Shropshire Council

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

Date: Friday, 13 February 2015
My Ref:
Your Ref:

Committee:
Audit Committee

Date:	**Monday, 23 February 2015**
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 Substitutes

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 27 November 2014 and the 10 February 2015 (Pages 1 - 6)

The Minutes of the meeting held on the 27 November 2014 and the 10th February 2015 are attached for confirmation.
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 Reviewing the Audit Plan (Pages 7 - 20)

To receive a briefing / training update from the Audit Service Manager.
Contact: Ceri Pilawski 01743 252027

6 Benefit Fraud Investigations - Performance Monitoring Report (Pages 21 - 24)

The report of the Team Manager - Investigations is attached.
Contact: Jessica Taylor 01743 256100

7 Treasury Strategy 2015/16 (Pages 25 - 70)

The report of the Head of Finance, Governance and Assurance (Section 151) is attached.
Contact: James Walton 01743 255011

8 Internal Audit Report of the Review of Risk Management Audit 2014/15 (Pages 71 - 74)

The report of the Engagement Auditor is attached.
Contact: Peter Chadderton 01743 252773

9 Review of the Audit Committee's Annual Work Plan and Future Learning and Training Requirements 2014/15 (Pages 75 - 82)

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

10 External Audit: Audit Committee Update for Shropshire Council (Pages 83 - 96)

The report of the District Auditor is attached.
Contact: Jon Roberts 0121 232 5383

11 External Audit: Certification Summary Reports 2013/14 including Housing Benefit (Pages 97 - 110)

The report of the External Auditor is attached.
Contact: Jon Roberts 0121 232 5383

12 External Audit: Plan 2014/15 (Pages 111 - 128)

The report of the District Auditor is attached.
Contact: Jon Roberts 0121 232 5383

13 External Audit: Informing the Audit Risk Assessment for Shropshire Council (Pages 129 - 148)

The report of the District Auditor is attached.
Contact: Jon Roberts 0121 232 5383

14 Draft Internal Audit Risk Based Plan 2015/16 (Pages 149 - 164)

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

15 Internal Audit Plan 2014/15 - Ten Month Plan Report (Pages 165 - 176)

The report of the Audit Services Manager is attached.
Contact Ceri Pilawski 01743 252027

16 Date and Time of Next Meeting

The next meeting of the Audit Committee will be held on the 25 June 2015 at 9.30 am.

17 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 Arrnagements)(Meetings and Access to Information)(England) Regulations and Paragraphs 2, 3 and 7 of the Council's Access to Information Rules, the public and press be excluded during consideration of the following items.

18 Exempt Minutes of the meeting held on the 10 February 2015

The exempt minutes of the meeting held on the 10th February 2015 will follow.
Contact: Sarah Townsend 01743 252803

19 Fraud, Special Investigation and RIPA Update February 2015 (Pages 177 - 180)

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

Committee and Date
Audit Committee
23 February 2015

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 27 NOVEMBER 2014
9.30 - 11.45 AM

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

43 **Apologies for Absence / Notification of Substitutes**

43.1 There were no apologies for absence.

44 **Disclosable Pecuniary Interests**

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

45 **Minutes of the previous meeting held on the 18 September 2014**

45.1 **RESOLVED:**
That the Minutes of the meeting held on the 18 September 2014 be approved and signed by the Chairman as a correct record.

46 **Public Questions**

46.1 There were no public questions.

47 **Management Report: Council Tax and Non Domestic Rates Performance Monitoring Report**

47.1 Consideration was given to the report of the Revenues Manager - copy attached to the signed minutes - which set out the performance monitoring rates on the collection of income through Council Tax and National Non Domestic Rates for the year up to 31 March 2014 and progress on the year to 31 March 2015.

47.2 **RESOLVED:**
That the contents of the report by the Revenues Manager be noted and accepted.

48 **Treasury Strategy 2014/15 Mid Year Report**

48.1 The Head of Finance, Governance and Assurance (Section 151 Officer) presented his report - copy attached to the signed minutes - on a mid-term review of the Treasury Strategy which had been prepared in compliance with CIPFA's Code of Practice on Treasury Management.

48.2 The report highlighted that the internal Treasury Team achieved a return of 0.57% on the Council's cash balances, outperforming the benchmark by 0.27%.

48.3 **RESOLVED:**

(a) That the mid-year position in respect of the Treasury Strategy as set out in the report of the Head of Finance, Governance and Assurance (Section 151 Officer) be accepted.

(b) That it be noted that any capital schemes brought forward which would impact on the current Treasury Strategy would need to be approved by Council.

49 **Internal Audit: IT Update**

49.1 The Committee considered the report of the Audit Engagement Officer which set out details of the work undertaken on the IT control environment by the Internal Audit Team.

49.2 The Audit Engagement Officer reported that good progress had been made on implementing the agreed control improvements however, two audits had achieved the same unsatisfactory audit opinion as in 2013/14 and identified further work required to mitigate the ongoing risks identified.

49.3 Due to the levels of concerns highlighted within the report, members requested that an update report be circulated at the earliest opportunity to seek to assure members of improvements to the IT control environment. Due to the severity of the concerns raised by the Committee, it was agreed that a special meeting be convened to consider the matter further.

49.4 **RESOLVED:**

(a) That the report of the Engagement Officer be noted and that the Audit Committee expressed grave concern regarding aspects of the report.

(b) That a briefing note be circulated by the Head of Finance, Governance and Assurance (Section 151 Officer) to members of the Audit Committee

(c) That the Head of Customer Involvement be requested to attend the next meeting of the Audit Committee to examine the implications contained within the report.

50 **Annual Review of Counter Fraud, Bribery and Anti-Corruption Strategy**

50.1 Consideration was given to the report of the Audit Service Manager - copy attached to the signed minutes - which informed Members that the Counter Fraud, Bribery and Anti-Corruption Strategy had been reviewed and refreshed in line with best practice and aligned to the CIPFA Code of Practice.

50.2 **RESOLVED:**

That the Counter Fraud, Bribery and Anti-Corruption Strategy be accepted as a key part of the Council's stance against Fraud, Bribery and Corruption.

51 **Annual Review of the Audit Committee Terms of Reference**

51.1 The Committee considered the report of the Head of Finance, Governance and Assurance (Section 151) - copy attached to the signed minutes - on the updated Audit Committee Terms of Reference which reflected the recent CIPFA guidance - Audit Committees: Practical Guidance for Local Authorities and Police 2013.

51.2 **RESOLVED:**
That, subject to the inclusion of the word 'members' in item 44, the current Audit Committee Terms of Reference be endorsed and accepted.

52 **Audit Committee Self-Assessment of Good Practice**

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

52.2 **RESOLVED:**
(a) That the Self-Assessment of Good Practice be endorsed.
(b) That compliance for questions 6, 19 and 20 be revised from partial to fully compliant.
(c) That the Audit Service Manager be asked to monitor progress on the continued effectiveness of the Committee.

53 **External Audit: Annual Audit Letter 2013/14**

53.1 The Committee received the Annual Audit Letter for Shropshire Council from the External Auditors (Grant Thornton) - copy attached to the signed Minutes - which set out the findings from the 2012/13 audit of the Council's financial statements and an assessment of the Council's arrangements to achieve value for money in its use of resources.

53.2 **RESOLVED:**
That the Annual Audit Letter for Shropshire Council be noted and accepted.

54 **External Audit: Audit Committee Update Report**

54.1 The Committee considered the update report of the External Auditor – copy attached to the signed Minutes – which summarised the emerging national issues and developments and identified a number of challenge questions in respect of the emerging issues.

54.2 **RESOLVED:**
That the contents of the Annual Audit Committee Update be noted.

55 **Internal Audit Charter - Annual Review**

55.1 Consideration was given to the report of the Audit Service Manager - copy attached to the signed minutes - which referred to the Internal Audit Charter which was required to be reviewed on an annual basis by the Audit Committee and contributed to the Council's corporate governance arrangements.

55.2 **RESOLVED:**
That the Internal Audit Charter be endorsed and accepted.

56 Internal Audit Plan 2014/15 - Seven Month Review

56.1 The Committee considered the report of the Audit Service Manager - copy attached to the signed Minutes - which provided members with an update of the work undertaken by Internal Audit since the last report considered in September 2014 and summarises progress against the 2014/15 Internal Audit Plan.

56.2 **RESOLVED:**
(a) That the performance to date against the 2014/15 Audit Plan set out in Appendix A be endorsed and noted.
(b) That the adjustments required to the 2014/15 plan to take account of changing priorities set out in Appendix B also be endorsed.

57 Date and Time of Next Meeting

57.1 The next meeting of the Audit Committee would be held on Monday, 23 February 2015 at 9.30 am.

58 Exclusion of Press and Public

58.1 **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 involves the likely disclosure of exempt information as defined by the categories specified against the item.

59 Fraud and Special Investigation Update November 2014 (Exempted by Categories 2, 3 and 7)

59.1 The Committee considered the exempt report of the Engagement Officer which provided an update on the current fraud, special investigations undertaken by the Internal Audit Team since the last meeting.

59.2 **RESOLVED:**
That the contents of the exempt report by noted.

Signed .... (Chairman)

Date: ....

Committee and Date
Audit Committee
23 February 2015

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 10 FEBRUARY 2015 9.30 – 11.15 AM

Responsible Officer: Sarah Townsend
Email: sarah.townsend@shropshire.gov.uk Tel: 01743 252803

Present
Councillor Brian Williams (Chairman)
Councillors John Cadwallader, Chris Mellings and Mansel Williams

60 **Apologies for Absence / Notification of Substitutes**

Apologies for absence were received from Councillor Michael Wood, Mr Nigel Bishop (Head of Customer Involvement), Ms Emily Mayne (Grant Thornton) and Mr Jon Roberts (Grant Thornton).

61 **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.

62 **Public Questions**

There were none.

63 **Exclusion of Press and Public**

RESOLVED:
That in accordance with the provisions 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 Paragraph 3 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.

64 IT Disaster Recovery and Business Continuity

The Committee received the Exempt Report, Appendix and Briefing Paper of the Head of Customer Involvement (copy attached to the Exempt signed Minutes). The Director of Public Health and the ICT Manager were in attendance to present the report and address the Committee's concerns.

RESOLVED:

(a) That the Committee accept the Report, Appendix and Briefing Paper of the Head of Customer Involvement.

(b) That an interim update report be circulated by the Head of Customer Involvement to both the Committee and Officers via email in April 2015, addressing the concerns raised by internal audit and stating whether or not the proposed action dates contained within the Briefing Paper had been met. The Chairman of the Audit Committee had the discretion to call a special meeting if necessary.

(c) That an Internal Audit report on IT Disaster Recovery and Business Continuity be considered at the 17th September 2015 Audit Committee meeting and the Portfolio Holder, Councillor Mike Owen, also be invited to attend.

65 Date and Time of Next Meeting

RESOLVED:

That the next meeting of the Audit Committee be held on Monday, 23 February 2015 at 9.30 am in the Shrewsbury Room, Shirehall, Shrewsbury.

Signed .... (Chairman)

Date: ....

Shropshire Council

Reviewing the Audit Plan

CERI PILAWSKI

23 FEBRUARY 2015

Reviewing the Audit Plan

- Why draw up an audit plan?
- Who is involved?
- How is the plan produced?
- What does the plan cover?
- When is the plan written?
- What is the committees role in relation to the plan?

Shropshire Council

Why draw up an audit plan?

- Ensure all main areas of risk are addressed
- Provide assurance to support the AGS
- Provide information for the HoIA opinion on the effectiveness of the control environment
- Ensure limited resources are used to best effect – identify priorities.

Who is involved?

- HoIA
- S151 Officer
- Senior managers
- Audit Team
- Risk Management Team
- Aligned with external audit plans and other assurance bodies

Shropshire Council

How is the audit plan produced?

- Risk based
- Consider financial and non financial risks
- Strategic risk register
- Auditors risk assessment
- Consider PSIAS requirements
- Identified audits balanced against resources available

Shropshire Council

What does the plan cover?

- Delivery against the IA strategy in accordance with the Terms of Reference
- Planned and reactive work
- Flexible – respond to changing risks and priorities
- Allowances for non chargeable time

What does the plan cover?

Planned work

- High risk areas – significant financial risk or high profile projects/ programmes
- Areas of poor performance, fraud or emerging risks
- Regular audits due to impact on financial statements
- Judgement of HoIA
- Reflection of risk and priority areas

Shropshire Council

What does the plan cover?

Reactive work

- Investigations
- Providing advice
- Supporting working groups and specialist projects

Non chargeable time

- Leave
- Training
- Administration
- Team meetings

When is the plan written?

- Normally cover financial year – not mandatory
- Written prior to beginning of the year for Audit Committee approval
- Needs to be flexible
- Committee needs to be informed of changes and approval sought for any significant adjustments
- Movement away from a strategic plan (e.g. Three years coverage)

Shropshire Council

What is the Committee's role?

- Challenge the plan
- Support its delivery
- Ensure
  - risks and priorities of the Council are considered
  - plan is aligned to audit strategy and terms of reference
  - External and internal audit have liaised
  - Auditors have exercised independence and not been unduly influenced by others

Shropshire Council

What is the Committee's role?

- Consider how the plan relates to other sources of assurance
- How does the plan support the AGS?
- Will you get the assurances you need from the plan?
- Monitor the activity and outcomes against the plan
- Support the auditors (e.g. if there is a lack of auditee engagement or shortfall in resources
- To get action as a result of audit work

Key questions for Audit Committee to ask

- Who did the head of internal audit liaise with in drawing up this plan? Did this include external audit?
- How does this audit plan link to our risk register and our strategic plans?
- What audits have you left off this plan and why? When do you plan to carry out this work?
- How does the audit plan fit with other assurance work? Are there any gaps or is there duplication?

Questions?

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Committee and Date
Audit Committee
23 February 2015

BENEFIT FRAUD INVESTIGATIONS – PERFORMANCE MONITORING REPORT

Responsible Officer Phil Weir – Revenues and Benefits Service Manager
e-mail: phil.weir@shropshire.gov.uk Tel: 01743 256113

1. Summary

1.1 The Council's benefit fraud work is undertaken by fraud officers working within the wider Benefits Team in the Revenues and Benefits Service. The Fraud Team transferred back into Benefits in June 2014 from Public Protection.

1.2 Investigations are undertaken into fraudulent claims for Housing Benefit and Council Tax Benefit (HB/CTB) and other Welfare Benefits jointly with the Department for Work and Pensions (DWP). This report provides Members with performance monitoring information on the investigations undertaken by officers for the financial year 2014/15 to date.

2. Recommendations

2.1 That the Committee consider and endorse, with appropriate comment, the position as set out in this report with respect to benefit fraud investigation performance.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 The Council provides Housing Benefit and formerly Council Tax Benefit by virtue of a scheme, under Section 123 of the Contributions and Benefits Act 1992 and administers the scheme in accordance with the Social Security Administration Act 1992.

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

3.3 There are no direct environmental, equalities, climate change or consultation consequences of this proposal.

4. Financial Implications

4.1 The results of the investigations undertaken by officers into the fraudulent claims associated with the Local Authority administered benefits/allowances identified £434,219.96 of overpayments in 2013/14 and £150,753.86 for the financial year 2014/15 up to the 10 February 2015.

4.2 In addition to the overpayments recovered, the Council continues to receive 40 per cent in subsidy payments through Central Government for any HB/CTB monies identified as overpayments.

5. Background

5.1 The Council has over 24,000 individuals claiming Housing Benefit (HB) and the new Council Tax Reduction Scheme (CTRS), paying out in excess of £80 million per year. Council Tax Benefit (CTB) was replaced by the Council Tax Reduction Scheme in April 2013.

5.2 The legislation relating to the payment of HB/CTRS is complex, so it is important that the Benefits Team ensures that individual benefit claimants report their changes in circumstances promptly. Failure to report any change either with or without intent can lead to large overpayments of benefit.

5.3 The benefit fraud officers receive referrals of benefit fraud from a number of sources including members of the public, staff, other agencies and also through the use of data matching exercises including the National Fraud Initiative and the Housing Benefit Matching Service.

5.4 Despite the changeover from CTB to CTRS, investigations into CTB fraud have and will continue, since investigations by their very nature cover past periods. As illustrated in the tables below these are reducing and being replaced more predominately with CTRS related overpayments and respective offences.

5.5 Currently, the investigation of HB, CTB and CTRS fraud is the responsibility of the Local Authority. Committee members will recall that the Single Fraud Investigation Service (SFIS), part of the Department for Work and Pensions (DWP) will in the future become responsible for the enforcement of all Social Security related benefits/allowances. As part of the transition of Local Authority Fraud staff to SFIS, Shropshire Council's fraud team are due to transfer on 1 June 2015. Work is underway with Shropshire Council's HR Team and DWP representatives to ensure as smooth a transition as possible for the team.

5.6 SFIS will not be responsible for the enforcement of CTRS related fraud. Although CTRS is a replacement for CTB, CTRS is part of the council tax system and as such is not a social security benefit or allowance as defined under social security legislation, unlike CTB and HB. Consideration is being given by the Revenues and Benefits Service about how CTRS and other Council Tax related fraud can be investigated within current resource levels after the transfer of the Fraud Team to SFIS. A greater emphasis is likely to be placed on civil penalties being issued by Shropshire Council under the new arrangements.

6. Additional Information

6.1 **Housing Benefit and Council Tax Benefit overpayments identified by the Fraud Team**

Benefit Type	2012/13	2013/14	2014/15 (to 10/02/15)
Housing Benefit Overpayments	£432,117.18	£357,729.55	£123,709.23
Council Tax Benefit Overpayments	£115,220.86	£68,615.63	£15,821.04
Council Tax Reduction Scheme Overpayments	n/a	£7,874.78	£11,223.59
Totals	**£547,338.04**	**£434,219.96**	**£150,753.86**

6.2 **Actions taken**

Sanction Type	2012/13	2013/14	2014/15 (to 10/02/14)
Cautions	97	35	23
Admin Penalties	29	31	9
Prosecutions	42	76	18

6.3 The total Welfare Benefit overpayments identified during the course of investigations in addition to Housing Benefit and Council Tax Benefit (e.g. Income Support, Incapacity Benefit, etc) in 2013/14 was £139,743.34 and 2014/15 to the 10/02/15 is £3,700.44. This would include benefits like Income Support, and Pension credit.

6.4 Shropshire Council may use Administrative Penalties as an alternative to prosecution. An Administrative Penalty is a financial sanction equivalent to a minimum £350 or 30% (50% for offences committed wholly on or after 8 May 2012) of the benefit overpayment. This is in addition to the total overpayment of benefit which is also recoverable. The table below shows the total amount of Administrative Penalties that have been accepted by customers as an alternative to prosecution action.

6.5 **Total Administrative Penalty Repayments offered and accepted**

	2012/13	2013/14	2014/15 (to 10/02/15)
Admin Penalty accepted	£23,008.14	£14,711.59	£4,753.00

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)
Cabinet Member (Portfolio Holder) Cllr Mike Owen
Local Member
Appendices

Shropshire Council

Committee and Date
Cabinet 11 February 2015 Audit Committee 23 February 2015 Council 26 February 2015

TREASURY STRATEGY 2015/16

Responsible Officer James Walton
e-mail: james.walton@shropshire.gov.uk Tel: (01743) 255011

1. Summary

1.1 The report proposes the Treasury Strategy for 2015/16 and recommends Prudential Indicators for 2015/16 to 2017/18. The report is technical in nature but the key points to note are:-

- Borrowing is largely driven by the Capital Programme Strategy. From 2011/12 the Council's borrowing requirement has been significantly reduced due to the Government changing the way in which it funds the Council's capital expenditure and providing capital grants rather than supported borrowing approval with on-going revenue support grant to meet the financing costs of the borrowing. The Treasury Strategy includes new prudential borrowing of £7.3 million from 2014/15 to 2016/17 for the purchase and refurbishment of Mardol House. This will be financed from internal borrowing so there will be no need to take on any new external debt. There is no further borrowing required in future years following a review of the Capital Programme and the continued policy of generating additional capital receipts to fund capital expenditure.

- The Council's lending continues to be restricted to highly credit rated Banks, one Building Society, Nationalised and Part Nationalised Institutions which meet Capita's creditworthiness policy, other Local Authorities and the UK Government.

- The internal Treasury Team will continue to look for opportunities to make savings by actively managing the cash and debt portfolio in accordance with the Treasury Strategy.

- The bank rate is expected to remain at its historically low level of 0.50% until December 2015 when it is forecast to rise to 0.75%. Every 0.25% increase in the bank rate equates to around £250,000 of additional interest receivable per annum on the Council's investments.

- Long term borrowing rates are expected to be higher than investment rates during 2015/16 therefore long term borrowing may be postponed in order to maximise savings in the short term. No external borrowing is currently expected to be undertaken in 2015/16 or future years due to a review of the Capital Programme.

- The Council has agreed to offer to lend funds to Shropshire Housing Ltd (which incorporates both South Shropshire Housing Association and the Meres & Mosses Housing Association) and Severnside Housing at an agreed rate. In the current climate Housing Associations can find it difficult to obtain funding for new affordable housing. It has been agreed to offer to lend up to £10 million to each of these Housing Associations in order to support the building of affordable housing and shared office accommodation in Shropshire. For security purposes, each loan will be secured against existing assets held by or owned by the Housing Association. To date £3,000,000 has been drawndown by Shropshire Housing Ltd and £2,280,000 by Severnside Housing.

2. Recommendations

2.1. Recommendations to Cabinet

Cabinet recommend that Council:-

a) Approve, with any comments, the Treasury Strategy for 2015/16.

b) Approve, with any comments, the Prudential Indicators, set out in Appendix 1, in accordance with the Local Government Act 2003.

c) Approve, with any comments, the Investment Strategy, set out in Appendix 2 in accordance with the CLG Guidance on Local Government Investments.

d) Approve, with any comments, the Minimum Revenue Provision (MRP) Policy Statement, set out in Appendix 3.

e) Authorise the Section 151 Officer to exercise the borrowing powers contained in Section 3 of the Local Government Act 2003 and to manage the Council's debt portfolio in accordance with the Treasury Strategy.

f) Authorise the Section 151 Officer to use other Foreign Banks which meet Capita's creditworthiness policy and Money Market Funds again if required as money markets continue to stabilise.

g) Note the proposed Prudential Indicators would enable the Authority to use the equivalent of up to 3% of Council Tax in 2015/16 or future years, to fund borrowing under the Prudential Code should the Council decide to do so.

2.2. Recommendations to Audit Committee

h) Audit Committee are asked to consider and endorse, with appropriate comment, the Treasury Strategy 2015/16.

2.3. Recommendations to the Council

i) Approve, with any comments, the Treasury Strategy for 2015/16.

j) Approve, with any comments, the Prudential Indicators, set out in Appendix 1, in accordance with the Local Government Act 2003.

k) Approve, with any comments, the Investment Strategy, set out in Appendix 2 in accordance with the CLG Guidance on Local Government Investments.

l) Approve, with any comments, the Minimum Revenue Provision (MRP) Policy Statement, set out in Appendix 3.

m) Authorise the Section 151 Officer to exercise the borrowing powers contained in Section 3 of the Local Government Act 2003 and to manage the Council's debt portfolio in accordance with the Treasury Strategy.

n) Authorise the Section 151 Officer to use other Foreign Banks which meet Capita's creditworthiness policy and Money Market Funds again if required as money markets continue to stabilise.

o) Note the proposed Prudential Indicators would enable the Authority to use the equivalent of up to 3% of Council Tax in 2015/16 or future years, to fund borrowing under the Prudential Code should the Council decide to do so.

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 financial implications arising from the Treasury Strategy are detailed in this report. 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 Council currently has £116 million held in investments and borrowing of £337.8 million 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 those activities, and the pursuit of optimum performance consistent with those risks".

5.2. This strategy statement has been prepared in accordance with CIPFA's Code of Practice on Treasury Management. Accordingly, the Council's Treasury Strategy will be approved annually by full Council and there will also be a mid year review report. In addition, treasury management update reports will be submitted quarterly to Directors and Cabinet. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of policies and practices, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

5.3. The Council will adopt the following reporting arrangements in accordance with the requirements of the Code:-

Area of Responsibility	**Council/Committee/Officer**	**Frequency**
Treasury Management Policy Statement	Full Council/Cabinet	As required
Treasury Strategy/Annual Investment Strategy/MRP Policy	Full Council/Cabinet	Annually before the start of the financial year
Treasury Strategy/Annual Investment Strategy/MRP Policy – mid year report	Full Council/Cabinet	Mid year
Treasury Strategy/Annual Investment Strategy/MRP Policy – updates or revisions at other times	Full Council/Cabinet	As required
Annual Treasury Report	Full Council/Cabinet	Annually by 30 September after the end of the financial year
Treasury Management Monitoring Reports	Reports prepared by Investment Officer to the Head of Treasury & Pensions who reports to the Section151 Officer	Monthly
Treasury Management Practices	Section 151 Officer	As required
Scrutiny of Treasury Strategy	Audit Committee	Annually before the start of the financial year
Scrutiny of the treasury management performance	Audit Committee	Half yearly

6. **Treasury Strategy 2015/16**

6.1. The Local Government Act 2003 and supporting Regulations requires the Council to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that capital investment plans are affordable, prudent and sustainable. This report incorporates the indicators to which regard should be given when determining the Council's Treasury Management Strategy for the next financial year.

6.2. As the Council is responsible for housing, Prudential Indicators relating to Capital Expenditure, financing costs and the Capital Financing Requirement will be split between the Housing Revenue Account (HRA) and the General Fund. The impact of any new capital investment decisions on housing rents will also need to be considered.

6.3. The Act also requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

6.4. The proposed Strategy for 2015/16 in respect of the following aspects of the treasury management function is based upon the S151 Officers' view on interest rates, supplemented with leading market forecasts provided by the Council's Treasury Advisor, Capita Asset Services.

6.5. The proposed strategy will focus on the following areas of treasury activity:-

- Treasury limits in force which will limit the treasury risk and activities of the Council.
- The determination of Prudential and Treasury Indicators.
- The current treasury position.
- Prospects for interest rates.
- Capital borrowing strategy.
- Policy on borrowing in advance of need.
- Debt rescheduling.
- Investment strategy.
- Capital plans.
- Creditworthiness policy.
- Policy on use of external service providers.
- The MRP strategy.
- Leasing.

6.6. It is a statutory requirement under section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:-

- increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
- any increase in running costs from new capital projects

are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

7. Treasury Limits for 2015/16 to 2017/18

7.1. It is a statutory requirement under Section 3 of the Local Government Act 2003 and supporting Regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". This authorised limit represents the legislative limit specified in section 3 of the Local Government Act 2003.

7.2. The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax levels is 'acceptable'.

7.3. Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate those planned to be financed by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Borrowing Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years and is the limit which the Council must not breach. All of the other Prudential Indicators are estimates only and can be breached temporarily but this is very rarely the case. If this did happen it would be reported to Members outlining the reasons for this temporary breach.

7.4. The Council are asked to approve these Prudential Indicators.

8. Prudential & Treasury Indicators for 2015/16 to 2017/18

8.1. The Prudential Code and CIPFA Code of Practice on Treasury Management require the Council to set a number of Prudential and Treasury Indicators. In addition to the specified indicators, we have set 4 further internal indicators for Treasury Management, regarding lower limits on interest rate exposure for both borrowing and investments.

8.2. It should be noted that these indicators should not be used for comparison with indicators from other local authorities. Use of them in this way would be likely to be misleading and counter-productive as other authorities Treasury Management policies and practices vary. The most important indicator is prudential indicator number 10 which specifies the authorised limit which cannot be breached under any circumstances. In the event that this indicator was breached a separate report would be brought to Council.

8.3. **Prudential Indicator 1 & 2** - The ratio of financing costs indicator shows the trend in the cost of financing capital expenditure as a proportion of the Authority's net revenue. This indicator also shows the ratio of the HRA financing costs to the HRA net revenue stream.

Prudential Indicator No. 1 & 2	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	%	%	%	%
Non HRA ratio of financing costs (gross of investment income) to net revenue stream	10.6	10.7	11.0	10.9
Non HRA ratio of financing costs (net of investment income) to net revenue stream	10.3	10.3	10.6	10.5
HRA Ratio of financing costs to HRA net revenue stream	41.9	41.5	41.2	41.0

8.4. The 2015/16 to 2018/19 Capital Budget includes no external prudential borrowing for 2015/16 or future years as this will be financed from internal borrowing.

8.5. **Prudential Indicator 3** - In accordance with Prudential Guidelines the costs of all prudential borrowing, are included in prudential indicators even though they will be funded from existing revenue budgets. The HRA budgetary requirements for the authority have also been calculated by taking the difference between the existing capital programme and any changes proposed in the new capital programme. It is anticipated that there will be no unsupported borrowing relating to the HRA therefore the addition or reduction to average weekly housing rents for 2015/16 to 2017/18 is zero. The figures quoted include Prudential Borrowing already utilised and profiled totalling £28.6 million from 2006/07 to 2016/17.

Prudential Indicator No. 3	2015/16	2016/17	2017/18
Estimates of impact of Capital Investment decisions in the present capital programme	**£ p**	**£ p**	**£ p**
Cost of capital investment decisions funded from re-direction of existing resources (Band D, per annum)	22.62	24.86	21.46
Cost of capital investment decisions funded from increase in council tax (Band D, per annum)	0	0	0
Cost of capital investment decisions funded from increase in average housing rent per week	0	0	0
Total	**22.62**	**24.86**	**21.46**

8.6. **Prudential Indicator 5, 8, 9** - A key indicator of prudence is that net external borrowing should not, except in the short term, exceed the capital financing requirement (CFR). The capital financing requirement is the maximum we would expect to borrow based on the current capital programme. Compliance with the indicator will mean that this limit has not been breached. From 2013/14 onwards the key indicator of prudence has been revised and stipulates that gross borrowing, except in the short term, should not exceed the CFR. The reason Gross borrowing is currently above the Capital Financing Requirement from 2016/17 is due the authority setting aside capital receipts until they are required and following the change from borrowing approvals to capital grants annual Minimum Revenue Provision payments are higher than the level of maturing debt each year meaning the CFR is reducing more than the gross borrowing. Gross borrowing includes debt administered on behalf of the Borough of Telford and Wrekin, Magistrates Courts and Probation Service. It also includes the debt transferred from Oswestry Borough Council and North Shropshire District Council on the 1st April 2009. In accordance with the Code the HRA Capital Financing requirement has been calculated separately and has been updated due to the HRA reform which is took place on the 28 March 2012.

Prudential Indicator No. 5 * No. 8 & 9^	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Net Borrowing & Capital Financing Requirement:	**£ m**	**£ m**	**£ m**	**£ m**	**£ m**
Non HRA Capital Financing Requirement^	250	256	248	238	228
HRA Capital Financing Requirement^	85	85	85	85	85
Total CFR	**335**	**341**	**333**	**323**	**313**
Gross Borrowing including HRA*	343	338	329	324	318
Investments*	110	90	90	90	90
Net Borrowing*	**233**	**248**	**239**	**234**	**228**

8.7. **Prudential Indicator 6 & 7** - The estimated capital expenditure has been split between Non HRA and HRA and represents commitments from previous years to complete ongoing schemes, the expenditure arising from the proposed new schemes within the capital programme for 2015/16, and the estimated expenditure for 2016/17 and 2017/18.

Prudential Indicator No. 6 & 7	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	£ m	**£ m**	**£ m**	**£ m**	**£ m**
Non HRA Capital expenditure	43	56	45	27	16
HRA Capital expenditure	4	10	4	4	4

8.8. **Prudential Indicator 10 which must not be breached** - The authorised limit is the borrowing limit set for Shropshire Council and includes the HRA borrowing. This indicator shows the maximum permitted amount of outstanding debt for all purposes. It includes three components:

1. The maximum amount for capital purposes;
2. The maximum amount for short term borrowing to meet possible temporary revenue shortfalls;
3. The maximum permitted for items other than long term borrowing i.e. PFI & leasing.

Prudential Indicator No. 10	2015/16	2016/17	2017/18
External Debt	**£ m**	**£ m**	**£ m**
Authorised Limit for External Debt:			
Borrowing	442	407	396
Other long term liabilities	81	87	86
Total	**523**	**494**	**482**

8.9. Separately, the Council is also limited to a maximum HRA debt limit through the HRA self-financing regime. This limit is as follows:

Prudential Indicator	2014/15	2015/16	2016/17	2017/18
	£ m	£ m	£ m	£ m
HRA Debt Limit	96	96	96	96

8.10. **Prudential Indicator 11 –** The more likely outcome for the level of external debt is shown in the operational boundary which the Council is required to set. This is calculated on the same basis as prudential indicator number 10 however, this is the limit which external debt is not normally expected to exceed.

Prudential Indicator No. 11	2015/16	2016/17	2017/18
External Debt	**£ m**	**£ m**	**£ m**
Operational Boundary:			
Borrowing	406	371	362
Other long term liabilities	81	87	86
Total	**487**	**458**	**448**

8.11. **Prudential Indicator 12** - The estimated external debt is based on the capital programme for 2014/15.

Prudential Indicator No. 12	31/03/14 Actual	31/03/15 Estimate
Actual External Debt	**£ m**	**£ m**
Borrowing	343	338
Other long term liabilities	23	7
Total	**366**	**345**

8.12. **Prudential Indicator number 13** relates to the Local Authority adopting the CIPFA Code of Practice for Treasury Management in Public Services. The original 2001 Code was adopted by full Council in February 2002. Shropshire Council adopted the revised Code in February 2010.

8.13. **Prudential Indicator 14 & 15** - The Prudential Code requires the Council to set interest rate exposure limits for borrowing and investments.

Prudential Indicator No. 14* Internal Indicator No. 1 ** No. 15 ^ Internal Indicator No. 2 ^^	2015/16	2016/17	2017/18
Borrowing Limits			
	£ m	**£ m**	**£ m**
Upper Limit for Fixed Interest Rate Exposure *	442	407	396
Upper Limit for Variable Interest Rate Exposure ^	221	204	198
Lower Limit for Fixed Interest Rate Exposure **	221	203	198
Lower Limit on Variable Interest Rate Exposure ^^	0	0	0

These indicators seek to control the amount of debt exposed to fixed and variable interest rates. Variable rate debt carries the risk of unexpected increases in interest rates and consequently increases in cost. The upper limit for variable rate exposure has been set following advice from Capita, however, this limit is never likely to be reached due to authority's objective to have no more than 25% of outstanding debt at variable interest rates.

Upper limit for fixed rate exposure
Calculation: A maximum of 100% of the Authorised Limit (£442m in 2015/16) exposed to fixed rates is consistent with the Authority's objective to have a long term stable debt portfolio.

Upper limit for variable rate exposure
Calculation: For efficient management of the debt portfolio it is considered prudent by Capita to permit up to 50% (£221m in 2015/16) of the Authorised Limit to be borrowed at variable interest rates.

Lower limit for fixed rate exposure
Calculation: Upper limit for fixed rate exposure less the maximum permitted borrowing at variable interest rates

Lower limit for variable rate exposure
Calculation: To be consistent with the Authority's objective to have a long term stable portfolio all of the debt portfolio could be at a fixed rate therefore the lower limit for variable rate exposure should be nil.

Prudential Indicator **No. 14*** **Internal Indicator No. 3 **** **No. 15 ^** **Internal Indicator No. 4 ^^**	**2015/16**	**2016/17**	**2017/18**
Investment Limits			
	£ m	**£ m**	**£ m**
Upper Limit for Fixed Interest Rate Exposure *	200	200	200
Upper Limit for Variable Interest Rate Exposure ^	200	200	200
Lower Limit for Fixed Interest Rate Exposure **	0	0	0
Lower Limit on Variable Interest Rate Exposure ^^	0	0	0

These indicators seek to control the amount of investments exposed to fixed and variable interest rates. Variable rate investments are subject to changes in interest rates, but have a higher degree of liquidity and action can be taken at short notice in response to interest rate changes.

Upper limit for fixed rate exposure
Calculation: Maximum amount of fixed rate investments in order to maintain a stable investment portfolio.

Upper limit for variable rate exposure
Calculation: For the purposes of efficient portfolio management in response to interest rate conditions a maximum potential exposure to variable rates of £200m in 2015/16 is recommended.

Lower limit for fixed rate exposure
Calculation: A lower limit of zero is locally set so as to enable full advantage to be taken of market conditions.

Lower limit for variable rate exposure
Calculation: A lower limit of zero is locally set so as to enable full advantage to be taken of market conditions.

8.14. **Prudential Indicator 16** - The upper and lower limit for the maturity structure of borrowings is detailed below.

Prudential Indicator No. 16	Upper Limit	Lower Limit
Maturity Structure of Fixed Rate Borrowing 2015/16*	**%**	**%**
Under 12 months	15	0
12 months & within 24 months	15	0
24 months & within 5 years	45	0
5 years to 10 years	75	0
10 years to 20 years	100	0
20 years to 30 years	100	0
30 years to 40 years	100	0
40 years to 50 years	100	0
50 years and above	100	0

internal limit is to have no more than 15% of total outstanding debt maturing in any one financial year. This is to ensure that the risk of having to replace maturing debt at times of high interest rates is controlled.

8.15. **Prudential Indicator 17** - The Council is required to set maximum levels for investments over 364 days for both the internal treasury team and an external fund manager if appointed.

Prudential Indicator No. 17	2015/16	2016/17	2017/18
Investment Limits			
	£m	£m	£m
Upper Limit for Total Principal Sums Invested for over 364 days:			
Externally Managed (if appointed)	30	30	30
Internally Managed	40	40	40

Rationale: The limit for the external cash fund manager has been set at £30 million in the event that an external manager is appointed. The limit for the internal treasury team has been set in order for the authority to potentially take advantage of more stable returns going forward and the potential to lend to local Housing Associations.

9. Current Treasury Position

9.1. The Council's treasury position at 31 December 2014 is set out below:-

Outstanding debt for capital purposes		**Actual £m**
	Long-term fixed rate PWLB	288.6
	Long term fixed rate – Market	49.2
	Total	**337.8**
Investments		**£m**
	Internally managed - long term (1 Year)	24.1
	- short term cash flow	91.9
	Total	**116.0**

10. Prospects for Interest Rates

10.1. The Council retains the services of Capita Asset Services as adviser on treasury matters and part of the service provided is to help the Council to formulate a view on interest rates. The following table gives the latest Capita central view:-

Capita's interest rate forecast as at January 2015

	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%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
5yr PWLB rate	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
10yr PWLB rate	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
50yr PWLB rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%

As no new external borrowing is required the Council has not budgeted for a cost of borrowing in 2015/16 to 2017/18 as any borrowing will be funded from internal borrowing. Interest received on revenue balances is expected to be 0.50% in 2015/16.

Sector's current interest rate view is that Bank Rate will: -

- rise from its current level of 0.50% to 0.75% in December 2015.
- reach 1% by June 2016.
- rise to 2% by March 2018.

The effect on interest rates for the UK, is expected to be as follows:-

Short-term interest rates (investments)

10.2. Taking all the evidence together, it is felt that the bank rate will remain at its current low level of 0.50% until December 2015 when it is expected to rise to 0.75%. The Bank rate is then expected to rise to 1% in June 2016 with a further rise to 1.25% in December 2016. Although rates are expected to rise the next two financial years are still expected to be a time of historically low investment rates. As the threat of potential risks from a number of sources still remains, caution must be exercised in respect of all interest rate forecasts at the current time. Capita's Bank Rate forecasts will be liable to further amendment depending on how economic data transpires over 2015. The interest rate forecasts in this report are based on an initial assumption that there will not be a major resurgence of the Eurozone debt crisis.

Long-term interest rates (borrowing)

10.3. The 50 year PWLB rate is expected to rise gradually to reach 4% by the end of the March 2016. It is then anticipated to rise further to reach 4.8% by the end of March 2018. There is scope for it to move around the central forecast by + or – 0.25%. The 25 year PWLB rate is also expected to rise gradually to reach 4% by the end of March 2016 and 5.8% by the end of March 2018. The 10 year PWLB rate is expected to rise to reach 3.30% by the end of March 2016. Again further rises are expected in 2015/16. The 5 year PWLB rates are also expected to rise from 2.20% to 2.6% by the end of March 2016 and to 3.60% by the end of March 2018. The PWLB rates and forecasts shown above take into account the 0.2% certainty rate reduction effective as of the 1 November 2012.

11. Capital Borrowing Strategy

11.1. The Council currently does not have an external borrowing requirement for 2015/16 to 2017/18 but based upon the prospects for interest rates outlined above, the Council will adopt a pragmatic approach to changing circumstances when considering new borrowing if required in the future. Consideration will be given to the following:-

i) As long term borrowing rates are expected to be higher than investment rates and look likely to be for the next couple of years or so all new external borrowing may be deferred in order to maximise savings in the short term. The running down of investments also has the added benefit of reducing exposure to interest rate and credit risk during the continued market turmoil. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing up the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking market loans at long term rates which will be higher in future years.

ii) Temporary borrowing from the money markets or other local authorities.

iii) PWLB variable rate loans for up to 10 years.

iv) Long term fixed rate market loans (including loans offered by the Municipal Bond Agency) at rates below PWLB rates for the equivalent maturity period.

v) Short term PWLB rates are expected to be significantly cheaper than longer term borrowing therefore borrowing could be undertaken in the under 10 year period early on in the financial year when rates are expected to be at their lowest. This will also have the added benefit of spreading debt maturities away from a concentration in longer dated debt.

vi) If it was felt that there was a significant risk in a sharp fall in long and short term rates then long term borrowings will be postponed. If it was felt there was a significant risk of a sharp rise in long and short term rates then the portfolio position would be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

11.2. Delegated authority is sought for the Section 151 Officer to exercise the borrowing powers contained in the Local Government Act 2003 to manage the debt portfolio.

12. External versus internal borrowing

12.1. The Prudential Code requires the Council to explain its policy on gross and net debt. The Council currently has gross debt of £337.8 million and net debt (after deducting cash balances) of £221.8 million. The next financial year is expected to see the Bank Rate continue at historically low levels. As borrowing rates are expected to be higher than investment rates this would indicate that value could best be obtained by avoiding new external borrowing and using internal cash balances to finance new capital expenditure. This is referred to as internal borrowing and would maximise short term savings.

12.2. However, by delaying unavoidable new external borrowing until later years when PWLB rates are forecast to be higher will mean the potential for incurring additional long term costs.

12.3. The Council has examined the potential for undertaking early repayment of some external debt in order to reduce the difference between its gross and net debt positions. However, the introduction by the PWLB of significantly lower rates for repayments than for new borrowing means that large premiums would be incurred and such levels of premiums cannot be justified on value for money grounds.

12.4. Against this background caution will be adopted with the 2015/16 treasury operations. The Section 151 Officer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to Members at the next available opportunity.

13. Policy on borrowing in advance of need

13.1. The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

13.2. In determining whether borrowing will be undertaken in advance of need the Council will:-

- Ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need.
- Ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered.
- Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow.
- Consider the merits and demerits of alternative forms of funding.
- Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.
- Consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balance and the

consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

14. Debt Rescheduling

14.1. The introduction of a differential in PWLB rates on 1 November 2007, which has been compounded further since 20 October 2010 by a considerable further widening of the difference between new borrowing and repayment rates following the Chancellor's announcement to increase new borrowing rates by up to 1% following the Comprehensive Spending Review, has meant that large premiums would be incurred if debt restructuring is undertaken which cannot be justified on value for money grounds. However, consideration will be given to the potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates currently paid on debt. However, this will need careful consideration in the light of premiums that may be incurred by such a course of action. The proposals for debt rescheduling are a continuation of the existing policy and such transactions will only be undertaken:-

- in order to generate cash savings at minimum risk.
- to help fulfil the strategy set out above.
- in order to enhance the balance of the long term portfolio by amending the maturity profile and/or volatility of the portfolio.

15. Investment Strategy

15.1. The Council is required, under CIPFA's Treasury Managements Code of Practice, to formulate an Annual Investment Strategy (Appendix 2). This outlines the Council's approach to:-

- Security of capital
- Creditworthiness policy
- Monitoring of credit ratings
- Specified and Non Specified Investments
- Temporary Investments

15.2. The Council's investment priorities are the security of capital and the liquidity of its investments. The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

15.3. The Council are asked to approve the Investment Strategy set out in Appendix 2.

16. Minimum Revenue Provision (MRP) Statement

16.1. In accordance with Statutory Instrument 2008 number 414 and guidance issued by the Government under section 21 (1A) of the Local Government Act 2003 a statement on the Council's policy for its annual MRP needs to be approved before the start of the financial year. The Council are asked to approve the Minimum Revenue Provision Statement set out in Appendix 3.

17. Leasing

17.1. In the past the Council has used operating leases to finance the purchase of vehicles and equipment. The Section 151 Officer will assess the relative merits of operating and finance leases on a case by case basis and enter into the most advantageous. School's I.T equipment will continue to be internally financed by borrowing against a small fund set against school balances with school's repaying their borrowing over a period of 3 years.

18. Lending to Housing Associations

18.1. As previously approved by full Council, the Council has offered to lend funds to Shropshire Housing Ltd (which incorporates South Shropshire Housing Association and the Meres & Mosses Housing Association) and Severnside Housing at an agreed rate. In the current climate Housing Associations can find it difficult to obtain funding for new affordable housing and the Council is generating only a small amount of interest on revenue balances.

18.2. It has been agreed that the interest rate charged will depend on the period over which the loan is to be taken and that it will be linked to the applicable PWLB rate plus an administration fee. It has been agreed to offer to lend up to £10 million to each of these Housing Associations in order to support the building of affordable housing and shared office accommodation in Shropshire. For security purposes, each loan will be secured against existing assets held by or owned by the Housing Association. If Shropshire Rural were to request a similar facility, for a smaller amount given the size of this local Housing Association, this could also be facilitated.

18.3. Officers have sought advice from Wragge & Co who has confirmed that the Council has the power to lend funds to Housing Associations under the Housing Act 1996 and have drawn up the legal documentation relating to the loan agreement. To date £3,000,000 has been drawndown by Shropshire Housing Ltd and £2,280,000 by Severnside Housing.

19. Housing ALMO

19.1 On 22 November 2012 Council gave approval for transfer of the management of the Council's housing stock to an Arm's Length Management Organisation (ALMO) from April 2013. Shropshire Towns and Rural Housing Limited is a company limited by guarantee wholly owned by the Council that has been set up specifically for this purpose. Under this arrangement all assets and liabilities of the Housing Revenue Account (HRA), including the housing stock and the self-financing debt, remain with the Council, but day to day management of the service and the HRA will be undertaken by the ALMO under the terms of a management agreement.

19.2 The new company has set up a separate bank account and this will initially be under the umbrella of the current Council arrangements which will enable any surplus funds will be invested by Shropshire Council Treasury Management Team. The Capital programme and debt management of the HRA will be subject to joint agreement between The Council and the ALMO.

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

Treasury Strategy 2014/15 (Council 27 February 2014)

Treasury Strategy 2014/15 Mid-Year Review (Council 18 December 2014)

Capital Strategy Report 2015/16 to 2018/19 (Cabinet 11 February 2015)

Proposal for Future Management of Council Housing (Council 22 November 2012, Item 10)

Cabinet Member : Keith Barrow, Leader of the Council

Local Member

N/A

Appendices:

1 – Prudential Indicators

2 – Council's Annual Investment Strategy

3 – Minimum Revenue Provision Policy Statement

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Prudential Indicators

Prudential Indicator	**2014/15 Estimate**	**2015/16 Estimate**	**2016/17 Estimate**	**2017/18 Estimate**
	%	**%**	**%**	**%**
Non HRA ratio of financing costs to net revenue stream	10.6	10.7	11.0	10.9
HRA ratio of financing costs to HRA net revenue stream	41.9	41.5	41.2	41.0

Prudential Indicator	**2014/15 Estimate**	**2015/16 Estimate**	**2016/17 Estimate**	**2017/18 Estimate**
	%	**%**	**%**	**%**
Non HRA ratio of financing costs (net of investment income) to net revenue stream	10.3	10.3	10.6	10.5

Prudential Indicator	**2015/16**	**2016/17**	**2017/18**
Estimates of impact of Capital Investment decisions in the present capital programme	**£ p**	**£ p**	**£ p**
Cost of capital investment decisions funded from re-direction of existing resources (Band D, per annum)	22.62	24.86	21.46
Cost of capital investment decisions funded from increase in council tax (Band D, per annum)	0	0	0
Cost of capital investment decisions funded from an increase in average housing rents per week	0	0	0
Total	**22.62**	**24.86**	**21.46**

Prudential Indicator	**2014/15 Estimate**	**2015/16 Estimate**	**2016/17 Estimate**	**2017/18 Estimate**
Net Borrowing & Capital Financing Requirement:	**£ m**	**£ m**	**£ m**	**£ m**
Non HRA Capital Financing Requirement	256	248	238	228
HRA Capital Financing Requirement	85	85	85	85
Total CFR	**341**	**333**	**323**	**313**
Gross Borrowing (including HRA)	338	329	324	318
Investments	90	90	90	90
Net Borrowing	**248**	**239**	**234**	**228**

Prudential Indicator	**2013/14 Actual**	**2014/15 Estimate**	**2015/16 Estimate**	**2016/17 Estimate**	**2017/18 Estimate**
	£ m	**£ m**	**£ m**	**£ m**	**£ m**
Non HRA Capital expenditure	43	56	45	27	16
HRA Capital expenditure	4	10	4	4	4

Contact: James Walton on (01743) 255011

Prudential Indicator	**2015/16**	**2016/17**	**2017/18**
External Debt	**£ m**	**£ m**	**£ m**
Authorised Limit for External Debt:			
Borrowing	442	407	396
Other long term liabilities (PFI)	81	87	86
Total	**523**	**494**	**482**

Prudential Indicator	**2014/15**	**2015/16**	**2016/17**	**2017/18**
	£ m	**£ m**	**£ m**	**£ m**
HRA Debt Limit	96	96	96	96

Prudential Indicator	**2015/16**	**2016/17**	**2017/18**
External Debt	**£ m**	**£ m**	**£ m**
Operational Boundary:			
Borrowing	406	371	362
Other long term liabilities (PFI)	81	87	86
Total	**487**	**458**	**448**

Prudential Indicator	**2013/14 Actual**	**2014/15 Estimate**
External Debt	**£ m**	**£ m**
Borrowing	343	338
Other long term liabilities (PFI)	23	7
Total	**366**	**345**

Prudential Indicator number 13 - The Local Authority has adopted the CIPFA Code of Practice for Treasury Management in Public Services. Shropshire Council adopted the revised Code in February 2010.

Prudential Indicator	**2015/16**	**2016/17**	**2017/18**
Borrowing Limits			
	£ m	**£ m**	**£ m**
Upper Limit for Fixed Interest Rate Exposure	442	407	396
Upper Limit for Variable Interest Rate Exposure	221	204	198
Lower Limit for Fixed Interest Rate Exposure	221	203	198
Lower Limit on Variable Interest Rate Exposure	0	0	0

Prudential Indicator	**2015/16**	**2016/17**	**2017/18**
Investment Limits			
	£ m	**£ m**	**£ m**
Upper Limit for Fixed Interest Rate Exposure	200	200	200
Upper Limit for Variable Interest Rate Exposure	200	200	200
Lower Limit for Fixed Interest Rate Exposure	0	0	0
Lower Limit on Variable Interest Rate Exposure	0	0	0

Prudential Indicator	Upper Limit	Lower Limit
Maturity Structure of Fixed Rate Borrowing During 2015/16 **	**%**	**%**
Under 12 months	15	0
12 months & within 24 months	15	0
24 months & within 5 years	45	0
5 years & within 10 years	75	0
10 years & within 20 years	100	0
20 years & within 30 years	100	0
30 years & within 40 years	100	0
40 years & within 50 years	100	0
50 years and above	100	0

**** Internal limit is to have no more than 15% of total outstanding debt maturing in any one financial year.**

Prudential Indicator	2015/16	2016/17	2017/18
Investment Limits			
	£m	£m	£m
Upper Limit for Total Principal Sums Invested for over 364 days:			
Externally Managed (if appointed in 2013/2014)	30	30	30
Internally Managed	40	40	40

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The Council's Annual Investment Strategy

The Council's investment policy has regard to the Communities and Local Government (CLG) Guidance on Local Government Investments and the CIPFA Treasury Management Code of Practice which requires the Council to formulate a strategy each year regarding the investment of its revenue funds and capital receipts. Authorities are required to take the guidance into account under the terms of section 12 of the Local Government Act 2003.

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties. Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions. This will result in the key ratings being used to monitor counterparties being the Short Term and Long Term ratings only. Viability, Financial Strength and Support Ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.

As with previous practice, ratings will not be the sole determinant of the quality of an institution, it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environment in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its treasury advisor to maintain and monitor on market pricing such as credit default swaps and overlay information on top of credit ratings in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

The income and expenditure flow of the Council is such that funds are temporarily available for investment. Under the Annual Investment Strategy the Council may use for the prudent management of its treasury balances any of the investments highlighted under the headings of **Specified Investments** and **Non-Specified Investments** as detailed on the attached table (Appendix 2A).

Creditworthiness Policy

The Council uses the creditworthiness service provided by its treasury advisor, Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies Fitch, Moody's and Standard and Poor's. In addition, in line with the Treasury Management Code of Practice, it does not rely solely on the current credit ratings of counterparties but also uses the following overlays:-

- Credit watches and credit outlooks from credit rating agencies.
- Credit Default Swap (CDS) spreads to give an early warning of likely changes in credit ratings.
- Sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration of investments and are therefore referred to as durational bands. The Council is satisfied that this service gives the required level of security for its investments. It is also a service which the Council would not be able to replicate using in house resources.

The selection of counterparties with a high level of creditworthiness will be achieved by a selection of institutions down to a minimum durational band with Capita's weekly credit list of worldwide potential counterparties. The Council will therefore use counterparties within the following durational bands:-

- Yellow – 5yrs e.g. AAA rated Government debt, UK Gilts, Collateralised Deposits
- Dark Pink – 5 years for Enhanced Money Market Funds with a credit score of 1.25 (Not currently used)
- Light Pink - 5 years for Enhanced Money Market Funds with a credit score of 1.5 (Not currently used)
- Purple - 2yrs (Council currently has maximum of 1 year)
- Blue - 1 year (only applies to nationalised or part nationalised UK Banks)
- Orange - 1 year
- Red - 6 months
- Green – 100 days
- No colour – not to be used

The Capita creditworthiness service uses ratings from all three agencies and uses a wider array of information than just primary credit ratings to determine creditworthy counterparties. By using this approach and applying it to a risk weighted scoring system does not give undue over reliance to just one agency's ratings.

Monitoring of Credit Ratings

All credit ratings will continue to be monitored continuously and formally updated monthly if any changes are required. The Council is alerted to interim changes in ratings from all three agencies by Capita Asset Services.

If a counterparty's or investment scheme's rating is downgraded with the result that it no longer meets the Council's minimum criteria, the further use of that counterparty will be withdrawn immediately. If a counterparty is upgraded so that it fulfils the Councils criteria, its inclusion will be considered for approval by the S151 Officer.

In addition to credit ratings the Council will be advised of information in movements in CDS against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in the downgrade of an institution or the removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition, the Council will monitor the financial press and also use other market data and information e.g. information on government support for banks and the credit ratings of that government support.

Country Limits

It is recommended that the Council will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies). However, following the problems with Icelandic Banks lending is currently restricted to the UK which currently has a sovereign credit rating of AA+ and Sweden which has the highest possible sovereign rating of AAA. The S151 Officer has delegated authority to revert back to placing investments in countries with a minimum sovereign credit rating of AA- in line with Capita's revised creditworthiness policy if required.

Security of Capital

Following the market turmoil over the last few years and problems with Icelandic Banks, the Council's current policy is to not place investments with any Foreign banks or AAA rated Money Market Funds. The only exception to this is a call account set up with the Swedish bank, Handlesbanken, but this is a highly credit rated institution and the sovereign rating of Sweden is AAA as stated above. Funds are also repayable immediately if required. Lending to other Foreign banks which comply with Capita's creditworthiness policy or AAA rated Money Market Funds may be considered again but only with the express approval of the S151 Officer.
In addition, in order not to solely rely on an institutions credit ratings there have also been a number of other developments which require separate consideration and approval for use:

Nationalised and Part Nationalised banks in the UK effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. This is because the Government owns significant stakes in the banks and this ownership is set to continue despite a partial return of some Lloyds shares back into private ownership. Capita are still supportive of the Council using these institutions with a maximum 12 month duration. For this reason Lloyds TSB, Royal Bank of Scotland (RBS) and National Westminster Bank which are part of the RBS Group are included on the approved counterparty list.

Local Authorities are not credit rated but where the investment is a straightforward cash loan, statute suggests that the credit risk attached to local authorities is an acceptable one (Local Government Act 2003 s13). Local Authorities are therefore included on the approved list.

The total permitted investment in any one organisation at any one time varies with the strength of the individual credit rating. For the highest rated and Part Nationalised Institutions the maximum amount is currently limited to £30m. Any changes to the maximum limit must be approved by the S151 Officer.

CLG Investment Guidance

Guidance from the CLG requires Councils to give priority to the security and liquidity of investments over yield whilst still aiming to provide good returns. This is in line with the Council's current practice and it is recommended that the policy should be reaffirmed.

The guidance also requires Councils to categorise their investments as either "specified" or "non-specified" investments.

(i) Specified Investments

Specified investments are deemed as “safer” investments and must meet certain conditions, ie they must :-

- be denominated in sterling
- have less than 12 months duration
- not constitute the acquisition of share or loan capital

- either: be invested in the UK government or a local authority or a body or investment scheme with a “high” credit quality.

The Council is required to specify its creditworthiness policy and how frequently credit ratings should be monitored. It must also specify the minimum level of such investments.

Of the investments currently authorised by the Council, deposits in the Debt Management Office Account and with other Local Authorities automatically qualify as specified investments as they are of less than 12 months duration and are denominated in sterling.

The classification of the other investments is dependent on the counterparty having high credit quality in line with Capita’s creditworthiness policy. The Council is alerted to any changes in an institutions credit rating by Capita Asset Services.

(ii) Non Specified Investments

These are any investments which do not meet the specified investment criteria outlined above. The Council is required to look at non-specified investments in more detail. It must set out:

- procedures for determining which categories of non-specified investments should be used
- the categories deemed to be prudent
- the maximum amount to be held in each category

The Strategy must also set out procedures for determining the maximum period for committing funds.

It is recommended that the following procedure be adopted for determining which categories of non-specified investments should be used:

- the Cabinet/Council should approve categories on an annual basis
- advice should be provided by the S151 Officer
- priority should be given to security and liquidity ahead of yield

It is recommended that for specified investments the range of maximum limits is set between £10m and £30m for the internal treasury team. For non specified investments it is recommended that the limit for the internal treasury team should be restricted to £40m of the total investment portfolio. Any changes to the maximum limits must be approved by the S151 Officer.

Temporary Investment Strategy

The next financial year is expected to see investment rates continue to be at historically low levels. The Bank Rate has remained at 0.50% since March 2009. It is not expected to rise to 0.75% until December 2015. By December 2016 the bank rate is expected to rise to 1.25%. This view is based on the latest forecasts obtained by the Authority's treasury advisor, Capita Asset Services.

If an external fund manager is appointed in 2015/16 they would also have to adhere to the authorised specified and non-specified investments on the attached table. They would also have to comply with the Council's Annual Investment Strategy and their agreement must stipulate guidelines and other limits in order to contain and control risk.

Short term cash flow requirements limit the scope for longer term investments for the in-house treasury team, but the market is continually monitored for opportunities to lock in to higher, longer term rates in order to bring some stability to the returns going forward and add value. However, based on the interest rate assumptions outlined above, we do not expect to lock into longer term deals while investment rates are down at historically low levels unless exceptionally attractive rates are available which make longer term deals worthwhile.

For the cash flow generated balances, we will seek to utilise instant access accounts and short dated deposits (1-3 months) in order to benefit from the compounding of interest.

The present strategy is to diversify investments so as to spread risk over a range of investment types and periods and provide the opportunity to enhance returns. Due to the current lending restrictions in place diversification has been some what reduced due to the reduction in the number of institutions which we can lend to however, by taking this course of action the credit risk has been reduced. The current portfolio is set out in paragraph 9.1 of the Treasury Strategy 2015/16 report. Performance of the in-house operation will continue to be monitored on a quarterly basis by your officers in conjunction with the treasury advisor.

All investments will continue to be made in accordance with the Local Government Act 2003, and with those institutions on the authorised lending list. The credit status of institutions on the approved list is monitored continuously.

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

Policy on the use of external service providers

The Council currently uses Capita Asset Services, Treasury Solutions as its external treasury management advisers. The Council recognises that the responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers. The Council also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to review.

Scheme of Delegation

Full Council

- Approval of Treasury Strategy.
- Receiving and reviewing reports on treasury management policies, practices and activities including the Annual Treasury Report and Mid-Year Strategy Report.
- Budget consideration and approval

Cabinet

- Receiving & reviewing Treasury Strategy, Mid-Year Strategy Report, Annual Treasury Report and Quarterly Treasury Management Update Reports

Audit Committee

- Reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- Receiving & reviewing Treasury Strategy, Mid Year Report, Annual Treasury Report.

Role of the Section 151 Officer

The role of the S151 Officer in relation to treasury management is as follows:-

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly and monitoring compliance.
- Approval of segregation of responsibilities.
- Approval of the Treasury Policy Statement and Treasury Management Practices.
- Submitting regular treasury management policy reports.
- Submitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.
- Ensuring the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit and liaising with external audit.
- Recommending the appointment of external service providers.

Pension Fund Cash

The Council complies with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and does not pool pension fund cash with its own balances for investment purposes.

LOCAL GOVERNMENT INVESTMENTS (England)

SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated.

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Criteria	Capital Expenditure?	Circumstance of use	Maximum period
Term deposits with the UK government (e.g. DMO Account) or with local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to 1 year	No	Yes	High security although LAs not credit rated.	NO	In-house and by external fund manager	1 year
Term deposits with credit-rated deposit takers (banks and building societies), including callable deposits, with maturities up to 1 year	No	Yes	Yes – Minimum colour band green	NO	In-house and by external fund manager	1 year
Certificates of Deposit issued by credit-rated deposit takers (banks and building societies) up to 1 year. *Custodial arrangement required prior to purchase*	No	Yes	Yes – Minimum colour band green	NO	In house buy and hold and External fund managers	1 year
Banks nationalised by high credit rated (sovereign rating) countries	No	Yes	Minimum Sovereign Rating AA-	No	In house and external fund managers	1 year

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / ‘High’ Credit Rating criteria	Capital Expenditure?	Circumstance of use	Maximum period
UK Nationalised & Part Nationalised banks	**No**	**Yes**	**Yes – Minimum colour band green**	**No**	**In House and external managers**	**1 year**
Government guarantee (explicit) on all deposits by high credit rated (sovereign rating) countries	**No**	**Yes**	**Yes – Minimum Sovereign Rating AA-**	**No**	**In house and external fund managers**	**1 year**
Bonds issued by multilateral development banks (Euro Sterling Bonds as defined in SI 2004 No 534) or issued by a financial institution guaranteed by UK government with maturities under 12 months. *Custodial arrangement required prior to purchase*	No	Yes	AAA	NO	In-House on a buy and hold basis after consultation/advice from Capita also for use by External fund manager	1 year
Gilt Funds and Bond Funds	No	Yes	AAA	NO	In House and by external fund managers	1 year
Gilts : up to 1 year *Custodial arrangement required prior to purchase*	No	Yes	Govt-backed UK Sovereign Rating	NO	In House on a buy and hold basis and for trading by external fund manager subject to the guidelines and parameters agreed with them	1 year

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / 'High' Credit Rating criteria	Capital Expenditure?	Circumstance of use	Maximum period
Money Market Funds & Government Liquidity Funds (including CCLA Fund) & Enhanced Money Market Funds	No	Yes	Yes AAA rated & UK sovereign rating. Enhanced MMFs minimum colour Dark Pink/Light Pink & AAA rated	NO	In-house and by external fund managers subject to the guidelines and parameters agreed with them	the period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements. Deposits are repayable at call.
Treasury bills [*Government debt security with a maturity less than one year and issued through a competitive bidding process at a discount to par value*] *Custodial arrangement required prior to purchase*	No	Yes	Govt-backed UK Sovereign Rating	NO	In House or external fund managers subject to the guidelines and parameters agreed with them	1 year

Monitoring of credit ratings:
All credit ratings will be monitored continuously and formally updated on a monthly basis. If a counterparty or investment scheme is downgraded with the result that it no longer meets the Council's minimum credit criteria, the use of that counterparty / investment scheme will be withdrawn.
Any intra-month credit rating downgrade which the Council has identified that affects the Council's pre-set criteria will also be similarly dealt with.

LOCAL GOVERNMENT INVESTMENT (England)

NON-SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated (with the exception of the WME US dollar account).

Investment	(A) Why use it? (B) Associated risks?	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum credit rating	Capital Expen-diture?	Circumstance of use	Max % of overall investments	Maximum maturity of investment
Certificates of Deposit with credit rated deposit takers (banks and building societies) with maturities greater than 1 year *Custodial arrangement required prior to purchase*	(A) tradable more liquid than fixed term deposits (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of CD which could negatively impact on price of the CD. (ii) Although in theory tradable, are relatively illiquid.	No	Yes	UK Sovereign rating	NO	In house on a buy and hold basis after consultation/advice from Capita & external cash fund manager(s) subject to the guidelines and parameters agreed with them.	50%	*Suggested limit :* Average duration in the portfolio not to exceed 5 years
Collateralised deposit	Deposits are backed by collateral of AAA rated local authority	No	Yes	UK Sovereign rating	No	In house & External Manager	25%	*5 years*
UK government gilts with maturities in excess of 1 year *Custodial arrangement required prior to purchase*	(A)((i) Excellent credit quality. (ii)Very Liquid. (iii) If held to maturity, known yield (rate of return) per annum ~ aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss.	No	Yes	UK Sovereign rating	NO	In house on a buy & hold basis following advice from Capita and for trading by external cash fund manager subject to the guidelines and parameters agreed with them	50%	*Suggested limit :* Average duration in the portfolio not to exceed 5 years

Investment	(A) Why use it? (B) Associated risks?	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum credit rating **	Capital Expen-diture?	Circumstance of use	Max % of overall investments	*Maximum maturity of investment*
Term deposits with UK government, other Local Authorities, and credit rated deposit takers (banks and building societies) including callable deposits with maturities greater than 1 year	(A)(i) Certainty of rate of return over period invested. (ii) No movement in capital value of deposit despite changes in interest rate environment. (B) (i) Illiquid : as a general rule, cannot be traded or repaid prior to maturity. (ii) Return will be lower if interest rates rise after making the investment. (iii) Credit risk : potential for greater deterioration in credit quality over longer period	No	No	Minimum colour band purple	NO	In-House For trading by external cash fund manager subject to the guidelines and parameters agreed with them	£40 million 50%	*Suggested limit:* 3 years
Sovereign bond issues ex UK Government Gilts: any maturity	(A) (i) Excellent credit quality. (ii) Liquid. (iii) If held to maturity, known yield (rate of return) per annum – aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk (B) (i) "Market or interest rate risk" : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss	No	Yes	AAA	No	For trading by external cash fund manager only subject to the guidelines and parameters agreed with them	50%	*Suggested limit:* 5 years
Bonds issued by multilateral development banks (Euro-Sterling Bonds) or issued by a financial institution guaranteed by UK government Custodial arrangement required prior to purchase	(A) (i) Excellent credit quality. (ii) Liquid. (iii) If held to maturity, known yield (rate of return) per annum – aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk (B) (i) "Market or interest rate risk" : Yield subject to movement during life of bond which could negatively impact on price of the bond i.e. potential for capital loss	Yes	Yes	AAA	No	In house on a buy and hold basis after consultation/advice from Capita. Also for use by external fund managers	10% 50%	5 years

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Investment	(A) Why use it? (B) Associated risks?	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum credit rating **	Capital Expen-diture?	Circumstance of use	Max % of overall investments	*Maximum maturity of investment*
Corporate Bonds (the use of these investments would constitute capital expenditure although this is currently under review)	(A)(i) Excellent credit quality. (ii) Liquid. (iii) If held to maturity, known yield (rate of return) per annum – aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk (B)(i) "Market or interest rate risk" : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss	Yes	Yes	Minimum Sovereign rating AA-	Yes	To be used by external fund managers only	50%	*Suggested limit:* *5 years*
Pooled property funds including CCLA Local Authorities Property Fund	Enhanced return but increased risk, only to be used following advice from Capita	Yes	Yes	No Minimum Credit rating need to assess underlying assets within fund following advice taken from Capita	Yes	In House Use & External Fund managers following advice from Capita	20%	*5 years*
US Dollar Deposits (WME Only)	US dollar account to be utilised as a part of West Mercia Energy prudent management of income and expenditure, ensuring that ongoing US dollar commitments can be hedged, thus extinguishing any adverse risk of exposure to movements in the exchange rate and guaranteeing a known cashflow for West Mercia Energy. The account is only to be used for this purpose and not for the purpose of speculative or trading transactions.	No	Yes	Minimum Colour band green	No	West Mercia Energy Only	N/A	*3 Months*

Appendix 3

The Council's Annual Minimum Revenue Provision Statement

Statutory Requirements

The Council is required by statue to set aside a minimum revenue provision (MRP) to repay external debt. The calculation of the minimum revenue provision (MRP) is as per the *Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [SI 2008/414].* In the new regulation 28, detailed rules are replaced with a simple duty for an authority to make an amount of MRP which it considers to be "prudent".

The broad aim of a prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant. The guidance includes four options (and there are two alternatives under Option three) for the calculation of a prudent provision.

There is no requirement to charge MRP where the Capital Financing Requirement (CFR) is nil or negative at the end of the preceding financial years. There is also no requirement to charge MRP on the Housing Revenue Account share of the CFR.

The legislation recommends that before the start of each financial year the Council prepares a statement of its policy on making MRP in respect of that financial year and submits it to the Full Council for approval.

Policy for calculation of Prudent Provision

The options for the calculation of a prudent Provision are detailed in appendix 3A to this report. In line with previous years the Council proposes to use option one, regulatory method and option three (a), asset life method – equal instalment method and specific treatment for PFI Assets and assets held under Finance Leases and long term capital loans.

Regulatory Method

For debt which is supported by the Government through the RSG system, MRP will continue to be calculated in accordance with the former regulations 28 and 29 of the 2003 Regulation. Adjustment "A" (variance between the credit ceiling and the capital financing requirement as at 1 April 2004) will continue to be given the value attributed to it in the financial year 2004/05. Authorities can also continue to take advantage of the commutation adjustment in the former regulation 29.

MRP is calculated using opening Capital Financing Requirement which is adjusted for new supported capital expenditure, adjustment "A", non Shropshire Council (pre-1998 LGR reorganisation) debt and the MRP for the previous year. MRP is calculated as 4% of this adjusted total. This is then reduced by the value of the commutation adjustment for that financial year.

This option reduces the Capital Financing Requirement by adjustment "A" which reduces the MRP charged to revenue each year. This is allowable in accordance with the regulations.

Asset Life Method – Asset Life method

For new borrowing under the Prudential system for which no Government support is being given and is therefore self-financed (unsupported borrowing) the MRP has been calculated in accordance with option three Asset Life Method. Option three is to make provision over the estimated life of the asset for which the borrowing is undertaken.

Freehold land cannot properly have a life attributed to it, so for the purposes of Option three it should be treated as equal to a maximum of 50 years. But if there is a structure on the land which the authority considers to have a life longer than 50 years, that same life estimate may be used for the land.

To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate. For energy efficiency schemes the payback period of scheme is used as the basis for calculating the period over which MRP is calculated.

This method is a straight forward calculation of MRP for unsupported borrowing which calculates MRP based on asset life.

As with option one, provision for debt under Option three will normally commence in the financial year following the one in which the expenditure is incurred. But the guidance highlights an important exception to the rule. In the case of a new asset, MRP would not have to be charged until the asset came into service and would begin in the financial year following the one in which the asset became operational. This "MRP holiday" would be perhaps two or three years in the case of major projects, or possibly longer for some complex infrastructure schemes, and could make them more affordable.

The authority can still make voluntary extra provision for MRP in any year.

PFI Assets and assets held under Finance Leases

For assets under on-balance sheet PFI contracts and finance leases, the annual principal payment amount in the PFI or finance lease model is used as the MRP payment amount, with no additional charges above those within the contract.

Long Term Capital Loans

The Council has made available a small number or capital loans to Housing Associations and Village Halls, financed from the Councils balances. The annual repayments of principal amounts are treated as capital receipts and set aside in the Capital Adjustment Account in place of a revenue MRP charge.

Housing Revenue Account MRP

As at 31/03/14 the HRA CFR is £84.6m, this includes the £83.35m transferred to the Council as part of housing self-financing. In managing the HRA debt and considering the HRA business plan there is no mandatory requirement to make provision in the HRA for annual MRP payments. However, the Council will make annual voluntary provision for debt repayment in the HRA based on affordable levels in the HRA against the need for investment and delivering services in the HRA. The annual level of provision will be determined annually as part of the closure of the HRA.

2015/16 Annual MRP Statement

Appendix 3B provides the MRP statement for the 2015/16 financial year.

Capital Receipts set aside

The current regulations, Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [SI 2008/414] state that the minimum revenue provision is calculated using the previous year's closing Capital Financing Requirement for supported borrowing.

In 2009/10 Shropshire Council got DCLG approval to allow the new council to voluntarily set aside capital receipts as at 1st April 2009 to reduce the CFR and consequently reduce the MRP charge for 2009/10. This approach was discussed with our Treasury Advisors and External Auditors and was approved by Members in a report to Council in December 2009.

As the extent of new borrowing is not subject to any limitation the sum of capital receipts set aside are still available to support capital expenditure in future years. This will increase the CFR to its previous level and the MRP charge in future years will increase, but not beyond the level had the saving not been generated in 2009/10. Thus the saving in MRP is therefore temporary, albeit very helpful to the short-term financial position.

As the full level of capital receipts set aside were not required to finance capital expenditure between 2009/10 and 2013/14, a balance was retained as set aside as at the end of each financial year to enable a further MRP savings in the following financial years. In the 2015/16 MRP Statement it has been assumed all the capital receipts retained as set aside as at 31 March 2014 to reduce the CFR will be offset by an increase in the CFR in 2014/15 from capital expenditure incurred in 2014/15. In the event that the level of capital expenditure in 2014/15 to be financed from the capital receipts set aside is below the level of capital receipts set aside, it is proposed to retain the balance in capital receipts as set aside in order to achieve a further MRP saving in 2015/16. This will be reported for approval as part of the Capital Outturn report 2014/15.

Appendix 3A: Options for Prudent Provision

Option 1: Regulatory Method (Supported borrowing)
MRP is equal to the amount determined in accordance with the former regulations 28 and 29 of the 2003 Regulations, as if they had not been revoked by the 2008

Regulations. For the purposes of that calculation, the Adjustment A should normally continue to have the value attributed to it by the authority in the financial year 2004-05. However, it would be reasonable for authorities to correct any perceived errors in Adjustment A, if the correction would be in their favour.

Option 2: CFR Method (Supported borrowing)
MRP is equal to 4% of the non-housing CFR at the end of the preceding financial year without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation.

Option 3: Asset Life Method (Unsupported borrowing)
Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be determined by reference to the life of the asset. There are two main methods by which this can be achieved, as described below. Under both variations, authorities may in any year make additional voluntary revenue provision, in which case they may make an appropriate reduction in later years' levels of MRP.

(a) Equal instalment method
MRP is the amount given by the following formula:

$$\frac{\mathbf{A - B}}{\mathbf{C}}$$

Where:
A is the amount of the capital expenditure in respect of the asset financed by borrowing or credit arrangements
B is the total provision made before the current financial year in respect of that expenditure
C is the inclusive number of financial years from the current year to that in which the estimated life of the asset expires.

For the purpose of the above formula in the initial year of making the MRP the variable "C" should be given the maximum values set out in the following table:

Expenditure Type	Maximum value of "C" in initial year
Expenditure capitalised by virtue of a direction under s16(2)(b)	"C" equals 20 years
Regulation 25(1)(a) Expenditure on computer programs	"C" equals the value it would have for computer hardware
Regulation 25(1)(b) Loans and grants towards capital expenditure by third parties	"C" equals the estimated life of the assets in relation to which the third party expenditure is incurred
Regulation 25(1)(c) Repayment of grants and loans for capital expenditure	"C" equals 25 years, or the period of the loan, if longer
Regulation 25(1)(d) Acquisition of share or loan capital	"C" equals 20 years
Regulation 25(1)(e) Expenditure on works to assets not owned by the authority	"C" equals the estimated life of the assets
Regulation 25(1)(ea) Expenditure on assets for use by	"C" equals the estimated life of the assets

others	
Regulation 25(1)(f) Payment of levy on Large Scale Voluntary Transfers (LSVTs) of dwellings	“C” equals 25 years

(b) Annuity method
MRP is the principal element for the year of the annuity required to repay over the asset life the amount of capital expenditure financed by borrowing or credit arrangements. The authority should use an appropriate interest rate to calculate the amount. Adjustments to the calculation to take account of repayment by other methods during the repayment period (e.g. by the application of capital receipts) should be made as necessary.

Option 4: Depreciation Method (Unsupported borrowing)
MRP is to be equal to the provision required in accordance with depreciation accounting in respect of the asset on which expenditure has been financed by borrowing or credit arrangements. This should include any amount for impairment chargeable to the Income and Expenditure Account.

For this purpose standard depreciation accounting procedures should be followed, except in the following respects.

(a) MRP should continue to be made annually until the cumulative amount of such provision is equal to the expenditure originally financed by borrowing or credit arrangements. Thereafter the authority may cease to make MRP.
(b) On disposal of the asset, the charge should continue in accordance with the depreciation schedule as if the disposal had not taken place. But this does not affect the ability to apply capital receipts or other funding sources at any time to repay all or part of the outstanding debt.
(c) Where the percentage of the expenditure on the asset financed by borrowing or credit arrangements is less than 100%, MRP should be equal to the same percentage of the provision required under depreciation accounting.

Basis of options

Supported Borrowing – The total Adjustment A for the Council is £4.45m (including previous District debt), thus by using option 1 Regulatory method the MRP charge is reduced by £178,000 per annum.

Unsupported Borrowing – As the Council policy is to calculate depreciation based on asset life option 3A and 4 would result in the same MRP charge (i.e. for a £1m borrowed to finance an asset with an estimated life of 25 years the annual MRP charge would be £40,000 per annum). If option 3B was used the MRP charge would be lower in the earlier years, but increase annually each year. Borrowing £1m over 25 year at 6% the MRP charge would increase from £18,000 in year 1 to £74,000 in year 25, with compensating adjustments to the interest payment, thus there would be no saving for the Council.

Appendix 3B: Minimum Revenue Provision Statement 2015/16

	£
Supported Borrowing – Option 1	
General Fund	
Closing CFR 2013/14	225,929,427.74
Proposed use of capital receipts voluntarily set aside to be applied in 2014/15	13,245,785.39
	239,175,213.13
Less Adjustment "A"	(2,065,478.00)
Less LGR (98) Debt	(257,309.00)
	236,852,426.13
Less MRP 2014/15	(8,986,214.75)
CFR for Supported Borrowing MRP Calculation	**227,866,211.38**
Add back Adjustment "A"	2,065,478.00
Add back LGR (98) Debt	257,309.00
	230,188,998.38
District inherited debt:	
OBC – Closing 2014/15 CFR	4,326,018.57
NSDC – Closing 2014/15 CFR	571,859.64
	4,897,878.21
Closing CFR 31/03/15 – Supported Borrowing (GF)	**235,086,876.59**
Housing Revenue Account	
Closing CFR 2013/14	84,594,619.49
Less MRP 2014/15 (none budgeted as per HRA MRP policy)	(0)
	84,594,619.49
Closing CFR 31/03/15 – Supported Borrowing (GF&HRA)	**319,681,496.08**
Unsupported Supported Borrowing – Option 3	
Unsupported Borrowing brought forward	15,705,084.43
Add profiled prudential borrowing 2014/15	4,581,221.00
Less MRP – 2014/15	(1,146,286.82)
	19,140,018.61
District inherited debt: NSDC – Closing 2014/15 CFR	**683,230.04**
Closing CFR 31/03/15 – Unsupported Supported Borrowing	**19,823,248.65**
Closing CFR (GF&HRA) 31/03/15 – Borrowing Requirement	**339,504,744.73**
Additional items included:	
Village Hall Loans	315,862.96
Housing Association Loans	1,172,760.89
	340,993,368.58

Summary MRP

MRP 2015/16 at 4% of above (Option 1)	8,346,538.45
LGR (98) Debt MRP (Option 1)	804,819.00
Unitary inherited – OBC & NSDC (Option 1)	100,674.90
Prudential Borrowing MRP (Option 3)	1,275,206.82
Unitary inherited Prudential Borrowing MRP – NSDC (Option 3)	35,676.41
Total MRP 2015/16	**10,562,915.58**

N.B. The above excludes the CFR and MRP charges in relation to the on-balance sheet PFI schemes and finance leases.

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Committee and Date
Audit Committee
23rd February 2015
9:30 am

INTERNAL AUDIT RISK MANAGEMENT REPORT 2014/15

Responsible Officer Peter Chadderton

e-mail: peter.chadderton@shropshire.gov.uk Tel: (01743) 252083

1. Summary

This report summarises the detailed findings identified in the Internal Audit review of Risk Management. The overall control environment for the Risk Management system is assessed as Reasonable.

2. Recommendations

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

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 The management of risk is a key process which underpins successful achievement of our objectives and priorities. It forms part of the Annual Governance Statement and an annual audit is undertaken to ensure that the processes and protocols are established and embedded facilitating effective decision making.

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

4. Financial Implications

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

5. Background

5.1 As part of the Public Sector Internal Audit Standards (PSIAS 2120), Internal Audit must evaluate the effectiveness and contribute to the improvement of the risk management process. It does this by gathering information to support this assessment during multiple audit reviews, the results of which, when viewed together, provide an understanding of the Council's risk management processes and their effectiveness. Internal Audit evaluate risk exposures relating to the Council's governance, operations and information systems regarding the achievement of the strategic objectives, reliability and integrity of financial and operational information, efficiency and effectiveness of operations and programmes, safeguarding of assets and compliance with laws, regulations, policies, procedures and contracts.

5.2 The Audit Committee's Terms of Reference include a requirement to review annually the adequacy of the Council's Risk Management arrangements in support of the PSIAS requirements. In February 2015 Internal Audit completed a review of Risk Management processes as part of the Internal Audit Plan.

Internal Audit Risk Management Report – Executive Summary

5.3 Audit findings are evaluated to provide a level of assurance on the effectiveness of the system of internal control. These evaluations are defined as 'Good', 'Reasonable', 'Limited' and 'Unsatisfactory'. On the basis of the audit work undertaken the overall control environment for the system of Risk Management has been assessed as **Reasonable**.

5.4 Evaluation and testing confirmed that there is generally a sound system of control but there is evidence of non-compliance with some of the controls. The risk management processes in respect of operational risks have been weakened by Risk Owners not ensuring information has been kept up to date and issues in respect of reporting. The Risk Management Team have identified these weaknesses and plans are in place to address these issues by changes to the process in respect of operational risks.

Control Objective: Conclusion and Summary of Findings

5.5 The following table shows the audit opinion on each of the four control objectives; full compliance has been achieved on three of the objectives, the exception is in respect of objective three:

	AUDIT OBJECTIVE	CONCLUSION AND SUMMARY OF FINDINGS
1.	Risks arising from business strategies and activities are identified and prioritised and management have determined the level of risk acceptable to the organisation.	**This control objective is achieved**. There are robust procedures in place for the identification and assessment of current and emerging strategic and operational risks. The Opportunity Risk Management Strategy is in place and there is a framework and appropriate structure to embed this within the Council; it has been reviewed to reflect the Council's new delivery model.
2.	Risk mitigation activities are designed to reduce, or otherwise manage, risk at levels that were determined to be	**This control objective is achieved**. Risks are considered by management and controls are in place for all risks. There is increased focus on managing strategic risks which are reported monthly to the Senior Management Board and to informal

	acceptable to management and the Cabinet.	Cabinet in line with the Operational Risk Management Strategy. The Risk Management Team are involved in new projects and transformation work to ensure emerging risks are identified at the earliest opportunity.
3.	On-going monitoring activities are conducted to periodically reassess risk and the effectiveness of controls to manage risk.	**This control objective is not achieved**. Risk Owners have a requirement to review operational risks on a quarterly basis, but this is currently not being undertaken by all Risk Owners in a timely manner. The position has been identified by the Risk Management Team and a new process has been agreed to give the Team more control and improve the reporting arrangements to Directors / Heads of Service in respect of operational risks. A full operational risk review is planned for February 2015 to allow the new process to be implemented.
4.	The Cabinet and management receive periodic reports of the results of the risk management process.	**This control objective is achieved**. Monthly reports in respect of strategic risks are considered by informal Cabinet and the Senior Management Board.

5.6 The audit identified one significant issue leading to the following recommendation: The Risk Management Team should introduce the new operational risk monitoring process as soon as possible to address the issue of operational risks not being reviewed in a timely manner and to ensure that appropriate reporting processes are in place for Heads of Service/Directors.

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

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Committee and Date
Audit Committee 23 February 2015 9:30 am

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

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

1. Summary

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

2. Recommendations

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

a) The Audit Committee work plan for 2015/16, **Appendix A**;

b) A learning and development plan for Members of the committee taking in to account information in **Appendices A and B.**

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 By identifying the key topics to be considered at the Audit Committee meetings and receiving appropriate learning and development sessions in respect of their roles and responsibilities, Audit Committee Members are able to undertake their duties effectively and deliver them to a high standard thereby adding to:

- the robustness of the risk management framework,
- the adequacy of the internal control environment and
- the integrity of the financial reporting and annual governance of the Council.

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

4. Financial Implications

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

5 Background

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

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

a) With effect from June 2015 the Council's Benefit Fraud Team will transfer to the Department for Work and Pensions (DWP) to form part of the Single Fraud Investigation Service (SFIS) which will be responsible for investigating all welfare benefit fraud.

b) The main objectives of the SFIS are to:
- operate under a single policy and set of operational procedures for investigating all welfare benefit fraud
- conduct single investigations covering all welfare benefit fraud
- rationalise existing investigations and prosecution policies in order to create a more coherent investigation service which is joined up, efficient and operates in a more consistent and fair manner, taking into account all offences that are committed
- support the fraud and error integrated strategy of preventing fraud and error entering the benefit system by detecting and correcting fraud and punishing and deterring those who have committed fraud

c) In view of this change, the Benefit Fraud Team Performance Monitoring reports will no longer be put before Audit Committee.

d) From June 2015 Housing Benefits will monitor all cases of suspected Fraud referred to the DWP and include statistics on the level of fraudulent

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

overpayment identified as a result into the annual Housing Benefit Overpayment Performance Monitoring Report.

e) The IT disaster recovery and business continuity update report is to be circulated on the 8th May 2015 to Members for their consideration as to whether a special meeting of the committee is required.

f) Following a Members' training session, six monthly reports on the strategic risks have been introduced into the work plan.

5.3 CIPFA identify a key characteristic of an effective Audit Committee as having a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. There is a range of knowledge and experience that audit committee members can bring to the committee which will enable it to perform effectively. No one committee member is expected to be an expert in all areas. There are however some core areas of knowledge which committee members need to acquire in addition to the need for regular briefings and training.

5.4 Members consider annually their learning and development plan to support them in delivery of their roles. In 2014/15 Members have received three half day sessions which covered a number of topics in detail. These included reviewing members training and development needs against CIPFA's knowledge and skills framework; considering the effectiveness of the Audit Committee; receiving updates on value for money (VFM), locality commissioning, adult social care, external auditors work, risk management responsibilities, good governance, project and programme management, questioning techniques, the statement of accounts and reviewing the annual governance statement. Training has been delivered from a variety of in-house resources, along with colleagues from external audit.

5.5 It is proposed that training is again provided in three half day sessions over the next twelve months in May, October and January with dates to be agreed with the Chairman.

5.6 **Appendix B** identifies training topics for Audit Committee Members to consider. Training topics are identified as core areas of knowledge that all Audit Committee Members should seek to acquire and specialisms that can add value to the committee. Members may also want to hear from key officers of the Council where new or changing activities are emerging. Whilst members are asked to confirm the initial sessions for learning and development, this will not prevent any additional items being added during the year or changes being made if these are felt to be of value.

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

Previous training session records

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

Edition

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

Local Member n/a

Appendices

Appendix A – Audit Committee Work Plan 2015/16

Appendix B – Audit Committee Members development topics

Appendix A

Audit Committee Work Plan 2015/16	**25 June 2015**	**17 Sept 2015**	**26 Nov 2015**	**18 Feb 2016**	**Report originator**
IT Disaster recovery and business continuity report – to be circulated in April 2015					Head of Customer Involvement and the ICT Manager
Management report on programme controls and risks (and the top fifty contracts controls and risks in June)	✓	✓	✓	✓	Director of Commissioning
Internal Audit Annual Report	✓				Internal Audit
~~Review of~~ Annual Statement of Accounts	✓				S151 Officer
Annual Governance Statement and a review of the effectiveness of the Council's system of internal control	✓				S151 Officer
Review of Code of Corporate Governance	✓				S151 Officer
Annual review of the effectiveness of the system of Internal Audit and Quality Assurance and Improvement Programme	✓				S151 Officer
Annual Assurance Report of Audit Committee to Council	✓				Internal Audit
Pension Fund Audit Plan 2014/15 (information)	✓				External Audit
Certification Plan 2014/15	✓				External Audit
Audit Fee Letter 2015/16	✓				External Audit
Revenue Outturn Report	✓				S151 Officer
Capital Outturn Report	✓				S151 Officer
Annual Whistleblowing report	✓				Head of Human Resources
Council Tax and NNDR Performance Monitoring Report	✓		✓		Revenues and ~~Customer Contact~~ Benefits Service Manager
Housing Benefit Overpayment Performance Monitoring Report		✓			Revenues and ~~Customer Contact~~ Benefits Service Manager

Audit Committee Work Plan 2015/16	25 June 2015	17 Sept 2015	26 Nov 2015	18 Feb 2016	Report originator
Audit Findings Report 2014/15 Shropshire Council		✓			External Audit
Audit Findings Report 2014/15 Shropshire County Pension Fund (Information)		✓			External Audit
Audited Annual Statement of Accounts		✓			S151 Officer
Risk Annual Report		✓			Risk and Insurance Manager ~~ment Team Leader~~
Annual Treasury Report		✓			S151 Officer
Internal Audit IT Audit update		✓			Internal Audit
Strategic risks update		✓		✓	**Risk and Insurance Manager ~~ment Team Leader~~**
Results of National Fraud Initiative		~~✓~~	✓		Internal Audit
Annual review of Audit Committee Terms of Reference			✓		Internal Audit
Annual review of Internal Audit Charter			✓		Internal Audit
Annual review of Counter Fraud, Bribery and Anti-Corruption Strategy			✓		Internal Audit
~~Half year~~ Internal Audit performance report ~~update~~ and revised Annual Audit Plan			✓	✓	Internal Audit
Annual Audit Letter 2014/15			✓		External Audit
Value Statement 2014/15			✓		**External Audit**
Treasury Strategy Mid-Year Report			✓		S151 Officer
Annual Audit Committee Self-Assessment			✓		S151 Officer
~~Benefit Fraud Team Performance Monitoring Reports~~				~~✓~~	~~Revenues and Customer Contact Manager~~
~~Three quarter audit report update~~				~~✓~~	~~Internal Audit~~
Treasury Strategy				✓	S151 Officer

Audit Committee Work Plan 2015/16	25 June 2015	17 Sept 2015	26 Nov 2015	18 Feb 2016	Report originator
~~2013/14 Financial Resilience Benchmarking Report~~				~~✓~~	~~External Audit~~
2014/15 Certification Summary Report				✓	External Audit
Informing the risk assessment				✓	**External Audit**
Audit Plan 2015/16				✓	External Audit
Internal Audit report of the Review of Risk Management Audit				✓	Internal Audit
Draft Internal Audit Risk Based Plan				✓	Internal Audit
Draft Audit Committee annual work plan and future training requirements				✓	Internal Audit
External Audit – Audit Committee update	✓	✓	✓	✓	External Audit
Internal Audit Fraud Updates (part 2)	✓	✓	✓	✓	Internal Audit

Appendix B

Audit Committee Members development topics

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

Specialist knowledge that adds value to the Audit Committee
Accountancy
Internal audit
Risk management
Governance and legal
Service knowledge relative to the different Council functions
Programme and project management
IT systems and IT governance

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

Audit Committee Update for Shropshire Council

Year ended 31 March 2015

February 2015

Jon Roberts
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Contents

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:

- Rising to the challenge: the evolution of local government, summary findings from our fourth year of financial health checks of English local authorities
- 2020 Vision, exploring finance and policy future for English local government
- Where growth happens, on the nature of growth and dynamism across England

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.

Progress to date

Work	Planned date	Complete?	Comments
2013/14 Objection We received a formal objection to an element of expenditure within the 2013/14 financial statements relating to taxi licence fees. This did not impact on our ability to provide our opinion on the financial statements.	November 2014 – March 2015	In progress	We are reviewing the response from the Council and have undertaken some meetings to understand the background and detail behind this work. We hope to prepare our formal response to the objector in March 2015. Once we have concluded on this matter we will be in a position to issue our certificate indicating that the 2013/14 audit is formally closed.
2014/15 Accounts Audit Plan 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.	February 2015	Yes	We continue to assess the risks facing your Council and meet with Senior Officers to ensure that these risks are fully understood and our proposed audit work is appropriate to support our final opinion and VfM conclusion. If there are any revisions to the plan we will agree this with the Head of Finance, Governance and Assurance and report back to Audit Committee.
Interim accounts audit Our interim fieldwork visit includes: • 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	In progress	We have commenced regular meetings with the finance team to streamline and improve the audit approach for 2014/15 and discuss technical issues early. We have agreed topics and agreed to refresh each month to ensure we are picking up all emerging issues. We continue to work closely with Internal Audit in relation to risk, work on the financial statements and fraud. 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.

Progress to date (continued)

Work	Planned date	Complete?	Comments
2014/15 final accounts audit Including: • audit of the 2014/15 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion.	June – September 2015	Not started	The onsite work is due to commence from 20th July 2015
Value for Money (VfM) conclusion 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: • 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	In progress	The scope of our work to inform the 2014/15 VfM conclusion is detailed within the Audit Plan. We have already started attending meetings with key Senior Officers to inform our overall understanding of the Council and capture evidence of how the Council is securing value for money in all areas of service delivery. There will also be a strong focus on financial resilience and how the Council is preparing itself for future years.
Grant work (Audit Commission regime) We plan to certify the following claim: • Housing Benefits Claim 2013/14 (BEN01)	June – November 2015	Not started	Our Certification Plan will be prepared and submitted to the June 2015 Audit Committee
Other areas of work The Council has not engaged us to complete any additional work at this time.	N/A	N/A	N/A

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Reporting the certification of grant claims (non Audit Commission regime)

We were engaged by the Council to certify four grant claims which fall outside the Audit Commission regime. This work was completed and reported in 2013/14 although need not relate to the claim within that period. Certification of these claims represents a final but important part of the process to confirm the Council's entitlement to funding. The four claims are detailed below.

There are no issues arising from this certification work which we wish to highlight for your attention. We are satisfied that the Council has appropriate arrangements to compile complete, accurate and timely claims/returns for audit certification in these areas.

Claim	Value	Amended	Qualified?	Fee	Comments
Homes & Communities Agency 2012/13 Decent Homes Funding	£1.2 million	No	No	£2,750	
Homes & Communities Agency 2013/14 Decent Homes Funding	£0.794 million	No	No	£2,750	
Homes & Communities Agency 2014/15 Affordable Homes compliance work	N/A	N/A	No	£3,500	This work related to a spot check requested by the HCA where they chose a sample of schemes. The work did not focus on value of funding, but on arrangements in place and legality and governance issues.
Teachers' Pension Agency 2013/14 Certification	£14,442 million	No	No	£4,200	The fee set by the Audit Commission in 2012/13 was £5,877.

Emerging issues and developments

Grant Thornton – Rising to the challenge

Our national report, Rising to the Challenge, the Evolution of Local Government, was published in December and is available at: http://www.grant-thornton.co.uk/en/Publications/2014/Rising-to-the-challenge---The-evolution-of-local-government/

This is the fourth in our series of annual reports on the financial health of local government. Like previous reports, it covers key indicators of financial performance, strategic financial planning, financial governance and financial control. It also includes case studies of best practice and a comparison to the NHS. This year it has been extended to use benchmarking information on savings plans and budget performance.

The overall message is a positive one. What stands out is how well local authorities have navigated the first period of austerity in the face of ever increasing funding, demographic and other challenges. Many authorities are forecasting financial resilience confidently in their medium term financial strategy. This reflects an evolution in financial management that would have been difficult to envisage in 2010. However, there remains much to be achieved if the sector is to become sustainable in the long term, and authorities should consider if their:

- medium- to long-term strategy redefines the role of the authority creatively
- operational environment will adapt, working in partnership with other authorities and local organisations
- strategy looks beyond the traditional two- to three-year resource planning horizon
- organisational culture is aligned to where the authority needs to be in the medium to long term
- senior leadership teams – both officers and members – have the necessary skills and capacity to ensure delivery against the medium-term challenges
- corporate governance arrangements ensure effective oversight and scrutiny of the organisation as it adapts to the challenges it faces.

The importance of these actions will be magnified if local government devolves further, particularly in relation to fiscal devolution. The new-found confidence of local government in responding to the medium-term challenges will be tested significantly by the second phase of austerity.

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

Accounting for schools

Accounting and audit issues

The debate about the recognition of school land and buildings on local authority balance sheets (which most commentators had thought settled) has been reignited. Grant Thornton is taking a leading role in trying to resolve this unexpected development.

In March, CIPFA/LASAAC Code concluded that under IFRS 10, maintained schools (but not free schools or academies) meet the definition of entities that need to be consolidated in group accounts. However, rather than requiring local authorities to prepare group accounts, the CIPFA/LASAAC Code requires local authorities to account for maintained schools within their single entity accounts (I&E and assets and liabilities). The general expectation in the sector was that:

- the vast majority of voluntary aided, voluntary controlled and foundation schools would be recognised on local authority balance sheets
- a small number of school buildings that are provided at no charge by a religious body and where there was a realistic possibility that they could be taken back by their owners would be treated as assets of the religious body and so not recognised on the local authority balance sheet.

However, at the CIPFA conference in November, CIPFA clarified that it considers that most voluntary aided and voluntary controlled school buildings would **not** be recognised on the balance sheet as set out in LAAP 101. This is because the religious bodies have a legal right to take back these assets. Nor does CIPFA consider the position for foundation school buildings to be clear cut and local judgement would need to be applied. We are discussing issues with CIPFA, in particular:

- how the treatment proposed by CIPFA complies with the Code
- the significant practical implications for the sector
- the potential for inconsistent accounting treatments depending on local judgement.

We are working with the Audit Commission, CIPFA and the other audit firms suppliers to try to seek a practical way forward as soon as possible. We will continue to share the latest developments with officers. In the mean time we would recommend that you continue your preparations for recognising school land and building including:

- identifying those schools where school buildings are owned by third parties (such as church dioceses) and determining under what circumstances the buildings could be taken back by the third party
- obtaining valuations for school land and buildings for each of the three balance sheet dates (1 April 2013, 31 March 2014, 31 March 2015)
- obtaining sufficient information to enable the authority to restate its revaluation reserve and capital adjustment account.

Challenge questions

Is your Head of Finance, Governance and Assurance able to provide our auditors with evidence which supports the judgements around how these schools should be consolidated (whether legally based or operationally based)?

Group accounting standards

Accounting and audit issues

The CIPFA Code has adopted a new suite of standards for accounting for subsidiaries, associates and joint arrangements. These changes affect how local authorities account for services delivered through other entities and joint working with partners. The key changes for 2014/15 are to:

- the definition of control over 'other entities'. The revised definition is set out in IFRS 10 and determines which entities are treated as subsidiaries
- the accounting for joint arrangements. This now follows IFRS 11 and includes changes to the definition of joint ventures and how joint ventures are consolidated in group accounts
- disclosures in relation to subsidiaries, joint arrangements, associates and unconsolidated entities as set out in IFRS 12.

Changes to the definition of control over 'other entities'

Control was previously defined in terms of power to govern the financial and operating policies of an entity. IFRS 10 sets out three elements for an investor to be considered as controlling an investee (all of which must be met):

- the investor has the rights to direct the relevant activities (the ones that determine the return for the investors) of the investee
- the investor has exposure, or rights, to variable returns from its involvement with the investee
- the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

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Local authorities with investments in 'other entities' will need to consider whether:

- they control any entities using the new definition. Local authorities will need to pay particular attention to special purpose vehicles and any other entities where there was a close judgement call under the old IAS 27
- there is a need for a prior period adjustment.

Changes to accounting for joint arrangements

Joint arrangements are contractual arrangements between two or more parties where there is joint control. IFRS 11 makes three key changes from IAS 31:

- there are now only two types of joint arrangements: joint operations and joint ventures
- In a joint operation the investing parties have rights and obligations in relation to the arrangement's assets and liabilities, whereas in a joint venture the parties have rights to the arrangement's net assets. It is for the entity to assess whether a joint arrangement is a joint operation or joint venture by considering its rights and obligations arising from the arrangement.
- local authorities are still required to consolidate joint ventures in their group accounts but must now do so using the equity (single line) method. The option for proportionate (line-by-line) consolidation has been removed.

The key challenge for most local authorities will be determining whether their joint arrangements are joint ventures or joint operations. The difference should be clear from the contract but in some cases judgement may be required. Local authorities that have previously used the proportionate consolidation method will need to account for the move to equity accounting as a prior period adjustment.

Challenge questions

- Does your Head of Finance, Governance and Assurance have a plan of how to prepare to implement this change in accounting standards?

Earlier closure and audit of accounts

Accounting and audit issues

DCLG is consulting on proposals to bring forward the audit deadline for 2017/18 to the end of July 2018. Although July 2018 is almost 4 years away, both local authorities and their auditors will have to make real changes in how they work to ensure they are 'match-fit' to achieve this deadline. This will require leadership from members and senior management. Local government accountants and their auditors should start working on this now.

Top tips for local authorities:

- make preparation of the draft accounts and your audit a priority, investing appropriate resources to make it happen
- make the year end as close to 'normal' as possible by carrying out key steps each and every month
- discuss potential issues openly with auditors as they arise throughout the year
- agree key milestones, deadlines and response times with your auditor
- agree exactly what working papers are required.

Challenge questions

- Has your Head of Finance, Governance and Assurance put in place a plan to address the earlier close date?

Financial sustainability of local government

Local government guidance

In November the National Audit Office published their report on the Financial Sustainability of Local Government.

The report concludes that Local authorities have coped well with reductions in government funding, but some groups of authorities are showing clear signs of financial stress. The Department for Communities and Local Government has a limited understanding of authorities' financial sustainability and the impacts of funding cuts on services, according to the National Audit Office.

The Government reduced its funding to local authorities by an estimated 28% in real terms between 2010-11 and 2014-15. Further planned cuts will bring the total reduction to 37% by 2015-16, excluding the Better Care Fund and public health grant. Although there have been no financial failures in local authorities in this period, a survey of local auditors shows that authorities are showing signs of financial pressure. Over a quarter of single tier and county councils had to make unplanned reductions in service spend to deliver their 2013-14 budgets. Auditors are increasingly concerned about local authorities' capacity to make further savings, with 52% of single tier and county councils not being well-placed to deliver their medium-term financial plans.

There are significant differences in the scale of funding reductions faced by different authorities. Authorities that depend most on government grant are the ones most affected by funding reductions and reforms. This was an outcome of policy decisions to tackle the fiscal deficit by reducing public spending, and for local authority funding to offer incentives for growth.

Local authorities have tried to protect spending on social care services. Other service areas such as housing services and culture and leisure services have seen larger reductions. While local authorities have tried to make savings through efficiencies rather than by reducing services, there is some evidence of reduction in service levels.

According to the NAO, however, the Department does not monitor in a coordinated way the impact of funding reductions on services, and relies on other departments and inspectorates to alert it to individual service failures. In consequence, the Department risks becoming aware of serious problems with the financial sustainability of local authorities only after they have occurred.

The Department's processes for assessing the capacity of authorities to absorb further funding reductions are also not sufficiently robust.

Kerslake report on Birmingham City Council

Local government guidance

Sir Bob Kerslake published his report, The way forward: an independent review of the governance and organisational capabilities of Birmingham City Council, on 9th December.

Commissioned by the Secretary of State this comes off the back of well publicised failures in Children's Services and the Trojan Horse issue in Birmingham Schools. It includes some tough messages for Birmingham City, but there are issues that resonate with all large local authorities.

The report's recommendations include the following.

- The Council needs an external Improvement Board to show that it is making the changes it needs to effectively serve its population.
- Internal governance needs fundamental change, including the relationship between members and officers, how it plans for the future, a stronger corporate core and a programme of culture change.
- The Council needs more political clarity, moving away from annual thirds elections and reducing the number of members. This includes redesigning the model for representative governance.
- Medium term financial planning needs greater clarity, and the Council cannot assume that it will get any additional Government support.
- In moving from a 20,000 people organisation in 2010 to a 7,000 people one by 2018 the Council needs fit for purpose workforce planning.
- Devolution within the Council and across the City needs simplifying and a greater outcome focus.
- Partnership working needs redefining, with the Council moving away from a 'Big Brother' approach.
- The Council needs to work with the other West Midland MBCs to make the combined authority a reality that delivers jobs and prosperity to the region.

Challenge questions

- Has Shropshire Council considered whether there are lessons or issues from the report that it also needs to action?

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Certification report 2013/14 for Shropshire Council

Year ended 31 March 2014

January 2015

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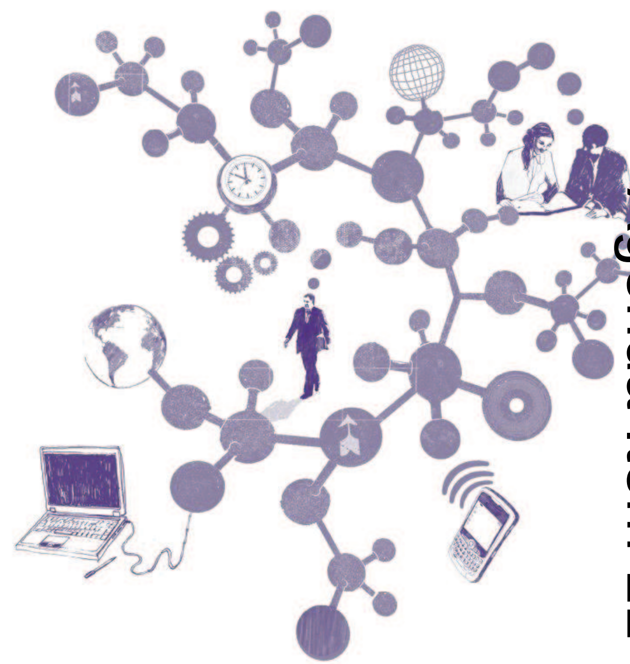

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Section 1: Summary of findings

01. Summary of findings

The Council submitted two grant claims through the Audit Commission regime. These were both completed by the deadline and the staff engaged well with the audit process.

The Council has undertaken further work which is currently being considered by the DWP to inform the level of housing subsidy it will receive for 2013/14.

Summary of findings

Introduction

We are required to certify certain claims and returns submitted by Shropshire Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

We have certified two claims and returns for the financial year 2013/14 relating to expenditure of £72.373 million.

This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

Our approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform were set out in our Certification Plan issued to the Council in June 2014.

Key messages

A summary of all claims and returns subject to certification is provided at Appendix A. The key messages from our certification work are summarised in the table below and set out in detail in the next section of the report.

Aspect of certification arrangements	Key Messages	RAG rating
Submission & certification	All claims were submitted for audit and certified in line with the relevant timescales	**Green**
Accuracy of claim forms submitted to the auditor (including amendments & qualifications)	No amendments were required to the Pooling of Housing Capital Receipts claim. Amendments were made to the Housing Benefit Subsidy Claim. Our work also identified errors and uncertainties which required reporting to the Department for Work and Pensions in a qualification letter.	**Amber**
Supporting working papers	The Council provided excellent working papers to support the claims and all staff fully participated in the audit process.	**Green**

Certification fees

The indicative certification fee set by the Audit Commission for 2013/14 for Shropshire Council is based on final 2011/12 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Fees for schemes no longer requiring certification (such as the national non-domestic rates return) have been removed. The fees for certification of housing benefit subsidy claims were reduced by 12 per cent, to reflect the removal of council tax benefit from the scheme. This is set out in more detail in Appendix C.

The way forward

We set out recommendations to address the key messages above and other findings arising from our certification work at Appendix B. The Council should consider the reduction in permanent staffing levels within the department against the level of errors identified.

Implementation of the agreed recommendations will assist the Council in compiling accurate and timely claims for certification. This will reduce the risk of penalties for late submission, potential repayment of grant and additional fees.

Acknowledgements

We would like to take this opportunity to thank the Council officers for their assistance and co-operation during the course of the certification process.

Grant Thornton UK LLP
January 2015

Appendices

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Appendix A: Details of claims and returns certified for 2013/14

Claim or return	Value	Amended?	Amendment (£)	Qualified?	Comments
Housing Benefit Subsidy claim (BEN01)	£70.800 million	Yes	(798)	Yes	A number of errors were identified and reported to the DWP by the certification deadline of 28 November 2014. The extrapolated impact of these errors would have taken the Council above their Local Authority and Admin error threshold, potentially resulting in a reduction in subsidy of £0.37 million. We worked with officers to identify a way forward and reduce the financial impact of these errors. The Council undertook 100% testing on a sub-population of cases impacted by Social Sector Size criteria rules. The results of this work were reported to the DWP by 19th December 2014. This work has resulted in the cumulative impact of the extrapolations on the Local Authority error threshold falling below the limit. This has reduced the financial impact on subsidy to £24,587 subject to agreement with DWP. Details of this testing will be reported to the Audit Committee separately.
Pooling of Housing Capital Receipts return (CFB06)	£1.573 million	No	N/A	No	Standard testing was undertaken

Appendix B: Action plan

Priority
High - Significant effect on arrangements
Medium – Some effect on arrangements
Low - Best practice

Rec No	Recommendation	Priority	Management response	Implementation date & responsibility
1	Review staff resources for processing Housing Benefit claims, balancing the number of staff and experience within the team against the use of temporary staff and level of errors identified	Medium		February 2015 Head of Revenues and Benefits
2	Improve processing times to reduce the level of Local Authority error overpayments and ensure that the Council remains below the threshold as set by DWP	High		February 2015 Head of Revenues and Benefits

Appendix C: Fees

Claim or return	2012/13 fee (£)	2013/14 indicative fee (£)	2013/14 actual fee (£)	Variance year on year (£)	Explanation for significant variances
Housing Benefit Subsidy claim (BEN01)	17,430	18,593	18,593	1,163	Additional work required as a result of errors identified in 2012/13 as required by the DWP and built into the fee set by the Audit Commission.
Pooling of Housing Capital Receipts return (CFB06)	1,460	807	807	(653)	Reduced work required from cyclical approach to detailed testing. Only Part A undertaken in 2013/14 whereas Part A&B undertaken in 2012/13.
Total	**18,890**	**19,400**	**19,400**	**510**	

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Additional work completed for the 2013/14 Housing Benefit Certification for Shropshire Council

Year ended 31 March 2014

January 2015

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Summary of findings

Introduction

Our Qualification letter dated 28 November 2014 reported an issue relating to the use of incorrect bedroom data in the assessment of entitlement. Our letter further set out that the potential extrapolated impact of this was £57,572. If the DWP had applied the extrapolated errors reported there was potential for significant loss of subsidy.

The Council corresponded with the DWP in November 2014 setting out that further work was planned on the entire population potentially impacted by Social Sector Size criteria rules. This work took place in December 2014.

The DWP agreed that the additional testing (covering 100% of the sub-population) should be completed to enable Grant Thornton to conclude whether the sub-population was 'fairly stated'. This would supersede the initial extrapolated error reported to DWP on 28 November 2014.

Key messages

Our review of the work undertaken by the Council did not identify any matters upon which we were required to provide comment to DWP. If the DWP accept the updated results the potential impact of this work will be to bring the Council back below the Local Authority error threshold and substantially reduce the level of any potential claw back.

Additional fees

The additional fee for this work has been agreed with the Head of Finance, Governance and Assurance at £1,800 (excluding VAT). We are awaiting confirmation of this fee with the Audit Commission/Public Sector Assurance Appointments Ltd prior to invoicing the Council.

Acknowledgements

We would like to take this opportunity to thank the Council officers for their assistance and co-operation during the course of the additional testing process.

Grant Thornton UK LLP
January 2015

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The Audit Plan for Shropshire Council

Year ended 31 March 2015

February 2015

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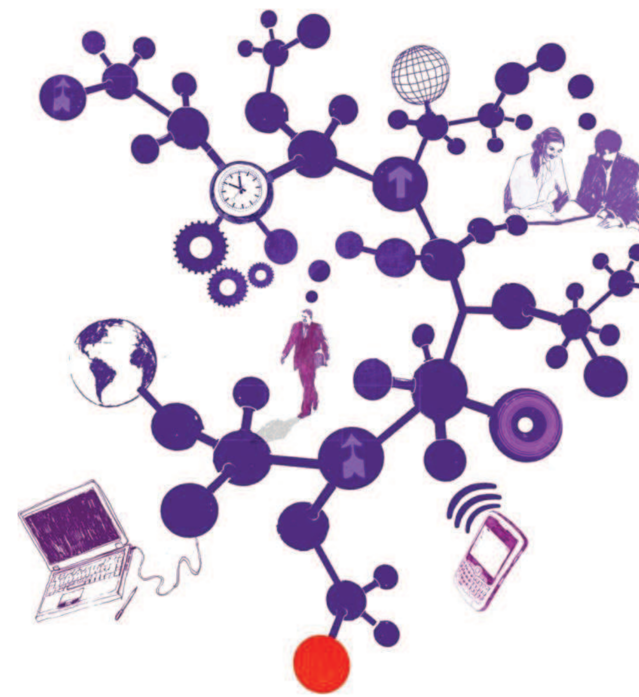

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Section

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

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Procurement and Commissioning

- Moving the Council from a position of provisioning services to a full 'Commissioning Council' model
- Delivering efficiency savings through improved procurement and better and more innovative contract management

2. Alternative Delivery Models

- Development of your local authority trading companies which fall under the umbrella of ip&e Ltd
- Greater partnership working with other bodies and the voluntary sector

3. Collaborative working with the NHS

- Development of new working arrangements to deliver the Better Care Fund
- NHS emergency care overload and the re-emergence of bed-blocking linked to adult social care capacity

4. LG Finance Settlement

- The local government spending settlement showed local authorities are facing a cash reduction in their spending power of 6% in 2015/16
- At the same time local authorities nationally are facing increasing demands for school places and adult social care services

5. Decision making and performance management

- Continued pressure to perform against financial and non financial based policies and strategies
- Internal Audit provided a qualified Head of Internal Audit Opinion for the previous two years due to weaknesses in internal control arrangements

6. Development of University Centre Shrewsbury

- Working with the University of Chester, ip&e Ltd and other partners to develop a University Centre in Shrewsbury
- Creating jobs and stimulating the local economy in the medium to long term by improving access to the right skills to sustain Shropshire

Our response

1.
- We will review the progress you have made in delivering your efficiency savings in this area as part of our work on your arrangements for financial resilience

2.
- We will continue to understand the pace of growth of ip&e Ltd and the impact this has on the Council as services transfer
- We will review the governance arrangements in place as services shift away from the Council and other partnership arrangements develop

3.
- We will discuss your plans in these areas through our regular meetings with senior management and those charged with governance, providing a view where appropriate

4.
- We will review your Medium Term Financial Plan and financial strategy as part of our work on your arrangements for financial resilience

5.
- We will monitor performance management reports and assess whether there is any impact on deliver of services
- We will review the conclusions from Internal Audit to assess the control environment which will inform our testing strategy for the financial statements audit and form part of our value for money conclusion

6.
- We will discuss your plans in these areas through our regular meetings with senior management and those charged with governance, providing a view where appropriate.

Developments relevant to your business and the audit

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

Developments and other requirements

1.Financial reporting	2. Legislation	3. Corporate governance	4. 2013/14 objection	5. Financial Pressures	6. Other requirements
• Changes to the CIPFA Code of Practice • Changes to the recognition of school land and buildings on local authority balance sheets • Adoption of new group accounting standards (IFRS 10, 11 and 12)	• Local Government Finance settlement	• Annual Governance Statement (AGS) • Explanatory foreword • Governance arrangements around ip&e Ltd	• Formal objection raised on taxi licence fee setting relating to the information contained within the 2013/14 financial statements	• Managing service provision with less resource • Progress against savings plans • Pace of change required to deliver savings required to balance budgets over future years	• The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion • The Council completes grant claims and returns on which audit certification is required

Our response

We will ensure that • the Council complies with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing • schools are accounted for correctly and in line with the latest guidance • the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly	• We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate	• We will review the arrangements the Council has in place for the production of the AGS • We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge • We will consider the assurance the Council receives from ip&e Ltd over governance arrangements for the services commissioned	• We will conclude on the objection and formally respond to the objector within the timescales prescribed by the Audit Commission	• We will review the Council's performance against the 2014/15 budget, including consideration of performance against the savings plan • We will undertake a review of Financial Resilience as part of our VfM conclusion • We will consider financial performance and service delivery particularly in areas where service redesign or the use of alternative delivery models has been implemented	• We will carry out work on the WGA pack in accordance with requirements • We will certify the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd. This company will take over the Audit Commission's responsibilities for housing benefit grant certification from 1 April 2015.

Our audit approach

Global audit technology

Ensures compliance with International Standards on Auditing (ISAs)

- Understanding the environment and the entity
- Understanding the business
- Understanding management's focus
- Evaluating the year's results

→

- Inherent risks
- Significant risks
- Other risks
- Material balances

→

Develop audit plan to obtain reasonable assurance that the Financial Statements as a whole are free from material misstatement and prepared in all material[a] respects with the CIPFA Code of Practice framework using our global methodology and audit software

Devise audit strategy (planned control reliance?)

Yes	No
• Test controls • Substantive analytical review • Tests of detail	• Test of detail • Substantive analytical review

IDEA: Extract your data → Analyse data using relevant parameters → Report output to teams

General audit procedures

Financial statements

Conclude and report

Note:
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Voyager

Creates and tailors audit programs

Stores audit evidence

Documents processes and controls

Significant risks identified

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

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

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Shropshire Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition, • opportunities to manipulate revenue recognition are very limited, • the culture and ethical frameworks of local authorities, including Shropshire Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.	**Work completed to date:** • Discussion on accounting estimates, judgments and decisions made by management **Further work planned:** • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions

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Other risks identified

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

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Operating expenses	Creditors understated or not recorded in the correct period	**Work completed to date:** • Documented the processes and controls in place around accounting for operating expenses • Walkthrough tests to confirm the operation of the controls **Further work planned:** • Search for unrecorded liabilities by testing whether the cut-off of post year end payments is appropriate • Verify creditors to supporting documentation and subsequent payments to ensure that creditors are correctly classified and recorded in the correct period
Employee remuneration	Employee remuneration and benefit obligations and expenses understated	**Work completed to date:** • Documented the processes and controls in place around accounting for operating expenses • Walkthrough tests to confirm the operation of the controls **Further work planned:** • Agreement of staff costs per the financial statements to the General Ledger and the payroll system • Monthly trend analysis to gain assurance that there have been no significant omissions from staff costs recorded

Other risks identified - Continued

Other risks	Description	Audit Approach

Welfare Expenditure	Welfare benefits improperly computed	**Work completed to date:**
		• Documented the processes and controls in place around accounting for operating expenses
		• Walkthrough tests to confirm the operation of the controls
		Further work planned:
		• Reconciliation of expenditure to welfare benefits system
		• Reconciliation of welfare benefit income to grant claim and cash received
		• Initial testing in accordance with the methodology required to certify the housing benefit subsidy claim including,
		    • housing benefit discovery testing
		    • housing benefit analytical review
		    • uprating model
		    • software tool

Group audit scope and risk assessment

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

This assessment is based upon initial evaluation of forecast out-turn figures. If these increase it may result in a component becoming significant and our proposed analytical approach being insufficient. If this is the case we will be required to undertaken targeted work at that component which will increase the level of work required to enable us to provide our opinion.

If this occurs, we will agree this with the Head of Finance, Governance and Assurance and then communicate to the Audit Committee. We are already engaging in discussions around forecast out-turns and at this stage, assume that no component will be assessed as significant.

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

* A significant component is a component identified by the group engagement team that is of individual financial significance to the group, or that, due to its specific nature or circumstances, is likely to include significant risks of material misstatement of the group financial statements. (ISA 600)

** Depending on the circumstances of the engagement, the financial information of the components may be aggregated at various levels for purposes of the analytical procedures. The results of the analytical procedures corroborate the group engagement team's conclusions that there are no significant risks of material misstatement of the aggregated financial information of components that are not significant components.(ISA 600)

Value for money

Value for money

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

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

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

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

- A detailed risk assessment which will support our overall conclusion.
- A review of the Council's financial resilience for 2014/15 and going forward. This will include consideration of the adequacy of the Council's medium term and longer term financial planning.
- A review of the governance and control arrangements which are in place in light of the qualified Head of Internal Audit Opinion in 2013/14.
- Review of the governance arrangements in place in relation to the transfer of services to ip&e Ltd.
- Review of the Council's on-going involvement in the Better Care Fund arrangements.

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

Results of interim audit work

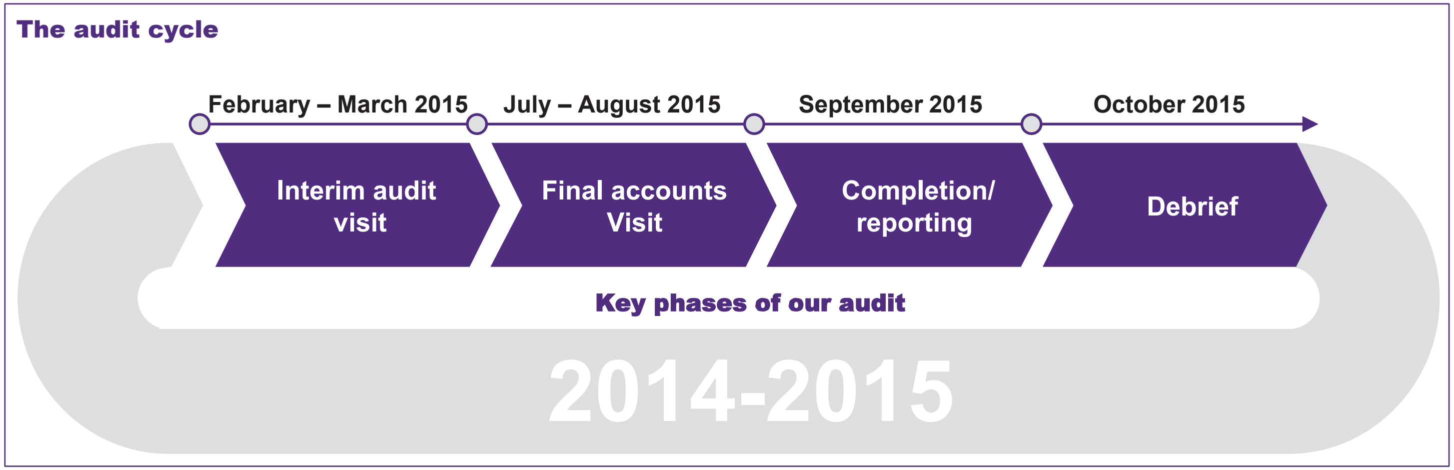
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal Audit	We have reviewed Internal Audit's overall arrangements against the Public Sector Internal Audit Standards. Our work has not identified any issues which we wish to bring to your attention.	Overall, we have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council. We plan to review Internal Audit's work on the Council's key financial systems at our interim visit.
Walkthrough testing	We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.	Our work has not identified any weaknesses which impact on our audit approach.
Entity level controls	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.

Results of interim audit work continued

	Work performed	Conclusion
Review of information technology controls	We have followed up the high level review of the general IT (information technology) control environment, completed by our information systems specialist in 2013/14. This informs our overall review of the internal controls system. We have also performed a follow up of the Council's response to the issues that were raised last year. IT controls were observed to have been implemented in accordance with our documented understanding.	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.
Journal entry controls	We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.	The control environment has been assessed and detailed journal testing will be completed as part of our interim and final accounts visits.
Value for money	We have undertaken our initial risk assessment for our work on your value for money (VfM) conclusion. Interviews with Senior Officers have been booked into diaries for February and March to inform our work and will be followed up in July and August 2015.	Our planning and initial audit work has identified no issues which are likely to result in a qualified VfM conclusion.

Key dates



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Date	Activity
January 2015	Planning
February and March 2015	Interim site visits
February 2015	Presentation of audit plan to Audit Committee
May 2015	Deadline for completion of the on-going Objection and issuing the 2013/14 closing audit certificate
July and August 2015	Year end fieldwork
August 2015	Audit findings clearance meeting with Head of Finance, Governance and Assurance
September 2015	Report audit findings to those charged with governance (Audit Committee)
September 2015	Sign financial statements opinion
October 2015	Whole of Government Accounts reported on
October and November 2015	Housing Benefit Grant Claim completed
November 2015	Annual Audit Letter finalised

Fees

Fees

	£
Council audit 2014/15	178,460
Additional work to inform DWP on errors reported in the 2013/14 qualification letter	1,800
Grant certification 2014/15	15,340
Fees in relation to group accounts consolidation requirements	TBC
Fees in relation to an objection from 2013/14	TBC
Total fees (excluding VAT)	**TBC**

Fees for other services

Service	Fees £
Certification of the Teachers' Pension Agency 2013/14 claim	4,200
Total	**4,200**

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.
- The scope of the audit, and the Council and its activities, have not changed significantly. We will review with level of work involved in providing assurance over the transfer of services to ip&e Ltd and also the implications of revisions to the change in accounting standards for group accounts and report any changes in fee to you once agreed with the Head of Finance, Governance and Assurance.
- The Council will make available management and accounting staff to help us locate information and to provide explanations.

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited (PSSA Ltd), as the successor to the Audit Commission in this area.
- The grant certification fee is indicative and may vary depending on the final levels of audit work required. The PSSA Ltd determines the level of fee we can charge for this work. We will report on the final fee once our work is completed.
- There is no charge in 2014/15 for the certification work on the NDR3 claim. As work is required to inform our opinion, the Audit Commission has previously increased the scale fee by £1,070, reflecting 50% of the average fee previously charged nationally for NDR3 certification for unitary councils.

Fees for other services

- Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services.'

Independence

Independence and ethics

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

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

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

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

Communication of audit matters with those charged with governance

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

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

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

Respective responsibilities

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

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

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

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

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

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Informing the audit risk assessment for Shropshire Council

Year ended 31 March 2015

February 2015

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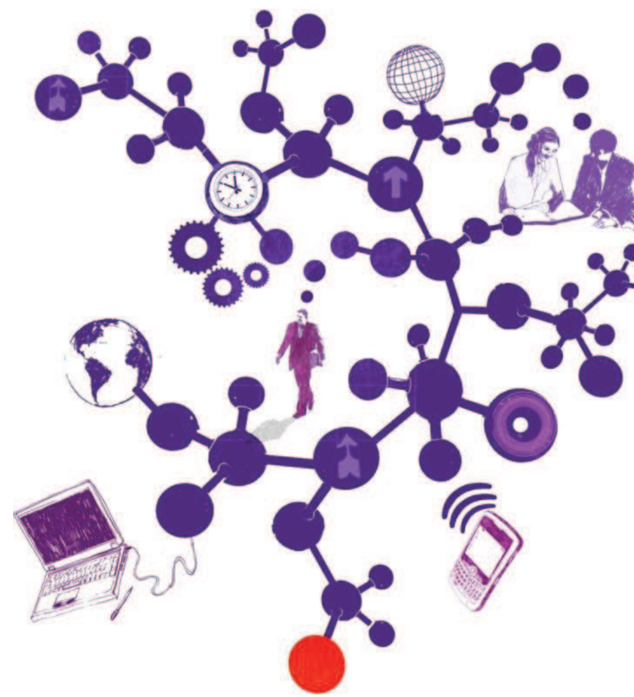

Contents

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

Purpose

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

Background

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

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

Communication

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

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

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

Fraud

Issue

Matters in relation to fraud

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

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

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

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

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

Fraud risk assessment

Question	Management response
Has the Council assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?	Fraud risks are identified by Internal audit in their audit plan, and all fundamental systems which feed the statement of accounts are reviewed annually to ensure that controls in place are satisfactory. The statement of accounts is also subject to an analytical review each year which considers any significant or material changes to figures, to confirm that the accounts are presented without such misstatements.
What processes does the Council have in place to identify and respond to risks of fraud?	Specific fraud risks are identified in the audit planning process; in identifying key controls to be assessed as part of an audit; in targeted fraud prevention work and by raising awareness of the potential for fraud with staff, members and people working and involved with the Council. This is done through the Counter Fraud, Bribery and Anti-Corruption Strategy, Speaking up about Wrongdoing Policy, online Meritec training package and supporting manual training packages. In addition systems and processes are designed by managers and users to minimise the risk of fraud and corruption. Areas where fraud is more likely to occur reflect nationally targeted areas including procurement with duplicate invoices or contractual frauds; time and resources abuse, payroll and expense claims; housing and council tax benefits; theft of council income; sub-letting of housing property and abuse of subsidised schemes, such as blue badges.
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	No areas with a high risk of material fraud have been identified. If any risks are identified, recommendations for mitigation are made to managers who then implement as necessary.
Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?	Internal controls, including whether segregation of duties exist, are reviewed by Internal Audit as part of their routine and investigative work; exceptions are reported to managers and inform the Internal audit opinion.
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	There is always the potential for an override of controls within systems, however our control framework has established secondary compensatory controls in place that would identify any such override taken place. Financial reporting is produced and balanced from the financial system, and the reporting hierarchy allows for checks to be performed throughout the process, for example by the Section 151 Officer, Senior Management Team and Cabinet.

Fraud risk assessment

Question	Management response
Are there any areas where there is a potential for misreporting override of controls or inappropriate influence over the financial reporting process?	No, as detailed above, there are compensatory controls in place to flag any overrides of controls.
How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud? What arrangements are in place to report fraud issues and risks to the Audit Committee?	The Internal Audit Risk Based Plan is approved by Audit Committee before commencement each year. Internal Audit complete a robust review of internal controls on a risk basis and reports regularly to Audit Committee. Audit Committee are informed of the audit opinions and seek management reassurance on the improvement of controls where the consequences are considered high risk. At each meeting, Audit Committee members receive an update on instances of actual, suspected or alleged fraud investigations that have occurred since the last meeting and their outcomes.
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	The Council shares the whistleblowing policy with the public and all contractors. The terms and conditions within Council contracts also include ethical considerations for contractors and suppliers. The vision and values for the Council identify the need for staff to act with integrity in all the undertakings we make and this is tested and reviewed via team meetings and engagement surveys undertaken across the whole organisation.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	Staff are encouraged to report their concerns about fraud as set out in the Speaking up about wrongdoing (whistleblowing) policy and the Council's Counter Fraud, Bribery and Anti-Corruption Strategy.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	None identified.
Are you aware of any instances of actual, suspected or alleged, fraud within the Council as a whole since 1 April 2014?	All investigations of fraud are reported to the Audit Committee with internal audit present to consider the implications of the fraud.

Laws and regulations

Issue
Matters in relation to laws and regulations ISA (UK&I) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements. Management, with the oversight of the Audit Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements. As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements. Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	Each year the Council's corporate governance arrangements and risk management arrangements are reviewed and reported upon by Internal Audit and Risk Management teams. The Council has a robust corporate governance and risk management process in place.
How does management gain assurance that all relevant laws and regulations have been complied with?	The Council has a Monitoring Officer and Section 151 Officer who provide assurance that all relevant laws and regulations have been complied with. Also all Cabinet reports now have a standard section detailing any legislative issues. Any non compliance is reported to management via Internal Audit reports and appropriate plans are put in place to remedy such issues.
How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	All reports on the Council's corporate governance arrangements are presented to Audit Committee to provide assurance that the appropriate arrangements are in place and that they are working well.
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2014, or earlier with an on-going impact on the 2014/15 financial statements?	The Section 151 Officer is not aware of any instances of non-compliance with relevant laws and regulations in 2014/15.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	Risk management, insurance and legal work together to identify and evaluate any potential litigation or claims against the Council. Any potential liabilities are highlighted each year in the Council's Statement of Accounts.
Is there any actual or potential litigation or claims that would affect the financial statements?	The Section 151 Officer is not aware of any actual or potential litigation or claims that would affect the financial statements.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No such reports have been received.

Going concern

Issue
Matters in relation to going concern ISA (UK&I) 570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements. The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business. The code of practice on local authority accounting requires an authority's financial statements to be prepared on a going concern basis. Although the Council is not subject to the same future trading uncertainties as private sector entities, consideration of the key features of the going concern provides an indication of the Council's financial resilience. As auditor, we are responsible for considering the appropriateness of use of the going concern assumption in preparing the financial statements and to consider whether there are material uncertainties about the Council's ability to continue as a going concern that need to be disclosed in the financial statements. We discuss the going concern assumption with management and review the Council's financial and operating performance. Going concern considerations have been set out below and management has provided its response.

Going concern considerations

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

Going concern considerations

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

Related parties

Issue
Matters in relation to related parties ISA (UK&I) 550 covers auditor responsibilities relating to related party transactions. Many related party transactions are in the normal course of business and may not carry a higher risk of material misstatement. However in some circumstances the nature of the relationships and transaction may give rise to higher risks. For local government bodies, the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires compliance with IAS 24: related party disclosures. The Code identifies the following as related parties to local government bodies: • entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council (i.e. subsidiaries) • associates • joint ventures in which the Council is a venturer • an entity that has an interest in the Council that gives it significant influence over the Council • key officers, and close members of the family of key officers • post-employment benefit plan (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council. The Code notes that, in considering materiality, regard should be had to the definition of materiality, which requires materiality to be judged from the viewpoint of both the Council and the related party. ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related party considerations

Question	Management response
Who are the Council's related parties?	The Council's related parties include Central Government; organisations on which it is represented by members including Severnside Housing, West Mercia Energy and Shropshire Fire and Rescue Service; and entities which are controlled or significantly influenced by the Authority which includes ip&e Ltd, the Shropshire County Pension Fund, South Shropshire Leisure Limited and Shropshire Towns and Rural Housing.
What are the controls in place to identify, account for, and disclose, related party transactions and relationships?	A number of arrangements are in place for identifying the nature of a related party and reported value including: • Maintenance of a Register of interests for Members, a register for pecuniary interests in contracts for Officers and Senior Managers requiring disclosure of related party transactions. • Annual return from senior managers/officers requiring confirmation that read and understood the declaration requirements and stating details of any known related party interests.

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Estimates

Issue
Matters in relation to Accounting Estimates Local authorities need to apply appropriate estimates in the preparation of their financial statements. Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate. We need to obtain an understanding of: • how management identifies the transactions, events and conditions that give rise to the need for an accounting estimate. • how management actually make the estimates, including the control procedures in place to minimise the risk of misstatement. We need to be aware of all estimates that the Council is using as part of its accounts preparation. These are set out overleaf. The audit procedures we conduct on the accounting estimate will demonstrate that: • the estimate is reasonable; and • estimates have been calculated consistently with other accounting estimates within the financial statements.

Estimate considerations

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

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Estimate considerations

Estimate	Method	Controls used to identify estimates	Use of an expert	Underlying assumptions - Assessment of degree of uncertainty - Consideration of alternative estimates	Change in accounting method in year?
Estimated remaining useful lives of PPE	The following useful lives have been used in the calculation of depreciation: • Council Dwelling – Major Repairs Allowance has been used as an estimate of depreciation. • Other Land and Buildings – average 10 to 60 years range. • Vehicles, Plant, Furniture & Equipment – average 5 years. • Infrastructure – average 40 years	Specific asset lives applied to buildings. Consistent asset lives applied to each asset category.	Use Property Services (RICS valuer) for buildings valuations. Other assets considered by Property Services Manager and capital accountant	The length of the life is determined at the point of acquisition or revaluation. Major components are depreciated separately.	No

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Estimate considerations

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

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Estimate considerations

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

Estimate considerations

Estimate	Method	Controls used to identify estimates	Use of an expert	Underlying assumptions - Assessment of degree of uncertainty - Consideration of alternative estimates	Change in accounting method in year?
Non adjusting events - events after the BS date	Section 151 Officer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date this is an un-adjusting event. A note to the accounts is included, identifying the nature of the event and where possible estimates of the financial effect.	The Section 151 Officer is notified by relevant managers.	This would be considered on individual circumstances.	This would be considered on individual circumstance.	No
PFI finance lease liability	The operators financial model is used as the basis for calculating the liability.	The operators financial model is used as the basis for calculating entries and this is reviewed by Finance on an annual basis.	No	The construction elements of the annual unitary charge is accounted for as a finance lease. Minimum lease payments are made under these leases and assets recognised under these leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.	No
Pension liability	The Council is an admitted body to the Shropshire County Local Government Pension Scheme. The administering authority (the Unitary Council) engage the Actuary who provides the estimate of the pension liability.	Payroll data is provided to the Actuary. Management reconcile this estimate of contributions to the actuals paid out in the year.	Consulting actuary	As disclosed in the actuary's report. Complex judgements including the discount rate used, rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	No

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Agenda Item 14

Committee and Date
Audit Committee
23 February 2015
9:30 am

DRAFT INTERNAL AUDIT ANNUAL PLAN 2015/16

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

1. Summary

This report provides Members with the proposed risk based Internal Audit Plan for 2015/16. The annual plan will provide coverage across the Council's services and deliver internal audit services for a range of external clients. It takes account of issues identified by the clients' risk management frameworks, including the risk appetite levels set by management for the different activities or parts of the organisations audited. The proposed plan takes into account the requirement to produce an annual internal audit opinion and assurance framework. Some minor adjustments may be needed to the plan before it is finalised; if significant, these will be agreed by the Section 151 Officer and reported to the next Audit Committee.

2. Recommendations

The Committee are asked to consider and endorse, with appropriate comment, the approach taken to create the proposed Internal Audit Plan for 2015/16 and approve its adoption.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 Under the Audit Committee's terms of reference, reviewing the risk based audit plan, including internal audit resource requirements, the approach to using other sources of assurance and any other work upon which reliance is placed, is an important responsibility. In considering this plan Members should be assured that it is linked to the Council's key risks and provides sufficient coverage to ensure a reasonable opportunity to identify any weaknesses in the internal control environment. Where critical to the Council's operations these will be reported and rectified where possible and viable.

3.2 Areas to be audited within the plan have been considered with the knowledge of risk register information both operational and strategic.

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

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

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

4. Financial Implications

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

5. Background

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

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

5.2 The audit risk assessment is reviewed annually with Directors, Area Commissioners, Heads of Service and the Section 151 Officer to ensure that it remains robust and relevant to the needs and risk profile of the Council. The process also recognises that the Council is continuing to strive to improve services and use innovative approaches in addressing service delivery against a background of reducing resources and the transformation into a commissioning organisation.

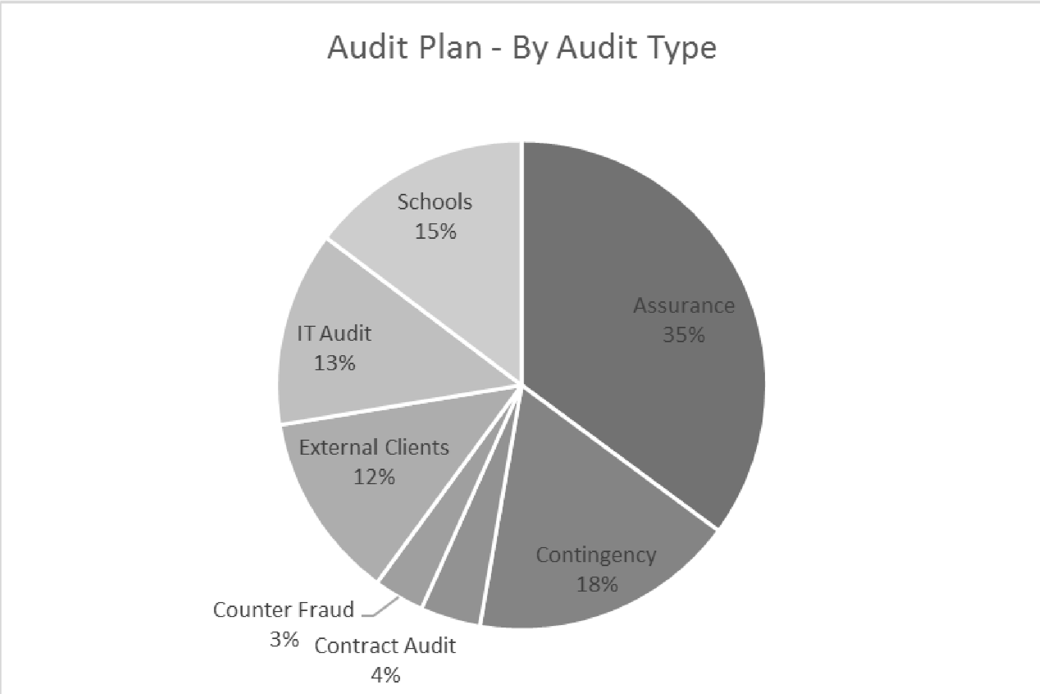
5.3 When considering the risks affecting audit areas account has been taken of:

- changes to and the introduction of new services;
- the redesign/transformation programme and business plans of the Council;
- budget pressures and saving commitments;
- previous audit findings;
- opening and closure of establishments;

- comments from the external auditors on scope and coverage to ensure the work of Internal Audit does not duplicate that of the external auditor;
- Audit Committee terms of reference;
- increased partnership working or different delivery models for future service delivery;
- risks identified by the risk management process;
- large contracts likely to be undertaken.

5.4 Top risks facing councils continue to include pressures on finances and resources; changes in demands and demography and the impact of welfare reforms. In addition, the Council's strategic risks of safeguarding, the IT infrastructure, workforce development, redesigning of services and fraud have also been considered when refining the plan.

5.5 **Appendix A** provides the summarised audit plan and identifies a planned day requirement of 1,829 days for Shropshire Council audit work. These days are broken down by type in the chart below which also includes the time spent with external clients.



Resources

5.6 The Internal Audit service has continued to see a rationalisation of resources with a 25% reduction in budget and staffing resources since 2013/14, the full impact of which is now being realised. This resource reduction comes at a time of significant increase in demand. The Council continues to go through a period of unprecedented change which is impacting on a high number of service areas, processes, risks and therefore controls. Whilst over time the Council will be reducing in size in terms of the services it delivers directly, the interim period will see the associated risks, and therefore areas requiring audit review, continue to increase. In addition, as a result of the changing control environment, areas reviewed are attracting lower assurance levels than previously. This has resulted in the need for an increased level of follow up audits, a must do in respect of unsatisfactory audits, with only a proportion of limited assurance audits being revisited within current resources.

5.7 The team has 11.4 full time equivalents and has retained skills in finance, information technology, contract management, governance, job evaluation, establishments, systems, counter fraud, investigations and project management (**Appendix B**). Skills continue to be developed across the wider team and to help supplement the internal resources and respond to demand during this period of change, additional audit reviews are purchased from external contractors using the Staffordshire framework contract. The plan provides for this mixed provision to continue going forward into 2015/16, these resources will also support the team through a period of planned maternity and unpaid leave.

5.8 The Audit Plan for 2015/16 based on a risk analysis identified 2,124 days to review all high risk areas. Areas requiring review attracting a lower risk have not been considered in this year's planning process. Resources available after deducting allowances for non-chargeable time (leave, management meetings, administration, etc.); and chargeable time (attendance at corporate meetings - officer and members, responding to legislation, s151 officer work requests, training etc.) are restricted to 1,790 days of which 221 are to be used on providing services to customers other than Shropshire Council leaving a balance of 1,569 days.

5.9 In order to match the review areas to resources, it has been necessary to take out a number of reviews, details of which appear as **Appendix C**. These include the transformation contingency, a number of schools which have not been independently audited for five years, and some IT audit areas. The lack of a transformation contingency will mean that as work is identified throughout the year, those high risks perceived as being of 'lower value' may need to be considered for exclusion from the plan. It was felt prudent at this time however to demonstrate any activity as it happens in order to provide a transparent audit trail. Equally, if contingencies for fraud, unplanned audits and advice are not required in full, reviews may be able to be brought back into the plan.

5.10 In preparing the plan for 2015/16 the key items to note are:

- The plan continues to include time for the fundamental system audit reviews, and to provide assurance at the year-end on the main systems and processes supporting the Statement of Accounts.

- A separate risk based analysis of the IT audit areas has been conducted and assessments for applications, projects, developmental changes, new technology and follow ups in areas requiring improvements are planned. IT continues to form a significant part of the internal audit plan reflecting the Council's continuing reliance on technology and the developmental requirements as services are redesigned.

- The fraud contingency is being maintained at 250 days to reflect the current activity levels being experienced and, with ongoing changes to controls, management structures and job responsibilities, this is not considered to be an area of reducing risk.

- Internal Audit aims to review primary schools at least every five years and secondary schools every three. It is no longer possible to achieve the primary school reviews within the time frame. When looking to prioritise schools in the plan any deficit position, previous assurance ratings (especially unsatisfactory or limited) concerns of the education service, submission and responses to the schools financial value statements and the date of the last audit are all considered. In this way Audit Services prioritise any slippage in this area with a view to managing associated risks.

- In considering how Internal Audit could support schools in improving their control environment, the plan has allowed time for the auditors to work with governors, head teachers and administrators in understanding the level of controls required and how they can be improved and implemented, thereby aiming to prevent any control erosion which would lead to increased risks.

- Days are allocated to provide internal audit services to external clients: Shropshire Fire and Rescue, Shropshire Pension Fund, West Mercia Energy and Oswestry Town Council. In addition, discussions are planned with the Chief Executive, Director of Commissioning and Section 151 Officer to firm up proposals to review any areas of significant risk which are being transferred to ip&e from April. At this time these areas have been included in the proposed plan.

- Procurement and commissioning continue to be areas of growth and as such there are planned initiatives in these areas. Work is planned on financial evaluations of companies tendering for work and reviews of governance processes on the client side. In addition, where services are moving to new delivery models, exit reviews will be conducted to ensure that transfers are conducted appropriately and at minimum risk to the Council.

- For the second year discussions with senior managers have identified a number of areas considered low risk from an internal controls/ materiality perspective where managers are receiving a mix of assurances from their systems, personnel and/ or third parties on which they can place reliance. These areas are identified in **Appendix D** and will not be considered for review by Internal Audit on a rolling risk basis. Members may wish to ask senior managers to provide assurance directly to committee on these areas if required.

- The plan provides continual professional development and training for auditors during the year. This helps to retain staff, future proof the skills of team members and build skills in areas where updated knowledge is required for the benefit of the Council, external clients and the auditors. A senior member of the team is undertaking Bond Solon's Investigative Fraud training to help address a gap in this area following the recent staffing changes.

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

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

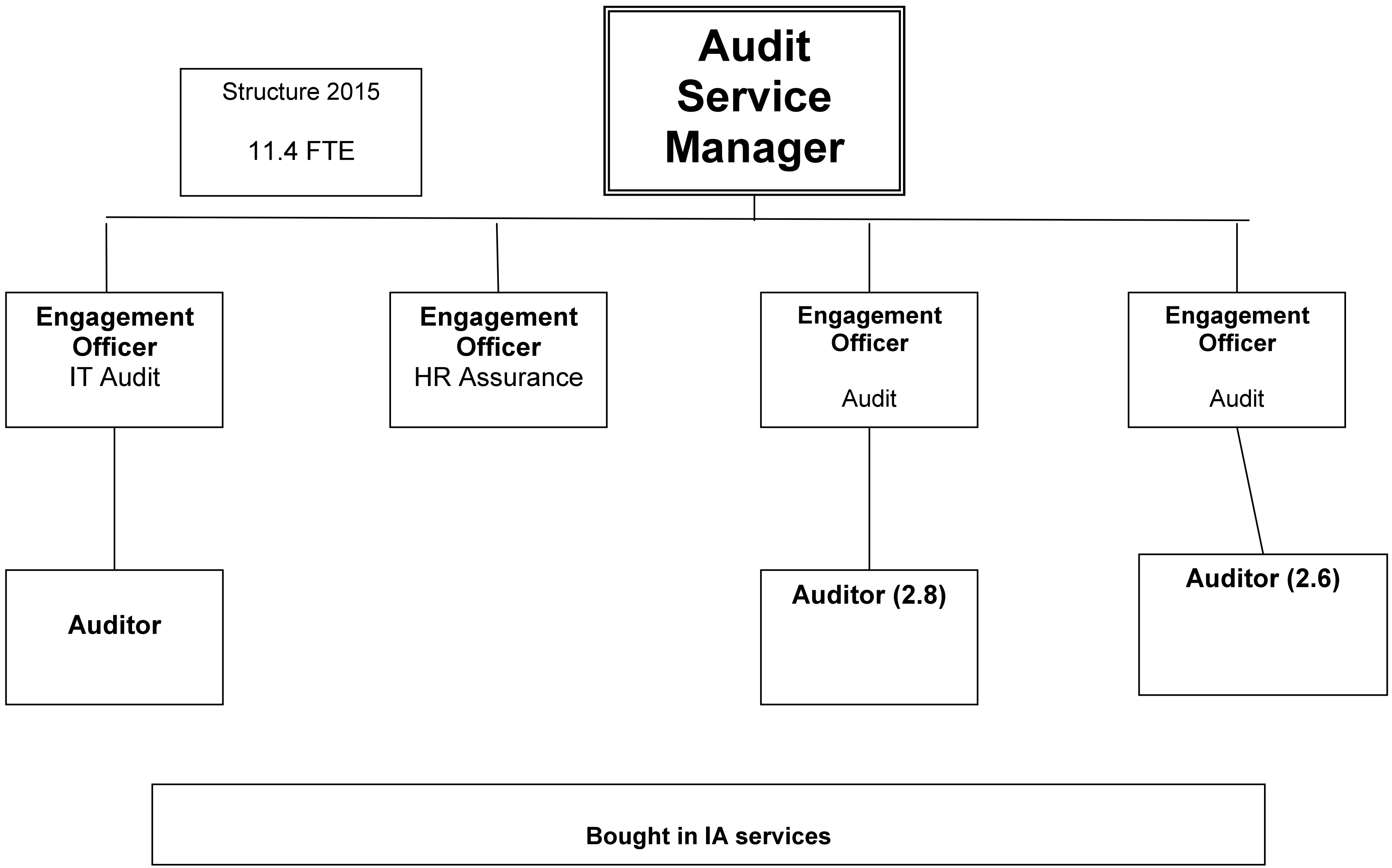
List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Audit universe and resources analysis Public Sector Internal Audit Standards 2013 CIPFA Audit Committees, Practical Guidance for Local Authorities and Police, 2013 edition
Cabinet Member (Portfolio Holder) Keith Barrow (Leader of the Council) and Brian Williams (Chairman of Audit Committee)
Local Member n/a
Appendices Appendix A: Summary of Draft Internal Audit Plan by Service Appendix B: IA structure Appendix C: High risk areas not to be audited Appendix D: Audit areas where managers will seek and provide any necessary assurance

APPENDIX A

2015/16 SUMMARY OF DRAFT INTERNAL AUDIT PLAN BY SERVICE

	Days
CHIEF EXECUTIVE	
Governance	**58**
ADULT SERVICES	
Housing Services	29
Provider Services - Establishments	13
Development Support	13
Long Term Support	55
Total Adult Services	**110**
COMMISSIONING	
Waste and Bereavement	10
Community Safety	23
Highways	14
Development Management	18
Project Development	5
Environmental Protection and Prevention	15
Leisure Services	13
Visitor Economy	5
Business and Enterprise	15
Total Commissioning	**118**
CHILDREN’S SERVICES	
Children's Placement Services and Joint Adoption	58
Business Support	17
Assessment and Looked After Children	5
Education Improvements	16
Primary/Special Schools	250
Secondary Schools	23
Safeguarding	20
Lifelong Learning	10
Total Children’s Services	**399**
PUBLIC HEALTH	**32**
RESOURCES AND SUPPORT	
Estates & Facilities	5
Property Services	23
Shire Services	23
ICT	83
Customer Services	34
Finance and S151 Officer	65
Financial Management	37
Procurement and Contract Management	25
Revenues	40
Benefits	29

Risk Management and Business Continuity	5
Treasury	10
Finance Transactions	69
Human Resources	52
Information Governance	7
Legal Services	10
Total Resources and Support	**517**
CONTINGENCIES	
IT Advice Contingency	20
Advisory Contingency	20
Fraud Contingency	250
Unplanned Audit Contingency	45
Other non-audit chargeable work	260
Total Contingencies	**595**
Total Shropshire Council	**1829**
External Clients	**221**
Total Audit Plan	**2,050**


Structure 2015
11.4 FTE
Audit Service Manager
Engagement Officer IT Audit
Engagement Officer HR Assurance
Engagement Officer Audit
Engagement Officer Audit
Auditor
Auditor (2.8)
Auditor (2.6)
Bought in IA services

Appendix C

2015/16 Audit areas of high priority for which no provision is made in this year's plan		
Chief Executive	**Director of Commissioning**	**Director of Adult Services**
Ethics	Shrewsbury Library The Lantern Waste - Policy and Management Arrangements Highways Maintenance - Ringway Contract Highways Specialist Contracts Passenger Transport Compliance Arrangements Passenger Transport Procurement Arrangements Sports Development Street Lighting Food Safety Trading Standards Community Infrastructure Levy ERDF Grant Claims Partnerships Section 38 Road Adoption Shrewsbury Museums General	CMHT Bridgnorth Disability Facility Grants Greenacres Rural Unit People to People

2015/16 Audit areas of high priority for which no provision is made in this year's plan		
Director of Children's Services	**Director of Resources and Support**	**Contingencies**
CHARMS adoption service (IT) Children's Safeguarding Policies and Procedures Academy Exit Process Alveley Primary school Beckbury CE (Controlled) Primary School Bryn Offa CE (Controlled) Primary School Buildwas Primary School Claverley CE Primary School Dorrington C E Primary School Ellesmere Primary School Mary Webb School and Science College Minsterley Primary School Much Wenlock Primary School Shawbury Primary School Shifnal Primary School St George's Junior School, Shrewsbury St Mary's CE (Controlled) Primary, Albrighton St Thomas & St Anne's C E Primary School, Hanwood Stottesdon C E Primary School Sundorne Infant School Trinity C E Primary School Whitchurch C E Infant School Woodfield Primary School Worfield Endowed C E Primary School LETS - County Training	Primary Dinner Income Collection Property Repair and Maintenance On-line payments Procurement Arrangements Procurement Strategy Recharges - Internal Market School Based Procurement Human Resources / Workforce Planning Cloud Computing Database Access / Admin / Management Helpdesk Procedures Hosted Services ICT Project Financing and Recharges ILLY substance misuse application IT Strategy Microsoft Lync Project management-adequacy of arrangements Saffron menu planning (Shire Services) Telecommunications Vice Versa Pro (backup for digital images) Committee Services Replacement	Transformation

Appendix D

2015/16 Audit areas where managers will seek and provide any necessary assurance		
Director of Commissioning	**Director of Adult Services**	**Director of Children's Services**
Albrighton Library	Abbots Wood Day Opportunities	Chelmaren Comforts Fund
Bayston Hill Library	Albert Road Day Centre Comforts Fund	Haven Brook Comfort Fund
Bio Digester	Aquamira Comforts Fund	Multi Agency Teams
Bishops Castle Library	Avalon Comforts Fund	Rowans Comforts Fund
Bridgnorth Library	Church Stretton Day Centre Comforts Fund	Shropshire Children's Trust
Broseley Library	Four Rivers Nursing Home Comforts Fund	Education Welfare Service
Church Stretton Library	Friars Walk Day Opportunities at Helena Lane	Ludlow Training Centre
Cleobury Mortimer Library	Greenacres Rural Unit Comforts Fund	Positive Activities Projects - Youth Service
Coroners	Greenacres Rural Unit Trading Account	Schools Advisory Service - Administration
Craven Arms Library	Helena Lane Day Centre	Shrewsbury Training & Development Centre
Ellesmere Library	Helena Lane/ Friars Walk Day Centre Comforts Fund	Shropshire Music Service
Galaxy - Libraries System	Innage Lane Day Opportunities	Shropshire Youth - Central Administration
Gobowen Library	Innage Lane Resource Centre Comforts Fund	Social Care & Health Training
Highley Library	Kempsfield Comforts Fund	Standards Fund
Library Fines & Charges	Maesbury Metals Comforts Fund	Surestart
Library HQ	Maesbury Metals Trading Account	The Gateway Education & Arts Centre
Library Procurement through WM Consortium	Oak Farm, Ditton Priors Comforts Fund	Whitchurch Training Centre
Library Stock Management & Control	Oak Farm, Ditton Priors Trading Account	
Ludlow Library	Occupational Therapy	
Market Drayton Library	Patchworks Comforts Fund	
Much Wenlock Library	Patchworks Trading Account	
Oswestry Library	Personal Allowances	
Pontesbury Library	Shropshire Partners in Care (SPIC)	
Schools Library service	START	
Shawbury Library	Supporting People	
Shifnal Library	The Meres Day Centre	
Waste - Statistics & Administration	The Meres Day Centre Comforts Fund	
Wem Library	Wayfarers Comforts Fund	
Whitchurch Library	Wayfarers Day Opportunities	
Arts Developments & Grants		
Bishops Castle SpArC Centre - Joint Use		
Cleobury Mortimer Sports & Fitness Centre - Joint		
Community Transport Initiatives (SCOTI, OCTI		

2015/16 Audit areas where managers will seek and provide any necessary assurance		
Director of Commissioning	**Director of Adult Services**	**Director of Children's Services**
etc.) Community Working Flood Risk Management Arrangements Highways Development Control Highways Land Search Arrangements Idsall Sports Centre - Joint Use Joint Use Leisure Facilities Lakelands Sports Centre Ellesmere - Joint Use Land Drainage Local Bus Network Mary Webb Sports Centre - Joint Use Much Wenlock Sports Centre - Joint Use NRSWA - Road Openings & S278 Passenger Transport Efficiency Operations Public Transport - Publicity Roman Road Sports Centre - Joint Use Special Transport/ Routing Arrangements Surplus Seats Thomas Adams Sports Centre Wem - Joint Use Traffic Management & Regulation Animal Health & Welfare Contaminated Land Domestic Abuse Environmental Enforcement & Byelaws Fair Trading & Education Management & Control of CCTV Operations Pest Control Road Safety Street Scene - Dog Wardens AONB - Craven Arms Arts Festivals & Events Community Strategy Countryside Access General Culture & Leisure Business Development Culture & Leisure Grants		

2015/16 Audit areas where managers will seek and provide any necessary assurance		
Director of Commissioning	**Director of Adult Services**	**Director of Children's Services**
Culture & Leisure Marketing and Performance Datawright Planning Development Ecology & Biodiversity Economic Development General Enterprise and Business Grants Historic Environment & Listed Buildings Lone Working Arrangements Ludlow Museum & Resource Centre Museum on the Move Museums & Audience Development Grant Arrangements North Shropshire Countryside Rangers One App Online Planning Portal Application Parks & Countryside Sites General PLUMS - Planning Policy Control Public access mapping server/e-planning Pump House Records Management Recruitment & Management of Volunteers Severn Valley Park Shropshire Archives SMR - Sites & Monuments Record Sustainability Tourism Tree Safety		

2015/16 Audit areas where managers will seek and provide any necessary assurance		
Director of Public Health	**Director of Resources and Support**	
Substance Misuse Team	Carbon Management Plan Cleaning DSO General Systems Cleaning equipment maintenance Fishing and Sporting Rights Furniture Design Group & County Furniture Group Internal Catering arrangements Post Opening Procedures Shirehall Lettings Shirehall Restaurant SLA's & Invoicing Arrangements Smallholdings Estate Benefits Administration Grant Inventories Management Asbestos Health & Safety Job Evaluation Legionella Microwave link to Jupiter House Code of Conduct - Gifts & Hospitality Performance Management & PI's Performance Plus Online Register Register of Electors Regulation of Investigatory Powers Act (RIPA) Security Management/Staff Guidance	

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Agenda Item 15

Committee and Date
Audit Committee
23rd February 2015
9:30 am

INTERNAL AUDIT PLAN 2014/15 – TEN 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 three months since the last report in November 2014 and summarises progress against the 2014/15 Internal Audit Plan.

1.2 Whilst it has been a challenging year, 84% of the revised plan has been completed which is in line with the target of 90% by year end.

1.3 The trend of higher numbers of limited and unsatisfactory opinions compared to last year continues. This reflects the changing environment that the Council is working in and its acceptance of an increased level of risk, which needs to be offset against knowledge and management of those risks to ensure value for money. In the period 1st November 2014 to 31st January 2015, 26 good and reasonable assurances were made, 13 limited and seven unsatisfactory assurance opinions. The 46 final reports contained 366 recommendations with three fundamental recommendations identified.

1.4 This report proposes minor revisions to the revised Internal Audit Plan presented in November 2014 to reflect changing priorities in respect of areas to be audited, and in the detailed scope of planned audits which have required further analysis. An example of this is the increase in areas attracting limited or unsatisfactory assurances, which result in additional work in undertaking the audit, writing the report, debriefing managers and any planned follow up work.

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 examines, evaluates and reports objectively 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 27th November Audit Committee with the caveat that further adjustments may be necessary.

5.2 Part of the internal audit plan is being delivered 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 now purchasing both general and IT audit days from external providers.

5.3 This report summarises the work of the Internal Audit team up to the 31st January 2015. As reported previously, the team has experienced increased levels of 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.

5.4 There has been an increase to both the fraud and the transformation budgets due to work on complex investigations, some around corporate complaints others requiring surveillance; an increased number of commissioned services requiring exit audits; and new projects, such as the University. Audits in new areas of governance and commissioning have also taken longer than planned and learning from these will be used to inform the scope of future reviews. These demands have resulted in an additional 50 and 30 days needed respectively in these contingency budgets.

5.5 The changes in staff and loss of posts at a senior level has resulted in additional training and time required to develop the service, support IT systems and modify software to enable improved electronic working and reporting. There have been a number of changes to legislation in relation to fraud, risk and social care that have required additional staff development, in addition to induction training of new staff. Training of staff in areas new to them has also increased the length of time taken on some audits. This is however an integral part of succession planning.

5.6 Part of the audit plan being provided by external providers has created an additional management overhead, overseeing the work and managing a number of performance issues. Learning from this will be used to inform any future decision on the purchasing of internal audit days from external providers.

5.7 In respect of non-chargeable time, the team have replaced equipment to deliver their work in an increased mobile environment to become more receptive to their customers. In so doing they have experienced computer network problems and therefore recorded increased down time. The team continue to work with IT services to address these issues. Increased non chargeable time also reflects higher levels of sickness than originally anticipated, plus unplanned special leave.

5.8 Exercises on refreshing business continuity and disaster recovery plans together with revising the risk registers have been undertaken which will increase the resilience of the service and provide clarity of the teams' role in the event of an issue. These have contributed to an increase in chargeable time required.

Audit Work and Findings

5.9 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.

5.10 In total 46 final reports have been issued to Shropshire Council in the period 1st November to 31st January 2015, the breakdown of which appears in the table below together with the year to date and previous year totals. In addition 21 audit reports have been issued in draft which are awaiting management responses. Ten reports have been issued to external clients and financial statements drawn up and audits completed in respect of 11 schools, honorary and voluntary bodies.

<u>Audit assurance opinions delivered to 31st January 2015</u>

Directorate	Good	Reasonable	Limited	Unsatisfactory	Total
Adult Services	4	8	5	1	18
Commissioning	1	1	0	0	2
Children's Services	1	1	2	3	7
Public Health	0	1	0	0	1
Commercial Services	0	0	1	0	1
Customer Involvement	0	6	5	2	13
Finance, Governance and Assurance	0	1	0	0	1
Human Resources	0	2	0	1	3
Total for the period 01/11/14 - 31/01/15	**6**	**20**	**13**	**7**	**46**
Total 2014/15 to date • **Numbers**	**21**	**55**	**32**	**10**	**118**
• **Percentage**	**18%**	**47%**	**27%**	**8%**	**100%**
Total 2013/14	**30%**	**45%**	**15%**	**10%**	**100%**
Total 2012/13	**31%**	**56%**	**12%**	**1%**	**100%**

5.11 Twenty six good and reasonable assurances were made in the period 1st November 2014 to 31st January 2015.

5.12 Seven unsatisfactory opinions were given in the following areas:

Adult Services
- 22 Porchfields Group Home

Children's Services
- Newcastle CE Primary School
- Oldbury Wells School
- Woore Primary School

Customer Involvement
- Business Continuity and Disaster Recovery
- Physical and Environmental Controls

Human Resources
- Teachers' Pension Scheme

5.13 For the above management have provided positive responses through agreed action plans to address the issues identified. A summary of the significant issues in each audit are summarised in the table below:

22 Porchfields Group Home	Accounting records were found to be incomplete. This resulted in cash withdrawals from the bank not being traced to a subsequent supporting record and an adjustment to the housekeeping account. Furthermore, funds, recorded as being given to a Service User, were not signed for and could not be traced to any supporting record. The management of this account has since passed to an external provider who will be managed through a commissioning relationship.
Newcastle Primary School	Improvements were recommended in relation to administrative and financial procedures, in particular purchasing, imprest, payroll and school fund. In addition, the controls in relation to governance arrangements and data security were found to be weak.
Oldbury Wells School	Quotes were not obtained for a number of high value purchases and contracts, this resulted in a fundamental recommendation being made. The controls in relation to budget monitoring were found to be poor and Governors had not been made aware of the revised budget position. Controls in relation to the imprest account, school fund, data security and school meals were also found to be weak.
Woore Primary School	Improvements were recommended in relation to administrative and financial procedures, in particular governance, income, purchasing; school fund and data security.
Business Continuity and Disaster Recovery	Suggested improvements in this area related to the development of fully functional recovery arrangements from an IT perspective to support the overarching business continuity arrangements, including the documentation of a formal IT recovery plan.
Physical and Environmental Controls	Issues were highlighted including that the Council should designate responsibility for managing all aspects of environmental and physical security of server rooms and ensure appropriate procedures are documented to effectively manage this activity. The Council should collate all relevant support agreements for physical and environmental controls for each data centre so that they can be obtained speedily if

	required.
Teachers' Pension Scheme	Improvements were identified in processes around the delivery of the teachers' pension service including management checks of contributions, comprehensive procedures to ensure consistency of approach, retention of documents and audit trails.

5.14 Thirteen limited opinions were issued in the following areas:

Adult Services
- 5 Lawley Gardens Group Home
- Abbots Wood Comforts Fund
- Coalport Drive Group Home
- Oak Farm Ditton Priors
- POhWER (Direct Payments) Contract

Children's Services
- CareFirst Application Review
- ONE – Education Management System

Commercial Services
- Property Repair and Maintenance

Customer Involvement
- Corporate Networking – Active Directory
- Hosted Services
- ICT Project Financing and Recharges
- IT Registration and Deregistration Procedures
- Network Perimeter Defences

5.15 Details of limited and unsatisfactory opinions issued in the period 1st April to 31st October 2014 are shown at **Appendix A.**

5.16 The level of limited audit opinions is continuing at the levels reported in November whilst the level of unsatisfactory audits has increased slightly. Thirty two limited and ten unsatisfactory opinions have been issued in the first ten months of 2014/15 compared to 14 limited and nine unsatisfactory assurance reports issued last year. In addition, five fundamental recommendations were made last year compared to six to date in 2014/15, details of which are set out below.

5.17 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.

5.18 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 directly to the Audit Committee in detail

5.19 A total of 366 recommendations have been made in the 46 final audit reports issued in the period 1st November 2014 to 31st January 2015; 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 January 2015

Audit Area	No. of Recommendations made				
	Best Practice	Requires Attention	Significant	Fundamental	Total
Adult Services	11	50	29	0	90
Commissioning	0	7	1	0	8
Children's Services	1	79	76	1	157
Public Health	0	0	1	0	1
Commercial Services	1	3	5	0	9
Customer Involvement	15	30	30	2	77
Finance, Governance and Assurance	0	6	1	0	7
Human Resources	0	7	10	0	17
Total for the period 01/11/14 - 31/01/15	**28**	**182**	**153**	**3**	**366**
Total for 2014/15 to date • **Numbers**	**71**	**608**	**441**	**6**	**1,126**
• **Percentage**	**6%**	**54%**	**39%**	**1%**	**100%**
Total 2013/14	15%	57%	27%	1%	100%
Total 2012/13	23%	57%	20%	0%	100%

5.20 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. Five recommendations have been rejected by management, two of these have been accepted by Audit, the remaining three require additional assurance from managers as to how the risks will be mitigated, these will be reported as part of the 2014/15 performance report presented at the June 2015 Committee.

5.21 One fundamental recommendation has been agreed with managers as part of the audit of Oldbury Wells School, one as part of Business Continuity and Disaster Recovery and one as part of Physical and Environmental Controls. A summary of these appear in the table under paragraph 5.12 earlier.

Performance against the plan

5.22 The team has achieved 84% of the revised plan by the 31st January 2015 which is in line 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 January 2015

	Original Plan	November Revised Plan	February Revision	Revised Plan Days	Days Worked	% of Revised Complete
Chief Executive	18	23	13	36	28.8	80%
Adult Services	113	132	-12	120	111.9	93%
Commissioning	104	120	-19	101	87.5	87%
Children's Services	245	286	14	300	246.0	82%
Public Health	30	25	-7	18	15.9	88%
Resources and Support	636	642	-86	556	403.7	73%
S151 Planned Audit	**1,146**	**1,228**	**-97**	**1,131**	**893.8**	**79%**
Contingencies and other chargeable work	649	670	85	755	684.1	91%
Total S151 Audit	**1,795**	**1,898**	**-12**	**1,886**	**1,577.9**	**84%**
External Clients	265	249	12	261	218.9	84%
Total	**2,060**	**2,147**	**0**	**2,147**	**1,796.8**	**84%**

5.23 Work for external clients is progressing as scheduled and plans are on target for full delivery. There has been an increase in days from additional work requested.

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
Internal Audit Plan 2014/15 Performance Report - Audit Committee 27 November 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 and Unsatisfactory Assurance Opinions 1st April to 31st October 2014

Appendix B: Audit Plan by Group and Service

APPENDIX A

<u>Limited Assurance Opinions 1st April to 31st October 2014</u>

Adult Services

- 207 Crowmere Road Group Home
- 9 Sefton Place Group Home
- 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)
- Shifnal Primary School
- Trinity (Ford) CE Primary School (2013/14)
- Wistanstow CE Primary School
- Woodlands School

Customer Involvement

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

Finance, Governance and Assurance: Purchase Ledger (2013/14)
Human Resources: Payroll System (2013/14)
Legal, Strategy and Democratic: Contract Audit (2013/14).

<u>Unsatisfactory Assurance Opinions 1st April to 31st October 2014</u>

Customer Involvement

- Disposal of I.T. equipment
- Lotus Notes Decommissioning

Children's Services: Burford CE Primary School

APPENDIX B

AUDIT PLAN BY GROUP AND SERVICE – PERFORMANCE REPORT TO 31st JANUARY 2015

CHIEF EXECUTIVE	Original Plan Days	Nov. Revised Plan	February Revision	Revised Plan Days	Jan 31 Actual	% of Revised Complete
Governance	**18**	**23**	**13**	**36**	**28.8**	**80%**
ADULT SERVICES						
Provider Services - Comforts Funds	8	14	3	17	17.2	101%
Provider Services - Establishments	6	7	0	7	7.3	104%
Provider Services - Group Homes	8	11	0	11	11.4	104%
Provider Services - Trading Accounts	2	5	0	5	5.0	100%
Development Support	8	8	-8	0	0.0	0%
Long Term Support	81	87	-7	80	71.0	89%
ADULT SERVICES	**113**	**132**	**-12**	**120**	**111.9**	**93%**
COMMISSIONING						
Waste Services	10	13	1	14	13.7	98%
Business & Enterprise	10	5	-5	0	0.0	0%
Highways & Transport	14	30	-13	17	13.9	82%
Development Management	9	15	-5	10	11.0	110%
Visitor Economy	5	0	0	0	0.0	0%
Environmental Health	5	8	-2	6	3.1	52%
Housing Services	51	49	5	54	45.8	85%
COMMISSIONING	**104**	**120**	**-19**	**101**	**87.5**	**87%**
CHILDREN'S SERVICES						
Assessment & Looked After Children	0	13	3	16	13.0	81%
Children's Placement and Joint Adoption	27	22	-13	9	8.7	97%
Business Support	22	12	-3	9	4.1	46%
Children's Placement and Joint Adoption	15	15	0	15	0.0	0%
Education Improvements	31	35	-9	26	25.0	96%
Primary/Special Schools	115	132	30	162	142.1	88%
Secondary Schools	35	57	6	63	53.1	84%

	Original Plan Days	Nov. Revised Plan	February Revision	Revised Plan Days	Jan 31 Actual	% of Revised Complete
CHILDREN'S SERVICES	**245**	**286**	**14**	**300**	**246.0**	**82%**
PUBLIC HEALTH	**30**	**25**	**-7**	**18**	**15.9**	**88%**
RESOURCES AND SUPPORT						
Commercial Services						
Estates & Facilities	5	5	0	5	5.3	106%
Property Services	25	26	-13	13	12.3	95%
Shire Services	8	8	-7	1	0.4	40%
	38	**39**	**-20**	**19**	**18.0**	**95%**
Customer Involvement						
Benefits	30	24	0	24	22.8	95%
Customer Services	12	14	0	14	10.0	71%
ICT Implementation & Architecture	45	44	-3	41	40.8	100%
ICT Operations	128	144	-3	141	114.7	81%
	215	**226**	**-6**	**220**	**188.3**	**86%**
Finance Governance & Assurance						
Finance Transactions	63	57	-16	41	24.9	61%
Financial Advice (S.151)	69	62	-22	40	28.8	72%
Financial Management	73	79	4	83	60.2	73%
Procurement	40	30	-8	22	19.4	88%
Revenues	40	40	0	40	18.3	46%
Risk Management and Business Continuity	5	5	0	5	0.4	8%
Treasury	16	16	0	16	8.4	53%
	306	**289**	**-42**	**247**	**160.4**	**65%**
Human Resources						
Payroll and Human Resources	**57**	**67**	**0**	**67**	**34.1**	**51%**
Legal, Strategy and Democratic						
Democratic Services	2	2	-2	0	0.0	0%
Election Services	4	4	-4	0	0.1	0%
Information Governance	4	5	-2	3	2.6	87%
Legal Services	10	10	-10	0	0.2	0%

	Original Plan Days	Nov. Revised Plan	February Revision	Revised Plan Days	Jan 31 Actual	% of Revised Complete
	20	**21**	**-18**	**3**	**2.9**	**97%**
RESOURCES AND SUPPORT	**636**	**642**	**-86**	**556**	**403.7**	**73%**
Total Shropshire Council Planned Work	**1,146**	**1,228**	**-97**	**1,131**	**893.8**	**79%**
CONTINGENCIES						
Advisory Contingency	40	35	5	40	36.3	91%
Fraud Contingency	200	200	50	250	224.9	90%
Transformation Projects	100	100	30	130	120.0	92%
Unplanned Audit Contingency	49	49	0	49	48.9	100%
Other non-audit Chargeable Work	260	286	0	286	254.0	89%
CONTINGENCIES	**649**	**670**	**85**	**755**	**684.1**	**91%**
Total for Shropshire	**1,795**	**1,898**	**-12**	**1,886**	**1,577.9**	**84%**
EXTERNAL CLIENTS	**265**	**249**	**12**	**261**	**218.9**	**84%**
Total Chargeable	**2,060**	**2,147**	**0**	**2,147**	**1,796.8**	**84%**

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

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