that the internal treasury team had outperformed their investment benchmark by 0.3% in 2013/14 and performance for the last three years was 0.5% per annum above benchmark.

34.2 **RESOLVED:**

That the position as set out in the report by the Head of Finance, Governance and Assurance (Section 151) on the Annual Treasury Report 2013/14 be accepted.

35 **Risk and Insurance Annual Report 2013/2014**

35.1 The Committee considered the report of the Risk Management Team Leader – copy attached to the signed Minutes – which set out the challenges and achievements accomplished by the Risk Management Team during 2013/14.

35.2 The Risk Management Team Leader advised that both the Risk Management and Insurance teams had been audited with no recommendations identified. It was noted that strategic risks remained a key area for the Risk Management Team and updates were regularly reported to the Senior Management Team and Cabinet.

35.3 **RESOLVED:**

That the report be received and noted.

36 **Internal Audit Plan 2014/15 Performance Report**

36.1 The Committee considered the report of the Audit Service Manager – copy attached to the signed Minutes – which set out an update to the draft Internal Audit Plan considered by the Committee in March. She indicated that several changes both in the Council's structure and available resources had necessitated changes to the draft plan. The refined Internal Audit Plan provided members of the Committee with an update on the work undertaken by the Internal Audit Team between the 1st April and the 17th August 2014.

36.2 The Audit Service Manager reported that despite a challenging start to the year, 28% of the revised audit plan had been completed to date which was in line with a year end target of 90%. Members of the Committee were informed that since April 2014, 37 final reports had been issued with 25 good and reasonable assurances, 1 unsatisfactory and a further 11 limited assurance opinions issued.

36.3 **RESOLVED:**

- (a) That the performance to date against the 2014/15 Audit Plan be noted.
- (b) That the adjustments to the 2014/15 Action Plan be confirmed to reflect the changing priorities as set out in Appendix A of the report.

37 Internal Audit Counter Fraud Management Update

37.1 The Committee considered the report of the Audit Engagement Officer - copy attached to the signed Minutes - which provided members with an update on the authority's counter fraud activities and initiatives. She stated that the active participation in counter fraud remained a positive and integral part of the Council's commitment to the detection and prevention of fraud.

37.2 **RESOLVED:**

That the report of the Audit Engagement Officer be endorsed and accepted.

38 External Audit: Shropshire Council Audit Findings 2013/2014

38.1 The Committee considered the report of the External Auditor – copy attached to the signed Minutes – which summarised the key matters arising from the audit of Shropshire Council's financial statements for the year ending 31 March 2014 which was substantially complete. The report highlighted the key messages arising from the audit of the Council's financial statements and the results of work undertaken to assess the Council's arrangements to secure value for money and use of resources. The External Auditor confirmed that he proposed to issue an unqualified opinion on the financial statements.

38.2 The External Auditor also reported on his intention to issue an unqualified value for money conclusion which would confirm that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

38.3 **RESOLVED:**

That the contents of the report be noted.

39 External Audit: Shropshire County Pension Fund Audit Findings Report 2013/2014

39.1 The Committee considered the report of the External Auditor – copy attached to the signed Minutes – which summarised the findings for the year ended 31 March 2014 on the audit of the Pension Fund financial statements.

39.2 The External Auditor informed the meeting that this report would be considered by the Pensions Committee and had been brought to the Audit Committee as an information item.

39.3 **RESOLVED:**
That the contents of the report by the External Auditor be noted.

40 **Date and Time of Next Meeting**

40.1 **RESOLVED:**
That the next meeting of the Audit Committee be held on Thursday, 27 November 2014 at 9.30 am in the Shrewsbury Room, Shirehall, Shrewsbury.

41 **Exclusion of Press and Public**

41.1 **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 item on the grounds that it involved the likely disclosure of exempt information defined by the categories specified against the items.

42 **Fraud and Special Investigation Update September 2014 (Exempted by Categories 2, 3 and 7)**

42.1 The Committee considered the exempt report of the Audit Engagement Officer on an update on the current fraud and special investigations undertaken by the Internal Audit Team.

42.2 **RESOLVED:**
That the contents of the exempt report of the Audit Engagement Officer be noted.

Signed (Chairman)

Date: 27 November 2014

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Committee and Date
Audit Committee
27 November 2014

COUNCIL TAX AND NON DOMESTIC RATES PERFORMANCE MONITORING REPORT

Responsible Officer Phil Weir
e-mail: phil.weir@shropshire.gov.uk Tel: (01743) 256113

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 (Business Rates). This report provides Members with performance monitoring information on the collection of this income for the year to 31 March 2014, and progress on the year to 31 March 2015.

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 Business Rates. 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. However, with effect from 1 April 2013 the regulations have changed and now any Council Tax payer can request payment over 12 months rather than 10 months. With effect from 1 April 2014 any business rate payer can also request payment over 12 months rather than 10 months.
3. The change in regulations affects collection of Council Tax and Business Rates in two ways. 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 and Business Rates payers fail to pay their February and March instalment it gives the Revenues Teams less time to take appropriate action before the end of the financial year.

Council Tax

4. The final in-year collection rate for Council Tax for the year 2013-14 was 98.1%. As explained below this compares well with the previous year's collection rate of 98.3%.

5. National statistics to monitor collection rate trends for 2013-14 were published in July 2014. These showed that the average national in-year collection rate for Council Tax was 97% in 2013-14, a drop of 0.4% from the previous year.
6. The final collection rate for Council Tax for 2013-14 was slightly down on the previous 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 billing 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.
7. Regarding the 2014-15 financial year, in the year to 3 November 2014 the Revenues Team had collected 71.7% of its in-year Council Tax debt. In the equivalent period last year we had collected 71.6% Council Tax.
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 2014-15 financial year to date are at Appendix A.
9. As at 31 March 2014 the total arrears for Council Tax stood at 8.2 million. Work is continuing to recover this debt. As at 3 November 2014 Council Tax arrears stood at 6.2 million (a reduction of £2 million, see Appendix B).
10. A report categorising the debt stages of all Council Tax arrears is attached at Appendix C.

Business Rates

11. The final in-year collection rate for Business Rates for the year 2013-14 was 98.3%. As explained below this compares well with the previous year's collection rate of 98.4%.
12. National statistics to monitor collection rate trends for 2013-14 were published in July 2014. These showed that the average national in-year collection rate for Business Rates was 97.9% in 2013-14, an increase of 0.2% from the previous year.
13. Regarding the 2014-15 financial year, in the year to 3 November 2014 the Revenues Team had collected 71.7% of its in-year Business Rates debt. In the equivalent period last year we had collected 74.8% Business Rates. The comparative position is down due to a number of factors. As mentioned previously this is the first year instalments have been allowed to extend into February and March. Secondly we have been chasing up a large payment that has normally been paid by now. Thirdly, the PowerStation was re-introduced into the rating list during the financial

year which has increased the debit and future instalments due. Finally, we have had some large rating reductions e.g. Shrewsbury Hospital.

14. As at 31 March 2014 the total arrears for Business Rates stood at 4 million. Work is continuing to recover this debt. As at 3 November 2014 Business Rates arrears stood at 3.3 million (a decrease of £700,000 see Appendix D).
15. A report categorising the debt stages of all Business Rates arrears is attached at Appendix E.
16. In addition the Business Rates Team have also been collecting the BID levy for the Shrewsbury BID since June 2014. As at 3 November 2014 we had collected 86.1% of the liability due.

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. Business Rates is collected in accordance with the Non-Domestic Rating (Collection and Enforcement) (Local Lists) Regulations 1989.

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 – Collection Rate Breakdown

Appendix B - Council Tax Arrears Analysis

Appendix C - Council Tax Aged Debt Analysis

Appendix D – Business Rates Arrears Analysis

Appendix E – Business Rates Debt Analysis

Appendix A

03-Nov-14	Debit £000	Payments £000	Collection rate
Total Collection Rate	153,991	110,335	71.7%
Total Benefit Claimants	2,479	1,634	65.9%
PCLC	1,511	982	65.0%
former class A exempt	160	105	65.6%
second home full tax	1,897	1,326	69.9%
second home job protected	33	24	72.7%
PCLC_5MTHS	979	425	43.4%
premium	941	672	71.4%

Glossary of Terms

Total Collection Rate – overall collection rate for Shropshire as at 3 November 2014

Total Benefit Claimants – collection rates for benefit claimants with a Council Tax liability

PCLC – With effect from 1 April 2014 unoccupied and unfurnished property that has been unoccupied and unfurnished for more than six months and less than two years attract a full Council Tax.

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 onwards Shropshire Council awards 50% discount for up to twelve months.

Second Homes full tax – 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.

PCLC 5 MTHS – A one month exemption is currently awarded when a property becomes unoccupied and unfurnished. 25% discount is awarded for month's two to six.

PREM – With effect from 1 April 2014 unoccupied and unfurnished property that has been unoccupied for more than 2 years pay a 50% premium in addition to the full Council Tax.

Appendix B

COUNCIL TAX ARREARS ANALYSIS AS AT 3rd Nov 2014			
As at rollover 1 April 2014	DR	CR	NET TOTAL
TOTALS	8,274,948.60	-1,723,293.09	6,551,655.51
	DR	CR	
1993-94	239.54	-5,432.99	-5,193.45
1994-95	314.95	-8,942.64	-8,627.69
1995-96	242.27	-12,112.86	-11,870.59
1996-97	1,730.47	-11,974.20	-10,243.73
1997-98	2,699.67	-10,840.30	-8,140.63
1998-99	4,640.23	-9,466.75	-4,826.52
1999-00	8,577.63	-14,679.86	-6,102.23
2000-01	8,705.48	-11,064.73	-2,359.25
2001-02	12,235.64	-21,456.49	-9,220.85
2002-03	20,893.75	-26,028.83	-5,135.08
2003-04	42,987.39	-29,845.35	13,142.04
2004-05	67,677.99	-41,507.20	26,170.79
2005-06	104,855.29	-62,963.82	41,891.47
2006-07	158,213.45	-65,869.45	92,344.00
2007-08	196,738.52	-65,758.29	130,980.23
2008-09	347,102.50	-122,737.21	224,365.29
2009-10	500,426.32	-241,627.12	258,799.20
2010-11	683,938.05	-156,988.16	526,949.89
2011-12	838,751.75	-111,652.88	727,098.87
2012-13	1,115,342.57	-119,793.86	995,548.71
2013-14	2,081,273.88	-291,252.86	1,790,021.02
	6,197,587.34	-1,441,995.85	4,755,591.49
Reduction in Arrears	2,077,361.26	-281,297.24	1,796,064.02

Appendix C

Council Tax Aged Debt analysis 3rd Nov2014		
	accounts	£ value
14 Day letter	872	£563,468.87
Adjourned Committal		
Potential Special Arrangement		
Arrest Warrant - Bail	74	£42,642.92
Charging Order	67	£72,806.01
Attachment of Benefits	823	£296,548.29
Attachment of Earnings	1,014	£631,795.92
Bailiff Return	345	£189,190.23
Bailiff Return Spa		
Bankruptcy		
Committal - Suspended Sentence	3	£1,283.09
Committal		
Committal Summons	2	£442.50
Dataload 14 Day		
Dataload Bailiff		
Dataload AOB		
Enforcement Hold	193	£122,012.49
Liability Order Granted		
Mutiple Liability Order	10	£5,190.55
No Enforcement Stage		
Pending Attachment of Benefits	766	£358,881.06
Pending Attachment of Earnings	447	£344,176.22
Pre Committal Letter	2,267	£1,391,524.00
Small Balance Letter	309	£14,165.16
Special Arrangement	1,635	£825,777.14
Special Arrangment Reminder	300	£179,685.60
Tracing Agent	74	£57,476.61
With Bailiff	5,404	£2,911,859.12
Write Off	22	£9,352.44
Write Off Pending	2,096	£732,758.19
Totals	16,723	£8,751,036.41

Appendix D

NNDR ARREARS ANALYSIS AS AT 3rd Nov 2014			
As at rollover 31 Mar 2014	DR	CR	
TOTALS	4,065,636.55	-1,098,867.66	2,966,768.89
	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	-4,671.96	-4,671.96
2001-02	0.00	-11,398.07	-11,398.07
2002-03	5.00	-12,779.53	-12,774.53
2003-04	437.58	-10,312.22	-9,874.64
2004-05	1,594.11	-11,862.22	-10,268.11
2005-06	39,416.51	-8,827.57	30,588.94
2006-07	100,079.83	-17,754.42	82,325.41
2007-08	95,517.71	-18,135.18	77,382.53
2008-09	187,318.04	-72,270.44	115,047.60
2009-10	209,170.88	-247,400.95	-38,230.07
2010-11	272,470.19	-86,724.32	185,745.87
2011-12	393,986.00	-70,978.83	323,007.17
2012-13	726,874.48	-49,049.38	677,825.10
2013-14	1,293,517.65	-98,897.60	1,194,620.05
	3,322,046.78	-730,347.87	2,591,698.91
Reduction in Arrears	743,589.77	-368,519.79	375,069.98

Appendix E

NNDR Aged Debt Analysis 3rd Nov 2014		
	accounts	£ value
Small Balance	24	1,111.34
7 Day Letter	69	479,226.34
warrant no bail	1	1,053.50
Bailiff Return	220	574,280.98
Insolvency proceeding		
Bankruptcy		
Committal Summons	3	2,326.75
Enforcement Hold	15	51,514.76
Liquidation		
Multiple Liability Order	2	5,090.50
No Enforcement Stage	2	0.00
Pre Committal Letter	187	435,221.99
Spa Reminder	13	62,872.69
Special Arrangement	78	248,545.53
Tracing Agent	12	30,555.04
Warrant with bail	1	988.00
With Bailiff	298	960,783.14
Write Off	317	735,490.60
Totals	1,242	3,589,061.16

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Committee and Date	
Audit Committee	27 November 2014
Cabinet	10 December 2014
Council	18 December 2014

TREASURY STRATEGY 2014/15 – MID YEAR REVIEW

Responsible Officer James Walton

e-mail: james.walton@shropshire.gov.uk

Tel: (01743) 255011

1. Summary

1.1 This mid year Treasury Strategy report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management 2011 and covers the following:-

- An economic update for the first six months of 2014/15
- A review of the Treasury Strategy 2014/15 and Annual Investment Strategy
- A review of the Council's investment portfolio for 2014/15
- A review of the Council's borrowing strategy for 2014/15
- A review of any debt rescheduling undertaken
- A review of compliance with Treasury and Prudential limits for 2014/15

1.2 The key points to note are:-

- The internal treasury team achieved a return of 0.57% on the Council's cash balances outperforming the benchmark by 0.27%. This amounts to additional income of £209,925 for the first six months of the year which is included within the Council's projected outturn position.
- In the first six months all treasury management activities have been in accordance with the approved limits and prudential indicators set out in the Council's Treasury Strategy.

2. Recommendations

2.1 Members are asked to accept the position as set out in the report.

2.2 Members note that any capital schemes brought forward that would impact on the current strategy would need to be approved by Council.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.

3.2 There are no direct environmental, equalities or climate change consequences arising from this report.

3.3 Compliance with the CIPFA Code of Practice on Treasury Management, the Council's Treasury Policy Statement and Treasury Management Practices and the Prudential Code for Capital Finance together with the rigorous internal controls will enable the Council to manage the risk associated with Treasury Management

activities and the potential for financial loss.

4. Financial Implications

- 4.1 The Council makes assumptions about the levels of borrowing and investment income over the financial year. Reduced borrowing as a result of capital receipt generation or delays in delivery of the capital programme will both have a positive impact of the council's cash position. Similarly, higher than benchmarked returns on available cash will also help the Council's financial position. For monitoring purposes, assumptions are made early in year about borrowing and returns based on the strategies agreed by Council in the preceding February. Performance outside of these assumptions result in increased or reduced income for the Council.
- 4.2 The six monthly performance is above benchmark and has delivered additional income of £209,925 which will be reflected in the Period 6 Revenue Monitor.
- 4.3 The Council currently has £135m held in investments as detailed in Appendix A and borrowing of £338m at fixed interest rates.

5. Background

- 5.1 The Council defines its treasury management activities as "the management of the authority's investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with the activities, and the pursuit of optimum performance consistent with those risks". The report informs Members of the treasury activities of the Council for the first six months of the financial year.
- 5.2 The CIPFA Code of Practice on Treasury Management 2011 was adopted by Council in February 2012 and the primary requirements of the Code were outlined in the Treasury Strategy 2012/13.

6. Economic update

- 6.1 **Global Economy** – In September, the US Federal Reserve continued with its monthly \$10 billion reductions in asset purchases. Asset purchases have now fallen from \$85 billion to \$15 billion and are expected to stop in October 2014, providing strong economic growth continues. First quarter growth figures for the US were depressed by exceptionally bad winter weather, but growth rebounded very strongly in the second quarter to an annualised rate of 4.6%. The US faces similar debt problems to those of the UK, but due to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth, although the weak labour force participation rate remains a matter of key concern for the US Federal Reserve when considering the amount of slack in the economy and monetary policy decisions.
- 6.2 The Eurozone is facing an increasing threat from weak or negative growth and from deflation. In September, the inflation rate fell further to reach a low of 0.3%. However, this is an average for all Eurozone countries and includes some countries with negative rates of inflation. Accordingly, the European Central Bank (ECB) took some rather limited action in June to loosen monetary policy in order to promote growth. In September it took further action to cut its benchmark rate to only 0.05%, its deposit rate to a negative rate of 0.2% and to start a programme of purchases of corporate debt although it has not embarked yet on full quantitative easing which is the purchase of sovereign debt.
- 6.3 Concern in financial markets for the Eurozone subsided considerably during 2013.

However, sovereign debt difficulties have not gone away and major issues could return in respect of any countries that do not dynamically address fundamental issues of low growth, international competitiveness and the need for overdue reforms of the economy. It is therefore possible over the next few years that levels of government debt to GDP ratios could continue to rise for some countries. This could mean that sovereign debt concerns have not disappeared but have only been postponed.

- 6.4 By the beginning of September, a further rise in geopolitical risks principally over the Ukraine but also over the Middle East has caused a further flight into safe haven flows from equities into bonds which has depressed PWLB rates further.
- 6.5 **UK Economy** – After strong economic growth in the UK of 2.7% in 2013, and strong quarterly growth of 0.7% and 0.9% in the first two quarters of 2014, it appears very likely that strong growth will continue through 2014 and into 2015 as forward surveys for the services and construction sectors are very encouraging and business investment is also strongly recovering. The manufacturing sector has also been encouraging though the latest figures indicate a weakening in the future trend rate of growth. However, for this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance.
- 6.6 The Monetary Policy Committee (MPC) has kept the Bank Rate at its historically low level of 0.5% while quantitative easing remained at £375 billion. The overall strong growth has resulted in unemployment falling much faster through the initial threshold of 7%, set by the MPC last August, before it said it would consider any increases in Bank Rate. The MPC has therefore subsequently broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of eighteen indicators in order to form a view on how much slack there is in the economy and how quickly slack is being used up. Overall, markets are expecting that the MPC will be cautious in raising Bank Rate as it will want to protect heavily indebted consumers from too early an increase in the Bank Rate at a time when inflationary pressures are also weak. A first increase in Bank Rate is not expected until the second quarter of 2015.
- 6.7 There has been a sharp fall in Consumer Price Inflation (CPI) reaching 1.5% in May and July, the lowest rate since 2009. Forward indications are that inflation is likely to fall further in 2014 to possibly near to 1%.

7 Economic Forecast

7.1 The Council receives its treasury advice from Capita Asset Services. Their latest interest rate forecasts are shown below:

	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	2.00%	2.25%	2.50%
5yr PWLB rate	2.50%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.50%	3.50%	3.50%
10yr PWLB rate	3.20%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.20%	4.30%	4.30%
25yr PWLB rate	3.90%	4.00%	4.10%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	4.90%	4.90%	5.00%
50yr PWLB rate	3.90%	4.00%	4.10%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	4.90%	4.90%	5.00%

7.2 Capita believes the Bank Rate will remain at its current low level of 0.50% until June 2015 when it is expected to rise to 0.75% before rising to 1% in December 2015. This means investment returns will continue to be at historically low levels during this period. The Bank Rate is then expected to reach 1.5% by 31 June 2017 and 2.50% by 31 March 2018.

7.3 Long term PWLB rates are expected to rise to 4.50% in March 2016 before steadily increasing over time to reach 5.00% by 31 March 2018 due to high gilt issuance in the UK and the high volume of debt issuance in other major western countries.

7.4 Economic forecasting remains difficult with so many external influences weighing on the UK. As there are significant potential risks from the Eurozone and from financial flows from emerging markets in particular, caution must be exercised in respect of all interest rate forecasts at the current time. The general expectation for an eventual trend of gently rising gilt yields and PWLB rates is expected to remain unchanged as market fundamentals will focus on the sheer volume of UK gilt issuance and the price of those new debt issues. Negative (or positive) developments in the Eurozone sovereign debt crisis could significantly impact safe haven flows of investor money into UK, US and German bonds and produce shorter term movements away from central forecasts. The above estimates are conservative and also reflect a prolonged, but successful management of the Eurozone crisis.

8. Treasury Strategy update

8.1 The Treasury Management Strategy (TMS) for 2014/15 was approved by Full Council on 27 February 2014. This Treasury Strategy does not require updating as there are no policy changes or any changes required to the prudential and treasury indicators previously approved.

9. Annual Investment Strategy update

9.1 The Council's Annual Investment Strategy, which is incorporated in the TMS, outlines the Council's investment priorities as the security and liquidity of its capital. As outlined in paragraph 6 & 7 above there is still considerable uncertainty and volatility in the financial and banking market, both globally and in the UK. It is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. In this

context it is considered that the Annual Investment Strategy approved on 27 February 2014 is still fit for purpose in the current economic climate.

- 9.2 The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term (up to 1 year), and only invest with highly credit rated financial institutions using the Capita's suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Capita. The Treasury Team continue to take a prudent approach keeping investments short term and with the most highly credit rated organisations. This approach has been endorsed by our external advisors, Capita Asset Services.
- 9.3 In the first six months of 2014/15 the internal treasury team outperformed its benchmark by 0.27%. The investment return was 0.57% compared to the benchmark of 0.30%. This amounts to additional income of £209,925 during the first six months which is included within the Council's projected outturn position.
- 9.4 A full list of investments held as at 30 September 2014, compared to Capita's counterparty list, and changes to Fitch, Moody's and Standard & Poor's credit ratings are shown in **Appendix A**. None of the approved limits within the Annual Investment Strategy were breached during the first six months of 2014/15 and have not been previously breached. Officers continue to monitor the credit ratings of institutions on a daily basis. Delegated authority has been put in place to make any amendments to the approved lending list.
- 9.5 As illustrated in the economic background section above, investment rates available in the market are at an historical low point. The average level of funds available for investment purposes in the first six months of 2014/15 was £148 million.
- 9.6 The Council's interest receivable/payable budgets are currently projecting a surplus of £0.843 million as reported in the monthly revenue monitoring reports due to no long term borrowing being undertaken and investment balances being higher than anticipated.

10. Borrowing

- 10.1 It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits". Council's approved Prudential Indicators (affordability limits) are outlined in the TMS. A list of the approved limits is shown in **Appendix B**. The schedule at **Appendix C** details the Prudential Borrowing approved and utilised to date.
- 10.2 Officers can confirm that the Prudential Indicators were not breached during the first six months of 2014/15 and have not been previously breached.
- 10.3 No new external borrowing is required in 2014/15 although work is continuing to develop a new capital programme but the business cases for a number of proposed schemes are still in development and dependant on external decisions before the Council can make a commitment to them. Once this programme is finalised it will be presented to Council for consideration and the prudential borrowing implications updated in the Treasury Strategy. The schemes being considered are already within the current authorised borrowing limits in place. As outlined in the table below, the general trend has been a decrease in interest rates during the first six months of the year, across longer dated maturity bands, but a rise in the shorter maturities, reflecting in part the expected rise in the Bank Rate. The dates of the low points and high points across different maturity bands are shown in the table below.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.20%	2.48%	3.16%	3.75%	3.73%
Date	10/04/2014	28/08/2014	28/08/2014	29/08/2014	29/08/2014
High	1.48%	2.86%	3.66%	4.29%	4.26%
Date	15/07/2014	04/07/2014	20/06/2014	02/04/2014	01/04/2014
Average	1.34%	2.65%	3.67%	4.10%	4.17%

10.4 During the first six months of the financial year there has been a lot of volatility in the financial markets which are highly correlated to geopolitical and sovereign debt crisis developments and this has had an impact on the PWLB rates. The overall longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

11. Debt Rescheduling

11.1 Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. During the first six months of the year no debt rescheduling was undertaken.

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

Council, 27 February 2014, Treasury Strategy 2014/15

Cabinet Member:

Keith Barrow, Leader of the Council

Local Member

N/A

Appendices

A. Investment Report as at 30th September 2014

B. Prudential Limits

C. Prudential Borrowing Schedule

Shropshire Council

Monthly Investment Analysis Review

September 2014



Monthly Economic Summary

General Economy

September was dominated by great volatility in the markets due to the much anticipated Scottish Referendum result which was 55.3% ‘No’ to independence. Following the result, sterling appreciated due to greater confidence within financial markets, alongside risk premium unwinding (with the focus returning to the strength of Britain’s recovery). This caused the pound to strengthen against the euro to a two year high, which may cause the BoE to slow down the pace of interest rates hikes to help to rebalance the economy. Essentially, dovish policymakers are concerned with the weakness of exports with Britain relying heavily upon domestic demand to maintain the momentum of economic recovery. There is therefore increasing divergence between the euro and pound, with the ECB cutting interest rates to fight deflation which could potentially disrupt financial markets and pose downside risks to the UK.

The MPC minutes this month further reiterated the split in their decision to keep rates on hold, with two hawkish policymakers voting to raise rates to 0.75% for a second successive month. Nonetheless, the consensus decision still remains in favour of holding interest rates at their historic low of 0.5%, citing reasons such as declines in manufacturing, exports and housing activity, in conjunction with weaknesses within the Eurozone.

The Markit/CIPS purchasing managers' index (PMI) for construction has continued to rise, demonstrating its biggest monthly growth in the six months to July, increasing to 64.0 in August from 62.4 in July. These figures have been mainly driven by growth in housing, commercial and civil engineering markets. Similarly, Britain’s dominant services sector, the major driving force of the UK economy, expanded at its fastest pace in a year increasing to 60.5 in August, largely exceeding market expectations. However, the services industry has been hit by turbulence stemming from the Ukraine crisis. This could create future threats in terms of slowing down the services and construction sector. This impact can already be seen in new orders and employment diminishing cumulatively across all three sectors this month. The manufacturing Markit PMI survey declined to 52.5 in August, the slowest rate in 14 months. Nonetheless, this is still above the 50 point threshold denoting growth. During Q2 2014, UK GDP grew 0.9% on the previous quarter (3.2% y/y), increasing from 0.7% in Q1.

Britain’s trade deficit in goods rose for a successive month to £10.186 billion, the highest figure since April 2012, due to a considerable decline in export orders, stemming from a poor Eurozone performance, UK’s largest trading partner.

The unemployment rate in Britain has demonstrated substantial improvement, with the ONS quoting the number of people in employment rising to a record high to 30.609 million in the three months through July; however, pay growth was weak. Nonetheless, despite this lack of wage growth, income tax receipts and social security payments have risen 1.6% from a year earlier. Subsequently, this data provides a positive indication that consumer activity should remain optimistic throughout the year despite the lack of wage growth. However, pay growth is still lagging behind inflation, which declined to 1.5% in July, a 5 year low. Although this indicates that the BoE will be unlikely to change their projections, Governor Mark Carney stated that, dependent upon the labour markets recovery, the central bank may decide to raise interest rates earlier than anticipated. Nonetheless, the current eight month run of consumer price inflation remains below the 2% target and this remains key to the BoE deciding to hold off raising rates.

British Retail Sales in September were reported to have grown at a relatively slower pace in comparison with August, with surveys signalling a decline in consumer confidence. The Confederation of British Industry’s distributive trade’s survey’s retail balance fell to +31, down from +37 high in August, which may dampen the current rate of UK economic growth. Despite this, solid growth was still demonstrated in actual sales on the high street with the strongest growth demonstrated since April, retail sales volumes rising by 0.4% on the month despite real pay pressures and looming interest rate hikes. Nevertheless, wage growth remains remarkably weak which has become crucial to the BoE’s decision of holding Britain’s record low interest rates.

Public sector net borrowing in August was £11.6bn, up 6.1% from the previous year. This means that it will be much harder to hit the budgeted 10% reduction in borrowing this year after successive months this year with similar overshoots. The Government may, therefore, have to consider greater austerity measures to reduce the budget deficit if this situation does not improve during the rest of the year. This will be a key issue with the upcoming general election with deficit reduction becoming central to the economic policy of the Conservative led coalition.

Finally, in the US, the economy grew at a relatively optimistic pace in Q2, expanding at 4.6% annually, previously reported at 4.2%. This has been reflected somewhat during Q3, with strong growth seen in manufacturing, trade and housing and domestic demand. However; slow job growth can be accounted for during August with the unemployment rate falling to 6.1% due to more Americans giving up the search for work. However, robust job gains are indicative of strong labour market performance, deriving from a surge in gross domestic income. Nonfarm payrolls increased by 142,000 last month, the smallest increase in 8 months. In their recent meeting this September, the US Federal Reserve revised its economic forecast and individual interest rate expectations. With no change to expected employment and inflation, this would appear to justify a higher rate outlook with the first rise likely to be in Q1 next year.

Housing Market

In the earlier part of the year, Governor Mark Carney stated that housing was the biggest domestic threat to Britain’s economic recovery, with many borrowers taking on more debt beyond their means. However, the BBA quoted mortgage approvals for house purchases have fallen to their lowest level in 12 months during August (down to 64,212), but were still up 5.2% compared to the previous year, so the housing market has slowed marginally over recent months. According to mortgage lender Nationwide, house prices fell to an eight month low, declining by 0.2% in September, after positive growth recorded at 0.8% in August. Nonetheless, the housing market should remain stable as increases to interest rates are likely to be fairly gradual over the next few years.

Forecast

Capita Asset Services kept its Bank Rate forecast unchanged this month, expecting the first increase in Q1 2015. Capital Economics did not alter their forecast this month.

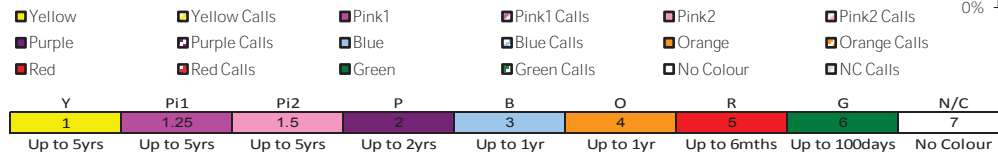
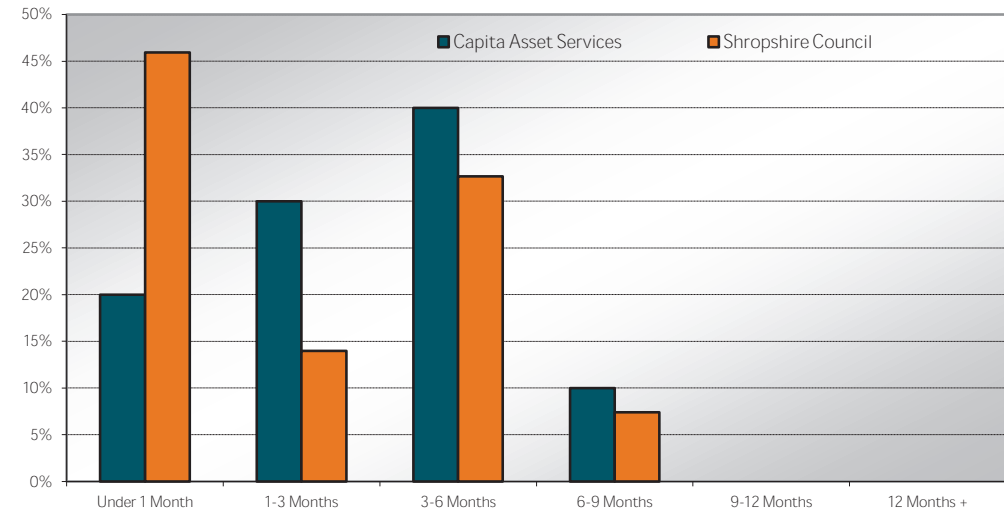
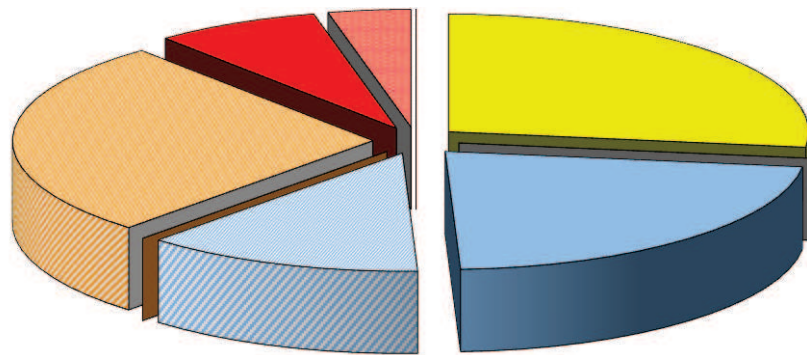
Bank Rate	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Capita Asset Services	0.50%	0.75%	0.75%	1.00%	1.00%
Capital Economics	0.50%	0.75%	0.75%	1.00%	1.00%

Shropshire Council

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
HSBC Bank Plc	20,000,000	0.80%		Call	AA-	0.000%
Svenska Handelsbanken AB	16,550,000	0.55%		Call	AA-	0.000%
National Westminster Bank Plc	1,880,000	0.25%		Call	BBB+	0.001%
Blaenau Gwent County Borough Council	2,000,000	0.32%	11/08/2014	03/10/2014	AA+	0.000%
Lloyds Bank Plc	3,600,000	0.57%	04/07/2014	06/10/2014	A	0.001%
Nationwide Building Society	2,100,000	0.45%	19/08/2014	10/10/2014	A	0.002%
Stockport Metropolitan Borough Council	3,000,000	0.33%	19/08/2014	13/10/2014	AA+	0.001%
Salford City Council	5,000,000	0.33%	14/07/2014	14/10/2014	AA+	0.001%
Nationwide Building Society	4,000,000	0.44%	03/09/2014	20/10/2014	A	0.005%
Nationwide Building Society	2,470,000	0.45%	08/09/2014	29/10/2014	A	0.007%
Nationwide Building Society	1,430,000	0.45%	10/09/2014	29/10/2014	A	0.007%
Barclays Bank Plc	5,000,000	0.55%		Call35	A	0.008%
Blaenau Gwent County Borough Council	2,000,000	0.33%	22/08/2014	05/11/2014	AA+	0.002%
Birmingham City Council	5,000,000	0.35%	06/08/2014	06/11/2014	AA+	0.002%
Lloyds Bank Plc	1,400,000	0.60%	07/07/2014	07/11/2014	A	0.009%
Lloyds Bank Plc	900,000	0.57%	07/08/2014	10/11/2014	A	0.010%
Blaenau Gwent County Borough Council	2,000,000	0.35%	20/08/2014	20/11/2014	AA+	0.002%
Salford City Council	2,600,000	0.35%	01/09/2014	02/12/2014	AA+	0.003%
National Westminster Bank Plc	15,000,000	0.30%		Call95	BBB+	0.052%
Lloyds Bank Plc	4,320,000	0.95%	09/01/2014	08/01/2015	A	0.024%
Lancashire County Council	5,000,000	0.50%	22/07/2014	22/01/2015	AA+	0.005%
Lloyds Bank Plc	1,520,000	0.95%	13/02/2014	12/02/2015	A	0.032%
Birmingham City Council	5,000,000	0.45%	15/08/2014	16/02/2015	AA+	0.006%
Cornwall Council	5,000,000	0.45%	03/09/2014	03/03/2015	AA+	0.007%
Lloyds Bank Plc	5,000,000	0.95%	07/03/2014	06/03/2015	A	0.037%
Lloyds Bank Plc	3,260,000	0.95%	02/04/2014	01/04/2015	A	0.043%
Lloyds Bank Plc	5,000,000	0.95%	09/04/2014	08/04/2015	A	0.045%
Lloyds Bank Plc	5,000,000	0.95%	17/04/2014	16/04/2015	A	0.047%
Total Investments	£135,030,000	0.58%				0.015%

Portfolio Breakdown by Capita Asset Services' Suggested Lending Criteria



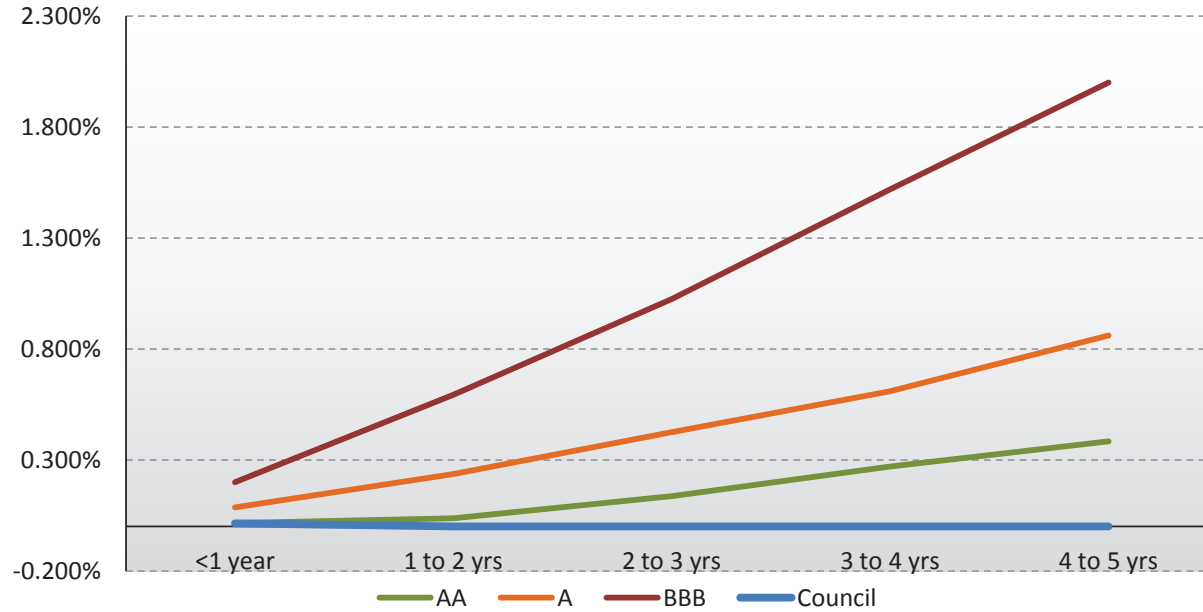
Portfolios weighted average risk number = **2.95**

WARoR = Weighted Average Rate of Return
 WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/EMMFs	
									WAM	WAM at Execution
Yellow	27.11%	£36,600,000	0.00%	£0	0.00%	0.39%	73	123	73	123
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	34.72%	£46,880,000	36.01%	£16,880,000	12.50%	0.67%	117	230	136	312
Orange	27.07%	£36,550,000	100.00%	£36,550,000	27.07%	0.69%	0	0	0	0
Red	11.11%	£15,000,000	33.33%	£5,000,000	3.70%	0.48%	26	45	21	49
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Total	100.00%	£135,030,000	43.27%	£58,430,000	43.27%	0.58%	63	118	91	188

Investment Risk and Rating Exposure

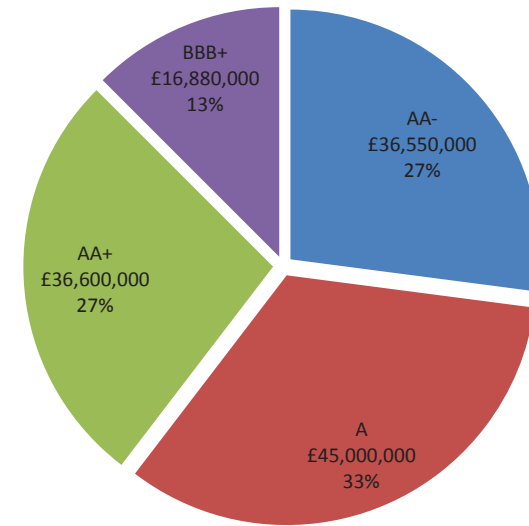
Investment Risk Vs. Rating Categories



Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.017%	0.038%	0.137%	0.271%	0.384%
A	0.087%	0.237%	0.425%	0.610%	0.861%
BBB	0.201%	0.595%	1.025%	1.519%	2.000%
Council	0.015%	0.000%	0.000%	0.000%	0.000%

Rating Exposure



Historic Risk of Default

This is a proxy for the average % risk for each investment based on over 30 years of data provided by Fitch, Moody's and S&P. It simply provides a calculation of the possibility of average default against the historical default rates, adjusted for the time period within each year according to the maturity of the investment.

Chart Relative Risk

This is the authority's risk weightings compared to the average % risk of default for "AA", "A" and "BBB" rated investments.

Rating Exposures

This pie chart provides a clear view of your investment exposures to particular ratings.

Monthly Credit Rating Changes
FITCH

Date	Update Number	Institution	Country	Rating Action
24/09/2014	1299	Yorkshire Building Society	UK	Long Term Rating was upgraded to 'A-' from 'BBB+' placed on a Stable Outlook. Short Term Rating upgraded to 'F1' from 'F2'. Viability Rating upgraded to 'a' from 'bbb+'. Support Rating was affirmed at '5'.
24/09/2014	1299	Skipton Building Society	UK	Long Term Rating was upgraded to 'BBB' from 'BBB-', Outlook changed from Positive from Stable. Short Term Rating was Upgraded to 'F2' from 'F3'. Viability Rating was upgraded to 'bbb' from 'bbb-'. Support Rating was affirmed at '5'.
24/09/2014	1299	Leeds Building Society	UK	Long Term Rating was affirmed at 'A', placed on a Stable Outlook. Short Term Rating was upgraded to 'F1' from 'F2'. Viability Rating was affirmed at 'a-'. Support Rating was affirmed at '5'.

Shropshire Council

Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action

Shropshire Council

Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action

Appendix B

Prudential Indicators – Quarter 2 2014/15

Prudential Indicator	2014/15 Indicator £m	Quarter 1 – Actual £m	Quarter 2 – Actual £m	Quarter 3 – Actual £m	Quarter 4 – Actual £m
Non HRA Capital Financing Requirement (CFR)	263	250	250		
HRA CFR	85	85	85		
Gross borrowing	338	343	338		
Investments	80	138	135		
Net borrowing	258	205	203		
Authorised limit for external debt	474	343	338		
Operational boundary for external debt	428	343	338		
Limit of fixed interest rates (borrowing)	408	343	338		
HRA debt Limit	96	85	85		
Limit of variable interest rates (borrowing)	204	0	0		
Principal sums invested > 364 days	40	0	0		
Maturity structure of borrowing limits	%	%	%		
Under 12 months	15	1	2		
12 months to 2 years	15	3	2		
2 years to 5 years	45	5	5		
5 years to 10 years	75	8	6		
10 years to 20 years	100	22	26		
20 years to 30 years	100	24	20		
30 years to 40 years	100	18	18		
40 years to 50 years	100	10	11		
50 years and above	100	9	10		

* Based on period 6 Capital Monitoring report

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APPENDIX C

Capital Financing 2014/15 - Period 6 2014/15

Prudential Borrowing Approvals	Date Approved	Amount Approved	Applied (Spent) 2006/07	Applied (Spent) 2007/08	Applied Outturn 08/09 2008/09	Applied Outturn 09/10 2009/10	Applied Outturn 10/11 2010/11	Applied Outturn 11/12 2011/12	Applied Outturn 12/13 2012/13	Applied Outturn 13/14 2013/14	Budgeted Period 6 14/15 2014/15	Budgeted Period 6 14/15 2015/16	First year MRP Charged	Asset Life	Final year MRP Charged	
		£	£	£	£	£	£	£	£	£	£	£	£			
Monkmoor Campus	24/02/06	3,580,000														
Capital Receipts Shortfall -Cashflow	24/02/06	5,000,000														
Applied:																
Monkmoor Campus			3,000,000		0											2007/08 25 2031/32
William Brooks					0		3,580,000									2011/12 25 2035/36
Tern Valley					2,000,000											2010/11 35 2044/45
		8,580,000	3,000,000	0	2,000,000	0	3,580,000	0	0	0	0	0				
Highways	24/02/06	2,000,000	2,000,000													2007/08 20 2026/27
Accommodation Changes	24/02/06	650,000	410,200	39,800												2007/08 6 2012/13
Accommodation Changes - Saving	31/03/07	(200,000)														
		450,000	410,200	39,800	0	0	0	0	0	0	0	0				
The Ptarmigan Building	05/11/09	3,744,000				3,744,000										2010/11 25 2034/35
The Mount McKinley Building	05/11/09	2,782,000				2,782,000										2011/12 25 2035/36
The Mount McKinley Building	05/11/09	0					-									2011/12 5 2015/16
Capital Strategy Schemes - Potential Capital Receipts shortfall - Desktop Virtualisation	25/02/10	187,600				187,600	-	-	-	0	-	-				2010/11 25 5 2014/15
Carbon Efficiency Schemes/Self Financing	25/02/10	1,512,442					115,656	1,312,810	83,976	-	-	-				2011/12 5 2017/18
Transformation schemes		92,635						92,635	-	-						2012/13 3 2014/15
Renewables - Biomass - Self Financing	14/09/11	92,996						82,408	98,258	(87,670)	-					2014/15 25 2038/39
Solar PV Council Buildings - Self Financing	11/05/11	56,342						1,283,959	124,584	(1,352,202)	-					2013/14 25 2038/39
Depot Redevelopment - Self Financing	23/02/12	0							-	-	-					2014/15 10 2023/24
Oswestry Leisure Centre Equipment - Self Financing	04/04/12	124,521						124,521								2012/13 5 2016/17
Leisure Services - Self Financing	01/08/12	711,197							711,197							2013/14 5 2016/17
Previous NSDC Borrowing		955,595			821,138	134,457										2009/10 5/25
		21,289,327	5,410,200	39,800	2,821,138	6,848,057	3,695,656	2,896,333	1,018,015.37	(1,439,872)	0	0				
MRP Charged			0.00	(288,367.00)	(296,326.67)	(339,361.72)	(589,162.85)	(860,518.50)	(1,240,619.37)	(1,250,979.56)	(1,181,963.23)	(1,144,443.23)				
Prudential Borrowing CFR				5,161,632.52	7,686,443.86	14,195,138.94	17,301,632.44	19,337,446.83	19,114,842.83	16,423,990.88	15,242,027.65	14,097,584.42				
								0	0	0	0	0				

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Committee and Date
Audit Committee
27 November 2014

INTERNAL AUDIT: INFORMATION TECHNOLOGY UPDATE REPORT

Responsible Officer Barry Hanson

e-mail: barry.hanson@shropshire.gov.uk Telephone: 01743 252089

1. Summary

- 1.1 The Audit Service Manager qualified her Head of Internal Audit Opinion in June 2014 based on the increase in terms of numbers and direction of travel of the assurances provided on the IT infrastructure systems. Since then, Members will recall that at the last Audit Committee they requested and received a management report on the implementation of IT control improvements. The Head of Service Support, Marketing and Engagement provided members with an update on work being undertaken to ensure that the ICT infrastructure was, and continued to be, fit for purpose, robust and PSN compliant. The Committee was advised that the ICT Governance Framework would in future be monitored by the Information Governance Group to ensure the appropriate measures were in place to meet legal and external compliance requirements and to ensure appropriate business continuity measures were in place.
- 1.2 This report provides members with details of the work undertaken on the IT control environment between April and October 2014 by Internal Audit. The results of which will help to inform the Audit Service Manager's year end opinion. The report is based on audit reviews conducted to date and aims to demonstrate the direction of travel in order that members can consider any further actions required by IT managers in managing any further control improvements. There are further IT reviews to be conducted that will add to the overall assessment.
- 1.3 On 71% of the follow up audits, undertaken to November 2014, management has made good progress on implementing the agreed control improvements required. These audit areas achieved a higher level of assurance than in 2013/14. However, two audits; Business Continuity, Server Consolidation and Physical and Environmental Controls achieved the same unsatisfactory audit opinion as in 2013/14 and work is required to mitigate the ongoing risks identified.
- 1.4 Of the 20 planned audits undertaken up to November 2014, 14 related to IT infrastructure areas. Of these fourteen, 57% were limited and unsatisfactory assurance.

2. Recommendations

The Committee is asked to consider and endorse, with appropriate comment, the contents of the Internal Audit (IT) update report and to consider if they require any further project updates from the relevant managers in seeking ongoing assurance of improvements to the IT control environment.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 IT forms part of the larger annual audit plan and audit reviews are based on a clear risk methodology linked to the Council's strategic risks. In particular, the IT planned audit work provides independent assurance against management progress in mitigating identified IT risks. One of the Council's highest risks is recognised as: "Failure to implement robust ICT solutions and resilience to support the direction of travel results in significant impact on access to, and management of, material systems and ultimately service delivery".
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2011.
- 3.3 There are no direct environmental, equalities, climate change or consultation consequences of this proposal.

4. Financial Implications

- 4.1 The IT Internal Audit service is provided within approved budgets and delivered by directly employed staff and contractors.

5. Background

- 5.1 At the June 2014 Audit Committee the Audit Service Manager qualified her overall opinion on the Council's internal control environment due to the increase in terms of numbers and direction of travel of the internal audit assurances provided on the IT infrastructure systems. Council application systems reviewed in 2013-14 were in the main given a reasonable or higher level of assurance, supportive that material application systems are generally well embedded, well administered and controlled. However, the IT infrastructure on which they operate presented a clear risk to service continuity.
- 5.2 This report is the IT related work of the Internal Audit team delivered during 2014/15 and seeks to provide an updated assurance level on the IT control environment.

6. Key Assurances

- 6.1 Audit assurance opinions are awarded on completion of audit reviews reflecting the efficiency and effectiveness of the controls in place, opinions are graded as follows:

Good	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is a sound system of control in place which is designed to address relevant risks, with controls being consistently applied.
Reasonable	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is generally a sound system of control but there is evidence of non-compliance with some of the controls.

Limited	Evaluation and testing of the controls that are in place performed in the areas examined identified that, whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key control.
Unsatisfactory	Evaluation and testing of the controls that are in place identified that the system of control is weak and there is evidence of non-compliance with the controls that do exist. This exposes the Council to high risks that should have been managed.

6.2 In total 24 IT Audit final reports were issued in 2013/14. Where assurances for IT audit reviews were rated unsatisfactory or limited, time was put into the current year plan to conduct follow up work on the agreed management action plans. For audit areas attracting reasonable and good assurances managers are asked to provide an update on recommendation implementation six months after the audit. Full details appear in tables one to three appearing later in this report. This report provides data on follow up IT audit reviews undertaken by Internal Audit.

6.3 Ten unsatisfactory and limited assurance opinions were issued in 2013/14 all of which will be followed up by a formal audit review.

- The iSupport HR Forms Processing audit was followed-up within 2013/14 and given a reasonable level of assurance.
- The hardware replacement programme follow-up audit will be completed in quarter four to allow for management to implement recommendations as agreed.
- The CIVICA Environmental Health Application is currently being decommissioned; as such this audit has not been completed. The audit days allocated to this will be used on the Uniform application which replaces aspects of this system to provide assurance to members and management.

This left seven areas to be reviewed in 2014/15.

6.4 **Table 1** shows the follow-up audits undertaken including a direction of travel from the previous audit opinion to the current audit opinion.

Table 1
Audit opinion and recommendations made on IT Audit follow-up work to October 2014

Audit Area	2013/14 Assurance	2014/15 Assurance	Report status	Direction of Travel	Number of recommendations made 2014/15			
					BP ¹	RA ²	S ³	F ⁴
Infrastructure								
Business Continuity/ Server Consolidation	Unsatisfactory	Unsatisfactory	Final	=	0	0	8	1
Physical and Environmental Controls	Unsatisfactory	Unsatisfactory	Final	=	0	2	2	0
Subtotal:					0	2	10	1
Application systems								
Project management arrangements	Unsatisfactory	Limited	Final	↑	0	0	2	0
Lotus Notes Decommissioning	Unsatisfactory	Reasonable	Final	↑	0	1	0	0
Database Access/ Admin/ Management	Limited	Reasonable	Final	↑	0	0	3	0
SAMIS	Limited	Reasonable	Final	↑	0	5	1	0
Northgate - Revenues and Benefits Application	Limited	Reasonable	Final	↑	0	2	4	0
Subtotal:					0	8	10	0
Total:					0	10	20	1

6.5 Of the seven follow-up audits undertaken between April and October 2014, five show a positive direction of travel in assurance levels.

6.6 Business continuity and physical environmental controls have received an unchanged unsatisfactory assurance level. Recommendations made in these audits were accepted by management and action agreed for their implementation. These areas are fundamental to the operations of Shropshire Council.

¹ Best Practice

² Requires Attention

³ Significant

⁴ Fundamental

6.7 **Table 2** shows the planned audits undertaken including the current audit opinion.

Table 2:
Audit opinion and recommendations made on IT Audit work to October 2014

Audit Area	2014/15 Assurance	Report status	Number of recommendations made 2014/15			
			BP	RA	S	F
Infrastructure						
Disposal of IT Equipment	Unsatisfactory	Final	1	2	11	2
Patch Management	Limited	Final	0	1	6	0
IT Business Support	Limited	Final	0	3	6	0
IT Registration & Deregistration Procedures	Limited	Final	0	5	4	0
Helpdesk Procedures	Limited	Final	5	3	8	0
Hosted Services	Limited	Final	0	0	3	0
Network Perimeter Defences	Limited	Final	0	0	6	0
IT Project Financing and Recharges	Limited	Final	0	1	1	0
IT Change Management	Reasonable	Final	0	2	0	0
Mobile device management	Reasonable	Final	9	2	1	0
IT Security Management Review	Reasonable	Final	0	4	2	0
IT Strategy	Reasonable	Final	2	1	1	0
Legacy Operating Systems	Reasonable	Final	1	3	0	0
Remote Access CITRIX and VPN	Reasonable	Final	1	3	0	0
Subtotal:			19	30	49	2

Application Systems						
Audit Area	2014/15 Assurance	Report status	Number of recommendations made 2014/15			
			BP	RA	S	F
CM2000 Electronic Homecare monitoring - application review	Limited	Final	0	5	14	0
CareFirst Application Review	Limited	Final	0	2	6	0
Registrars Booking System Zipporah Application	Reasonable	Final	0	2	4	0
End User Computing - Mgt Arrangements	Reasonable	Final	1	5	3	0
Resourcelink- HR Application Review	Reasonable	Final	0	1	1	0
Microsoft Lync	Reasonable	Final	0	1	1	0
Subtotal:			1	16	29	0
Total:			20	46	78	2

6.8 Of the 14 planned IT infrastructure related audits undertaken between April and November 2014, 57% were limited and unsatisfactory assurance and 43% reasonable assurance.

6.9 Of the six planned application system related audits undertaken between April and October 2014, 67% were given a reasonable level of assurance with 33% given limited assurance. No application audits completed were given unsatisfactory assurance.

6.10 Members should use the information in this report to consider if they require any further project updates from IT managers in seeking ongoing assurance of improvements to the IT control environment.

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

- Audit Committee, 26 June 2014, Internal Audit Annual Report 2013/2014
- Audit Committee, 18 September 2014, Management Report on the Implementation of IT Control Improvements and Risks
- Public Sector Internal Audit Standards 2013
- Accounts and Audit Regulations 2011
- Audit Committee, 27 March 2014 IT Audit plan: Draft Internal Audit annual plan 2014/15

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

Local Member n/a

Appendices n/a

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Committee and Date
Audit Committee
27 November 2014

ANNUAL REVIEW OF COUNTER FRAUD, BRIBERY AND ANTI-CORRUPTION STRATEGY

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

1. Summary

The Counter Fraud, Bribery and Anti-Corruption Strategy has been reviewed and refreshed in line with best practice and continues to clearly outline the Council's commitment against all forms of fraud, bribery and corruption whether it is attempted on or from within the Council. Specifically the Strategy has been reviewed and revised with some minor changes to ensure that it is aligned to the Chartered Institute of Public Finance and Accountancy, (CIPFA's) Code of practice on managing the risks of fraud and corruption which was produced in October 2014.

2. Recommendations

Members are asked to consider and endorse with appropriate comment the Counter Fraud, Bribery and Anti-Corruption Strategy as a key part of the Council's stance against Fraud, Bribery and Corruption.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The presence and promotion of an effective Counter Fraud, Bribery and Anti-Corruption Strategy, helps the Council to proactively encourage the detection of fraud and irregularities and the appropriate management of them.
- 3.2 In reviewing the Council's Counter Fraud, Bribery and Anti-Corruption Strategy for alignment to CIPFA's Code of practice on managing the risks of fraud and corruption, the Council continues to apply best practice in delivering the service.
- 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

All revisions can be met from within existing budgets.

5. Background

- 5.1 The Council has always set itself high standards for both members and officers in the operation and administration of the Council's affairs and has always dealt promptly with any allegations or suspicions of fraud and corruption. It has in place policies and procedures to prevent fraud, bribery and corruption, including a Speaking up about Wrongdoing policy and an overarching Counter Fraud, Bribery and Anti-Corruption Strategy.
- 5.2 The Counter Fraud, Bribery and Anti-Corruption Strategy is contained in part five of the Constitution. It was last reviewed and updated in December 2013 when it was discussed by Audit Committee.

6. Issues

- 6.1 This latest review ensures that the strategy aligns with CIPFA's Code of practice on managing the risks of fraud and corruption. The Code recognises that leaders of public sector organisations have a responsibility to embed effective standards for countering fraud and corruption in their organisations. This supports good governance and demonstrates effective financial stewardship and strong public financial management.
- 6.2 The five key principles of CIPFA's code are to:
- acknowledge the responsibility of the governing body for countering fraud and corruption
 - identify the fraud and corruption risks
 - develop an appropriate counter fraud and corruption strategy
 - provide resources to implement the strategy
 - take action in response to fraud and corruption.
- 6.3 Under developing an appropriate strategy, the code states that an organisation needs a counter fraud strategy setting out its approach to managing its risks and defining responsibilities for action. Specific steps should include:
1. The governing body formally adopts a counter fraud and corruption strategy to address the identified risks and align with the organisation's acknowledged responsibilities and goals.

The Counter Fraud, Bribery and Anti-Corruption Strategy is approved by Council and maintained in the Constitution. It is aligned to the Council's mission and outcomes and following a review of these in the Council's Business Plan and Financial Strategy, has been updated to reflect the latest data.

2. The strategy includes the organisation's use of joint working or partnership approaches to managing its risks, where appropriate.

The current objectives of the Counter Fraud, Bribery and Anti-Corruption Strategy set out an expectation that all key parties manage fraud risks to the Council and act with integrity in their delivery.

3. The strategy includes both proactive and responsive approaches that are best suited to the organisation's fraud and corruption risks. Proactive and responsive components of a good practice response to fraud risk management are set out below.

Proactive

- Developing a counter-fraud culture to increase resilience to fraud.
- Preventing fraud through the implementation of appropriate and robust internal controls and security measures.
- Using techniques such as data matching to validate data.
- Deterring fraud attempts by publicising the organisation's anti-fraud and corruption stance and the actions it takes against fraudsters.

Responsive

- Detecting fraud through data and intelligence analysis.
- Implementing effective whistleblowing arrangements.
- Investigating fraud referrals.
- Applying sanctions, including internal disciplinary, regulatory and criminal.
- Seeking redress, including the recovery of assets and money where possible.

These aspects are covered as the Counter Fraud, Bribery and Anti-Corruption Strategy sets out guidance for deterrence, prevention, detection and investigation.

4. The strategy includes clear identification of responsibility and accountability for delivery of the strategy and for providing oversight.

Creating and maintaining a strong structure within the Counter Fraud, Bribery and Anti-Corruption Strategy sets out responsibilities and accountabilities of all participants, this is further supported by Appendix three which sets out specific responsibilities.

- 6.4 Proposed changes are shown in bold and are underlined in the attached Strategy **(Appendix A)**
- 6.5 The strategy clearly identifies the Council's commitment to an effective Counter Fraud, Bribery and Anti-Corruption approach as part of its overall Corporate Governance arrangements. This strategy is designed to:
 - Acknowledge and understand fraud risks;
 - Prevent and detect more fraud; and
 - Pursue and punish fraud and recover losses.
- 6.6 This strategy reflects best practice from CIPFA's Code of practice on managing the risks of fraud and corruption, CIPFA's Red Book, the National Fraud Authority (NFA) Fighting Fraud Strategies and guidance from organisations such as ALARM (National Forum for Public Sector Risk Management) and the IIA (Institute of Internal Auditors).

- 6.7 It is recognised that to reduce losses to fraud, bribery and corruption to an absolute minimum, a strategic approach is required with a clear remit covering all areas of fraud, bribery and corruption that may affect the organisation. There needs to be a clear understanding of the importance of the links between policy work (to develop a counter fraud, bribery and anti-corruption culture, create a strong deterrent effect and prevent fraud, bribery and corruption by designing robust policies and systems) and operational work (to detect and investigate fraud, bribery and corruption and seek to apply sanctions and recover losses where they are found).
- 6.8 The temptation may be to 'pick and choose' actions. However, the full range of integrated action must be taken forward with the organisation's focus clearly on outcomes (i.e. reduced losses) and not just activity (i.e. the number of investigations, prosecutions, etc.).
- 6.9 The strategy has been reviewed to ensure that it continues to:
- Link to the Council's values.
 - Emphasise the Council's remit to reduce losses to fraud, bribery and corruption to an absolute minimum.
 - Demonstrate links between 'policy' work and 'operational' work.
 - Show agreement by both the political and executive authority for the Council.
 - Acknowledging fraud and accurately identifying the risk.
 - Create and maintain a strong structure to pursue its remit including:
 - Having the necessary authority and support;
 - Providing for specialist training and accreditation;
 - Completing appropriate propriety checks;
 - Developing effective relationships with other organisations;
 - Take action to tackle the problem by:
 - Integrating different actions;
 - Building a strong counter fraud and anti-corruption culture;
 - Having clear actions to deter any problem;
 - Taking action to prevent fraud and corruption;
 - Early detection of any issues;
 - Investigating appropriately in accordance with clear guidance;
 - Having clear and consistent sanctions where fraud or corruption is proven;
 - Having clear policies on redressing losses.
 - Focus on outcomes and not merely activity.
 - Encompass Housing and Council Tax Benefit fraud
- 6.10 Members are asked to comment on the strategy attached as **Appendix A**.

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

CIPFA: Code of practice on managing the risks of fraud and corruption, October 2014

The Bribery Act 2010

NFA Fighting Fraud Together, The strategic plan to reduce fraud

Fighting Fraud Locally: The Local Government Fraud Strategy

Enterprise and Regulatory Reform Act 2013

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

Local Member n/a

Appendix A: Shropshire Council Counter Fraud, Bribery and Anti-Corruption Strategy

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Shropshire Council Counter Fraud, Bribery and Anti-Corruption Strategy

To: All Members, staff, partners, public and external organisations.

The Council has established itself as an organisation that puts probity and accountability high on its agenda and has a zero tolerance to issues of fraud, bribery and corruption. Good Corporate Governance and the protection of the public's assets is core to everything we do.

The public is entitled to demand conduct of the highest standard, employees and members are expected to conduct themselves in accordance with the expectations which are contained in various Codes of Conduct.

The current Counter Fraud, Bribery and Anti-Corruption Strategy has been revised to ensure that it reflects our expectations for the highest standards of political, professional and personal conduct to be upheld and reflect current professional guidance.

Please read the strategy, seek clarification where necessary and apply its principles in the conduct of your duties.

-
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INTRODUCTION

Context

Shropshire Council employs over **8,886** staff and spends around **£572** million per year. The Council both commissions and provides a wide range of services to individuals and households, working with a range of many other private, public and voluntary sector organisations.

The size and nature of our services, as with any other large organisation, mean that there is an ever-present risk of loss due to fraud, bribery and corruption, from sources both internal and external.

As part of its well established Counter Fraud, Bribery and Anti-Corruption Strategy, Shropshire Council takes a responsible, long-term view of the need to continuously develop counter fraud, bribery and anti-corruption initiatives and maintain its culture of awareness.

- **Links to Corporate Values**

- Work to counter fraud, bribery and corruption links closely to the Council's **Mission, "where the customer is at the centre of everything we do and as soon as possible, everything is as efficient as it can be, focusing on the customer, prevention and partnership".** .

-

This document also brings together in one place links to a number of Council policies, which form the key building blocks of our counter fraud, bribery and anti-corruption governance arrangements.

Objectives of the Counter Fraud, Bribery and Anti-Corruption

Strategy

The key objectives of this Counter Fraud, Bribery and Anti-Corruption Strategy are to maintain minimal losses through fraud, bribery and corruption and further embed the management of fraud risk within the culture of the organisation.

This strategy document defines fraud, theft, bribery and corruption.

The key message we want to publicise as a result of this work is that we expect all members, employees, including those permanently employed, temporary agency staff, consultants, contractors, volunteers and service users to act honestly, with integrity and to provide us with any information, help and support we need to deal with fraud, bribery and corruption. To comply with the spirit as well as the letter, of the laws and regulations of all jurisdictions in which the Council operates, in respect of the lawful and responsible conduct of activities.

WHAT IS FRAUD, BRIBERY AND CORRUPTION?

- **Fraud**

The Fraud Act 2006 identifies fraud as a single offence which can be committed in three separate ways: -

- False representation

- Failure to disclose information where there is a legal duty to do so
- Abuse of position.

The Act also created four new offences of: -

- Possession of articles for use in fraud
- Making or supplying articles for use in fraud
- Obtaining services dishonestly
- Participating in fraudulent business.

Whilst the Act does not provide a single definition of fraud, it may be described as: *"Making dishonestly a false representation with the intention to make a gain for oneself or another, or, to cause loss to another or expose him to a risk of loss."* Or *"Dishonest conduct with the intention to make gain, or cause a loss or the risk of a loss to another"*.

Theft

Theft is defined in the 1968 Theft Act: *'A person shall be guilty of theft if he dishonestly appropriates property belonging to another with the intention of permanently depriving the other of it'*.

Bribery

Is an inducement or reward offered, promised or provided to gain personal, commercial, regulatory or contractual advantage.

There are four key offences under the Bribery Act 2010:

- bribery of another person (section 1)
- accepting a bribe (section 2)
- bribing a foreign official (section 6)
- failing to prevent bribery (section 7).

The Bribery Act 2010 makes it an offence to offer, promise or give a bribe (Section 1). It also makes it an offence to request, agree to receive, or accept a bribe (Section 2). Section 6 of the Act creates a separate offence of bribing a foreign public official with the intention of obtaining or retaining business or an advantage in the conduct of business. There is also a corporate offence under Section 7 of failure by a commercial organisation to prevent bribery that is intended to obtain or retain business, or an advantage in the conduct of business, for the organisation. An organisation will have a defence to this corporate offence if it can show that it had in place adequate procedures designed to prevent bribery by or of persons associated with the organisation.

Are we a "commercial organisation"?

The guidance states that a "commercial organisation" is any "body" formed in the United Kingdom and "...it does not matter if it pursues primarily charitable or educational aims or purely public functions. It will be caught if it engages in commercial activities, irrespective of the purpose for which profits are made."

Therefore the Council is a "commercial organisation".

Corruption

The Council defines the term "corruption" as: *"The offering, giving, soliciting or accepting of any inducement or reward which would influence the actions taken by the body, its members or officers."*

HOW THE COUNCIL CURRENTLY MANAGES THE RISK OF FRAUD, BRIBERY AND CORRUPTION

The Council has a zero tolerance of fraud, bribery and corruption. In recent years the Council has experienced a relatively low level of detected fraudulent and corrupt activity. Where such activity has been identified prompt action has been taken to investigate and seek sanctions and redress. In its policies and procedures the Council gives out the clear message that it will not tolerate any impropriety by employees, members, public or partners.

The Council manages the risk of fraud, bribery and corruption in a number of ways.

Ethical awareness

High ethical standards are a cornerstone of good governance. They are an integral part of good corporate governance arrangements and can lead to increased confidence in local democracy.

Shropshire's Council's ethical framework brings together a whole range of 'building blocks' which make up the Council's good governance arrangements, such as the Council's Constitution, codes of conduct, and, of particular relevance here, the Counter Fraud, Bribery and Anti-Corruption Strategy.

In promoting ethical awareness, the Council aims to both deter those who may commit fraudulent and corrupt acts and encourage those who suspect such activity to report it promptly.

Policies, Procedures and Codes

Shropshire Council has in place a Constitution, containing Codes of Conduct for both members and employees and Financial Rules which provide clarity about accountabilities of individuals, members and senior managers. Specific policies and procedures are in place regarding the Council's approach to fraud, bribery and corruption and these include:

- Code of Conduct for Employees
- Financial and Contract Rules
- Contract terms and conditions and standard instructions for Tenderers
- Members' Codes of Conduct
- Speaking up about Wrongdoing
- Hours of work and how to record them
- Disciplinary Procedure
- Gifts and Hospitality Policy
- **Registration and disclosure of pecuniary interests and conflicts of interest**

- Anti Money Laundering Policy
- Computer Facilities Code of Practice
- **Acceptable use of electronic services** Information Security Policy.

These policies provide a framework within which the organisation, its suppliers and contractors operate. Having clear policies ensures clarity about the appropriate course of action in any given event. The policies ensure that a consistent and fair approach is taken during any investigations regarding suspected fraud, bribery or corruption; this is of particular importance where referral to the police and Crown Prosecution Services is deemed appropriate.

Internal control environment

- The Head of Finance, Governance and Assurance has a statutory responsibility under Section 151 of the Local Government Act 1972 to make arrangements for the proper administration of the Council's financial affairs.

The Council aims to have in place efficient and effective systems of control that as far as possible prevent potential fraudsters from exploiting weaknesses. The prime responsibility for maintaining such systems lies with Senior Managers with support provided by the Council's Internal Audit Team, which provides an independent appraisal of the integrity of internal control systems on a priority risk basis.

Internal Audit Activity

The audit plan provides for system reviews of all major financial and management systems, whether computerised or manual, on a risk assessed basis. Financial systems regarded as 'fundamental systems' e.g. creditor payments, income, debtors, housing rents, housing benefits, council tax and payroll are all audited on an annual basis, with a view, amongst other things, to assessing the controls within systems that help deter, prevent and detect fraud.

Auditors are required to be alert to the risk of fraud at all times in all their work.

The Strategy

OBJECTIVES OF THE STRATEGY

The Council's objectives for its Counter Fraud, Bribery and Anti-Corruption Strategy are to maintain minimal losses through fraud and corruption and further embed management of fraud risk within the culture of the organisation.

It is committed to an effective Counter Fraud, Bribery and Anti-Corruption Strategy designed to:

- Acknowledge and understand fraud risks
- Prevent and detect more fraud and
- Pursue and punish fraud and recover losses.

The Council also expects that individuals, partners and organisations (e.g. suppliers and contractors) that it comes into contact with, will act towards the Council with integrity and without thought or actions involving dishonesty, fraud or corruption.

This Strategy is based on a series of comprehensive and inter-related procedures designed to frustrate any attempted fraudulent, bribery or corrupt act. These cover :

- Creating and maintaining a strong structure through culture, staff development and training
- Taking action to tackle the problem through deterrence and prevention
- Ensuring that there is robust means to detect fraud and ensure proper investigation
- Application of sanctions and redress where fraud, bribery and corruption are proven
- Keeping ahead to ensure that the Council continuously improves its counter fraud approach and strategy

As well as more "traditional" areas of fraud, bribery and corruption, such as theft of money, false accounting and corrupt practices, the strategy also encompasses misuse of assets, illegal use or disclosure of data and fraud perpetrated through the improper use of IT systems.

• ADOPTING THE RIGHT STRATEGY

To reduce losses to fraud, bribery and corruption to an absolute minimum, a strategic approach is required with a clear remit covering all areas of fraud, bribery and corruption affecting the organisation. There needs to be a clear understanding of the importance of the links between policy work (to develop a counter fraud, bribery and anti-corruption culture, create a strong deterrent effect and prevent fraud, bribery and corruption by designing and redesigning policies and systems) and operational work (to detect and investigate fraud, bribery and

corruption and seek to apply sanctions and recover losses where they are found).

The temptation may be to 'pick and choose' actions. However, the full range of integrated action must be taken forward with the organisation's focus clearly on outcomes (i.e. reduced losses) and not just activity (i.e. the number of investigations, prosecutions, etc).

ACKNOWLEDGING FRAUD: ACCURATELY IDENTIFYING THE RISKS

Measuring the level of illicit activity is inherently difficult; however this must be done where practicable. Through measuring the problem of fraud and learning from where it is detected and how systems are penetrated, we can gain knowledge of where it is necessary to strengthen or introduce systems.

CREATING AND MAINTAINING A STRONG STRUCTURE

Authority

The responsibility for a counter fraud, bribery and anti-corruption culture is the joint duty of all those involved in giving political direction, determining policy and management.

The Audit Committee and the Standards Committee are key member forums for ensuring sufficient authority is given to counter fraud, bribery and anti-corruption activity.

The Council's Senior Management Board should own the strategy and are responsible for ensuring a strong counter fraud culture within their areas and that staff accept their responsibility for preventing and detecting fraud, bribery and corruption.

In order for the Council to deal robustly and effectively with suspected incidents of fraud, those responsible for investigating matters must be fully supported by all officers.

It will be a key action to ensure that this strategy is fully supported by the Authority's Members and Council's Senior Management Board. Annual Senior Managers Governance Statements will include reference to measures taken to counter fraud, bribery and corruption in their areas.

Culture

The creation of a counter fraud, bribery and anti-corruption culture is vital if we are to stop the fraud that deprives people of the resources and services they rely on. This means that we need to mobilise the honest majority in defence of the services they depend on and create an environment in which countering fraud, bribery and corruption is the responsibility of all those living and working within Shropshire. The fight against fraud, bribery and corruption can only truly be effective where criminal acts are seen as anti-social, unacceptable behaviour and where whistle blowing (Speaking up about Wrong Doing) is perceived as a public-spirited action.

The Council encourages a culture of honesty and opposition to fraud, bribery and corruption. Members and officers at all levels are expected to lead by example in ensuring adherence to established rules and procedures and to ensure that all procedures and practices are legally sound and honest.

The Council's employees are an important element in its stance on fraud, bribery and corruption and are positively encouraged to raise any concerns that they may have on issues associated with the Council's activity in the knowledge that such concerns will be treated in confidence and properly investigated. If necessary a route, other than a normal line manager, may be used to raise such concerns.

Examples of such routes are:

- Head of Paid Service, Directors, Heads of Service or Senior Managers
- Internal Audit Services Standards Hotline on 01743 252627
- Housing Benefits Fraud Telephone 0345 6789033.

Guidance and Policy for Employees is given in the Employee Induction Handbook on "Speaking Up About Wrongdoing". There is a separate Speaking Up about Wrong Doing Policy for schools.

Members of the public can also report concerns through the Council's complaints procedures or by contacting their elected member, the External Auditor or the Local Government Ombudsman.

Contractors and Partners

Those organisations undertaking work on behalf of the Council are expected to maintain strong counter fraud, bribery and anti-corruption principles. We are happy to work with such organisations and to provide advice on counter fraud, bribery and anti-corruption measures. Our contractor partners will be expected to have adequate recruitment procedures and controls when they are handling finance information or assets on behalf of the Council.

The Public and External Organisations

Members of the public receive financial assistance and benefits from the Council through a variety of sources. These include Council Tax and Housing Benefit, Children's Act and direct payments, and various grants. Unfortunately, all of these areas have been the subject of attack by fraudsters, resulting in less money available for those in genuine need. Our fraud effort will be balanced against our desire to ensure genuine claimants receive their full entitlement. We will apply the same principles in dealing with fraud in all of areas of expenditure that directly support the community, including participation in national data matching and work with all Government agencies to detect and prevent fraud and other crimes affecting the well-being of our community.

Safe Recruitment

The Council recognises that one of the most important aspects in relation to the prevention of fraud, bribery and corruption is the recruitment of staff. The Council already seeks to:

- Obtain satisfactory references before appointments are made

- Verify certificates for stated qualifications
- Comply with s.8 of the Asylum and Immigration Act 1999
- Undertake checks with the Criminal Records Bureau, where appropriate for the post
- Compliance with other Codes of Practice (e.g. OFSTED) for staff dealing with vulnerable service users.

Training and Staff Development

As part of the annual review of the mechanisms to prevent and detect fraud, training and appropriate skills and expertise will need to be developed. Both officers involved in counter fraud, bribery and anti-corruption work and general operations will need to develop appropriate knowledge and skills in respect of fraud awareness, prevention, detection and investigation. In addition personal development plans, identified through the appraisal process, skill officers up with specific skills that support further the creation of a counter fraud, bribery and anti-corruption culture, i.e. updated financial training, information security training, etc.

The Council will ensure that key counter fraud, bribery and anti-corruption staff have in place an appropriate personal development and training plan that will ensure that they have the right competency levels to help prevent, identify and investigate fraud.

Management are supported in the provision of appropriate induction and refresher training particularly for employees involved in internal financial control systems to ensure that their responsibilities and duties in this respect are regularly highlighted and reinforced.

The Council is currently rolling out fraud awareness training using an E Learning package and is training appropriate staff on the Money Laundering Policy.

Relationships with other organisations

We participate in the exchange of information between the Council and other public agencies to assist with the identification of fraud, bribery and corruption. Any such exchange of information will be undertaken in accordance with the principles contained in the Data Protection Act 1998.

These public agencies may include the: -

- Police
- **External Audit**
- Local, regional and national auditor networks
- National Anti-Fraud Network
- CIPFA
- Department of Work and Pensions
- Other local authorities
- Public health.

TAKING ACTION TO TACKLE THE PROBLEM

Deterrence

There are a number of ways to deter potential fraudsters from committing or attempting fraudulent, bribery or corrupt acts, whether they are internal or external to the Council. These include, but are not limited to: -

- Publicising the fact that the Council is firmly set against fraud, bribery and corruption and stating this at every opportunity
- Acting robustly and decisively when fraud, bribery and corruption are suspected and proven
- Taking action to maximise recoveries for the Council
- Informing the Council's Head of Service Support, Marketing and Engagement where cases of fraud, bribery and corruption against the Council are referred for criminal proceedings and subsequently brought to court, with a view to issuing a press release
- Having robust internal control systems which allow for innovation but do not provide the opportunity for fraud, bribery and corruption
- Appropriate policies in place to address the threat of fraud which are available to all members, staff, public and external organisations
- Appropriately trained staff
- Participation in national counter fraud initiatives and working with organisations such as CIPFA Better Governance Forum and the National Anti-Fraud Network (NAFN).

Prevention

There is an important role to be played in the prevention of fraud, bribery and corruption by managers within all services. It is vital that managers understand the importance of soundly designed systems which meet key control objectives and minimise the opportunities for fraud, bribery and corruption. They are responsible for assessing the potential for fraud, bribery and corruption within their own service areas and for implementing appropriate strategies to reduce this risk. To this end, Internal Audit Services endeavour to provide appropriate advice to service managers to ensure that they are fully aware of the need to give sufficient emphasis to the preventative aspects of fraud, bribery and corruption work. The strategic Internal Audit Plan includes planned counter fraud work and fraud awareness training for all staff and members.

Members also have an important role to play and we encourage open and honest dialogue between members and staff. From time to time, members may be contacted by local people concerning suspicions of fraud, bribery or corruption relating to the Council's business. In such circumstances they should pass full details of the concern to the Audit Service Manager, who will ensure that the matter is appropriately investigated.

Detection

It is often the alertness of employees or members that enables detection to occur. The public also have a role to play.

Employees of the Council are required by its Financial Rules to report all suspected irregularities to the Section 151 Officer and the Audit Service Manager. The reporting of benefit fraud is encouraged and publicised. Reporting is essential to the Counter-Fraud, Bribery and Anti-Corruption Strategy and:

- Ensures the consistent treatment of information regarding fraud, bribery and corruption
- Facilitates proper investigation by experienced auditors or investigators
- Ensures the proper implementation of a fraud response investigation plan
- Ensures appropriate employment procedures are followed
- Ensures people and our interests are protected.

The Council's Whistle Blowing Policy (Speaking Up about Wrong Doing) is intended to encourage and enable employees and/or partners to raise serious concerns. The public and staff are encouraged to report benefit fraud through a dedicated phone and email address.

The Council participates in the National Fraud Initiative and detects certain types of fraud by this means. In addition, computer assisted audit techniques are used as a means of detecting fraud.

Investigation

Depending on the nature and anticipated extent of the allegation, the Audit Service Manager will normally work closely with management and other agencies, such as the Police, to ensure that allegations are properly investigated, reported and where appropriate, maximum recoveries are achieved. In relation to benefit fraud, the Benefits Services Investigation Fraud Team will investigate the allegations. There is close working between Audit Services and the Fraud Investigation Team and where appropriate joint investigations may be undertaken. Staff will work with other public sector bodies including; the Department of Work and Pensions (DWP), the Police, Inland Revenue, Customs and Excise and the Immigration Service for the purposes of preventing, detecting and investigating crime. The Council are members of the National Anti-Fraud Network (NAFN) and the CIPFA Better Governance Counter Fraud Group. Staff will liaise with these agencies and utilise their services to undertake investigations.

The follow-up of any allegation of fraud, bribery and corruption received will be through the agreed procedures of the Audit Investigations Manual and the Council's Disciplinary Procedures. The Council must also adhere to the provisions of the Regulation of Investigatory Powers Act and Money Laundering Legislation.

Where a fraud has occurred, management must make any necessary changes to systems and procedures to ensure that similar frauds will not recur. Any investigation undertaken may highlight where there has been a failure of supervision or a breakdown or absence of control. Any lessons learnt will be disseminated to all relevant sections.

Sanctions and Redress - Pursue

After any investigation, sanctions should be applied where fraud, bribery and corruption are proven to be present. This should be done in a comprehensive, consistent and proportionate manner with all possible sanctions – disciplinary, civil and criminal proceedings considered. Success rates need to be monitored routinely as an indicator and form part of the quality process. The Council should be effective in recovering any losses incurred to fraud, bribery and corruption using, as appropriate, insurance claims, criminal and or civil law. The Council has adopted a Prosecution Policy for the Benefits Services.

As a deterrent, publicity arising from an investigation will be co-ordinated by the Council's Head of Service Support Marketing and Engagement. It is the responsibility of Directors, Heads of Service and Senior Managers to ensure that the Head of Service Support Marketing and Engagement is informed of developments following completion of an investigation.

DEFINING SUCCESS

Activity should not be confused with outcomes. The focus should always be fixed firmly on the clear outcomes described above for work to counter fraud, bribery and corruption. It is important that these relate to the actual sums lost to fraud, bribery and corruption rather than to the activity around it. This is no different from a commercial organisation focusing on profit rather than turnover.

While activity can give an organisation the air of being busy – and, therefore, successful – what matters is the bottom line. Preventing fraud prevents losses – ensuring that all relevant funds can be directed into core business. Fraud awareness training is being rolled out to staff and members to help increase awareness.

The Audit Service Manager reports all outcomes of fraud investigations to Audit Committee, including any financial implications.

Only a comprehensive and professional approach to countering fraud, bribery and corruption can fully protect an organisation's valuable resources.

KEEPING AHEAD

In order to try and stay one step ahead of the fraud to which the Council may be exposed, it will be necessary to undertake a regular review of national developments and strengthen systems and procedures. Key sources of information that will be used to inform the ongoing continuous improvement of the Counter Fraud, Bribery and Anti-Corruption Strategy will be: -

Audit Commission

- National Fraud Initiative Website
- Protecting the Public Purse Report
- HM Treasury Publications
- Annual Fraud Reports
- CIPFA Better Governance Forum (BGF)

- Weekly E Newsletter
- Audit Committee web site for members and quarterly newsletters
National Anti-Fraud Network (NAFN)
- Intelligence Bulletins
- Alerts on website.

CONCLUSIONS

Shropshire's public services are relied on by its citizens to help sustain a good quality of life; they need proper protection against fraud, bribery and corruption and the Council is determined to mobilise and work with the vast honest majority to this end. Every pound lost to fraud is a pound that cannot be spent on ensuring Shropshire's residents get the best services they deserve.

The Council has in place a clear network of systems and procedures to assist it in the fight against fraud, bribery and corruption. It is determined that these arrangements will keep pace with future developments in both acknowledging, preventing and pursuing fraudulent or corrupt activity that may affect our operation. Organisations working in partnership with the Council are expected to adopt a similar stance.

The Council maintains a continuous overview of arrangements and, in particular ensures that Contract and Financial Rules, Codes of Conduct, Corporate Finance Manual and audit arrangements are kept up to date and fit for purpose.

The Council is committed to ensuring the wide circulation of this strategy both internally and externally in order that all relevant parties understand the very high standards which the Council is determined to observe in all its business.

This Strategy will be reviewed annually by the Audit Committee.



FRAUD RESPONSE PLAN

INTRODUCTION

1. The Council has **zero tolerance** to all forms of fraud, corruption and theft. This means we will apply the toughest sanctions where fraud is proven – disciplinary and criminal.
2. This Fraud Response Plan is part of the Counter Fraud, Bribery and Anti-Corruption Strategy and our aim is to reduce fraud and loss to an absolute minimum and keep it there.
3. You should follow this response plan if you are a staff member, councillor, partner, contractor or Shropshire resident. We all, in the public interest, have a responsibility to report any suspicion of fraud and to co-operate in any investigation, if necessary. If you work for the Council and fail to report your suspicions, you may be in breach of our Counter Fraud, Bribery and Anti-Corruption Strategy and action may be taken against you or your organisation.
4. **Fraud** is a crime and involves a deception which is deliberate and intended to provide a direct or indirect personal gain – for example: false expenses, exaggerated pay claims, altering accounting records, bogus invoices, forged cheques, fixing tender results, contract irregularities etc.
5. **Corruption** is the deliberate misuse of your position for direct or indirect personal gain such as: offering, giving, requesting or accepting a bribe or reward which influences your actions or someone else's.
6. **Theft** is where someone steals cash or other property belonging to someone else with no intention of returning it.
7. **Bribery** is an inducement or reward offered, promised or provided to gain personal, commercial, regulatory or commercial advantage.
8. This guidance only tells you what to do if you suspect fraud – for other concerns you should refer to: Grievance, Disciplinary or Corporate Complaints Policies. Alternatively, you can report fraud suspicions using our Speaking up about Wrongdoing process. [Speaking up about wrongdoing](#)

WHAT YOU SHOULD DO IF YOU SUSPECT FRAUD

9. Immediately report your suspicions to:
- Your immediate Supervisor or Line Manager (or more senior manager depending on the seriousness and sensitivity of the issues involved and who is thought to be involved in the wrongdoing)
 - The Audit Services Manager, Ceri Pilawski on 01743 252027 or the Section 151 Officer on 01743 255011
 - The Whistleblowing Hotline on 01743 252627 or email audit@shropshire.gov.uk
 - Audit Services, Shropshire Council, Shirehall, Abbey Foregate, Shrewsbury SY2 6ND
 - If the fraud is in relation to Housing or Council Tax Benefits email fraud@shropshire.gov.uk or telephone 0345 6789033

TOP TIPS

10.	DON'T	DO
	Delay – report the matter quickly.	Record your suspicions – write down what you have found, seen and heard.
	Approach or accuse individuals directly – you may alert them and evidence may be destroyed.	Keep any evidence you have in a safe place until you can pass it to the Audit Service Manager. However, do not do this if such action would risk alerting the suspect.
	Tell anybody else – you don't know who may be involved.	Tell us who you are – we will want to talk to you as you may know more than you realise.
	Investigate yourself – you may spoil the evidence and prevent a criminal prosecution.	Keep outwardly calm and carry out your own work as usual.

SAFEGUARDS

11. **Harassment, bullying or victimisation** – if you have raised concerns we will take action to protect you from reprisal and make it clear to colleagues that it will be considered a disciplinary matter if they mistreat a whistleblower.

12. **Confidentiality** – The Council will do its best to protect your identity when you raise a concern and do not want your name to be disclosed. It must, however, be appreciated that the investigation process may reveal the source of the information and a statement by you may be required as part of the evidence
13. **Anonymous referrals** – we do not encourage these as it affects our ability to investigate, but we will always look into any case of suspected fraud.
14. **Malicious referrals** – if we find that your referral is malicious or has been made for personal gain, we may take action against you under the Council's Disciplinary Policy or relevant agreement if you work for one of our partners, the matter would be referred to the appropriate Chief Officer before any action is taken.

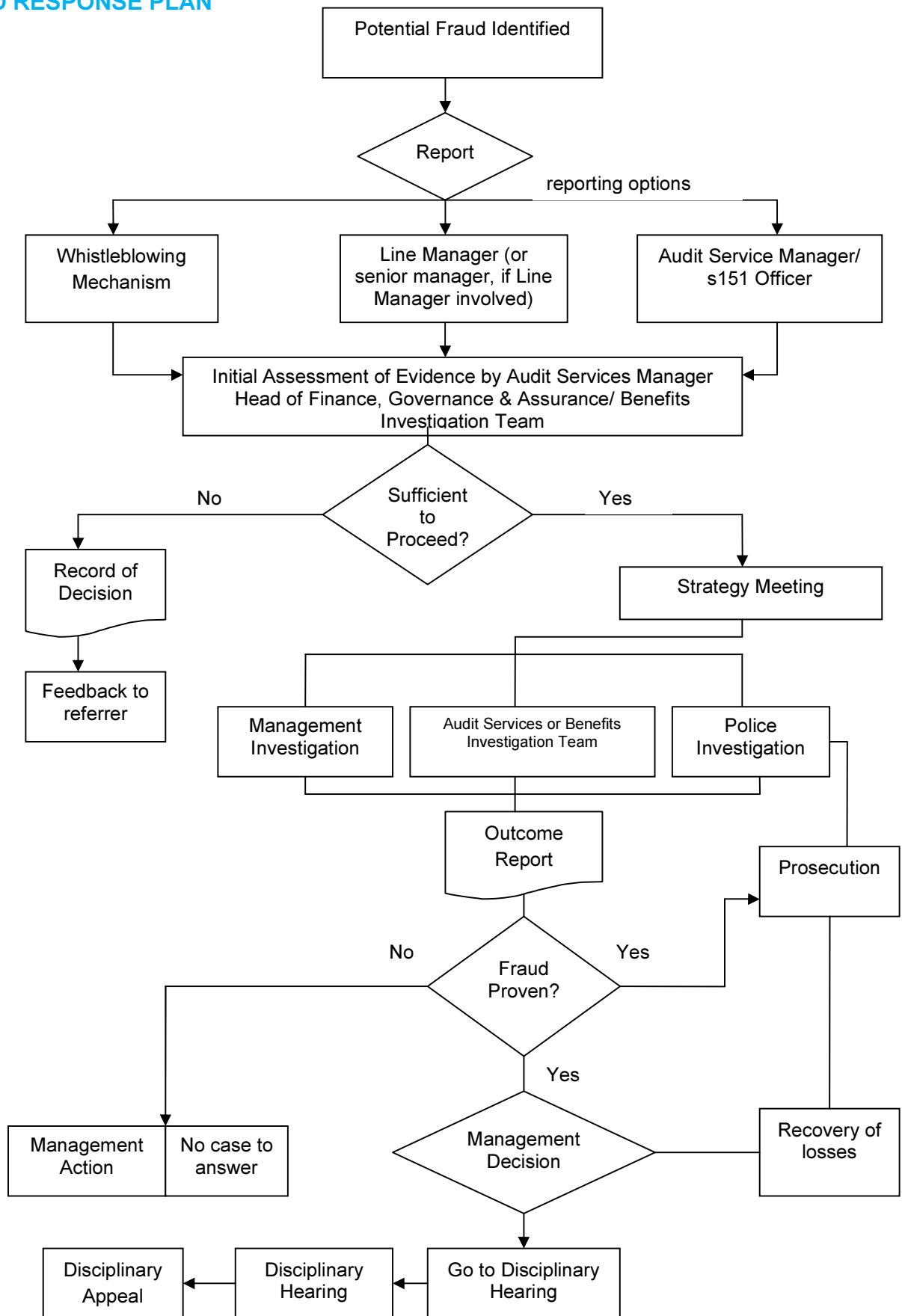
INVESTIGATION

15. **All suspected fraud must be either referred to Audit Services Manager or Benefit Services Investigation team.**
16. The relevant Senior Manager will assess the initial information and decide how to proceed. This will include a strategy meeting with the relevant manager where appropriate.
17. Following best practice, Audit or the Benefits Services Investigation Team will investigate most cases of suspected fraud – management may investigate low level fraud involving an employee after consultation with Audit.

POTENTIAL OUTCOMES

18. **Criminal Prosecution** – the Section s151 Officer, in consultation with the appropriate Director and Audit Services Manager (or Public Protection and Enforcement Group Manager in respect of benefits fraud) will authorise the referral to the police for investigation.
19. **Disciplinary Action** – at the end of the investigation, the Audit Services Manager will produce an investigation report. If this involves an employee and fraud is proven, the likely outcome will be dismissal. If fraud is not proven there may still be matters which need to be considered under the Council's disciplinary procedures.
20. **Recovery through Civil or Criminal Proceedings** – we will seek to recover all losses subject to legal advice and where it is cost effective to do so. We will recover any loss caused by an employee through salary, pension or insurance.
21. **Weaknesses in the System of Controls** – we will produce an Action Plan to address any system or management weaknesses and to reduce the risk of fraud and error in the future.

FRAUD RESPONSE PLAN



NOLAN COMMITTEE REPORT – THE SEVEN PRINCIPLES OF PUBLIC LIFE

Selflessness

Holders of public office should take decisions solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.

Integrity

Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might influence them in the performance of their official duties.

Objectivity

In carrying out public business, including making public appointments or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

Accountability

Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

Openness

Holders of public office should be as open as possible about all the decisions and action that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands it.

Honesty

Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

Leadership

Holders of public office should promote and support these principles by leadership and example.

Stakeholder	Specific Responsibilities
Head of Paid Service	Ultimately accountable for the effectiveness of the Council's arrangements for countering fraud and corruption.
Monitoring Officer	To advise Councillors and officers on ethical issues, standards and powers to ensure that the Council operates within the Law and statutory Codes of Practice.
Section 151 Officer	To make proper arrangements for the Authority's financial affairs and to ensure the Council has an adequately resourced and effective Audit Service.
Audit Committee	To monitor the effectiveness of the Council's Counter Fraud, Bribery and Anti-corruption Strategy and arrangements. To monitor the Council's Whistleblowing policy.
Standards Committee	The Committee monitors and advises upon the content and requirement of Codes, Protocols and other procedures relating to standards of conduct throughout the Council.
Members	To support and promote the development of a strong counter fraud, bribery and anti-corruption culture.
External Audit	Statutory duty to ensure that the Council has in place adequate arrangements for the prevention and detection of fraud, corruption and theft.
Audit Services	Responsible for developing and implementing the Counter Fraud, Bribery and Anti-corruption Strategy and investigating any issues reported under this policy and the Speaking up about Wrongdoing (Whistleblowing) Policy. To ensure that all suspected or reported irregularities are dealt with promptly and in accordance with this policy and that action is identified to improve controls and reduce the risk of recurrence.
Benefits Investigation Team	To investigate Housing Benefit and/or Council Tax Benefit fraud.
Managers	To promote staff awareness and ensure that all suspected or reported irregularities are immediately referred to Audit Services. To ensure that there are mechanisms in place within their service areas to assess the risk of fraud, corruption and theft and to reduce these risks by implementing robust internal controls.

Staff	To comply with Council policies and procedures, to be aware of the possibility of fraud, corruption and theft, and to report any genuine concerns to the appropriate management, the Head of the Paid Service, the Section 151 Officer, the Monitoring Officer, or Audit Services.
Public, Partners, Suppliers, Contractors and Consultants	To be aware of the possibility of fraud and corruption against the Council and report any genuine concerns or suspicions.

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Committee and Date

Audit Committee
27 November 2014

ANNUAL REVIEW OF AUDIT COMMITTEE TERMS OF REFERENCE

Responsible Officer James Walton

e-mail: James.walton@shropshire.go.uk Tel: 01743 255011

1. Summary

Effective audit committees bring many benefits to an organisation and to ensure that the Council continues to provide an effective Audit Committee, the Audit Committee's Terms of Reference are considered and approved as appropriate by members on an annual basis. The current Terms of Reference reflect guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) entitled: Audit Committees, Practical Guidance for Local Authorities and Police 2013 Edition.

2. Recommendations

Members are asked to consider and endorse the current Audit Committee Terms of Reference with appropriate comment.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 Audit Committee terms of reference are reviewed annually to ensure that they are fit for purpose and up to date; thereby clarifying the role of the Audit Committee and ensuring that the Council has robust internal control arrangements in place.

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, consultation or climate change consequences of this proposal.

4. Financial Implications

There are no financial implications.

5. Background

5.1 Part of the responsibility of this Committee is to review annually the Terms of Reference to ensure they are current and up to date and make recommendations for any significant changes to Full Council for consideration.

5.2 CIPFA defines the purpose of an audit committee is to provide those charged

with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting and annual governance processes. In this way they are an important source of assurance about the Council's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance.

5.3 The Audit Committee satisfies the wider requirement for sound financial management set out in the Accounts and Audit Regulations, 'for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which include the arrangements for the management of risk.' In addition, section 151 of the Local Government Act 1972 requires the authority to, 'make arrangements for the proper administration of its financial affairs'. To be truly effective, the Section 151 Officer in discharging sound financial management requires an effective audit committee as well as an adequate and effective internal audit. Both elements are enshrined in the Public Sector Internal Audit Standards and the supporting Local Government Application Note.

5.4 Effective audit committees bring many benefits to the Council. They can:

- Increase public confidence in the objectivity and fairness of financial and other reporting;
- Reduce the risk of illegal or improper acts;
- Reinforce the importance and independence of internal and external audit and any other review processes that report to the Committee;
- Provide a sharper focus on financial reporting both during the year and at year end, leading to increased confidence in the objectivity and fairness of financial reporting;
- Assist the co-ordination of sources of assurance and, in so doing, make management more accountable;
- Provide additional assurance through a process of independent and objective review;
- Raise awareness of the need for internal control and the implementation of audit recommendations.

5.5 It is therefore important that the Terms of Reference are reviewed to ensure that best practice guidance is incorporated.

5.6 There are no proposed changes to the Terms of Reference. **Appendix A** contains the Terms of Reference.

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

Chartered Institute of Public Finance and Accountancy's (CIPFA), Audit Committees, Practical Guidance for Local Authorities and Police 2013 Edition
TIS Online CIPFA November 2008 Audit Committee
Various consultation documents on the Future of Local Audit
Public Sector Internal Audit Standards, CIPFA 2012

Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards, CIPFA 2013
Local Government Act 1972
Accounts and Audit (England) Regulations 2011

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

Local Member N/A

Appendices Audit Committee Terms of Reference

AUDIT COMMITTEE TERMS OF REFERENCE

Membership

1. The Audit Committee must remain apolitical. It must display unbiased attitudes, treating auditors, the executive and management equally. It also has the ability to challenge the Leader and the Head of Paid Service when required. The Audit Committee will comprise:
 - a) Five Members in accordance with the political balance rules being three Conservative, one Labour and one Liberal Democrat who may be represented by designated substitutes in their absence. Any designated substitute must be appropriately trained. None of the Members should be Members of the Executive, Scrutiny Chairs or Vice Chairs.
 - b) The Section 151 Officer and the Audit Service Manager will normally attend every meeting. Should the Section 151 Officer feel there was an item on the agenda which would benefit from the Leader's presence, or the presence of a Portfolio Holder, the Chairman of the Audit Committee would be informed and he could invite the Leader or Portfolio Holder to attend.
2. Other officers or agencies will be invited to attend as and when required.
3. There will be a standing invitation to the External Auditor to attend all meetings and they should attend the Audit Committee at least twice a year to report on the findings of the audit of the Council.

Meetings

4. The Audit Committee will meet at least four times a year. The Chairman of the Audit Committee may convene additional meetings as he/she deems necessary.
5. The Head of the Paid Service, the Section 151 Officer, or the Audit Service Manager may ask the Audit Committee to convene further meetings to discuss particular issues on which they want the Committee's advice.
6. The Audit Committee, Audit Service Manager and External Audit have the opportunity for private discussions without the Section 151 Officer or other executive directors being present if issues need exploring in this forum
7. The Monitoring Officer is responsible for ensuring the Audit Committee is serviced with all necessary papers and support to enable it to fully discharge its responsibilities.

CORE FUNCTIONS

Governance risk and control

8. To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
9. To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
10. To consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
11. To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.
12. To monitor the effective development and operation of risk management in the Council.
13. To monitor progress in addressing risk-related issues reported to the committee and seeking assurances that action is taken by management in risk related issues identified by auditors and inspectors, resolving any outstanding differences between internal and external auditors and management when action or major recommendations have not been agreed.
14. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions
15. To review the assessment of fraud risks and potential harm to the Council from fraud, bribery and corruption.
16. To monitor the counter-fraud bribery and corruption strategy, actions and resources.

Internal Audit

17. To approve the Internal Audit Charter
18. To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
19. To approve, but not direct, the risk-based internal audit plan, including internal audit resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.

20. To approve significant interim changes to the risk based internal audit plan and resource requirements.
21. To make appropriate enquiries of both management and the Audit Service Manager to determine if there are any inappropriate scope or resource limitations.
22. To consider reports from the Audit Service Manager on Internal Audit's performance during the year, including the performance of external providers of Internal Audit Services. These will include:
 - a) Updates on the work of Internal Audit including key findings, issues of concern and action in hand as a result of Internal Audit work.
 - b) Reports on the results of the Quality Assurance and Improvement Programme.
 - c) Reports on instances where the Internal Audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance should be included in the Annual Governance Statement.
23. To consider the Audit Service Manager's annual report, specifically:
 - a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of Internal Audit.
 - b) The opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the Annual Governance Statement.
24. To consider summaries of specific internal audit reports as requested.
25. To receive reports outlining the action taken where the Audit Service Manager has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
26. To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of Internal Audit that takes place at least once every five years.
27. To consider a report on the effectiveness of Internal Audit to support the Annual Governance Statement, where required to do so by the Accounts and Audit Regulations.

28. To support the development of effective communication with the Audit Service Manager.

External audit

29. To consider the External Auditor's annual letter, relevant reports, and the report to those charged with governance.
30. To consider specific reports as agreed with the External Auditor and other inspection agencies
31. To comment on the scope and depth of external audit work and to ensure it gives value for money
32. To commission additional work from external audit as required.
33. To review and advise on the effectiveness of relationships between External and Internal Audit and other inspection agencies or relevant bodies.

Financial reporting

34. To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
35. To consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.

Treasury management

36. To consider the robustness of the authority's treasury management strategy, policies and procedures before their submission to Cabinet and Full Council, ensuring that controls are satisfactory.
37. To receive regular reports on activities, issues and trends to support the Committee's understanding of treasury management activities. The Committee is not responsible for the regular monitoring of treasury management activity¹.
38. To review the treasury risk profile and adequacy of treasury risk management procedures and assurances on treasury management

Accountability Arrangements

39. To report annually to Full Council on the Committee's findings, conclusions and recommendations; providing its opinion on the adequacy and effectiveness of the Council's governance, risk management and internal

¹ Clause 3 Treasury Management Code of Practice

control frameworks; internal and external audit functions and financial reporting arrangements.

40. To report to Council where the Audit Committee have added value, improved or promoted the control environment and performance in relation to the Terms of Reference and the effectiveness of the Committee in meeting its purpose and functions.

Work plan

41. In carrying out the core functions the Audit Committee will approve an annual work plan. This will enable members to consider, review and as appropriate approve:-
- a) An annual review of the Terms of Reference for the Audit Committee to ensure they are current and up-to-date and make recommendations for change to Full Council for consideration.
 - b) Any proposals for the revision of the Internal Audit Charter.
 - c) The Audit Service Managers' Annual Report and opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
 - d) Regular performance reports on the work completed by Internal Audit and the progress made by directorates in implementing recommended actions.
 - e) Revisions to the annual audit plan as advised by the Audit Service Manager and agreed by the Section 151 Officer.
 - f) The authority's Statement of Accounts before submission to full Council.
 - g) A report on the review of the adequacy of the Council's corporate governance arrangements.
 - h) A report on the effectiveness of the system of internal audit.
 - i) A report on the review of the adequacy of the Council's risk management arrangements.
 - j) The authority's Annual Governance Statement.
 - k) The External Auditor's Work Plan, including comments on the scope and depth of external audit work and to ensure it gives value for money.
 - l) The External Auditor's Management Letter.
 - m) The Annual Governance Report from the External Auditor following completion of the annual audit of the Accounts.

- n) Reports on any joint projects undertaken by Internal and External Audit.
- o) Reports on Internal Audit investigations including frauds and consideration of recommendations for strengthening internal controls and Housing Benefit Enforcement activities.
- p) The annual review and re-affirmation of the authority's Counter Fraud, Bribery and Anti-Corruption Strategy to ensure on-going training and awareness of all staff regarding Counter Fraud and Anti-Corruption measures.
- q) Any issues within the remit of the Audit Committee referred to it by the Head of the Paid Service, the Section 151 Officer, Monitoring Officer or any Council body for determination.
- r) Treasury Strategy Reports including the Annual Investment Strategy and Minimum Revenue Provision Policy before submission to Full Council.
- s) The mid-year Treasury Strategy Report and Annual Treasury Report before submission to Full Council.

Powers of the Audit Committee

44. The Committee will have no delegated powers, but can require relevant officers and agencies to attend at any meeting where such attendance would be expedient to the work of the Committee.

Audit Committee Competency Framework

45. All Members of the Audit Committee should have, or acquire as soon as possible after appointment:-
- a) An understanding of the objectives and current significant issues facing the council.
 - b) An understanding of the council's structure including key relationships with external partner organisations.
 - c) An understanding of any relevant legislation or other rules governing the operation of the council.
 - d) A broad understanding of the local government environment, in particular its accountability structures and current, major initiatives.
46. CIPFA recommends that the Audit Committee should corporately possess an appropriate level of knowledge/skills/experience in:-

- a) The authority's governance and regulatory frameworks.
- b) Understandings of the wider governance environment in which the council operates and the accountability structures within that environment.
- c) Financial management and accounting including accounting concepts and standards.
- d) Risk management.
- e) Audit.
- f) Counter fraud.
- g) Treasury management.

And that the Committee should receive appropriate levels of training.

Reviewed and updated **November 2014**.



Committee and Date

Audit Committee
27 November 2014

AUDIT COMMITTEE SELF-ASSESSMENT OF GOOD PRACTICE

Responsible Officer James Walton

e-mail: James.walton@shropshire.go.uk Tel: 01743 255011

1. Summary

Members are asked to review and comment on the self-assessment of good practice questionnaire attached to this report which will allow them to assess the effectiveness of the Audit Committee and identify whether there are any further improvements that could be made to improve the Committee's overall effectiveness.

2. Recommendations

Members are asked to:

- A. Consider and comment as appropriate on the attached self-assessment of good practice, agree or otherwise and identify any amendments required.
- B. Identify if there is any further work, actions or training required as a result of the completion of the self-assessment of good practice.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 An Audit Committee has a key function in ensuring effective corporate governance, risk and control arrangements are in place in the Council. The effectiveness of the committee should be judged by the contribution it makes to, and beneficial impact it has on, the Council's business. A good standard of performance against recommended practice, together with a knowledgeable and experienced membership, are essential requirements to enable an effective Audit Committee. By reviewing their effectiveness against a good practice self-assessment on an annual basis, the committee can demonstrate a high degree of performance and evidence that the committee is soundly based with a knowledgeable membership that is not impaired in any way. Completion of the self-assessment can also be used to support the planning of the Audit Committee work programme and training plans and inform the Committee's annual report to 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, consultation or climate change consequences of this proposal.

4. Financial Implications

There are no financial implications in terms of reviewing the assessment but any resulting activities may require funding if they are not already allowed for in the base budget.

5. Background

- 5.1 The Chartered Institute of Public Finance and Accountancy, CIPFA, have produced guidance on the function and operation of audit committees; 'Audit Committees in Local Authorities and Police, 2013 edition'. The guidance represents CIPFA's view of best practice for Audit Committees in local authorities throughout the UK.
- 5.2 In the guidance CIPFA provide a suggested self-assessment against recommended practice. Authorities are encouraged to use the checklist as an indicator that they are meeting recommended practice and of the committee's effectiveness; following which any changes or improvements identified that would enhance the Committee's performance should be managed.
- 5.3 The Section 151 Officer and the Audit Service Manager completed an initial review of the self-assessment, based on information from previous assessments and with knowledge of the Committee's compliance with recommended practices, for members to consider, discuss and amend as they felt appropriate at their meeting in February earlier this year. Compliance against most of the aspects of the self-assessment could be demonstrated. Members endorsed the self-assessment of good practice and asked that the Audit Manager monitor progress on the continued effectiveness of the Committee, in particular as detailed in questions 18 to 20 of the Assessment and draw up an action plan to address any deficiencies.

Question 18: Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?

Question 19: Has the committee evaluated whether and how it is adding value to the organisation?

Question 20: Does the committee have an action plan to improve any areas of weakness?

- 5.4 **Appendix A** provides an updated copy of the self-assessment.

6 Issues to consider

- 6.1 Since February, in order to gain a better picture of the Committee's understanding and review of its own effectiveness, Members have:

- Completed a self-assessment of individual training requirements
- Completed a self-assessment of the effectiveness of the audit committee
- Attended training sessions in June and October 2014, which:
 - Explored how members would evaluate the effectiveness of the audit committee.
 - Considered the collated findings of the two self-assessments.
 - Assessed the committees approach to risk management and internal controls alongside their knowledge of strategic risks.
 - Considered what good governance, IT governance, programme and project management was.
 - Considered questioning techniques to build on the Members' ability to challenge robustly.
 - Sought assurance on how the Council demonstrates VFM and
 - Covered key topics in the areas of locality commissioning and adult social care.

6.2 Progress against all areas that demonstrated partial compliance at the last review in February is set out below. Members are asked to consider the activities that have been undertaken, consider and endorse any future improvement actions.

Question 6: Are the arrangements to hold the committee to account for its performance operating satisfactorily?

Decision required: move from a partly to a yes?

6.3 As the group to which the Audit Committee is accountable, the Council should hold the committee to account on a regular basis and CIPFA suggests a number of aspects that should be considered which include:

- Whether the committee has fulfilled its 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.

6.4 Minutes of the Council do not reflect that it is actively holding the Audit Committee to account however, the transparency of the actions delivered provides this assurance:

- The work plan and activities of the committee evidence that it fulfils the agreed terms of reference
- Reports on this agenda, in relation to the terms of reference for the Audit Committee and self-assessment against good practice demonstrate compliance with recommended practice.
- Development needs of members have been assessed against best practice and regular member training delivered. In addition,

members have direct access to CIPFA's Better Governance Forum (BGF) which provides briefing updates throughout the year alongside regular updates and training provided by the External Auditor, Grant Thornton.

- Committee Members have assessed the effectiveness of the committee which has formed part of the training delivered to date and will be used to inform future development activity.
- The Committee has considered its impact on risk and control at the Council and through the Annual report to Council sets out what is has delivered. The report was reviewed to ensure compliance with best practice in June.

Question 15: Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?

Decisions required: move from a partly to a yes to reflect that the majority of skills and knowledge requirements are located within the current membership?

Identify governance and legal as areas for future development as part of an action plan under question 20, see below.

6.5 Members have been assessed against the new CIPFA core knowledge and skills framework the results of which have been discussed at Member training session.

6.6 Members confidently demonstrated all of the core skills. Not all members are expected to demonstrate all of the specialist skills. Members identified between them knowledge of accountancy, internal audit, risk management, service knowledge, programmes and programme management, IT systems and governance but did not feel confident in general governance and legal knowledge.

Question 18: Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?

Decision required: move from a partly to a yes?

6.7 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 output. Recent training sessions explore the performance of the Audit Committee. Performance is also reviewed by the Council; please see the responses to question six above. There has been no negative feedback received in respect of the committees operations.

Question 19: Has the committee evaluated whether and how it is adding value to the organisation?

Decisions required: move from a partly to a yes?

Identify activities from the information below to be included in an action plan as part of the response to question 20.

6.8 The annual report to Council demonstrates how and where the committee adds value. This has been supported further by the Committee evaluating its own effectiveness this year. The top three areas for further improvements have been identified initially as:

- Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.

The Audit Committee can add value and provide evidence of its effectiveness by:

- Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English.
- Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encouraging greater transparency.
- Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements.
 - Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place.
 - Reviewing the effectiveness of performance management arrangements.
- Promoting the principles of good governance and their application to decision making.
 - Providing robust review of the AGS and the assurances underpinning it.
 - Working with key members/governors to improve their understanding of the AGS and their contribution to it.
 - Supporting reviews/audits of governance arrangements.
 - Participating in self-assessment of governance arrangements.
 - Working with partner audit committees to review governance arrangements in partnerships.

Question 20: Does the committee have an action plan to improve any areas of weakness?

Decisions required: move from a partly to a yes?

Agree activities for inclusion in the improvement action plan. All improvements identified will be included in the Audit Committee's work and training plans

6.9 Following the evaluation against the new guidance and learning from the self-assessments members are asked to consider and agree an improvement plan, which when delivered will provide further evidence of compliance.

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

CIPFA: Audit Committees in Local Authorities and Police, 2013 edition

CIPFA: Position Statement of Audit Committees in Local Government issued in 2005.

Cabinet Member (Portfolio Holder)

Keith Barrow (Leader of the Council) and Brian Williams (Chairman of Audit Committee)

Local Member n/a

Appendices Self-assessment of good practice November 2014

Appendix A: Self-assessment of Good Practice November 2014

Good practice questions		Yes	Partly	No
Audit Committee purpose and governance				
1	Does the authority have a dedicated audit committee?	✓		
2	Does the audit committee report directly to full council? (Applicable to local government only.)	✓		
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	✓		
4	Is the role and purpose of the audit committee understood and accepted across the authority?	✓		
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	✓		
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?	✓	✓	
Functions of the committee				
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFAs Position Statement?			
	• Good governance	✓		
	• Assurance framework	✓		
	• Internal audit	✓		

Good practice questions		Yes	Partly	No
	<ul style="list-style-type: none"> External audit 	✓		
	<ul style="list-style-type: none"> Financial reporting 	✓		
	<ul style="list-style-type: none"> Risk management 	✓		
	<ul style="list-style-type: none"> Value for money or best value 	✓		
	<ul style="list-style-type: none"> Counter-fraud and corruption 	✓		
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?	✓		
9	Has the audit committee considered the wider area identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?	✓		
10	Where coverage of core areas has been found to be limited, are plans in place to address this?	✓		
11	Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?	✓		
Membership and support				
12	Has an effective audit committee structure and composition of the committee been selected? This should include:	✓		
	<ul style="list-style-type: none"> Separation from the executive 	✓		

Good practice questions		Yes	Partly	No
	<ul style="list-style-type: none"> An appropriate mix of knowledge and skills among the membership 	✓		
	<ul style="list-style-type: none"> A size of committee that is not unwieldy 	✓		
	<ul style="list-style-type: none"> Where independent members are used, that they have been appointed using an appropriate process. 	✓		
13	Does the chair of the committee have appropriate knowledge and skills?	✓		
14	Are arrangements in place to support the committee with briefings and training?	✓		
15	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?	✓	✓	
16	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	✓		
17	Is adequate secretariat and administrative support to the committee provided?	✓		
Effectiveness of the committee				
18	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	✓	✓	
19	Has the committee evaluated whether and how it is adding value to the organisation?	✓	✓	
20	Does the committee have an action plan to improve any areas of weakness?	✓	✓	

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The Annual Audit Letter for Shropshire Council

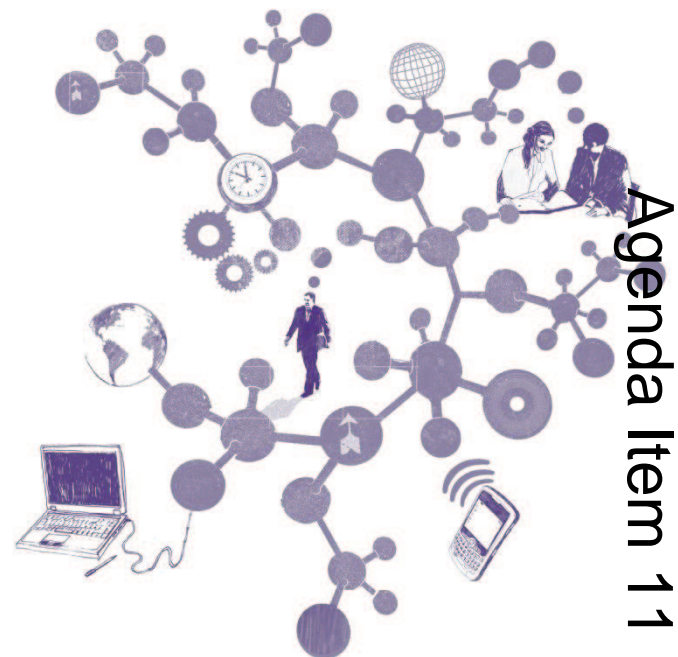
Year ended 31 March 2014

October 2014

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Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Shropshire Council ('the Council') for the year ended 31 March 2014.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 27 March 2014 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

**Council's
Financial
statements
audit
(including
audit
opinion)**

Page 93

We issued an unqualified opinion on the Council's 2013/14 financial statements on 30 September 2014, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

We reported our findings arising from the audit of the financial statements in our Audit Findings Report (AFR) on 18 September 2014 to the Audit Committee. The key messages reported were:

- We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.
- The standard of the draft accounts and supporting working papers provided by the Council was good.
- We identified no adjustments affecting the Council's reported financial position. The greatest changes related to additional narrative disclosure requirements either to comply with the Code of to make the business of the Council more easily understood by the reader of the accounts.
- The Council appropriately accounted for the prior period adjustments required by the changes to the international accounting standard IAS19 – Employee Benefits.
- We were satisfied that the overall approach taken by the Council to assessing provisions in respect of National Domestic Rates (NDR) is reasonable. We received confirmations in the Letter of Representation (LoR) to support the Council's view that it is not possible to arrive at a reliable estimate to the value of potential appeals not yet lodged.
- The Council carries out a rolling programme of asset valuations which ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. In our view, however, this rolling programme does not fully meet the Code's requirement in paragraph 4.1.2.35 to value items within a class of property, plant and equipment simultaneously. We are satisfied that the Council has been able to demonstrate that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2014 and we received confirmation on the assumptions through the Letter of Representation.
- We identified two non-trivial adjustments in respect of the PFI disclosures and the consolidation of West Mercia Energy within the Group Income and Expenditure Account. The audit findings regarding the PFI disclosures related to differences brought about by a different PFI calculation model being used by Grant Thornton to assess the estimate. The Audit Committee agreed with officers' proposals not to amend for in 2013/14, as the values were not materially different.

Key messages

Pension Fund Financial statements audit (including audit opinion)

Page 94

We issued an unqualified opinion on the Pension Fund's 2013/14 financial statements on 30 September 2014, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014, other than liabilities to pay pensions and other benefits after the end of the scheme year. We also issued an opinion on the same date reporting that the pension fund financial statements within Shropshire County Pension Fund's Annual Report are consistent with the full annual statement of accounts of Shropshire Council.

We reported the findings arising from our audit of the financial statements in our Audit Findings Report on 19 September 2014 to the Pensions Committee. The key messages arising from our audit of the Fund's financial statements were:

- The financial statements recorded net assets carried forward of £1.339 billion. We did not identify any material adjustments affecting the Fund's net assets position.
- We agreed a number of minor adjustments to the notes to the financial statements with officers.
- We identified two non-trivial adjustments that netted to £0.4 million in respect of discrepancies between the values of investments reported by the custodian and fund managers. These were similar to those reported in 2012/13 and were in respect of HarbourVest Private Equity investments and Aberdeen Asset Management:
 - HarbourVest PE is potentially understated by £2 million due to estimates as at 31 December 2013 being used as the basis for the year end value, and
 - Aberdeen Asset Management is potentially overstated by £1.6 million due to a difference in the view taken in relation to the of valuation given to investments for property by the investment manager and the Council's custodian.
- The Pension Committee agreed with officers' proposals not to amend for these in 2013/14, as the values were not materially different.

Key messages

Value for Money (VfM) conclusion

We issued an unqualified VfM conclusion for 2013/14 on 30 September 2014.

- The Council has a strong balance sheet and low levels of debt. The out-turn positions for 2013/14 for both revenue and capital delivered ahead of the financial plans. The outturn for the Revenue Budget for 2013/14 was an underspend of £0.390 million, representing 0.06% of the original gross budget of £639 million.
- The level of general fund balance stands at £14.497 million, which is above the anticipated level included within the Council's Financial Strategy but below that previously identified as being required by the Head of Finance, Governance and Assurance. Whilst reserve levels are currently projected to marginally fall the level of reserves is still considered reasonable.
- The Council has demonstrated a drive and commitment to making changes in response to the recent reductions in Government funding. Service redesign often clears a backlog or raises the level of service provided and so is not delivering planned savings in the early stages. However, it does evidence improved use of resources for taxpayers.
- There is a dynamic leadership team in place driving forward a clear vision to move to a Commissioning model. The Council is being proactive about driving out inefficiencies in services which are going out to tender to ensure that external providers do not gain from the easy wins. Some service redesign has already been delivered successfully and the Council has learned from this experience. Service redesign is customer driven, taking into account the local needs and views to ensure that services delivered are what is wanted by the local community.
- The Council is starting to successfully roll out a service redesign methodology demonstrating a culture for change. The skills currently provided by the Business Design Team within ip&e Ltd, supported by BrightLake Consultancy are being transferred to Council employees. This STEP arrangement (Service Transformation Enablement Process) will provide a pivotal role in co-ordinating change projects that require a commissioning solution. Undertaking a zero based budgeting exercise after the initial service redesign grasps the opportunity of stripping out any excess from service costs to enable the Council the scope to maximise impact.

Overall we are satisfied that in the short-term the Council is in a sound financial position. It is taking actions to identify medium-term requirements and options. There remains significant uncertainty and it will be important for the Council to ensure that future financial plans are fully developed, agreed and delivered. On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

Key messages

Whole of Government Accounts	<p>We reviewed the consolidation pack which the Council prepared to support the production of Whole of Government Accounts. We reported that the Council's pack was consistent with the audited financial statements on 3 October 2014.</p>
Certification of grant claims and returns (Audit Commission regime)	<p>We have certified one grant claim under the Audit Commission framework contract as at October 2014 relating to the Pooling of Capital Receipts which was certified without amendment. We are currently undertaking certification work on the Housing Benefit grant claim and will issue our report on this after we have completed the work in accordance with the deadline for submission to the DWP at the end of November 2014. This work will be summarised in a Certification Report which will be released in December 2014 and presented to the Audit Committee.</p>
Audit fee Page 96	<p>Our fee for 2013/14 was £177,390 (excluding VAT) which was in line with our planned fee for the year. This includes work for the opinion, value for money conclusion, whole of government accounts and other reporting. There was an additional £1,070 in relation to additional work required on business rates appeals which was not included in the initial Audit Plan. We have not yet completed our grant certification work. We will agree the fee for this work with the Head of Finance, Governance and Assurance and report the final fee in our Grant Certification Report. The total fee includes fees commissioned by the Council for additional services work.</p> <p>We also undertake the audit of Shropshire County Pension Fund and our net fee for 2013/14 was £22,430 (excluding VAT). Further detail is included within appendix B.</p>
Additional work	<p>We have undertaken various additional pieces of work as detailed in the additional fees section of appendix A. These have been undertaken under separate engagements and reported to the Council or the certification body as appropriate.</p>
Looking forward	<p>The majority of the £41.5 million savings required for 2014/15 are being delivered. However, the Council is currently using some one-off savings and is forecasting a deficit of £3 million for 2014/15 and is therefore bringing some savings plans for 2015/16 and 2016/17 forward to ensure that the budgeted out-turn is met and the medium term financial plan is not destabilised. The Council's governance structure is undergoing a period of change and it is also considering all vehicles for delivering future services to gain greater efficiencies for the Council's overall position.</p> <p>Whilst making savings and improving efficiency through challenging service delivery models are priorities for the Council it is also investing in areas such as Connecting Shropshire, which aims to bring high-speed fibre broadband to premises in Shropshire and the development of the University Centre Shrewsbury with the University of Chester and ip&e. The overall aim being to provide financial benefits to the local economy but also to support the skills and industries of Shropshire.</p> <p>The pace of many of these changes is being driven by the timetable to reduce Government funding. However, whether linked to austerity or investment members, officers and partner organisations will need to ensure that everyone understands the changes and their implications. The overall strategy remains clear and the decisions which are being made are consistent with it.</p>

Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2013/14 audit.

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
<p>1.</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 97</p>	<p>The Council has adopted a rolling programme for asset revaluations. This means that the date of valuations vary between 31 March 2010 and 31 March 2014. This approach is similar to many other authorities and we are satisfied that the Council has been able to demonstrate that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2014. In our view, however, this rolling programme does not meet the Code's requirement in paragraph 4.1.2.35 to value items within a class of property, plant and equipment simultaneously. Nor does it meet IAS16 which requires the revaluation of each class of assets to be completed within a 'short period'.</p> <p>We would normally expect this 'short period' to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year.</p> <p>Recommendation: The accounting standards governing the disclosures around Group Accounts change in 2014/15. The Council will need to ensure that they comply with the requirements of IFRS 10, 11 & 12 and IAS27 & 28 in the 2014/15 financial statements. The Council should engage with Audit at an early stage to ensure that group disclosures meet the requirement of the new reporting standards which come into effect in 2014/15.</p>	Medium	<p>Management response: The Council will prepare the statement of accounts in line with all changes to accounting standards and the Code of Practice, and therefore, would automatically reflect the changes referred to for Group Accounts. Any specific issues arising from the changes will be discussed with Audit.</p> <p>Responsible office: Head of Finance, Governance and Assurance</p> <p>Due date: March 2015</p>

Appendix B: Reports issued and fees

We confirm below the fee charged for the audit and non-audit services undertaken within 2013/14.

Fees

	Per Audit plan £	Actual fees £
Council audit ¹	177,390	TBC
Business rates fee variation ²	0	1,070
Grant certification ³	21,100	TBC
Additional services	0	17,750
Total Council audit fees (excl of VAT)	198,490	TBC
Pension Fund audit	23,427	23,427
Proposed fee variation – IAS 19 Assurances	1,979	1,979
Proposed fee variation – Repayment of the element of 2012/13 fee to meet costs of work by KPMG to be recharged to the Council	(2,976)	(2,976)
Total Pension Fund audit fees (excl of VAT)	22,430	22,430
Total audit fees (excl of VAT)	220,920	TBC

In respect of the fee:

¹As reported in our AFR, on 22 August 2014 we received a letter from a local government elector wishing to exercise their statutory rights to object to the Council's accounts. The matter is in respect of taxi license fees. We are currently investigating the matter and are unable to formally conclude the audit and issue an audit certificate until our work is completed. The work is beyond our core audit responsibilities and, subject to Audit Commission approval, likely to lead to an additional audit fee. We are therefore unable to confirm the final fee for 2013/14 at this time.

²There is an additional fee of £1,070 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims, from which we were able to gain certain assurances in prior years. The Audit Commission has therefore given approval in principle for a fee variation for the additional work required. The additional fee will be applied nationally and is 50% of the average fee previously charged for NDR3 certifications for unitary councils.

³The grant certification fee is indicative and may vary dependent upon the final levels of audit required. We are still completing our grant certification work and will report upon the fee once it is completed.

Fees for other services

Service	Fees £ (excl of VAT)
Valuation of Shire Services	8,000
Homes and Communities Agency Decent Homes Grant Claim – 2012/13 expenditure	2,750
Homes and Communities Agency Decent Homes Grant Claim – 2013/14 expenditure	2,750
Homes and Communities Agency Decent Homes Compliance Testing – 2014/15	4,250
Total Additional Services Fees	17,750

Reports issued

Report	Date issued
Audit Plan	27 March 2014
Audit Findings Report	18 September 2014
Annual Audit Letter	October 2014
Certification report (to be issued once all certification for 2013/14 is complete)	December 2014



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Audit Committee Update for Shropshire Council

Year ended 31 March 2015

November 2014

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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; and
- 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 (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- Working in tandem, local government governance review 2014, our third annual review, assessing local authority governance, highlighting areas for improvement and posing questions to help assess the strength of current arrangements
- 2016 tipping point? Challenging the current, summary findings from our third year of financial health checks of English local authorities
- Local Government Pension Schemes Governance Review, a review of current practice, best case examples and useful questions to assess governance strengths
- Responding to the challenge – Alternative Delivery Models in Local Government

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>2014/15 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 Council's 2014/15 financial statements.</p>	January 2015	In progress	We are in the process of assessing the risks facing your Council and will meet with Senior Officers to ensure that these risks are fully understood.
<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 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. 	November 2014 – April 2015	Not started	<p>We have agreed to hold meetings with the finance team to streamline and improve the audit approach for 2014/15. This are due to take place prior to Christmas.</p> <p>We continue to work closely with Internal Audit in relation to risk, work on the financial statements and fraud.</p> <p>Our approach for 2014/15 will be to undertake as much early testing as possible to reduce pressure on the finance and audit team over the summer months.</p>
<p>2014/15 final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2014/15 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	June – September 2015	Not started	

Progress to date (continued)

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>For 2014/15, auditors of Local Government bodies are required to give their statutory conclusion on arrangements to secure value for money based on the following two criteria specified by the Audit Commission:</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. 	December 2014 – June 2015	Not started	<p>The scope of our work to inform the 2014/15 VfM conclusion will be detailed once we have completed our initial planning.</p> <p>At this stage we can confirm that we will specifically consider the risks you have relating to your financial position and the continued service transformation.</p>
<p>Grant work (Audit Commission regime)</p> <p>We have certified the following claims:</p> <ul style="list-style-type: none"> Pooling of capital grants 2013/14 (CFB06) Housing Benefits Claim 2013/14 (BEN01) 	September – December 2014	In progress	We will report separately to you on the outcome of our certification of these grant claims in our Certification Report 2013/14 once all work is completed.
<p>Other areas of work (Non Audit Commission regime)</p> <p>The Council has engaged us to complete the following additional work on certification:</p> <ul style="list-style-type: none"> Homes & Communities Agency 2013/14 Decent Homes certification Homes & Communities Agency 2014/15 Affordable Homes compliance work Teachers' Pension Agency 2013/14 Certification (PEN05) 	September – December 2014	In progress	<p>At this stage, we have not identified any issues to raise with you in relation to the work for the Homes & Communities Agency.</p> <p>Our work on the Teachers' Pension Agency Certification will commence late November and be finalised before the deadline in December 2014.</p>

Progress to date (continued)

Work	Planned date	Complete?	Comments
<p>Objections We received and accepted an objection relating to the 2013/14 financial statements in relation to taxi licence fees and charges.</p>	August 2014 – May 2015	In progress	<p>We are in discussions with the Council regarding this issue and will carry out investigative work over the coming months to reach our conclusion.</p> <p>Once we have concluded we will be able to issue our certificate to close the 2013/14 audit.</p>
<p>Other activity undertaken Grant Thornton provides a suite of additional resources and opportunities for clients to access. Since our last report we have invited officers and members to attend a number of events including:</p> <ul style="list-style-type: none"> • A seminar on Alternative Delivery Models in Local Government; • The Midlands Local Government Audit Committee Member network; • A Local Government Leaders Breakfast Seminar. <p>We have also published several national reports which have been made available to members and officers as appropriate.</p>	On-going	On-going	

Emerging issues and developments

Code changes – have your say

Accounting and audit issues

At the end of July, CIPFA/LASAAC released the [2015/16 Code of Practice on Local Authority Accounting in the United Kingdom](#) (the Code) Exposure Draft (ED) and Invitation to Comment (ITC) for public consultation. The changes proposed in the ITC include:

- IFRS 13 fair value measurement: the proposed approach would result in remeasurement of property, plant and equipment assets that do not provide service potential for the authority. IFRS 13 also applies to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some exceptions) and will have an impact on the reporting of, for example, financial instruments and investment properties.
- Other amendments to IFRSs: including the accounting treatment of pensions' contributions
- IFRIC 21 Levies (ie levies imposed by governments)
- changes to UK GAAP particularly relating to Heritage Assets
- other minor and drafting amendments.

The consultation closed on Friday 10 October 2014.

CIPFA/LASAAC have also launched a second stage consultation on [simplifying and streamlining the presentation of local authority financial statements](#). This consultation closed on Friday 19 September 2014.

Challenge questions

- Did your Head of Finance, Governance and Assurance review the proposed amendments and assess the potential impact?
- Did your authority consider whether it wished to respond to the consultations?

CIPFA LAAP updates

Accounting and audit issues

CIPFA have issued the following LAAP Bulletins:

- [LAAP bulletin 99](#) Local Authority Reserves and Balances – provides guidance on the establishment and maintenance of local authority reserves and balances.
- [LAAP bulletin 100](#) Project Plan for Implementation of the Measurement Requirements for Transport Infrastructure Assets by 2016/17 – provides an outline project plan to help authorities looking to develop their own project plans for the implementation of the 2016/17 Code requirements for accounting for infrastructure assets.

Challenge questions

- Has your Head of Finance, Governance and Assurance reviewed the guidance and assessed the potential impact for your authority?
- Has your authority started to implement a project plan for accounting for transport infrastructure assets?

2020 Vision

Grant Thornton

Our national report '2020 Vision' is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/2020-Vision-Exploring-finance-and-policy-futures-for-English-local-government-as-a-starting-point-for-discussion/>

In a time of unprecedented challenge for English local government, how can the sector develop towards 2020 if it is to have a sustainable future? Our latest report provides a thorough analysis of the current political and economic context, explores a range of potential policies and outcomes, and suggests several scenarios to facilitate an open debate on the future for the sector.

Produced in collaboration with the University of Birmingham's Institute for Local Government Studies (INLOGOV), our report suggests that fundamental changes to local government are both operationally necessary and constitutionally inevitable, for the sector to remain relevant by 2020. The report offers a thorough analysis of the current political and economic context and explores a range of potential future policies and outcomes that English local government will need to adopt and strive towards as they seek to adapt and overcome these challenges.

Placed in the context of enhanced devolution, following the Scottish independence referendum, 2020 Vision maintains a wary eye fixed on the 2015/16 Spending Round and looks ahead to the life time of the next government. It highlights that the economic and financial situation remains increasingly untenable, with an expanding North/South divide arising from the pattern of funding reductions and economic growth.

English local authorities continue to face unprecedented challenges, relating to the pressures of austerity and central government funding reductions, and demographic and technological change. Our report highlights the vital role of a successful local government sector and encourages it to think hard about how it will cope in the future.

Informed by the views of a broad range of local authority leaders, chief executives and other sector stakeholders, the report offers a set of six forward-looking scenarios* in which councils could be operating within by 2020. Though not mutually exclusive, we suggest that key stakeholders need to take urgent action to avoid a potential slow and painful demise for some councils by 2020.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

Pulling together the Better Care Fund

Grant Thornton

Our national report 'Pulling together the Better Care Fund' is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/Pulling-together-the-Better-Care-Fund/>

Do local authorities and clinical commissioning groups (CCGs) have effective arrangements to develop joint Better Care Plans for agreement by the health and wellbeing boards (HWBs) and how ready are they for the pooled fund in April 2015?

Our report draws on our review of the introduction of draft Better Care Fund (BCF) plans for both the February and April submissions. It is based on a sample of our findings from 40 HWB localities. It considers the partnership arrangements across a HWB planning area and is supported by discussions with the sector, across the country. The result is a snap shot of progress as at 30 June 2014, prior to the issue of revised planning guidance by NHS England and the Local Government Association on 25 July 2014.

It provides you with:

- an understanding of how your approach to introducing BCF compares to others across the country
- assistance in identifying the key issues to delivering Better Care Fund plans effectively
- insight into current best practice
- practical areas for consideration for improving arrangements in the future.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

Where Growth Happens

Grant Thornton

Our national report 'Where Growth Happens' is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/Where-growth-happens-The-high-growth-index-of-places/>

As the UK emerges from recession, increasing attention is being given, both nationally and locally, as to how to accelerate economic sector growth. Our report presents the findings of research undertaken by our Place Analytics team on the dynamics of local growth. It will give FDs and CEOs of local authorities and LEAs:

- an insight into the geographic areas of high growth and dynamic growth (ie the quality of growth)
- an understanding of the characteristics of both growing and dynamic places to help frame policy and sustain future growth
- an understanding of growth corridors and their implications, not only for UK policy makers, but also for those locally sitting within and outside the corridors
- an insight into the views of different leaders charged with making growth happen in their locality.

The report provides a ranking of English cities according to their economic growth over an eight year period (2004 – 2012). Outside of London – which maintains eight of the top 10 best performing districts overall – it places Manchester, Birmingham and Brighton and Hove in the top three, as measured by economic, demographic and place (dwelling stock and commercial floor space) growth.

The analysis also assesses the quality of local growth - or 'dynamism' - to identify areas with a vibrant and dynamic economy capable of supporting future expansion, based on five key drivers. London again tops the ranking, with nine out of the top 10 dynamic growth areas. Outside the capital, Cambridge, Reading and Manchester top the list of future sustainable growth.

Based on this analysis of past progress and future prospects, our report reveals a number of 'growth corridors' – functional and large scale local economic areas in England – which are playing a significant role in the country's overall growth levels. Though predominantly stemming from London, the intra-city growth corridors include a number of other large cities at their core, creating a network of key strategic linkages between high growth and dynamic areas.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

New routes to housing development

Grant Thornton

We have issued the first in a series of good practice papers on topical issues for local government.

http://www.grant-thornton.co.uk/Global/Publication_pdf/new-routes-to-housing-development.pdf

This paper considers good practice in councils' approaches to delivering affordable housing. Until recently, local authorities have acted as an enabler of new affordable housing; increasingly they are now undertaking a direct delivery role. Delivery routes vary and must be structured with the council's objectives and capacity in mind as there is no 'one size fits all' approach. The paper considers the benefits and challenges of council owned housing companies, including:

- Setting and delivering objectives
- Identifying optimal funding routes
- Assessing viability and working with others

The paper stresses the importance of a properly developed business case and business plan to support the setting up of a housing company.

Copies of our good practice paper are available on our website or from your engagement lead or audit manager.

Anti - fraud and corruption update

Grant Thornton

Key current issues include:

Single Fraud Investigation Service (SFIS) - The SFIS will bring together all investigative capacity in relation to benefits and tax credits under the control of the Department of Work and Pensions. However a number of local authorities have expressed concern that such a transfer will cause them to lose the capacity to readily investigate other issues such as employee fraud and corruption allegations.

Corruption risk - In 2013 Transparency International (TI), the world's leading non-governmental anti-corruption organisation, published a report on corruption in UK Local Government. It identified twelve key risk areas covering public procurement, control over outsourced services, personnel transferring between local authorities and companies bidding to provide services, planning issues, collusion in housing fraud and manipulation of electoral registration. TI expressed concern that audit committees were unable to fulfil the function of reducing risks in many authorities.

Non-benefits fraud - There are striking differences between the identification of benefit and non-benefit fraud within local government. The Audit Commission has reported that 79 district councils did not detect a single non-benefit fraud whereas only 9 councils among all London boroughs, metropolitan districts and unitary authorities reported non-benefit frauds. Procurement fraud in particular is consistently estimated as accounting for the largest losses to fraud within local government. In its most recent Protecting the Public Purse publication the Audit Commission estimated annual losses at £876 million, representing 1% of total procurement spend.

Our Forensic Investigation Services provide a range of services to local authorities including fraud prevention and detection. If you are interested in a further discussion on these areas please contact your audit manager.

The National Fraud Initiative

Local government guidance

On 12 June 2014 the Audit Commission released its national report, [The National Fraud Initiative \(NFI\): National Report \(June 2014\)](#) highlighting that its data matching exercise has identified a further £229 million of fraud, overpayment or error in England, Scotland, Wales and Northern Ireland, since it last reported in May 2012. The Chairman of the Audit Commission, Jeremy Newman said;

"We publish a report from the NFI every two years and continue to produce great results. The national figure for identified fraud, error and overpayment, that would otherwise be lost to the taxpaying public, is down by £46 million compared to the previous report although the number of cases has increased by nearly 20 per cent. This is great news if, as we believe, it is due to improving detection rates. However, we cannot be complacent. The more participants in the exercise, the richer the data for everyone involved and the harder it is for fraudsters to hide from detection".

The Audit Commission's National Fraud Initiative will move to the Cabinet Office in April 2015 to secure the continuation of the counter fraud data matching initiative which over its 18 year history has identified over £1.17 billion in fraud, error and overpayment .

Challenge question

- Are members satisfied that the Council's support for the NFI's data matching exercise is adequate and that local data matches are being properly investigated to identify potentially fraudulent activity?



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<u>Committee and Date</u>
Audit Committee 27 November 2014

INTERNAL AUDIT CHARTER

Responsible Officer Ceri Pilawski
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1. Summary

The Internal Audit team works to a Charter which is in compliance with the Public Sector Internal Audit Standards applied in the UK based on the international standards. The Charter is reviewed and considered on an annual basis by the Audit Committee.

2. Recommendations

The Committee are asked to consider and endorse, with appropriate comment, the Internal Audit Charter (**Appendix A**).

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 An Audit Committee has a key function in ensuring and maintaining effective corporate governance arrangements are in place in the Council. The Internal Audit Charter provides evidence of such arrangements in respect of the provision of the Internal Audit function and has been updated to reflect the recent adoption of the Public Sector Internal Audit Standards.
- 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, consultation or climate change consequences of this proposal.

4. Financial Implications

- 4.1 There are no direct financial implications from adopting this Charter.

5. Background

- 5.1 Public Sector Internal Audit Standard 1000 requires the Purpose, Authority and Responsibility to be defined in an Audit Charter. In addition the Internal Audit Charter establishes internal audits position within the organisation, including the

nature of the Audit Service Manager’s functional reporting relationship with the Audit Committee; authorises access to records, personnel and physical properties relevant to the performance of audit work and defines the scope of internal audit activities. Final approval of the Internal Audit Charter resides with the Audit Committee.

- 5.2 The Internal Audit Charter should also refer to;
- The nature of assurance services provided to the Council.
 - Organisational independence.
 - Individual objectivity.
 - Impairment to independence or objectivity.
 - Proficiency and due professional care.
 - Continuing professional development.
 - Quality assurance and improvement programme – internal and external.
- 5.3 The charter will communicate the contribution that Internal Audit makes to the Council and includes:
- Internal Audit’s purpose and responsibilities.
 - Independence and objectivity.
 - Competencies and standards.
 - Internal audit planning.
 - Nature of work.
 - Internal audit reporting.
 - Quality assurance.
 - Fraud and corruption.
 - Rights of access.
- 5.4 There are no adjustments recommended for the Charter this year. A copy of the proposed Charter can be found at **Appendix A**.

<p>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Accounts and Audit Regulations 2011; Public Sector Internal Audit Standards 2013</p>

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

<p>Local Member All</p>

<p>Appendices Internal Audit Charter</p>



INTERNAL AUDIT CHARTER

MISSION STATEMENT

“To objectively examine, evaluate and report on the adequacy of the control environment as a contribution to the proper economic, efficient and effective use of resources for Shropshire Council and our external clients.”

INTERNAL AUDIT CHARTER

INTRODUCTION

1. This charter defines for the Council and the community internal audit activity's purpose, authority and responsibilities consistent with the requirements of the Public Sector Internal Audit Standards (PSIAS)¹. It establishes Internal Audit's position within the Council, including functional reporting relationships with the Audit Committee², authority to access records, personnel and physical properties relevant to the performance of its engagements³; and defines the scope of the Internal Audit activity. Final approval of this Charter rests with the Audit Committee⁴.
2. The PSIAS which encompasses the mandatory elements of the Institute of Internal Auditors (IIA) define Internal Audit as follows: *"Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper economic, efficient and effective use of resource"*.
3. The basis of internal financial administration within the Council lies in the Financial Rules contained in the Council's Constitution. This Charter should be read in conjunction with the relevant sections of these Financial Rules.
4. The authority for the internal audit function is derived from legislation. The requirement for an internal audit function derives from two pieces of legislation: - Section 151 of the Local Government Act 1972 requires that authorities 'make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs'. The Accounts and Audit Regulations 2011, requires that 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. (The PSIAS is now the definitive proper practice)

Any officer or member of a relevant body shall if the body requires:-

¹ PSIAS apply the IIA International Standards to the UK Public Sector and have been endorsed as proper practices by CIPFA, the internal audit standard setters for Local Government.

² See glossary for translation of the terms used in the Public Sector Internal Audit Standards in respect of Shropshire Council's Internal Audit activity and those of its external clients.

³ Engagement is the term in the PSIAS used to represent audit work.

⁴ The Audit Committee is referenced in the PSIAS as the Board.

- a) Make available such documents and records as appear to that body to be necessary for the purposes of the audit; and
- b) Supply the body with such information and explanation as that body considers necessary for that purpose. The relevant body shall, at least once in each year, conduct a review of the effectiveness of its system of internal control.

The findings of the review referred to above shall be considered as part of the consideration of the system of internal control.

5. The Financial Rules (Part 4, Appendix C2) state the Section 151 Officer has a 'statutory responsibility for the overall financial administration of the Council's affairs and is responsible for maintaining an adequate and effective internal audit'.
6. In accordance with good practice, this Charter will be reviewed annually by the Audit Committee, after consultation with senior management⁵.

INTERNAL AUDIT PURPOSE AND RESPONSIBILITIES

Purpose

7. Internal Audit led by the Audit Service Manager⁶ is 'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.'⁷

Objectives

8. Internal audit's objective is to give assurance and an opinion to the Section 151 Officer, Audit Committee and the Council, on the adequacy of the Council's risk management, governance and control environment and the extent that it can be relied upon, in line with the Accounts and Audit (England) Regulations 2011.

Responsibilities

9. Internal Audit is responsible for conducting an independent appraisal of all the Council's (and that of its external clients) activities, financial or otherwise, including services provided in partnership or under contract with external organisations. It provides this service to the Council and all levels of management.
10. Internal audit complies with the requirements of the Public Sector Internal Audit Standards (PSIAS) including the Definition of Internal Auditing and the Code of Ethics (see **Annex A**) and other relevant guidance; including those issued by individual auditors' professional bodies.

⁵ Senior management comprises of the Head of the Paid Service, Monitoring Officer, Section 151 Officer and directors.

⁶ The Audit Service Manager is the Council's Chief Audit Executive as defined in the PSIAS.

⁷ Source Public Sector Internal Audit Standards April 1st 2013.

11. The scope of internal audit includes:
 - reviewing, appraising and reporting on the following:
 - the soundness, adequacy and application of internal controls;
 - the extent to which the Council's assets are accounted for and safeguarded from losses of all kinds arising from fraud and other offences, waste, extravagance and inefficient administration, poor value for money or other causes;
 - the suitability and reliability of financial and other management data developed within the Council;
 - carrying out selected value for money reviews of the efficiency and economy of the planning and operation of the Council's functions;
 - providing a responsive, challenging and informative internal advice and consultancy service for committees and services;
 - undertaking any non-recurring studies as directed by the Section 151 Officer;
 - advising on or undertaking fraud investigation work, with the exception of benefit fraud in accordance with the Council's Fraud Investigation procedure, prosecutions policy and the disciplinary guide. In addition to participating in the National Fraud Initiative; and
 - periodically undertaking an audit needs assessment taking into consideration the authorities risk management process.
12. Internal audit also carry out special reviews or assignments where requested by management, which fall outside the approved work plan and for which a contingency is included in the audit plan.

INDEPENDENCE AND OBJECTIVITY

13. Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out their responsibilities in an unbiased manner.
14. Objectivity is an unbiased mental attitude that allows internal auditors to perform audit reviews in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.
15. Threats to objectivity and independence must be managed at the individual auditor, audit, functional and organisational levels.
16. Internal Audit has no executive responsibilities and is independent of the activities that it audits to enable Auditors to provide impartial and unbiased professional evaluations, opinions and recommendations. Internal audit is free to plan, undertake and report on its work as the Audit Service Manager deems appropriate, in consultation with relevant managers.

17. The Audit Service Manager has direct access to the Section 151 Officer, the External Auditor, senior managers, the Leader, Audit Committee and other members as required.
18. The Audit Service Manager fosters constructive working relationships and mutual understanding with management, external auditors and with other review agencies.
19. Constructive working relationships make it more likely that internal audit work will be accepted and acted upon, although the internal auditor does not allow their objectivity or impartiality to be impaired.
20. Internal auditors are required to have an impartial, unbiased attitude characterised by integrity and objectivity in their approach to work. They avoid conflicts of interest and a register of interests is maintained. Audit reviews are planned to ensure potential conflicts are avoided. Auditors should not allow external factors to compromise their professional judgement and must maintain confidentiality in their work.
21. The Audit Service Manager cannot be expected to give total assurance that control weaknesses or irregularities do not exist. Managers are fully responsible for the quality of internal control within their area of responsibility. They should ensure that appropriate and adequate control and risk management processes, control systems, accounting records, financial processes and governance arrangements i.e. the control environment, exist without depending on internal audit activity to identify weaknesses.
22. The Audit Service Manager is to be consulted about significant proposed changes in the internal control system and the implementation of new systems and shall make recommendations on the standards of control to be applied. This need not prejudice the audit objectivity when reviewing the systems at a later date.

COMPETENCIES AND STANDARDS

23. Audits must be performed with proficiency and due professional care. Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities.
24. The Audit Service Manager holds a relevant professional accountancy qualification and is suitably experienced. In addition they must maintain a team of staff who are properly trained to fulfil all their responsibilities and continue to enhance their knowledge, skills and competencies through continuing professional development.
25. Internal auditors are expected to:
 - exercise due professional care based upon appropriate experience, training, ability, integrity and objectivity;

- apply confidentiality as required by law and best practice and
- obtain and record sufficient audit evidence to support their findings and recommendations.

INTERNAL AUDIT PLANNING

26. The Audit Service Manager produces the Council's annual risk based audit plan, in consultation with the Section 151 Officer, to establish priorities, achieve objectives and ensure the efficient and effective use of audit resources. The plan takes into account the Accounts and Audit (England) Regulations 2011, the management of risk, previous internal/external audit work, discussions with the Head of the Paid Service and senior managers, external networking intelligence, local and national risks, comments from the Audit Committee and any requirements of the External Auditor.
27. The Plan is subject to regular reviews and revisions as required to reflect changes to the risk environment and these changes are approved when significant. The Plan includes an element of contingency to allow internal audit to be responsive to changing risks and requests for assistance from managers. It is the responsibility of the Section 151 Officer to ensure that the budget⁸ and resources allocated to internal audit are sufficient to ensure delivery of the plan and to report any concerns to the Audit Committee. The Audit Committee agree the annual risk based plan and any significant change to the plan during the year.

NATURE OF WORK

28. The internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.

Governance

29. The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:
- Promoting appropriate ethics and values within the organisation;
 - Ensuring effective organisational performance management and accountability;
 - Communicating risk and control information to appropriate areas of the organisation;
 - Coordinating the activities of and communicating information among the audit committee, external and internal auditors and management.

⁸ The budget, including the remuneration the Audit Service Manager is approved by Council.

- The internal audit activity must assess whether the information technology governance of the organisation supports the organisation's strategies and objectives.

Risk Management

30. Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:
- Organisational objectives support and align with the organisation's mission;
 - Significant risks are identified and assessed;
 - Appropriate risk responses are selected that align risks and their mitigation with the organisation's risk appetite.
 - Relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management and the board to carry out their responsibilities.
31. The internal audit activity must evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk.
32. When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

Control

33. The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organisation's governance operations and information systems regarding the:
- Achievement of the organisation's strategic objectives;
 - Reliability and integrity of financial and operational information;
 - Effectiveness and efficiency of operations and programmes;
 - Safeguarding of assets; and
 - Compliance with laws, regulations, policies, procedures and contracts.
34. In accordance with the PSIAS, most individual audits are undertaken using the risk based systems audit approach, the key elements of which are listed below:-
- Identify and record the objectives, risks and controls.
 - Establish the extent to which the objectives of the system are consistent with higher level corporate objectives.
 - Evaluate the controls in principle to decide whether or not they are appropriate and can be reasonably relied upon to achieve their purpose.
 - Identify any instances of over and under control.
 - Determine an appropriate strategy to test the effectiveness of controls, i.e. through compliance and/or substantive testing.

- Arrive at conclusions and produce a report, leading to management actions as necessary and providing an opinion on the effectiveness of the control environment.
35. To reduce duplication of effort we will work in partnership to identify and place reliance on assurance work completed elsewhere in the Council and a computerised audit management and working papers system is used to streamline working practices based upon best professional practice.

INTERNAL AUDIT REPORTING

36. Internal audit report their findings in writing to appropriate managers against four assurance opinions (good, reasonable, limited and unsatisfactory). The Audit Service Manager sets standards for reporting and makes arrangements for their review and approval before issue. The reports:
- prompt management action to implement recommendations for change, leading to improvement in performance and control;
 - provide a formal record of points arising from the assignment, and where appropriate, of agreements reached with management;
 - state scope, purpose and extent of conclusions;
 - make recommendations relative to the risk which are appropriate, relevant and flow from the conclusions;
 - acknowledge the action taken or proposed by management; and
 - ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations, or that management has understood and assumed the risk of not taking action.
37. The Audit Service Manager reports regularly to the Section 151 Officer and at least three times a year to the Council's Audit Committee on progress against the annual audit plan and other issues of concern in respect of the control environment and emerging issues. The Audit Committee meet at least four times per year and they have a detailed work plan agreed for the year. In addition, the Audit Service Manager produces an annual report to the Section 151 Officer and Audit Committee on the main issues raised by Internal Audit during the year and on the performance of Internal Audit. In particular the annual report:
- Includes an opinion on the overall adequacy and effectiveness of the Council's control environment.
 - Discloses any qualifications to that opinion, together with the reasons for the qualification.
 - Presents a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies.
 - Draws attention to any issues the Audit Service Manager considers particularly relevant to the preparation of the Annual Governance Statement.

- Compares the work actually undertaken with the work that was planned and summarises the performance of the Internal Audit function against its performance measures and criteria.
- Comments on compliance with these standards and communicates the results of the Internal Audit quality assurance and improvement programme.

QUALITY ASSURANCE

38. In order to ensure Internal Audit independence, the audit of any areas managed by the Audit Service Manager will be carried out by an appropriate auditor and reviewed by an audit senior. The Audit Service Manager will take no part in the audit or review process other than in the role of auditee. The final report will be issued to the Section 151 Officer as the Audit Service Manager's line manager.
39. The Audit Service Manager will develop and maintain a quality assurance and improvement programme covering all aspects of the internal audit activity and conforming to the relevant standards. This will include an on-going internal assessment covering adequate supervision of work performed, an internal review process and the retention of appropriate evidence. In addition, at least once every five years an external assessment of internal audit by an appropriate person⁹ from outside the Council will be conducted. The timing, form of the assessment, qualifications of any external assessor, results and any improvement plans will be agreed with and reported to the Audit Committee in the annual report¹⁰. Significant deviations will be considered for inclusion in the Annual Governance Statement.
40. The Audit Service Manager develops and maintains a set of performance measures which are reported to the Section 151 Officer and Audit Committee.

FRAUD AND CORRUPTION

41. The Internal Audit Service is not responsible for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is the responsibility of management.
42. The Audit Service Manager should be informed of all suspected or detected fraud, corruption or impropriety and will consider the implications for their opinion on the adequacy and effectiveness of the relevant controls, and the overall internal control environment.

RIGHTS OF ACCESS

43. Under the Council's Financial Rules, internal auditors have the authority to:
- Access at reasonable times, premises or land used by the Council.
 - Access all assets, records, documents, correspondence and control systems except for those from which they are statutorily prevented.

⁹ Qualified independent assessor or assessment team

¹⁰ For both internal and external reviews

- Require and receive any information and explanation considered necessary concerning any matter under consideration.
- Require any employee of the Council to account for cash, stores or any other Council property under his/her control and produce supporting evidence and assets for inspection if required.
- Access records belonging to third parties, such as contractors, when required.

Reviewed 27th November 2014

Public Sector Internal Audit Standards

The definition of Internal Auditing within the Standards is: Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Code of Ethics -

Internal auditors in UK public sector organisations must conform to the Code of Ethics within the Standards. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

There are four principles in the code of ethics:

1. **Integrity** – The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.
2. **Objectivity** – Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.
3. **Confidentiality** – Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
4. **Competency** – Internal auditors apply the knowledge, skills and experience needed in the performance of internal audit services.

Internal auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life.¹¹

¹¹ Information can be found at www.public-standards.gov.uk

Glossary of Terms for External Clients where they are different to the Council

Shropshire and Wrekin Fire and Rescue Authority

Senior Management	Chief Fire Officer Treasurer Directors
Board	Audit and Performance Management Committee Fire and Rescue Authority

Oswestry Town Council

Senior Management	Town Clerk
Board	Town Council

STaR

Senior Management	Managing Director and direct reports
Board	Finance, Audit and Risk Sub Committee

West Mercia Energy

Senior Management	Section 151 Officer Managing Director
Board	Joint Committee

Shropshire County Pension Fund

Senior Management	Section 151 Officer Directors
Board	Pensions Committee



Committee and Date

Audit Committee
27th November 2014

INTERNAL AUDIT PLAN 2014/15 – SEVEN MONTH REPORT

Responsible Officer Ceri Pilawski

e-mail: ceri.pilawski@shropshire.gov.uk Telephone: 01743 252027

1. Summary

- 1.1 This report provides members with an update of the work undertaken by Internal Audit in the two and a half months since the last report in September 2014 and summarises progress against the 2014/15 Internal Audit Plan.
- 1.2 Whilst it has been a challenging year, 56% of the revised plan has been completed which is in line with previous delivery records to achieve the target of 90% by year end.
- 1.3 The trend towards a higher number of limited and unsatisfactory opinions issued this year compared to last has continued. This reflects the changing environment that the Council is working in and its increased appetite for risk, which needs to be offset against knowledge and management of those risks to ensure value for money. In the period 18th August to 31st October 2014, 25 good and reasonable assurances were made, eight limited and two unsatisfactory assurance opinions. The 35 final reports contained 347 recommendations with two fundamental recommendations identified.
- 1.4 This report proposes minor revisions to the revised Internal Audit Plan presented in September 2014 amounting to 2,167 days. The new plan will provide 2,147 days across the Council's services and our external clients. Increases in annual leave for staff over the Christmas period and higher levels of unplanned and advisory work necessitate these revisions; these changes have been discussed with and agreed by the Section 151 Officer.

2. Recommendations

The Committee are asked to consider and endorse, with appropriate comment;

- a) The performance to date against the 2014/15 Audit Plan set out in this report.
- b) The adjustments required to the 2014/15 plan to take account of changing priorities set out in **Appendix B**.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The delivery of a risk based Internal Audit Plan is an essential part of ensuring probity and soundness of the Council's financial and risk management systems and procedures and is closely aligned to the Council's strategic and operational risk registers. The Plan is delivered in an effective manner; where Internal Audit independently and objectively examines, evaluates and reports on the adequacy of its customers control environments as a contribution to the proper, economic, efficient and effective use of resources. It provides assurances on the internal control systems, by identifying areas for improvement or potential weaknesses and engaging with management to address these in respect of current systems and during system design. Failure to maintain a robust internal control environment can lead to poor performance, fraud, irregularity and inefficiency going undetected leading to financial loss and reputational damage.
- 3.2 Areas to be audited have been identified following a risk assessment process which has considered the Council's risk register information and involved discussions with managers around their key risks.
- 3.3 Provision of the Internal Audit Annual Plan satisfies 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.'
- 3.4 'Proper practices' can be demonstrated through compliance with the Public Sector Internal Audit Standards (PSIAS).
- 3.5 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2011.
- 3.6 There are no direct environmental, equalities or climate change consequences of this proposal.

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 revised 2014/15 audit plan was presented and approved by members at the 18th September Audit Committee with the caveat that further adjustments may be necessary.
- 5.2 Part of the internal audit plan is being provided by external providers through Staffordshire County Council's framework contract for internal audit. Four companies have successfully been appointed to the framework and following a mini-tendering exercise the team is purchasing both general and IT audit days from the external providers.

5.3 This report summarises the work of the Internal Audit team up to the 31st October 2014. As reported previously, the team has experienced a number of staff changes coupled with continuing high levels of unplanned work against a background of major changes and fluidity to Council services. This requires a more responsive approach to risk management and audit activity, culminating in necessary changes to the plan.

Audit Work and Findings

5.4 Audit assurance opinions are delivered on completion of audit reviews reflecting the efficiency and effectiveness of the controls in place, opinions are graded as follows:

Good	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is a sound system of control in place which is designed to address relevant risks, with controls being consistently applied.
Reasonable	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is generally a sound system of control but there is evidence of non-compliance with some of the controls.
Limited	Evaluation and testing of the controls that are in place performed in the areas examined identified that, whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key control.
Unsatisfactory	Evaluation and testing of the controls that are in place identified that the system of control is weak and there is evidence of non-compliance with the controls that do exist. This exposes the Council to high risks that should have been managed.

5.5 In total 35 final reports have been issued to Shropshire Council in the period 18th August to 31st October 2014, the breakdown of which appears in the table below together with the year to date and previous year totals. In addition 18 audit reports have been issued in draft for which we are awaiting management comments. We have also issued ten reports to our external clients and drawn up the financial statements and completed the audits of two school and other honorary and voluntary body accounts.

Audit assurance opinions delivered to 31st October 2014

Directorate	Good	Reasonable	Limited	Unsatisfactory	Total
Adult Services	4	7	2	0	13
Commissioning	0	1	0	0	1
Children's Services	1	1	2	1	5
Public Health	0	1	0	0	1
Commercial Services	1	0	0	0	1
Customer Involvement	0	5	4	1	10
Finance, Governance and Assurance	2	2	0	0	4

Directorate	Good	Reasonable	Limited	Unsatisfactory	Total
Total for the period 18/08-31/10/14	8	17	8	2	35
Total 2014/15 to date					
• Numbers	15	35	19	3	72
• Percentage	21%	49%	26%	4%	100
Total 2013/14	30%	45%	15%	10%	100
Total 2012/13	31%	56%	12%	1%	100

5.6 Twenty five good and reasonable assurances were made in the 18th August to 31st October 2014.

5.7 Two unsatisfactory opinions were given in the following areas:

Children's Services: Burford CE Primary School
Customer Involvement: Disposal of I.T. equipment

Management have provided positive responses through agreed recommendation implementation action plans to address the issues identified, a number of significant issues are summarised in the table below: In addition, a follow up audit on the disposal of IT equipment has been requested and will be delivered in quarter four of the IT audit plan.

Burford CE Primary School	<p>There is a lack of internal control in many of the control objectives reviewed. Improvements are required in relation to:</p> <ul style="list-style-type: none"> • The delegation of financial limits • Recording Finance Committee meetings • Reporting budget monitoring to Governors • Purchasing processes around seeking quotations, raising orders and paying invoices promptly. • Accounting for the imprest and bank reconciliations. • Simplifying the payroll process and ensuring appropriate authorisations • The school fund: ensuring it is audited and maintaining a complete set of records • Banking income promptly and insuring for cash in transit to the appropriate limit • Appointing a Senior Information Risk Owner and reviewing user accounts to the school's computer network.
Disposal of I.T. equipment	<p>Formal responsibility and procedures for the disposal of IT equipment had not been documented or publicised. Management reviews of contract documentation including disposal processes, inventory management are to be conducted.</p> <p>IT equipment identified for disposal is to be held in an appropriate location prior to being collected and clearly marked for disposal.</p>

5.8 Eight limited opinions were issued in the following areas:

Adult Services

- 207 Crowmere Road Group Home
- 9 Sefton Place Group Home

Children’s Services

- Shifnal Primary School
- Wistanstow CE Primary School

Customer Involvement

- Customer Service Points
- Helpdesk Procedures
- I.T. Business Support
- Project Management (PMO) Adequacy of Arrangements

5.9 Details of limited and unsatisfactory opinions issued in the period 1st April to 17th August 2014 are shown at **Appendix A**.

5.10 The level of unsatisfactory and limited audit opinions is continuing at the levels reported in September, we have now issued 19 limited and three unsatisfactory opinions in the first seven months compared to 14 limited and 9 unsatisfactory assurance reports issued last year. In addition, five fundamental recommendations were made last year compared to three to date in 2014/15, details of which are set out below. The trend towards a higher number of limited and unsatisfactory opinions issued compared to last year has continued.

5.11 Audit recommendations are an indicator of the effectiveness of the Council’s internal control environment and are rated according to their priority:

Best Practice (BP)	Proposed improvement, rather than addressing a risk.
Requires Attention (RA)	Addressing a minor control weakness or housekeeping issue.
Significant (S)	Addressing a significant control weakness where the system may be working but errors may go undetected.
Fundamental (F)	Immediate action required to address major control weakness that, if not addressed, could lead to material loss.

5.12 Recommendations are rated in relation to the audit area rather than the Council’s control environment: for example, a control weakness deemed serious at one school which results in a significant or fundamental recommendation would not affect the Council’s overall control environment, unless it was affecting all schools. Similarly, a number of significant recommendations in a small number of areas would not result in a limited opinion if the majority of areas examined were sound, consequently, the number of significant recommendations in the table below will not necessarily correlate directly with the number of limited assurance opinions issued and detailed earlier. Any fundamental recommendations resulting from a control weakness in the Council’s control environment would be reported in detail to the Audit Committee.

5.13 A total of 347 recommendations have been made in the 35 final audit reports issued in the period 18th August to 31st October 2014; these are broken down by area in the table below, together with the year to date and previous year totals.

Audit recommendations made in the period to 31st October 2014

Audit Area	No. of Recommendations made				
	Best Practice	Requires Attention	Significant	Fundamental	Total
Adult Services	9	49	14	0	72
Commissioning	3	2	0	0	5
Children's Services	8	91	60	0	159
Public Health	0	2	4	0	6
Customer Involvement	9	30	44	2	85
Finance, Governance and Assurance	3	15	2	0	20
Total for the period 18/08-31/10/14	32	189	124	2	347
Total for 2014/15 to date					
• Numbers	43	426	288	3	760
• Percentage	6%	56%	38%	0%	100
Total 2013/14	15%	57%	27%	1%	100
Total 2012/13	23%	57%	20%	0%	100

5.14 It is management's responsibility to ensure accepted audit recommendations are implemented within an agreed timescale. With the exception of annual audits where recommendations are revisited as a matter of course; recommendations are followed up after six months by obtaining an update from management on progress made. No recommendations have been rejected by management.

5.15 Two fundamental recommendations have been agreed with managers as part of the Disposal of I.T. equipment audit, a summary of which appears in the table under paragraph 5.7 of this report.

Performance against the plan

5.16 The revised internal audit plan was presented to Audit Committee in September 2014 with the caveat that some adjustments may be necessary which would be agreed by the Section 151 Officer and reported back to committee. There are a number of minor changes to audit resources: increases in annual leave for staff over the Christmas period and slightly higher levels of unplanned and advisory work, the opportunity has been taken to revisit the plan in the light of these changes and the audit work performed in the first part of the year.

5.17 The team has achieved 56% of the revised plan by the 31st October 2014 which is in line with previous delivery records to achieve the target of 90% by year end. Performance to date is summarised in the following table. **Appendix B** provides a more detailed summary by Directorate and Service.

Summary of audit days delivered and revisions to the audit plan 31st October 2014

	Original Plan	August Revision	November Revision	Revised Plan	Days Worked	% of Revised Complete
Chief Executive	18	0	5	23	11.2	49%
Adult Services	113	8	11	132	103.7	79%
Commissioning	104	16	0	120	47.9	40%
Children's Services	245	42	-1	286	168.2	59%
Public Health	30	-5	0	25	14.4	58%
Resources and Support	636	35	-29	642	248.4	39%
S151 Planned Audit	1,146	96	-14	1,228	593.8	48%
Contingencies and other chargeable work	649	9	12	670	447.2	67%
Total S151 Audit	1,795	105	-2	1,898	1,041.0	55%
External Clients	265	2	-18	249	158.3	64%
Total	2,060	107	-20	2,147	1,199.3	56%

5.18 Work for our external clients is progressing as scheduled and plans are on target for full delivery.

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

Draft Internal Audit Annual Plan 2014/15 - Audit Committee 27 March 2014
 Internal Audit Plan 2014/15 Performance Report - Audit Committee 18 September 2014
 Public Sector Internal Audit Standards 2013
 Accounts and Audit Regulations 2011.

Cabinet Member (Portfolio Holder)

Keith Barrow, Leader of the Council and Brian Williams, Chairman of Audit Committee

Local Member: All

Appendices: A: Limited Assurance Opinions 1st April to 17th August 2014
 Appendix B: Audit Plan by Group and Service

Limited Assurance Opinions 1st April to 17th August 2014

Adult Services

- Abbots Wood Comforts Fund (2013/14)
- CM2000 Electronic Homecare Monitoring – Application Review

Children's Services

- Leaving Care Team Imprest Account
- Onny CE Primary School and Little Pippins Nursery (2013/14)
- St Martins All Through School (2013/14)
- Trinity (Ford) CE Primary School (2013/14)
- Woodlands School

Customer Involvement: Patch Management

Finance, Governance and Assurance: Purchase Ledger (2013/14)

Human Resources: Payroll System (2013/14)

Legal, Strategy and Democratic: Contract Audit (2013/14).

Unsatisfactory Assurance Opinions 1st April to 17th August 2014

Customer Involvement: Lotus Notes Decommissioning

APPENDIX B

AUDIT PLAN BY GROUP AND SERVICE – PERFORMANCE REPORT TO 31st OCTOBER 2014

	Original Plan Days	Aug. Revision	Nov. Revision	Revised Plan Days	Oct 31 st Actual	% of Revised Complete
CHIEF EXECUTIVE						
Governance	18	0	5	23	11.2	49%
ADULT SERVICES						
Provider Services - Comforts Funds	8	0	6	14	14.0	100%
Provider Services - Establishments	6	0	1	7	6.7	96%
Provider Services - Group Homes	8	1	2	11	11.2	102%
Provider Services - Trading Accounts	2	3	0	5	4.8	96%
Development Support	8	0	0	8	0.0	0%
Long Term Support	81	4	2	87	67.0	77%
ADULT SERVICES	113	8	11	132	103.7	79%
COMMISSIONING						
Waste Services	10	0	3	13	12.6	97%
Business and Enterprise	10	0	-5	5	0.0	0%
Highways and Transport	14	16	0	30	10.9	36%
Development Management	9	6	0	15	10.6	71%
Visitor Economy	5	0	-5	0	0.0	0%
Environmental Health	5	0	3	8	0.0	0%
Housing Services	51	-6	4	49	13.8	28%
COMMISSIONING	104	16	0	120	47.9	40%
CHILDREN'S SERVICES						
Assessment and Looked After Children	0	10	3	13	11.6	89%
Children's Placement and Joint Adoption	27	-5	0	22	7.0	32%
Business Support	22	0	-10	12	1.3	11%
Children's Placement and Joint Adoption	15	0	0	15	0.0	0%
Education Improvements	31	14	-10	35	24.2	69%
Primary/Special Schools	115	5	12	132	94.1	71%
Secondary Schools	35	18	4	57	30.0	53%
CHILDREN'S SERVICES	245	42	-1	286	168.2	59%
PUBLIC HEALTH	30	-5	0	25	14.4	58%

RESOURCES AND SUPPORT
Commercial Services

Estates and Facilities	5	0	0	5	5.3	106%
Property Services	25	1	0	26	1.5	6%
Shire Services	8	0	0	8	0.4	5%
	38	1	0	39	7.2	18%

Customer Involvement

Benefits	30	-7	1	24	7.3	30%
Customer Services	12	1	1	14	10.0	71%
ICT Implementation and Architecture	45	5	-6	44	14.0	32%
ICT Operations	128	12	4	144	89.3	62%
	215	11	0	226	120.6	53%

Finance Governance and Assurance

Finance Transactions	63	0	-6	57	7.9	14%
Financial Advice (S.151)	69	-10	3	62	25.0	40%
Financial Management	73	24	-18	79	31.2	39%
Procurement	40	0	-10	30	14.3	48%
Revenues	40	0	0	40	0.9	2%
Risk Management and Business Continuity	5	0	0	5	0.0	0%
Treasury	16	0	0	16	8.4	53%
	306	14	-31	289	87.7	30%

Human Resources

Payroll and Human Resources	57	8	2	67	30.0	45%
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Legal, Strategy and Democratic

Democratic Services	2	0	0	2	0.0	0%
Election Services	4	0	0	4	0.1	3%
Information Governance	4	1	0	5	2.6	52%
Legal Services	10	0	0	10	0.2	2%
	20	1	0	21	2.9	14%

RESOURCES AND SUPPORT	636	35	-29	642	248.4	39%
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Total Shropshire Council Planned Work	1,146	96	-14	1,228	593.8	48%
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CONTINGENCIES

Advisory Contingency	40	0	-5	35	13.1	37%
Fraud Contingency	200	0	0	200	123.1	62%
Transformation Projects	100	0	0	100	81.8	82%
Unplanned Audit Contingency	49	0	0	49	39.1	80%
Other non-audit Chargeable Work	260	9	17	286	190.1	66%

CONTINGENCIES	649	9	12	670	447.2	67%
Total for Shropshire	1,795	105	-2	1,898	1,041.0	55%
EXTERNAL CLIENTS	265	2	-18	249	158.3	64%
Total Chargeable	2,060	107	-20	2,147	1,199.3	56%

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By virtue of paragraph(s) 2, 3, 7 of Part 1 of Schedule 12A of the Local Government Act 1972.

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