



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

Date: Wednesday, 10 September 2014  
My Ref:  
Your Ref:

**Committee:  
Audit Committee**

**Date:** Thursday, 18 September 2014  
**Time:** 9.30 am  
**Venue:** Shrewsbury Room, Shirehall, Abbey Foregate, Shrewsbury,  
Shropshire, SY2 6ND

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

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

**Members of Audit Committee**

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

Chris Mellings  
Mansel Williams

Your Committee Officer is:

**Liz Sidaway** Committee Officer  
Tel: 01743 252885  
Email: [liz.sidaway@shropshire.gov.uk](mailto: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 26 June 2014 (Pages 1 - 8)**

The Minutes of the meeting held on the 26 June 2014 are attached for confirmation marked 3.

Contact Liz Sidaway (01743) 252885

**4 Public Questions**

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

**5 Management Report on Programme Management Controls and Risks including Contract Health Check (Pages 9 - 22)**

The report of the Director of Commissioning is attached marked 5.

Contact: George Candler 01743 255003

**6 Management Report on Housing Benefit Overpayment Performance (Pages 23 - 26)**

The report of the Revenues Customer and Contact Manager is attached marked 6.

Contact Phil Weir 01743 256113

**7 Management Report on the Implementation of IT Control Improvements and Risks (Pages 27 - 30)**

The report of the Head of Service Support, Marketing and Engagement is attached, marked 7.

Contact: Nigel Bishop 01743 252003

**8 Audited Annual Statement of Accounts 2013/2014**

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

Contact: James Walton 01743 255011

**9 Annual Treasury Report 2013/2014 (Pages 31 - 46)**

The report of the Head of Finance, Governance and Assurance (Section 151 Officer) is attached marked 9.

Contact: James Walton 01743 255011

**10 Risk Annual Report 2013/2014 (Pages 47 - 58)**

The report of the Risk Management Team Leader is attached, marked 10.

Contact: Angela Beechey 01743 252073

**11 Internal Audit Plan Performance 2014/2015 (Pages 59 - 68)**

The report of the Audit Service Manager is attached, marked 11.

Contact: Ceri Pilawski 01743 252027

**12 Internal Audit Counter Fraud Management Update (Pages 69 - 82)**

The report of the Engagement Officer is attached, marked 12.

Contact: Katie Williams 01743 252084

**13 External Audit: Shropshire Council Audit Findings 2013/2014**

The report of the External Auditor Grant Thornton is to follow.

Contact: Grant Patterson 0121 232 5296

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

The report of the External Auditor Grant Thornton is to follow.

Contact: Grant Patterson 0121 232 5296

**15 Date and Time of Next Meeting**

The next meeting of the Audit Committee will be held on the 27 November 2014 at 10.00 am in the Shrewsbury Room.

**16 Exclusion of Press and Public**

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

**17 Fraud and Special Investigation Update September 2014 (Exempted by Categories 2, 3 and 7) (Pages 83 - 86)**

The report of the Engagement Auditor is attached, marked 17.  
Contact: Katie Williams (01743) 252087



**Committee and Date**

Audit Committee

18 September 2014

**MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 26 JUNE 2014  
9.30 AM - 12.40 PM**

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

**Present**

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

**1 Election of Chairman**

**1.1 RESOLVED:**

That Mr B Williams be appointed Chairman of the Audit Committee for the ensuing municipal year.

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

2.1 There were no apologies for absence.

**3 Appointment of Vice Chairman**

**3.1 RESOLVED:**

That Mr M Wood be appointed Vice-Chairman of the Audit Committee for the ensuing municipal year.

**4 Disclosable Pecuniary Interests**

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

**5 Minutes of the previous meeting held on the 27 March 2014**

**5.1 RESOLVED:**

That the Minutes of the meeting held on the 27 March 2014 be approved and signed by the Chairman as a correct record.

**6 Public Questions**

6.1 There were no public questions.

## 7 Update on Programme Management Controls and Risks

- 7.1 The Committee considered the report of the Director of Commissioning - copy attached to the signed minutes - which gave an update on both existing and emerging management controls risk management arrangements already in place in relation to the business transformation and redesign being undertaken by the Council.
- 7.2 The Director of Commissioning confirmed that a robust approach to risk management was in place in relation to the Business Plan and the Financial Strategy and that the measures taken prevented the Council from compromising or increasing exposure to risk.
- 7.3 **RESOLVED:**
- (a) That the contents of the report by the Director of Commissioning be endorsed and accepted.
  - (b) That a further update be submitted to the Audit Committee in September 2014.

## 8 Council Tax and National Non Domestic Rates (NNDR) Performance Monitoring Report

- 8.1 The Committee considered the report of the Revenues Manager - copy attached to the signed Minutes - which set out the performance monitoring on the collection of income through Council Tax and National Non Domestic Rates (NNDR) for the year ending 31 March 2014.
- 8.2 The Revenues Manager reported that the final collection rate for council tax was £146,827,533 or 98.1% which compared favourably with the previous year's collection of 98.3%.
- 8.3 In respect of Business Rates (NNDR), the Revenues Manager stated that £74,783,313 or 98.3% had been collected between the 1 April 2013 and the 31 March 2014 which again compared favourably with the previous year's collection rate of 98.4%.
- 8.4 **RESOLVED:**  
That the contents of the report by the Revenues Manager be noted.

## 9 Revenue Outturn Report 2013/2014

- 9.1 Consideration was given to the report of the Head of Finance, Governance and Assurance (Section 151 Officer) - copy attached to the signed minutes - which provided details of the revenue outturn position for Shropshire Council for 2013/14. The Council's financial position for 2013/14 had improved by £0.978m when compared to projections made at Period 11 which had resulted in a net underspend of £0.390m.
- 9.2 **RESOLVED:**
- (a) That it be noted that the outturn for the Revenue Budget for 2013/14 was an underspend of £0.390m, which represented 0.06% of the original gross budget of £639m.

- (b) That it be noted that the level of general balance stood at £14.497m, which was above the anticipated level included within the Financial Strategy.
- (c) That it be noted that the level of school balances stood at £5.855m (2012/13 £4.953m).
- (d) That it be noted that the Outturn for the Housing Revenue Account for 2013/14 was an underspend of £1.426m and the level of the Housing Revenue Account reserve stood at £2.542m (2012/13 £1.041m).

## 10 Capital Outturn Report 2013/2014

10.1 Consideration was given to the report of the Head of Finance, Governance and Assurance (Section 151 Officer) – copy attached to the signed minutes – on the final outturn position for the Council's 2013/14 capital programme and the current position regarding the 2014/15 to 2016/17 taking into account the slippage following the closure of the 2013/14 programme, and any budget increases/decreases for 2014/15 and future years.

### 10.2 RESOLVED:

- (a) That approval be given to budget variations of £17,700 to the 2013/14 capital programme, detailed in Appendix 1/Table 1 and the re-profiled 2013/14 capital budget of £47.4m.
- (b) That approval be given to the re-profiled capital budgets of £71.4m for 2014/15, including slippage of £6.6m from 2013/14, £13.7m for 2015/16 and £5.3m for 2016/17 as detailed in Appendix 1/Table 4.
- (c) That the outturn expenditure set out in Appendix 1 of £40.7m, representing 85.9% of the revised capital budget for 2013/14 be accepted.
- (d) That approval be given to the Highways and Transport programme of schemes for delivery in 2014/15 and authority be delegated to the Area Commissioner (South) in consultation with the Portfolio Holder to approve any changes to the implementation plan of schemes for delivery in 2014/15 within the parameters of the outline capital programme.
- (e) That approval be given to the setting aside of capital receipt of £1.35m to replace the self-financed prudential borrowing previously applied to finance the Solar PV schemes. This would generate an ongoing revenue saving from 2014/15.
- (f) That approval be given to retaining a balance of capita receipts set aside of £13.25m as at 31<sup>st</sup> March 2014 to generate a Minimum Revenue Provision saving of £530,000 in 2014/15.

## 11 Review of the Annual Statement of Accounts 2013/2014

11.1 Consideration was given to the report of the Head of Finance, Governance and Assurance (Section 151) - copy appended to the signed minutes which provided an overview of the Accounts and gave details of the most significant changes between the 2012/13 Accounts and the 2013/14 Accounts. The Section 151 officer indicated that the 2013/14 Statement of Accounts was required to be certified as a true and fair view of the financial position of the Authority by the 30 June 2014 and was subject to scrutiny by the Council's External Auditors.

11.2 The Group Accounts were tabled and noted during the meeting, copy appended to the signed minutes. The Head of Finance, Governance and Assurance (Section

151) confirmed that these would be incorporated within the final Statement of Accounts.

**11.3 RESOLVED:**

- (a) That the Draft 2013/14 Statement of Accounts be noted and received.
- (b) That the Head of Finance, Governance and Assurance (Section 151) be authorised to make any final adjustments to the Statement of Accounts prior to the 30 June 2014.

**12 2013/14 Review of Annual Whistleblowing Policy - 'Speaking Up about Wrongdoing'**

12.1 Consideration was given to the report of the People Development Manager - copy attached to the signed minutes - which provided an update on the number of cases raised by Council employees (excluding school based employees) via the whistleblowing policy which allowed employees to raise concerns about fraud, corruption, adult/child protection or harassment or bullying allegations.

12.2 The People Development Manager stated that five cases had been investigated during 2013/14 resulting in the dismissal of two employees and 'no case to answer' found for the other three cases.

**12.3 RESOLVED:**

That the report be noted and accepted.

**13 Review of the Code of Corporate Governance 2013/2014**

13.1 Consideration was given to the report of the Audit Engagement Officer - copy attached to the signed minutes - which set out the principles of the Council's Code of Corporate Governance arrangements. The report demonstrated strong evidence of how the Code had been applied and how it contributed to the Council's strong governance arrangements with no material breaches of the Code identified.

**13.2 RESOLVED:**

That the report be noted and acceptance of Internal Audit's conclusion that the Council has very strong compliance with the Code of Corporate Governance.

**14 Annual Governance Statement and a Review of the Effectiveness of the Council's System of Internal Control 2013/2014**

14.1 Consideration was given to the report of the Head of Finance, Governance and Assurance (Section 151) - copy attached to the signed minutes - which set out the Annual Governance Statement to be considered following a review of the effectiveness of the Council's system of internal controls.

14.2 The Head of Finance, Governance and Assurance (Section 151) highlighted the main challenge facing the Council which was the delivery of future services whilst achieving budget savings of £41.5 m in 2014/15 and gave an assurance that the identified risks would remain under close review and be continually managed throughout the year.

14.3 The Head of Customer Involvement acknowledged the challenges faced within the Council's ICT Services. He outlined the measures being taken to ensure the ICT



infrastructure was fit for purpose, robust and PSN compliant to improve business continuity risks and to ensure the direction of travel was aligned with both business and strategic objectives to provide the necessary assurance levels required.

14.4 With reference to paragraph 76 of the report, it was noted that Local Joint Committees no longer had a delegated budget and agreed that this paragraph be removed.

14.5 **RESOLVED:**

- (a) That the Annual Governance Statement 2013/14 be approved subject to the removal of paragraph 76.
- (b) That the Head of Customer Involvement be invited to the next meeting of the Audit Committee to update members on progress.

15 **Internal Audit Annual Report 2013/2014**

15.1 Consideration was given to the report of the Audit Services Manager - copy attached to the signed Minutes - which provided members with details of the work undertaken by Internal Audit for the year ending 31 March 2014 and also gave an update on progress made against the Audit Annual Work Plan.

15.2 The Audit Services Manager reported on the 164 final reports which contained 1,651 recommendations in total and stated that 123 good and reasonable assurances made, 24 limited and 17 unsatisfactory opinions issued. She indicated that despite the increase, the direction of travel was good and management teams had given an assurance to seek to make further improvements. Members were pleased to note that 98% of the revised Audit Annual Work Plan had been delivered which had exceeded the 90% target.

15.3 **RESOLVED:**

- (a) That the performance against the Audit Plan for the year ending 31 March 2014 be noted.
- (b) That it be noted that the system of internal control is effectively operating and can be relied upon when considering the Annual Governance Statement for 2013/14.
- (c) That it be accepted that the Audit Service Manager's qualified year end opinion on the Council's internal control environment for 2013/14 on the basis of the work undertaken and management responses received.

16 **Annual Review of the Effectiveness of the System of Internal Audit and Quality Assurance and Improvement Programme (QAIP) 2013/2014**

16.1 Consideration was given to the report of the Head of Finance, Governance and Assurance (Section 151) - copy attached to the signed minutes - which set out the findings of the Annual Review of the effectiveness of the Internal Audit Team

16.2 **RESOLVED:**

That the report be noted and the Committee endorse the conclusion that the Council has an effective system of internal audit in place which complied with the principles of the Public Sector Internal Audit Standards and acknowledged the planned improvement activities to ensure full compliance.

## 17 Annual Assurance Report of the Audit Committee to Council 2013/2014

- 17.1 Consideration was given to the report of the Head of Finance, Governance and Assurance (Section 151) - copy attached to the signed minutes - which provided the Council with an independent assurance of an adequate and effective risk management and internal control system that could be relied up on and which contributed to the high corporate governance standards expected by the Council and which had been consistently maintained.
- 17.2 The Chairman referred to the draft Annual Assurance report and highlighted several changes to the following paragraphs to be made to the draft report prior to its submission to Council.

### Paragraph 12:

Members of the Audit Committee and the Audit Service Manager and her staff are well aware of the changing nature of local government in relation to the greater responsibilities for innovative practice allowed by the Government's Powers of Competence Act. In particular we are aware that the Audit function [DELETE] **will have** [INSERT] **has** an essential [INSERT] **and ongoing** role to play in monitoring the risks involved in the arrangements for strategic commissioning and the creation of a Council owned trading company for service delivery. Members are already receiving training in this extended aspect of their responsibilities, and the Audit Service Manager is ensuring that adequate resources are available in order to minimise any possibility of the risk of financial malpractice. Members of the Committee and Audit staff are fully seized with the need to [DELETE] **be** [INSERT] **keep** "ahead of the game", as the role of local government changes and evolves to meet the challenges of [INSERT] **severe** reductions in many of the traditional sources of income.

### Paragraph 13:

I have written above about the impressive manner in which Audit staff prepare the wide range of reports which are necessary for the consideration of Committee members. The key staff are James Walton, the Section 151 Officer, Ceri Pilawski, the Audit Service Manager and the recently retired, Chris Kalinowski, her Deputy, who also carried the additional delegated authority of ensuring the effectiveness of the Council's Counter Fraud and Anti-Corruption policy and the "Whistle-blowing" policy. [INSERT] **The work which Chris did will be carried out in the future by Katie Williams (no relative of mine!) who is newly promoted to the position of Audit Engagement Officer and who has already impressed me by her knowledge and enthusiasm which gives assurance that the void left by Chris will be well and capably filled.** [DELETE] **Chris' work will be picked up by Katie Williams in the future who is newly promoted to the role of Audit Engagement Officer.**

### Paragraph 14:

Without the enthusiastic and committed support of all Audit staff and, in particular, of the three officers mentioned above, it would not be possible for the Audit Committee to be as highly effective as peer comparisons show us to be. [INSERT] **My thanks and that of my fellow committee members are given to all our Audit Service officers who are coping with an increasing workload with much reduced numbers."**

**17.2 RESOLVED:**

That subject to the amendments noted above, the Draft Annual Assurance Report be approved and that Council be recommended to accept the contents of the report.

**18 External Audit: Certification Plan 2013/2014**

18.1 Consideration was given to the External Auditor's Certification Report for 2013/14 - copy attached to the signed minutes - which set out the grant certification arrangements for 2013/14.

**18.2 RESOLVED:**

That the report by the External Auditor be noted.

**19 External Audit: Annual Fee Letter 2014/2015**

19.1 Consideration was given to the report of the External Auditor - copy attached to the signed minutes - which set out details of the audit fee for the Council for 2014/15 along with the scope and timing of work to be undertaken by the External Auditors. The Engagement Lead reported that the Council's scale fee for 2014/15 had been set by the Audit Commission at £177,390 the same as for 2013/14.

**19.2 RESOLVED:**

That the report by the External Auditor be noted.

**20 External Audit: Audit Plan for the Pension Fund 2013/2014**

20.1 Consideration was given to the report of the External Auditor - copy attached to the signed minutes - which set out the details of the planned audit work in relation to the Council's Pension Fund with an opinion being issued in September 2014.

**20.2 RESOLVED:**

That the report by the External Auditor be noted.

**21 External Audit: Audit Committee Update**

21.1 Consideration was given to the External Auditors' Audit Committee Update report for Shropshire Council - copy attached to the signed minutes - which provided a summary of emerging national issues and developments which might be of relevance to the Council and also included several challenge questions in respect of the emerging issues which the Audit Committee might wish to consider in their future work or training programmes.

**21.2 RESOLVED:**

That the contents of the report by the External Auditors be noted.

**22 External Audit: Value for Money Conclusion**

22.1 Consideration was given to the Value for Money Conclusion training update - copy attached to the signed minutes. The Audit Manager reported that the responsibilities of the External Auditors were derived from statute and from the Code of Audit Practice and work undertaken would normally include offering an opinion on financial statements and issuing a value for money conclusion.

**22.2 RESOLVED:**

That the contents of the training update be noted.

**23 Date and Time of Next Meeting**

23.1 The next meeting of the Audit Committee would be held on Thursday, 18 September 2014 at 10.00 am in the Shrewsbury Room, Shirehall.

**24 Exclusion of Press and Public**

**24.1 RESOLVED:**

That in accordance with the provisions of Schedule 12A of the Local Government Act 1972 and paragraph 10.2 of the Council's Access to Information Procedure Rules, the public and press be excluded during consideration of the following item on the grounds that it involved the likely disclosure of exempt information defined by the categories specified against the items.

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

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

**25.2 RESOLVED:**

That the contents of the exempt report of the Audit Engagement Officer be noted.

Signed ..... (Chairman)

Date: .....



Committee and Date

Audit Committee

18 September 2014

## **Update on Programme Management Controls & Risks including Contract Health Check**

**Responsible Officer** George Candler – Director of Commissioning  
e-mail: [George.Candler@shropshire.gov.uk](mailto:George.Candler@shropshire.gov.uk) Tel: 01743 255003

### **1. Summary**

This report provides an update on the existing and emerging assurance and management controls and risk management arrangements within the Council. The report gives assurance on the robustness of governance arrangements for all change related activity arising from the Council's 2014/17 Business Plan and Financial Strategy including service redesign, commissioning and service transitions to new delivery vehicles as well as IT enablement.

The report also provides a progress update on the work being undertaken to review and create a new approach to contract management within the Authority.

### **2. Recommendations**

Members are asked to consider and endorse with appropriate comment, the contents of this report.

## **REPORT**

### **3. Risk Assessment and Opportunities Appraisal**

A robust approach to risk management is in place in relation to the 2014/17 Business Plan and Financial Strategy as well as the associated Directorate business plans. All service improvements identified in the plans have been linked to the Council's strategic risks, where relevant. This provides assurance that the improvements support the mitigation of strategic risks and prevents the Council from compromising or increasing risk exposure.

Furthermore, all strategic, project and business planning risks are linked to the 4+1 outcomes (Your Council, Your Life, Your Environment, Your Money, Your Health). At a time of significant change, it is important that the Council can provide assurance that controls and mitigation are strong, and therefore all strategic risks are linked to the annual governance statement action plan points. This integrated approach to managing risks across all risk areas of the Council ensures that we are managing risk cohesively and robustly.

At a project level, working closely with the Council's Risk Management Team, Programme Management services (now part of ip&e Ltd) co-ordinates service managers to ensure that they fulfil their responsibility to complete detailed risk analyses and that all change activity takes correct account of all risks and opportunities, as per the Council's agreed Opportunity Risk Management Strategy.

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

#### **4. Financial Implications**

The delivery of redesign proposals, particularly aligned to the significant budget savings that need to be delivered over the next three years are monitored on a monthly basis and reported to the Council's Senior Management Team. To ensure consistency and robustness of the approach, any figures reported in relation to the achievement or non-achievement of savings will be directly reflected within the Council's revenue monitoring reports.

With the reduction in the number of Cabinet Meetings introduced in 2014/15, financial monitoring reports will be approved by Cabinet on a quarterly basis. However, monthly reports will continue to be produced and will be considered in a timely manner by the Council's Director's Team. Furthermore, to ensure Cabinet Members are able to fulfil their roles in their respective Portfolio areas, monthly informal Cabinet meetings have been diarised throughout the year specifically to review and monitor progress against the delivery of the Council's savings plans (over all three years of the current Medium Term Financial Plan) and the impact on Council's in-year revenue and capital position.

#### **5. Management Controls**

Management control arrangements at Shropshire Council are based on clear, consistent governance structures and reporting, ensuring that the right people make the right decisions based on the right information. This approach is based on national 'Best Management Practice' principles, and is applied elsewhere in both the public and private sector.

##### **5.1 Programme Management (including 'Tracking Hub')**

Since April 2014 Shropshire Council has commissioned ip&e to provide its Programme Management and Service Redesign functions. Services include change management, governance processes and project, program and portfolio management across the Council. This involves close liaison with the Council's Members, Management Team, Service Managers and their teams to support them in their achievement of business change outcomes whilst ensuring that their project activity is consistent with the overall direction and ambitions of the Council.

The contract is monitored on a quarterly basis with performance measured in relation to quality, capacity, efficiency and consistency of project and programme approach (to facilitate better targeting of resources and minimised waste) as well as timeliness and accuracy of management information that informs decision making. The contract also

monitors levels of service redesign and project management skills transfer to Council staff. Measures are both quantitative and qualitative with the latter assessed through feedback questionnaires from those involved in redesign activity.

## **5.2 Contracts Health check – Top 50 External contracts**

As Shropshire Council moves rapidly into the commissioning world, the need for strong, consistent and robust approaches to contract management that, in turn, mitigate risks to the Council and ensure we are receiving value for money for the resources used, will be key.

At present Shropshire Council already commissions a range of services that have contracts associated with them in areas such as Waste Management, Highways, Adult Social Care, Children's Services, Public Health and with the Voluntary and Community Sector. The total value of contracts in 2013/14 was £138.7m.

In order to create this consistency of approach, understand skill sets amongst those staff that manage these contracts, and to establish best practice, a small team of officers are now undertaking a review of our contract management across the council by looking at the Top 50 contracts (in value) and to understand how these contracts are managed at present, what is working well and is deemed industry best practice and also identifying those areas that could learn from others.

### Phase 1 – Review of existing approaches

Officers are currently in the process of undertaking individual internal reviews to ascertain where we are now in terms of managing our major contracts. A schedule has been set for meeting the individual contract managers and external Contractors together with a set questions to allow us to do a consistent overall assessment (Appendix A & B).

We have also sought information on areas of best practice for contract management, from a range of sources including IEWM and other West Midlands Authorities and Procurement Groups. We also have received a presentation to the Council's management team (free of charge) from a specialist Contract Management consultancy Newcomen who provided details of the important elements of Contract Management and its current relevance.

Through the above work the following have been identified as the key elements to successful contract management:-

- Negotiation
- Market/Contractor Engagement
- Contract Initiation
- Contract Administration
- Performance Monitoring
- Supplier Viewpoint
- Relationship Management
- Contract development and improvement

It is intended these elements would form the basis of the Contract Management module within the Commissioning Training Programme.

In addition best practise would dictate that we need a clear documented framework and guidance to be available to all officers along with a reporting and review mechanism.

### Phase 2 – Creating the new Approach to Contract Management

It is intended that phase 2 of this work will draw upon the results to ensure a single, consistent approach to contract management is established that ensures key principles are followed but also builds in sufficient flexibility, depending on the size and nature of the contract.

This will also include a documented framework and guidance for officers alongside a specific Contract Management module as part of the overall Commissioning Training programme.

It is hoped the new approach will be established by December 2014.

### **5.3 Commissioning Training Programme for Staff**

The Commissioning Strategy 'Commissioning for the Future' has been adopted by Shropshire Council. The strategy sets out how the council will approach the transformational changes required to move towards a role as a commissioning body as opposed to a direct deliverer of services. It sets out the principles that will be applied in our approach to commissioning and also provides guidance to those people involved in the commissioning of services on how best to achieve desired outcomes.

In order that the strategy is understood and applied consistently across Shropshire Council we recognise that we need to ensure that officers have the right knowledge, skills, understanding and awareness. As such the council needs to understand the existing skills which exist in the organisation and the skills we expect will be needed to deliver on the strategy and to apply the commissioning approach adopted in Shropshire.

Based on this understanding it is planned to develop a programme for staff involved in the commissioning process. We have identified organisational level needs which have informed the creation of the training programme. As part of our role of the manager offer, we have carried out consultation with managers at different levels where contract management and commissioning training needs were identified and inform the programme.

The training programme will include an introductory module for all staff involved in commissioning, this will provide an overview to the Commissioning Strategy, principles and model adopted for Shropshire. Additional individual modules will be created based broadly around the four component parts of the commissioning cycle – Analyse, Plan, Do, Review. Officers will determine, in conjunction with their managers, which modules they need to complete.



Officers with relevant professional expertise are involved in creating the content of individual modules and appropriate delivery methods.

Module content will be underpinned by our values, systems thinking and service design. Effective communications, progress updates and stakeholder engagement needs to be implicit throughout the programme. To support the diverse needs of staff, delivery of the programme will involve various learning methods such as coaching, mentoring, workshops, on line tools and materials.

The training programme needs to be reviewed and evaluated to assess the impact on organisational, team and individual performance; ensuring it continues to be fit for purpose in delivering the Commissioning Strategy.

#### **5.4 ICT Project Governance**

As part of the development of a new IT strategy there will be the implementation of an IT Governance process and framework which, in turn, will agree a set of criteria for IT assurance. The governance framework (to be developed via the Council's Information Governance Group) will include:-

- Control of change activity to define and approve project activity and assign resources
- Project approval procedures to ensure that all proposed projects support the Council's IT and business strategies
- Communications and escalation procedures to allow management to respond to issues as they arise
- Procedures to keep management informed of progress

The principles of the framework will be to ensure that all IT systems are managed appropriately and standards compliant, including for PSN purposes.

With this in mind, work is also underway on the new IT Systems Register which will ensure that there is a complete record of all IT systems and software operating on the Council's network. Initial data capture has been completed and work is now focussed on cross referencing this with other registers, including details of information asset owners, service recovery and business continuity plans.

Once complete, the IT Systems Register will be the single source of the Council's information about key systems and software, system managers from within the service areas and data base and system administrators. The register will primarily be used by and managed by a Change Control Group (to be established via the Information Governance Group).

The Change Control Group will be chaired by the Council's ICT Implementation Manager and will include those system owners identified in the Systems Register, as well as any relevant senior system administrators. The purpose of the group will be to ensure that all systems are being managed appropriately and also that any changes to a system (or key personnel) are recorded and the impact on IT infrastructure or other dependent systems are accounted for.

Contracts for some of the Councils IT systems will feature in the 'Top 50 Contracts' work described in the Commissioning section above. It is likely that the Change Control Group will play a key role in the success of any contract renegotiations with suppliers that stem from this top 50 review.

As part of the governance framework, IT will also provide appropriate programme management for the implementation of all IT projects and project management support for the implementation of all significant IT systems. Project management will focus on the timely execution of agreed plans, mitigation of risks as they are identified, resolution or escalation of issues, maintenance of quality, monitoring of costs and use of milestone events at key project stages (e.g. go/no-go decisions).

Project management controls will need to be efficient enough to ensure adequate oversight of the project (financial, meeting deadlines, etc.), appropriate involvement by the stakeholders, iterative evaluation of risks, monitoring and escalation of issues (where required), and secure storage of system documentation. Cost of project management will be reflected in the overall project implementation costs for each project.

It will be essential that IT services (and hence the IT Strategy) both facilitate and are subject to the Commissioning Strategy described above.

<p><b>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</b></p> <p>Audit Committee – 13/02/14 : Update on Programme Management Controls &amp; Risks</p> <p>Audit Committee – 26/06.14: Update on Programme Management Controls &amp; Risks</p> <p>Cabinet 04/06/04 - Commissioning Strategy 'Commissioning for the Future' report</p>
<p><b>Cabinet Member (Portfolio Holder)</b></p> <p>Cllr Mike Owen – Portfolio holder for Resources, Finance and Support</p>
<p><b>Local Member</b></p> <p>N/A</p>
<p><b>Appendices</b></p> <p>Appendix A – Contract management assessment form – Commissioner</p> <p>Appendix B – Contract management assessment form - Provider</p>

**Contract Management Review – Commissioner / Contract Manager**

<b>Commissioner / Contract Manager:</b>	
<b>Directorate:</b>	
<b>Provider Name:</b>	
<b>Contract Name:</b>	
<b>Contract Value (per annum):</b>	
<b>Contract Term:</b>	
<b>Contract Expiry Date:</b>	
<b>Purpose of Contract:</b>	

**Contract Development:**

Was this a newly commissioned or recommissioned service?	
How was the need for the service determined / identified?	
What engagement was done at the time of development with: <ul style="list-style-type: none"><li>• Residents / service users?</li><li>• Stakeholders?</li><li>• Providers / the market?</li></ul>	

How was the contract and specification drawn up?	
What outcomes are required?	
Has consideration of Social Value been included in the contract?	
How did you decide on the performance monitoring measures / information?	
Does the contract encourage innovation and/or flexibility in service delivery? Please say why	

**Contract Management:**

<p>Do you undertake contract management meetings?</p> <ul style="list-style-type: none"> <li>• If YES, how often and what form do these take?</li> <li>• If NO, how do you manage the contract?</li> </ul>	
Do you use Customer or stakeholder feedback to inform contract management? If so, how?	

How does data collected through performance monitoring influence contract management?	
Have the performance indicators / measures or contract requirements changed since the contract began? If so, how?	
Has the contract value changed? If so why?	
Is there a regulatory body (or similar) for the service(s) you are commissioning? If so how does your contract management link to it?	
Has this contract been 'rolled over' at any point? If yes, why?	
What mechanisms are in place to alert you to the need to recommission or re-let the contract?	
Is there any good practice about the way that this contract is managed you would like to share?	
What, if anything, would you change about the way that you manage this contract?	

Have you had training specifically in managing and monitoring contracts?	
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**Provider / Supplier Management:**

To your knowledge does the council have other contracts with this provider?	
If so, do you share information with the other contract owners / commissioners? How does this work?	
Did you work with the provider after letting the contract to refine work on KPIs, etc? If so, how?	
Describe the relationship with the provider	

**Any other comments:**

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**Contract Management Review – Provider Contract Manager**

<b>Commissioner / Contract Manager:</b>	
<b>Directorate:</b>	
<b>Provider Name:</b>	
<b>Contract Name:</b>	
<b>Contract Value (per annum):</b>	
<b>Contract Term:</b>	
<b>Contract Expiry Date:</b>	
<b>Purpose of Contract:</b>	

**Contract Management:**

<p>Do you take part in contract management meetings?</p> <ul style="list-style-type: none"> <li>• If YES, how often and what form do these take?</li> <li>• If NO, do you know how your contract is managed?</li> </ul>	
<p>Do you use Customer or stakeholder feedback to inform contract management? If so, how?</p>	
<p>Have the performance indicators / measures or</p>	

<p>contract requirements changed since the contract began? If so, how was this done?</p>	
<p>What works well and what, if anything, would you change about the way that the council manages this contract?</p>	

**Service Development:**

<p>Do you feel encouraged or able to redesign or innovate in the way that you deliver the commissioned service(s)?</p>	
<p>If so, please describe how this is achieved (eg commissioner relationship / contractual flexibility / contractual requirement, etc?)</p>	
<p>Do you feel engaged in helping the council to shape contracts and/or specifications prior to re-commissioning? Please say why.</p>	

**Provider / Supplier Management:**



Does your organisation have any other contracts with the council?	
If so, do you know if the council shares information with the other contract owners / commissioners? How does this work? Would this be useful?	
Do you know how the work you do through this contract contributes to the council's aims?	
Describe your relationship with the commissioner / contract manager	

**Any other comments:**

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Committee and Date  
Audit Committee  
18<sup>th</sup> September 2014

## MANAGEMENT REPORT ON HOUSING BENEFIT OVERPAYMENT PERFORMANCE

**Responsible Officer** Phil Weir

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

Tel: 01743 256113

### 1. Summary

The Benefits team are responsible for the recovery of Housing Benefit overpayments. This report provides Members with performance monitoring information on the collection of this income for the year to 2013/14.

### 2. Recommendations

Members are asked to note the report.

#### REPORT

2.1. The service is responsible for recovering amounts outstanding on invoices raised by the former district councils relating to Housing Benefit overpayments, and for debt due to Shropshire Council for the same reason, which are now recovered separately from the Sundry Debt Service.

2.2. With regards to Housing Benefit overpayment recovery, the total value of invoices raised in 2013/2014 is: -

Created	£3,357,071.61
Recovered	£2,842,236.75
Written off	£ 141,193.91

2.3. The total value of invoices raised for the period April 2014 to July 2014 is:-

Created	£872,062.14
Recovered	£811,389.84
Written off	£0

2.4. At 31<sup>st</sup> July 2014 the total amount outstanding, including previous years, was £4.3 million compared with £4.1 million as at 31<sup>st</sup> July 2013. The table at appendix A provides a detailed breakdown of this debt by financial year.

2.5. Revenues and Benefits is currently going through a restructure. As part of this we are looking to combine the management of the Benefits overpayment staff with the Revenues recovery team. This should give us greater scope to better focus on collection of the sundry debt element of benefit overpayments.

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

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

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

### 4. Financial Implications

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

### 5. Background

Housing Benefit is a national welfare benefit administered by the Council for the Department of Work and Pensions. A complex legal framework is in place to define who is entitled to benefit and to reduce fraud and error in the system. The Benefits Service within the Council has a responsibility to pay the right benefit to the right person at the right time.

### 6. Additional Information

None

### 7. Conclusions

Members are asked to note the content of the report.

<b>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</b>
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N/A
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<b>Cabinet Member (Portfolio Holder)</b>
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Mike Owen
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<b>Local Member</b>
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N/A
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<b>Appendices</b>
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N/A
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## Appendix A – Housing Benefit Overpayment Debt Breakdown by financial year

<b>BENEFITS OVERPAYMENTS</b>	
<b>Financial Year</b>	<b>Balance 31 July 2014</b>
2008-09	150,577.66
2009-10	703,625.80
2010-11	490,612.42
2011-12	521,452.78
2012-13	777,130.35
2013-14	1,138,718.60
2014-15	503,974.19
<b>Total</b>	<b>4,286,091.80</b>

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Committee and Date

Audit Committee

18 September 2014

## Implementation of IT control improvements and risks

**Responsible Officer** Nigel Bishop  
e-mail: nigel.bishop@shropshire.gov.uk

### 1.0 Summary

- 1.1 This report provides an update on work being undertaken to ensure that the ICT infrastructure is, and continues to be, fit for purpose; robust; PSN compliant; improving business continuity and mitigating risks. It is also to ensure that the direction of travel is aligned to both business and strategic objectives to provide the necessary assurance levels required.

### 2.0 Recommendations

- 2.1 It is recommended that the committee note the progress made in addressing assurance and risk around ICT infrastructure.

## REPORT

### 3.0 Risk Assessment and Opportunities Appraisal

- 3.1 ICT operations and infrastructure remains central to supporting the Council in delivering its strategic objectives and business activities. Increasing reliance on ICT coupled with changes to organisational structures has meant that resourcing allocation and the requirements of external compliance frameworks, including PSN connectivity, have placed significant demands and requirements on the delivery of corporate ICT.
- 3.2 These demands are represented on the strategic risk register and regularly reviewed, as the risk to both business continuity and the delivery of the Council's strategic objectives from any disruption or loss to ICT provision carries the potential for significant consequences, operationally, financially and legally.
- 3.3 Work continues to take place around both addressing known risks and identifying new risks as they emerge. This activity is fed into existing work streams and also included in future work programmes and forward planning.

## **4.0 Financial Implications**

- 4.1 ICT budgets remain under constant review and whilst operation savings have been identified as part of routine business rationalisation, additional resources have been allocated where necessary to address specific risks or matters that fall outside known or planned operational activity, including this year's changes to PSN compliance requirements that were mandated by Cabinet Office.

## **5.0 Background**

- 5.1 Customer Involvement is responsible for ICT Services; Customer Services; Digital Services; BluPrint (Print and Mailroom services), the Local Support and Prevention Framework; Discretionary Housing Payments; and the commissioning of Communications from ip&e.
- 5.2 The development of a Customer Involvement Strategy is an important strand in providing a clear direction of travel and activity roadmap. The draft strategy includes a number of outcomes that support the implementation of IT control improvements and seek to address and/or mitigate risk. Work on PSN compliance for 2015 is progressing well – but remains challenging.
- 5.3 As part of the previous report to Audit Committee, reference was made to the development of a new ICT Governance Framework. This framework will ensure that there is sufficient control, robustness and risk management around the development and/or procurement of IT systems, whether centrally managed, or operated by individual service areas. It will also ensure that all developments are in line with the Council's strategic objectives and are standards compliant, including for PSN accreditation. It is likely that framework will be in place and operational by January 2015.
- 5.4 A key part of the strategy includes the driver to move infrastructure and line of business systems to a Cloud based environment and in doing so increase business continuity and mitigate the risks associated with loss of access to, or failure of, one of the Council's data centres.
- 5.5 Aside of the development of the ICT governance framework (as part of the Information Governance Group IGG), work is in progress to adopt ITIL (Information Technology Infrastructure Library) standards for IT Service Management. It is anticipated that work will be completed by January 2015.
- 5.6 The Information Governance Group, chaired by Head of Legal, Strategy & Democracy (the Council's Senior Information Risk Owner – SIRO), ensures that measures are in place to manage Council information to meet legal and external compliance requirements and in accordance with Council's Information Risk Policy. This includes ensuring that the Council has appropriate assurance and security controls in place for IT services.
- 5.7 Work in this area has already advanced and the migration to Office 365 (including Outlook email) and Lync telephony to the Cloud is now almost complete. Work is also underway to move other significant line of business



systems to the Cloud, including those used by Revenues and Benefits and Property Services. Other systems are at the early phase of the procurement process and progress on these can be reported on in due course.

- 5.8 Ten key IT systems have been identified and where these systems are not already Clouded, work is being undertaken on to assess their suitability for Cloud hosting. In meeting the Cabinet Office’s 2015 PSN compliance standards we will also be required to upgrade parts of the Council’s main server farm, therefore hosted solutions will be the preferred solution for this work wherever possible.

Key System	Function
Capita ONE	Education Management
CareFirst	Social Care (Adults and Children’s)
Civica ICON	Income & provides other system interfaces
Confirm	Environmental Maintenance
DARWIN	CRM & provides other system interfaces
ESRI GIS	GIS mapping (many dependencies)
IDOX - Uniform	Planning, Dev Control, Trading Standards
Northgate iWorld	Revenues & Benefits
Northgate Resourcelink	HR& Payroll
SAMIS	Finance & provides other system interfaces

- 5.9 Work on the ICT systems register continues and is now available to be shared, at a high level, with the Audit Committee. The next phases of development include chronicling system inter-dependencies and subsidiary software – which is required to ensure that PSN compliance is maintained. The system register is also being aligned with the Emergency Plan and individual service area recovery plans.
- 5.10 Aside of the development of the ICT governance framework (as part of the Information Governance Group IGG), work is in progress to adopt ITIL (Information Technology Infrastructure Library) standards for IT Service Management. It is anticipated that work will be completed by January 2015.
- 5.11 Considerable work has been undertaken on the future plans for both disaster recovery and business continuity. Disaster recovery (DR) represents the ability of the organisation to recover data and/or restore systems in the event of a catastrophic failure of the primary datacenter and represents the Council’s data ‘backup’ provision. All key systems have disaster recovery contingency in place, but processes and procedures are constantly under review.
- 5.12 Business Continuity relates to the ability of the organisation to operate a ‘business as usual’ service during an emergency that could include the loss of (or access to) the primary datacentre. As technology evolves, and reliance on ICT systems increases, the requirement to restore system quickly following interruption to service from disruption, for example from flood, power or internet loss becomes paramount.

- 5.13 Direction set out in the Customer Involvement Strategy, includes moving key systems to Cloud based provision which includes disaster recovery and business continuity as a precursor and work is already underway to Cloud a number of key line of business systems. The development of the ICT Governance Framework will also ensure that this ethos continues to be embedded in the development of all future ICT provision.
- 5.14 Business continuity requirements are though constantly evolving, as both technology and infrastructure change, and a paper is being prepared for Directors which will outline the options around a number of different approaches to enhancing and providing assurance around future provision. This is currently being aligned with the Customer Involvement Strategy and ICT architecture roadmap.
- 5.15 Subject to financial approval, and as part of this process, the programme includes the relocation of the secondary data centre by January 2015.
- 5.16 ICT, like all Customer Involvement Services, is subject to significant audit observation and all audit recommendations are accepted, addressed and factored into ongoing work programmes and are accounted for within the Customer Involvement strategy and relevant service plans.

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

**Committee and Date**

Cabinet  
30 July 2014

Audit Committee  
18 September 2014

Council  
25 September 2014

## ANNUAL TREASURY REPORT 2013/14

**Responsible Officer** James Walton

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Tel: (01743) 255011

### 1. Summary

- 1.1. The report informs members of treasury activities for Shropshire Council for 2013/14, including the investment performance of the internal treasury team to 31 March 2014. The internal treasury team outperformed their investment benchmark by 0.3% in 2013/14 and performance for the last three years is 0.5% per annum above benchmark. Treasury activities during the year have been within approved prudential and treasury indicators set and have complied with the Treasury Strategy.
- 1.2. During 2013/14 the performance of the Treasury Team delivered an under spend of £1.319 million compared to budget as highlighted in paragraph 10.7 of this report. This under spend helped the Council to achieve an overall under spend at the end of the financial year.
- 1.3. The claim for the £1 million deposit placed by Bridgnorth District Council with the Icelandic Bank, Landsbanki has now been sold through a competitive auction process. The sale means that the Council has recovered 92% of the amount that was originally deposited. The sale of the claim represents a clean break and the Council is no longer a creditor of Landsbanki.

### 2. Recommendations

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

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

- 3.1. The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.2. There are no direct environmental, equalities or climate change consequences arising from this report.
- 3.3. Compliance with the CIPFA Code of Practice on Treasury Management, the Council's Treasury Policy Statement and Treasury Management Practices and the Prudential Code for Capital Finance together with the rigorous

internal controls will enable the Council to manage the risk associated with Treasury Management activities and the potential for financial loss.

#### **4. Financial Implications**

- 4.1. The Council makes assumptions about the levels of borrowing and investment income over the financial year. Reduced borrowing as a result of capital receipt generation, or delays in delivery of the capital programme will both have a positive impact of the council's cash position. Similarly, higher than benchmarked returns on available cash will also help the Council's financial position. For monitoring purposes, assumptions are made early in year about borrowing and returns based on the strategies agreed by Council in the preceding February. Performance outside of these assumptions result in increased or reduced income for the Council.
- 4.2. The 2013/14 performance is above benchmark for the reasons outlined in paragraph 10.7 of this report and has delivered additional income of £1.319 million which has been reflected in the final Revenue Monitor report for 2013/14.

#### **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. The Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2013/14. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.
- 5.3. Changes in the regulatory environment place a much greater onus on members for the review and scrutiny of treasury management policy and activities. Minimum reporting requirements are that the Council should receive the following reports:
- An annual treasury strategy in advance of the year.
  - A mid-year treasury update report.
  - An annual report following the year describing the activity compared to the strategy.
- 5.4. The CIPFA Code of Practice on Treasury Management states that these reports should be scrutinised by a nominated committee and members should be trained on treasury management activities in order to support them in their scrutiny role. These reports were scrutinised by the Audit

Committee before they were reported to full Council for approval. Members also received training on treasury management issues to support their scrutiny role by completing the CIPFA treasury management self-assessment and further Member training was undertaken in November 2013 in conjunction with our Treasury Advisor, Capita Asset Services.

- 5.5. In addition to the minimum reporting requirements, the Director's and Cabinet also receive quarterly treasury management update reports for information.
- 5.6. The Treasury Strategy for 2013/14 was approved by Council in February 2013, the mid-year treasury update report was approved by Council in December 2013. This Annual Report sets out our actual treasury performance for the year and shows how the actual treasury performance varied from our estimates and planning assumptions.

## **6. Borrowing Strategy for 2013/14**

- 6.1. The borrowing strategy for the year continued to be funding the Council's long term borrowing requirement at advantageous rates. Short term finance from internal balances would be used in the interim pending favourable market conditions for long term funding.
- 6.2. Short term Public Works Loan Board (PWLB) rates were expected to be significantly cheaper than longer term borrowing rates during the year therefore borrowing in the 10 year period early on in the financial year when rates were expected to be at their lowest would be considered. Variable rate borrowing was also expected to be cheaper than long term fixed rate borrowing throughout the year.
- 6.3. An alternative strategy was to defer any new borrowing as long term borrowing rates were expected to be higher than investment rates during the year. This would maximise savings in the short term and also have the added benefit of running down investments which would reduce credit risk. Short term money market borrowing was not used during the year.

## **7. Borrowing outturn for 2013/14**

- 7.1. The Treasury Team take advice from its external treasury advisor, Capita Asset Services, on the most opportune time to borrow. Movements in rates during 2013/14 are shown in the graph at Appendix A.
- 7.2. Members have previously been advised of the unexpected change of policy on PWLB lending arrangements in October 2010 following the Comprehensive Spending Review. This resulted in an increase in all new borrowing rates of between 0.75 – 0.85%, without an associated increase in early redemption rates. This made new borrowing more expensive and repayment relatively less attractive.
- 7.3. The table below shows PWLB borrowing rates for a selection of maturity periods. The table also shows the high and low points in rates during the year, average rates during the year and individual rates at the start and the

end of the financial year.

	<b>4.5 – 5yrs</b>	<b>9.5 – 10yrs</b>	<b>24.5 – 25 yrs</b>	<b>49.5 – 50 yrs</b>
01/04/2013	1.75%	2.84%	4.08%	4.23%
31/03/2014	2.50%	3.66%	4.45%	4.48%
High	2.97%	4.10%	4.67%	4.70%
Low	1.61%	2.58%	3.78%	4.07%
Average	2.47%	3.58%	4.43%	4.47%
High date	27/12/2013	02/01/2014	10/09/2013	10/09/2013
Low date	15/04/2013	19/04/2013	19/04/2013	03/05/2013

7.4. Following discussions with Capita, as general fund borrowing rates were significantly higher than investment rates during the year it was agreed that if any new borrowing was required during the year it would be deferred in order to maximise savings in the short term and reduce credit risk by reducing investments. Due to a review of the Capital Programme no new external borrowing was required in 2013/14.

7.5. The Council's total debt portfolio at 31 March 2014 is set out below:-

<b>Type of Debt</b>	<b>Balance £m</b>	<b>Average Borrowing Rate 2013/2014</b>
General Fund Fixed rate – PWLB	210.22	5.55%
HRA Fixed rate - PWLB	83.35	3.51%
Fixed rate – Market	49.20	4.10%
Variable rate	0	N/A

7.6. The average borrowing rate for the total portfolio (PWLB and Market) has remained the same at 5% in 2012/13 and 2013/14 due to no new borrowing being undertaken. The maturity profile of the debt is evenly spread to avoid large repayments in any one financial year. The average debt period for PWLB loans is 22 years, market loans have an average debt period of 56 years. The total debt portfolio has a maturity range from 1 year to 64 years.

7.7. The Treasury Strategy allows up to 15% of the total outstanding debt to mature in any one year. It is prudent to have the Council's debt maturing over many years so as to minimise the risk of having to re-finance when interest rates may be high. The actual debt maturity profile is within these limits (Appendix B).

## **8. Debt rescheduling**

8.1. No debt restructuring was undertaken during 2013/14. The introduction of a differential in PWLB rates on the 1 November 2007, which was compounded further since a policy change in October 2010 as outlined above, has meant that large premiums would be incurred if debt restructuring was undertaken which cannot be justified on value for money grounds.

8.2. Although these changes have restricted debt restructuring, the current debt portfolio is continually monitored in conjunction with external advisers in the

light of changing economic and market conditions to identify opportunities for debt rescheduling. Debt rescheduling will only be undertaken:

- To generate cash savings at minimum risk.
- To help fulfil the Treasury Strategy.
- To enhance the balance of the long term portfolio by amending the maturity profile and/or volatility of the portfolio.

## **9. Investment Strategy for 2013/14**

- 9.1. Our treasury advisor originally felt when the strategy was approved by Council in February 2013 that the bank rate would remain at its historically low level of 0.50% throughout the year with the first rise to 0.75% not expected until March 2015. During the year their interest rate forecast was reviewed and their updated forecast was approved by Council in December 2013 as part of the mid-year report. Their revised forecast was that the bank rate would remain at 0.50% until September 2016.
- 9.2. In 2013/14 investment of surplus cash was managed by the internal treasury team. The strategy for the in-house team was influenced by the need to keep funds relatively short for cash flow purposes. Lending continued to be restricted to UK banks, one overseas bank, one Building Society, Nationalised and Part Nationalised Banks, UK Government and other Local Authorities in line with the Council's policy on creditworthiness which was approved in the Annual Investment Strategy.

## **10. Investment Outturn 2013/14**

- 10.1 The tight monetary conditions following the 2008 financial crisis continued through 2013/14 with little material movement in shorter term deposit rates. Bank rate remained at its historical low of 0.5% throughout the year and has now remained unchanged for five years. Market expectations of the start of monetary tightening remained the same during the year with the first increase in the Bank Rate not expected until the start of 2015 at the earliest. The Government's Funding for Lending Scheme resulted in deposit rates remaining depressed during the whole of the year.
- 10.2 Economic growth (GDP) in the UK was virtually flat during 2012/13 but surged strongly during 2013/14. Consequently there was no additional quantitative easing during 2013/14 and the Bank Rate ended the year unchanged at 0.5% for the fifth successive year. While CPI inflation had remained stubbornly high and substantially above the 2% target during 2012, by January 2014 it had, at last fallen below the target rate to 1.9% and then fell further to 1.7% in February. It is expected to remain below the target rate for the next two years ahead.
- 10.3 The EU sovereign debt crisis subsided during the year and confidence in the ability of the Eurozone to remain intact increased substantially. Perceptions of counterparty risk improved after the European Central Bank (ECB) statement in July 2012 that it would do "whatever it takes" to support the

struggling Eurozone countries. This led to a return of confidence in its banking system which continued into 2013/14. However, this is not to say that the problems of the Eurozone, or its banks, have ended as the Eurozone faces the likelihood of weak growth over the next few years at a time when the total size of government debt for some nations is likely to continue rising. Continued stress tests of the Eurozone banks could also reveal some areas of concern.

10.4 The Funding for Lending Scheme, announced in July 2012, has resulted in a flood of cheap credit being made available to banks and this has resulted in money market investment rates falling drastically in the second half of 2012 and continuing into 2013/14.

10.5 To counter the historically low investment rates, and following advice from Capita, use was made of direct deals with main UK banks which were part nationalised for various periods from three months to one year. Direct deals offered substantially enhanced rates over the equivalent rates available through brokers. This provided opportunities to lock into higher, long term rates at times when it was thought they offered substantial enhancement over short term benchmark rates. Due to the enhanced market rates over bank rate this resulted in the total portfolio outperforming the benchmark. Continued use of instant access accounts with Natwest, HSBC and Svenska Handelsbanken was also used as these accounts offered both instant access to funds and paid a rate which was higher than placing short term deposits through brokers.

10.6 Movements in short term rates through the year are shown in the graph at Appendix A.

10.7 Throughout the year the level of interest rates and average investment balances were higher than budgeted. This resulted in the internal treasury team achieving a higher level of interest on revenue balances than budgeted. This £248,929 surplus was in addition to an under-spend on debt charges of £1,070,328 due to no long term general fund borrowing being undertaken in 2013/14. The total £1.319 million under spend helped the Council to achieve an overall under spend at the end of the financial year.

10.8 At 31 March 2014 the allocation of the cash portfolio was as follows:

	<b>£m</b>
• In-house short dated deposits for cash flow management	82.6
• In-house long dated deposits (up to 1 year)	24.1
• Other Local Authorities	3.0
<b>Total</b>	<b>109.7</b>

10.9 The following table shows the average return on cash investments for the internal treasury team during the year and for the last 3 years to 31 March 2014. Recognising the need to manage short term cash flow requirements, the target for the internal team is the Local Authority 7 day deposit rate.



	Return 2013/14	Return 3 years to 31 March 2014
	%	% p.a
Internal Treasury Team	0.6	0.8
Benchmark (Local Authority 7 Day LIBID rate)	0.3	0.3

10.10 The conclusions to be drawn from the table are:

- During 2013/14 the internal treasury team outperformed their benchmark by 0.3%.
- Over the 3 year period the internal team's performance has been 0.5% per annum above the benchmark.

## 11.Landsbanki Deposit Update

11.1 The claim for the £1 million deposit placed by Bridgnorth District Council with the Icelandic Bank, Landsbanki has now been sold through a competitive auction process. The sale means that the Council has recovered 92% of the amount that was originally deposited. The sale of the claim represents a clean break and the Council is no longer a creditor of Landsbanki.

## 12.Compliance with Treasury Limits and Prudential Indicators

12.1 All borrowing and lending transactions undertaken through the year have complied with the procedures and limits set out in the Council's Treasury Management Practices and Treasury Strategy. In addition, all investments made have been within the limits set in the approved counterparty list. No institutions, in which investments were made, showed any difficulty in repaying investments and interest in full during the year.

12.2 Appendix C shows the Prudential Indicators approved by Council as part of the 2013/14 and 2014/15 (revised estimate) Treasury Strategies compared with the actual figures for 2013/14. In summary, during 2013/14 treasury activities have been within the prudential and treasury limits set in the Treasury Strategy.

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

Council, 28 February 2013, Treasury Strategy 2013/14.  
 Council, 19 December 2013, Treasury Strategy 2013/14 Mid-Year Review.  
 Council, 27 February 2014, Treasury Strategy 2014/15.  
 Cabinet, 24 July 2013, Treasury Management Update Quarter 1 2013/14.  
 Cabinet, 13 November 2013, Treasury Management Update Quarter 2 2013/14.  
 Cabinet, 12 February 2014, Treasury Management Update Quarter 3 2013/14.  
 Cabinet, 04 June 2014, Treasury Management Update Quarter 4 2013/14.

#### Cabinet Member:

Mike Owen, Portfolio Holder

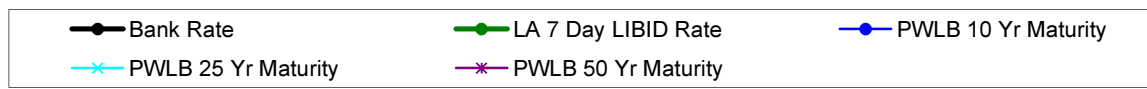
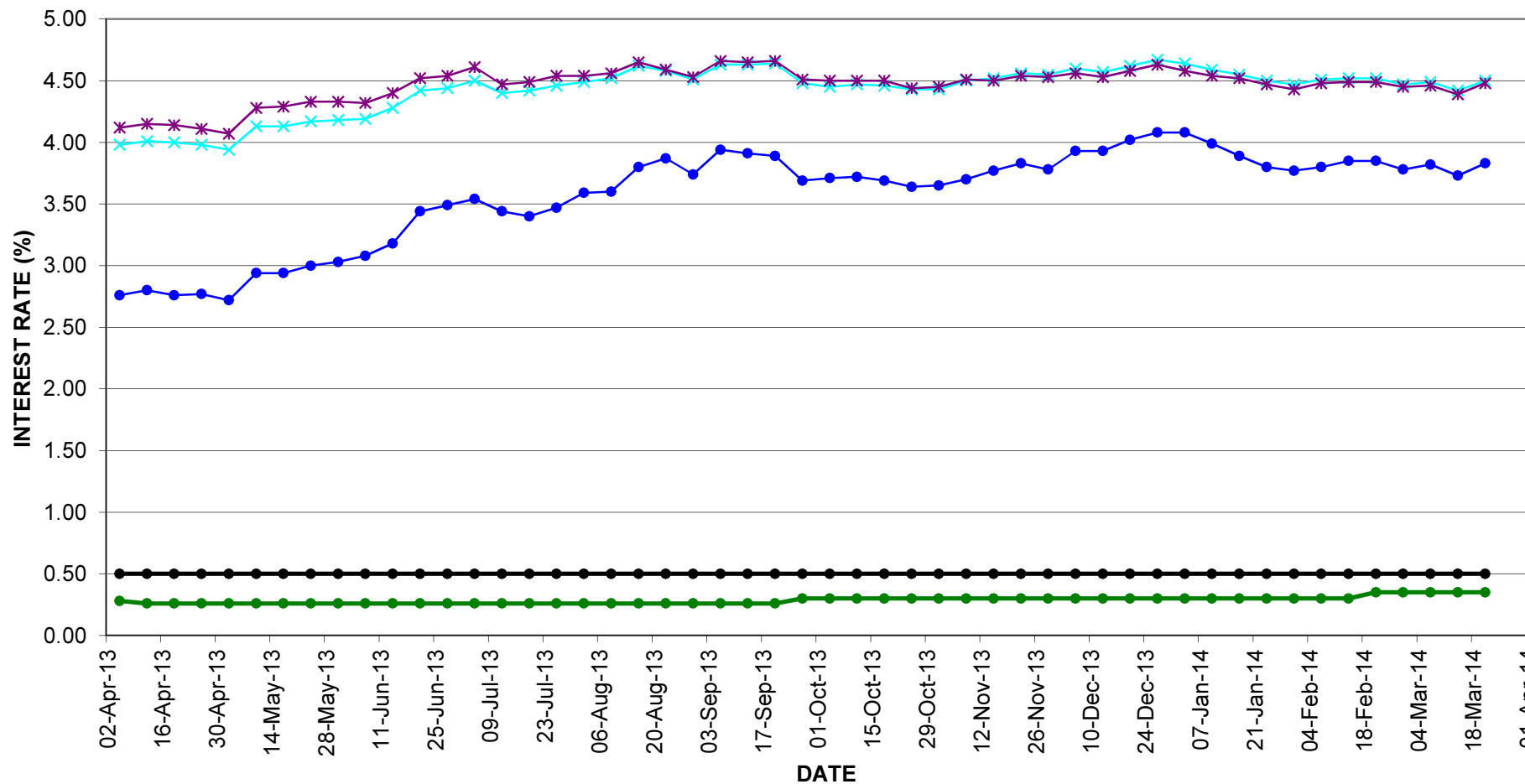
**Local Member**

N/A

**Appendices**

- A. Movement in Interest Rates 2013/14
- B. Debt Maturity Profile as at 31 March 2014
- C. Prudential Indicators 2013/14

### MOVEMENTS IN INTEREST RATES 2013/14



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## APPENDIX C

### SHROPSHIRE COUNCIL PRUDENTIAL INDICATORS 2013/14

- C1. The Prudential Code requires the Council to set Prudential Indicators in the Treasury Strategy and report performance against those indicators in the Annual Treasury Report.
- C2. The ratio of financing costs compared to the net revenue stream of the Council was lower than expected in 2013/14 due to no general fund borrowing being undertaken during the year.

Prudential Indicator	2013/14 Revised Estimate	2013/14 Actual
	%	%
Non HRA Ratio of financing costs to net revenue stream	10.8	9.5

Prudential Indicator	2013/14 Revised Estimate	2013/14 Actual
	%	%
Non HRA Ratio of financing costs (net of investment income) to net revenue stream	10.6	9.2
HRA Ratio of financing costs to HRA net revenue stream	44.3	41.9

- C3. The cost of capital investment decisions funded from a re-direction of existing resources was lower than anticipated due to a revised 2013/14 capital programme and the active programme to generate additional capital receipts to reduce the requirement for prudential borrowing to finance the capital programme as reported in the monthly capital monitoring reports.

Prudential Indicator	2013/14 Estimate	2013/14 Actual
<b>Estimates of impact of Capital Investment decisions in the present capital programme</b>	<b>£ p</b>	<b>£ p</b>
Cost of capital investment decisions funded from re-direction of existing resources (Council Tax Band D, per annum)	25.81	18.73
Cost of capital investment decisions funded from increase in council tax (Council Tax Band D, per annum)	0	0
Cost of capital investment decisions funded from increase in average housing rent per week	0	0
<b>Total</b>	<b>25.81</b>	<b>18.73</b>

- C4. It can be seen from the tables that the authority was well within the approved authorised limit and the operational boundary for external debt for 2013/14.

<b>Prudential Indicator</b>	<b>2013/14 Estimate</b>	<b>2013/14 Actual</b>
<b>External Debt</b>	<b>£ m</b>	<b>£ m</b>
<b>Authorised Limit:</b>		
Borrowing	497	343
Other long term liabilities	94	23
<b>Total</b>	<b>591</b>	<b>366</b>

<b>Prudential Indicator</b>	<b>2013/14 Estimate</b>	<b>2013/14 Actual</b>
<b>External Debt</b>	<b>£ m</b>	<b>£ m</b>
<b>Operational Boundary:</b>		
Borrowing	423	343
Other long term liabilities	94	23
<b>Total</b>	<b>517</b>	<b>366</b>

- C5. Gross borrowing was as anticipated due to no general fund borrowing being undertaken in 2013/14. A key indicator of prudence is that net borrowing should not exceed the capital financing requirement. It can be seen from the following figures that the Council continues to meet this prudential indicator. The Capital Financing Requirement was lower than estimated following slippage in the capital programme that resulted in a reduced financing requirement from the capital receipts previously set-aside as approved by Council.

<b>Prudential Indicator</b>	<b>2013/14 Revised Estimate</b>	<b>2013/14 Actual</b>
<b>Net Borrowing &amp; Capital Financing Requirement:</b>	<b>£ m</b>	<b>£ m</b>
Gross Borrowing (inc HRA)	343	343
Investments	90	110
<b>Net Borrowing</b>	<b>253</b>	<b>233</b>
Non HRA Capital Financing Requirement	263	247
HRA Capital Financing Requirement	85	85
<b>Total CFR</b>	<b>348</b>	<b>332</b>

- C6. Total capital expenditure during the year was lower than anticipated. Explanations for these under-spends were included in the 2013/2014 final capital outturn report.



<b>Prudential Indicator</b>	<b>2013/14 Revised Estimate</b>	<b>2013/14 Actual</b>
	<b>£ m</b>	<b>£ m</b>
<b>Non HRA Capital expenditure</b>	48	38
<b>HRA Capital expenditure</b>	5	3

C7. The level of fixed rate and variable rate borrowing were within the approved limits for the year.

<b>Prudential Indicator</b>	<b>2013/14 Estimate</b>	<b>2013/14 Actual</b>
	<b>£ m</b>	<b>£ m</b>
<b>Upper Limit For Fixed/Variable Rate Borrowing</b>		
Fixed Rate (GF)	327	260
Fixed Rate (HRA)	96	83
Variable Rate	212	0

C8. The level of fixed rate and variable rate investments were within the approved limits during 2013/14.

<b>Prudential Indicator</b>	<b>2013/14 Estimate</b>	<b>2013/14 Actual</b>
	<b>£ m</b>	<b>£ m</b>
<b>Upper Limit For Fixed/Variable Rate Investments</b>		
Fixed Rate	200	37
Variable Rate	200	73

C9. No investments over 364 days were held by the internal treasury team.

<b>Prudential Indicator</b>	<b>2013/14 Estimate</b>	<b>2013/14 Actual</b>
	<b>£m</b>	<b>£m</b>
<b>Upper Limit For Sums Invested over 364 days</b>		
Internal Team	40	0
External Manager	30	0

C10. The maturity profile was within the limits set in the Treasury Strategy.

<b>Prudential Indicator</b>	<b>2013/14 Upper Limit</b>	<b>2013/14 Actual</b>
	<b>%</b>	<b>%</b>
<b>Maturity Structure of External Borrowing</b>		
Under 12 months	15	1
12 months & within 24 months	15	3
24 months & within 5 years	45	5
5 years & within 10 years	75	7
10 years & above	100	84

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## **RISK & INSURANCE ANNUAL REPORT 2014**

**Responsible Officer** Angela Beechey  
e-mail: [Angela.beechey@shropshire.gov.uk](mailto:Angela.beechey@shropshire.gov.uk)

### **1. Summary**

- 1.1 This report sets out the challenges and achievements accomplished by the Risk Management Team during 2013/2014 which has again seen an intense and varied workload and a restructure of the team following the loss of three staff through voluntary redundancy.
- 1.2 The team continues to strive to ensure that Shropshire Council embeds opportunity risk management practices throughout all service areas and this is recognised by the reputation held by Shropshire Council within the risk and insurance market.

### **2. Recommendations**

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

## **REPORT**

### **3. Risk Management and Opportunities Appraisal**

- 3.1 The management of risk is a key process which underpins the successful achievement of our priorities and outcomes. It forms part of the Annual Governance Statement and the Risk Management Team ensures that processes and protocols are established and embedded which support effective decision making.
- 3.2 Insurance is an effective method of risk transfer and a balance of self insurance and third party insurance is undertaken at the council based on our risk appetite.

### **4. Financial Implications**

- 4.1 Failure to effectively manage the risks associated with meeting the on-going and additional austerity measures will potentially leave the Council exposed to external challenge and financial ramifications.
- 4.2 Through the purchase of an insurance policy the large financial risks are transferred.

### **5. Background**

- 5.1 This year saw the Audit Team undertake an audit of risk management and we are pleased to confirm that the final report identified the assurance level as **“Good”** and there were no recommendations.

5.2 The Opportunity Risk Management Strategy, which supports our rapidly changing environment, has now been fully embedded by the Risk Management Team. As a council we need to ensure that we are taking advantage of every opportunity possible and the strategy is therefore outcome based and focuses on the achievement of our key priorities, objectives and benefits realisation.

5.3 This year also saw the end of our five year insurance contract and an OJEU procurement was undertaken to enable a new insurance contract to be awarded.

## **6. Additional Information – Risk Management**

### **6.1 Business Planning**

6.1.1 Throughout September 2013 we supported the business planning workshops. Each Directorate identified key areas for improvement, focus and priority for delivery of savings targets and spent one week intensively looking at end to end processes in these priority areas to see where duplication and wastage was occurring. Members of the Risk Management Team sat in on each of the four weeks intense workshops to identify key strategic opportunities and high level risks.

6.1.2 At the end of each week, the Risk Management Team provided a list of the overarching opportunities for change which were displayed. As each new opportunity was identified, the associated risks were also being captured and recorded. By the end of the four weeks a briefing note was provided to the Senior Management Team identifying the key opportunities and the associated risks, initially RAG rated for ease.

6.1.3 Each Directorate drafted a business plan following the workshops which were forwarded to the Risk Management Team. We cross referenced each business activity to the identified opportunities to ensure they had been considered consistently and ensured that all risks associated with these had mitigating controls applied.

6.1.4 We also went one step further and linked all outcomes within the business plan Summary Plan of Action to the mitigation of our strategic risks. This ensured that our strategic risk exposure was not being compromised and also that the business plans supported the mitigation of these. Furthermore, all our strategic risks are linked (where applicable) to the Annual Governance Statement Action Plan Points. By linking all three processes together in this way we have developed a holistic and joined up risk universe.

### **6.2 Business Continuity Management**

6.2.1 The Business Continuity Management arrangements have been reviewed following the impact of Voluntary Redundancy on response team members. In order to test the review, Exercise Birdwatch was undertaken jointly with the Emergency Planning Unit.

6.2.2 The scenario was an avian influenza pandemic and because of the nature of the scenario, we took the opportunity to test mobile and remote working

practices. An immediate hot debrief took place following the exercise and an action plan has been developed to take forward required amendments to arrangements.

6.2.3 This year has also seen us, jointly with the Emergency Planning Unit; engage with the Primary and Secondary Headteacher Central Policy Group (CPG) to develop a comprehensive procedure for taking business continuity arrangements forward in schools. This work is in its infancy but we will be supporting a CPG task and finish group in finalising our templates and for the rolling out to schools with an appropriate training package.

### 6.3 Opportunity Risk Management Strategy

6.3.1 Apart from supporting continued use of the strategy internally, this year has seen the strategy shared nationally and we were asked to present it again at the Alarm Learning & Development National Forum and also at Alarm regional forums.

6.3.2 As a result of these presentations and an article in the Public Risk Management Magazine (**Appendix A**) we have taken enquiries from many different public sectors bodies including:

Southend County Council	Worcestershire County Council
Castle Point Borough Council	Mendip Borough Council
South Essex Homes	Nottingham City Council
Wirral County Council	Cumbria County Council
Nuneaton & Bedford Borough Council	Lincolnshire County Council
Jephson Housing Association Group	CIPFA

### 6.4 Strategic Risks

6.4.1 Our strategic risks are reviewed on a monthly basis ensuring that the level of risk exposure is monitored closely in our rapidly changing environment.

6.4.2 Each key officer, senior manager and director is met with monthly to review and update the strategic risk exposure. A meeting is also held with the chief executive who reviews his own risks as well as all of the other strategic risks and finally the review and update is shared with the portfolio holder for Resources & Support.

6.4.3 All additional controls have implementation dates and assigned officers to implement these controls. Follow ups take place with these officers as part of the monthly review.

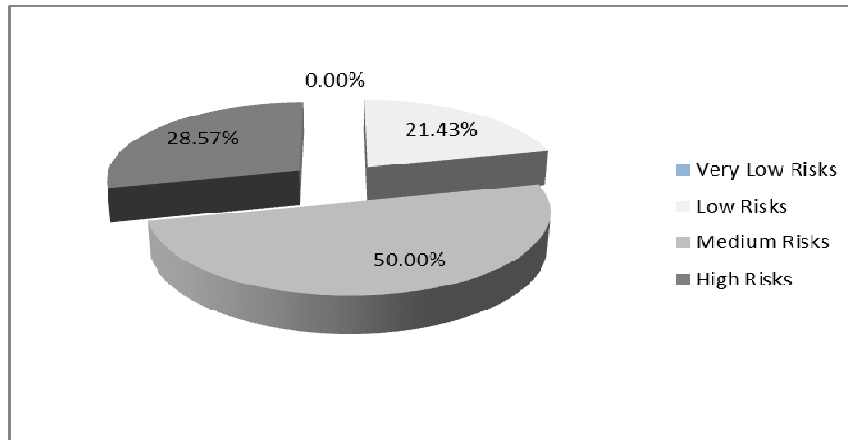
6.4.4 Following the review a report is submitted to the informal Directors and Cabinet meeting for discussion. Attendance at these meetings is also undertaken by the Risk Management team to discuss specific risk exposures.

6.4.5 Furthermore, all relevant strategic risks have been linked to the Annual Governance Statement Action Plan points. This demonstrates that we are managing these Action Points at a strategic level.

6.4.6 All medium and high risks are considered above our tolerance levels. This does not mean to say that they are unacceptable but that the monitoring of

risks at this level will be closely carried out to ensure that the council is not exposed.

6.4.7 The following diagrams demonstrate our current overall strategic risk exposure:-



## 6.5 Operational Risks

6.5.1 Operational risks continue to be maintained and managed within the PerformancePlus system and are modified directly into the system by risk owners. All risk owners attended training to review and update their risks directly.

6.5.2 Historically operational risks were updated on an annual basis or when any significant change took place. When we first utilised the PerformancePlus system we changed this to a monthly basis in line with other risk management practices. However, as there is less change to operational risks, this has now been changed to a review on a quarterly basis, or when any significant change takes place.

## 6.6 Board to Board

6.6.1 A joint risk register has been developed collaboratively with the Clinical Commissioning Group (CCG) to support the collaborative working and collective approach to the pressures and challenges facing both the NHS and local authority. The risk register is reviewed and updated by Shropshire Council officers during the strategic risk review and is then forwarded to the CCG for review and update.

## 6.7 STEP/ Commissioning

6.7.1 During the year the risk team have been involved in the STEP transition projects for services moving into ip&e. Working closely with the Programme Management team (now part of ip&e Ltd) ensuring that all change activity takes correct account of all risks and opportunities, following the Council's agreed Opportunity Risk Management Strategy in accordance with the Strategic Contract.

6.7.2 As part of this work we have been involved in supporting the development of the future commissioning process with the Director of Commissioning.

## 6.8 Audit Team Collaborative Working

6.8.1 We continue to work closely and collaboratively with Audit Team colleagues, supporting the undertaking of the risk based audit plan meetings on an annual basis with the Audit Services Manager. This ensures that the process is cross referenced with our strategic and business plan objectives and risk exposure.

## 7. **Additional Information – Insurance**

7.0.1 We received 418 claims against 2013/2014 policy year, a reduction of 24% compared to the previous year. This is mainly due to the reduction in the number of Public Liability claims notified (down from 431 to 322) as a result of a much milder winter and a reduction in Motor claims notified (down from 84 to 52) as a result of the outsourcing of various services and the Highways contract that now sees our Contractor insure the vehicles.

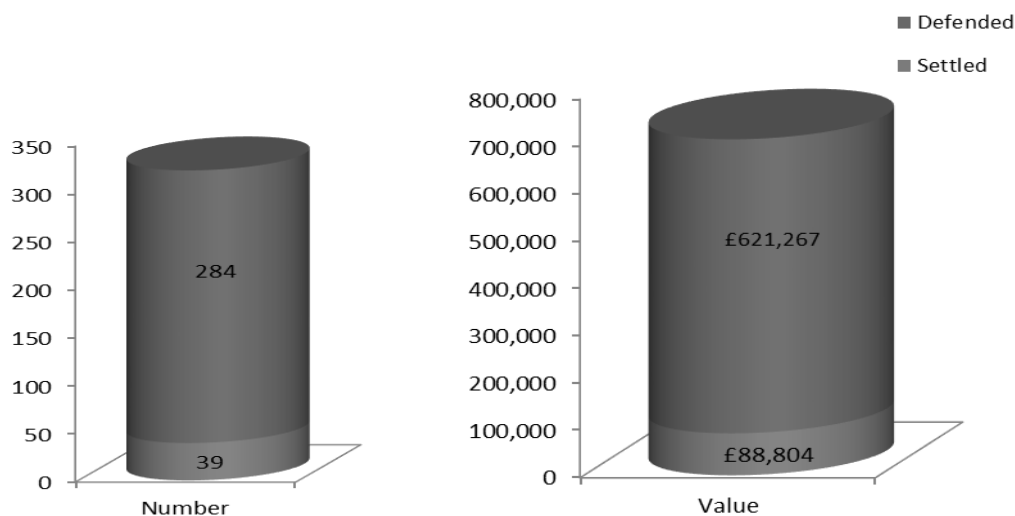
7.0.2 It is pleasing to note that our repudiation rate for liability claims remains very good, and at 87.9% this is well above the industry average of 79.7%, whilst for Highways (which is the area we see the majority of our claims) our repudiation rate is 90.9% - again this is above the industry average of 84.2%. The average payment for Highways related Public Liability claims is just £1,241 compared to an industry average of £5,208.

7.0.3 The good work carried out by Shropshire Council staff is again proven by the cost we could have incurred if repudiated claims had been paid. In 2013/2014 savings of £621,267 were achieved against defended Liability claims. Over the last three year period, these savings amount to almost £4.2m.

### 7.1 Liability Claims

7.1.1 Of the 334 liability claims received, a liability decision has been reached on 323 claims. Of these 323 claims, 284 have been repudiated (87.9%). By having a defence against these claims, we are expecting to save approximately £621k based on the estimated value of these cases.

### **Illustration 1 - Comparison of those claims accepted and those defended**

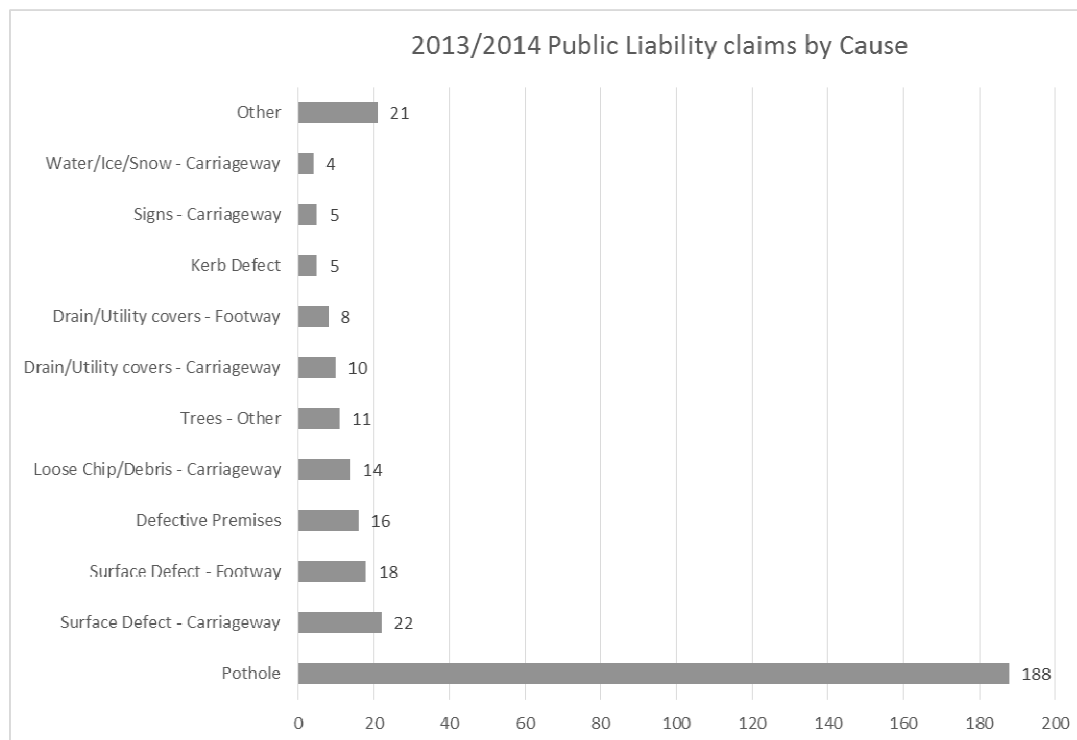


## 7.2 Public Liability claims

7.2.1 Of the 2013/2014 PL claims, 87.3% arose through Highways Maintenance incidents and the majority of these claims (188) were as a result of potholes on the carriageway.

7.2.2 The current repudiation rate for Highways Maintenance claims is 90.9% and we have achieved savings of almost £0.5m in defending these claims. The main reason that we are able to successfully defend claims is because we have a Section 58 defence under the Highways Act - we can demonstrate that we have an adequate system of inspection in place, or we had no knowledge of the defect prior to the incident (but took action as soon as we were put on notice). 25 of the Highways claims against the 2013/2014 policy year have been settled, with total payments being made of £31k.

### Illustration 2 – Public Liability claims - by Cause



## 7.3 Employers Liability claims

7.3.1 We continue to receive a low number of Employers' Liability claims, down from 15 to 5 claims for the year and compared to the industry average of 7.9 per 1000 FTE, we receive less than this at 5.3 per 1000 FTE. However it should be noted that EL claims often take a number of years to be received and there is the potential for an increase on the claims against 2013/2014 in the future.

7.3.2 Of the 2013/2014 EL claims, two relate to schools, one to each of Safeguarding, Shire Services and Business Growth & Prosperity. Three of the claims relate to manual handling, whilst one is for a fall and the final one for an alleged assault at a school.



#### 7.4 Other Liability claims

7.4.1 During 2013/2014 we registered the first Professional Indemnity claim since becoming a unitary authority although a formal letter of claim is still awaited from the claimant.

7.4.2 We have received six Officials Indemnity (OI) claims, one of which is currently under investigation whilst the other five have been repudiated. Whilst the number of OI claims has increased slightly, it is worth noting that we have not paid out on a single OI claim in the past three policy years.

#### 7.5 Motor claims

7.5.1 During 2013/2014 we received a total of 52 motor claims, a significant reduction on the two previous years. The main reason for this is the outsourcing of various Services such as West Mercia Supplies and Street Scene.

7.5.2 The majority of motor claims handled involve our own vehicle only (no Third Party involvement). These claims make up 71% of all motor claims received in 2013/2014. Fortunately, of the 15 claims involving a Third Party none involved any injury and have therefore been of a relatively low value. The main reason for motor claims (accounting for 38.5% of those received in 2013/2014) relate to misjudgement/manoeuvring with the number of this type of claim remaining stable despite the overall reduction in claim numbers and fleet size.

#### 7.6 Property claims

7.6.1 During 2013/2014 we received a total of 32 Property claims, more than double the amount received in the previous two years. The main reason for this is due to the storm conditions that hit Shropshire in February 2014. This resulted in extensive damage across the county – with numerous trees down and roofs blown off.

7.6.2 The total cost of the storm claims is expected to be £63k. As our property policy is based on a per occurrence basis, although the storms happened over a few days the insurance company have classified this as one event and only one policy excess will be applied.

#### 7.7 Current exposure

7.7.1 We currently have 458 open claims with reserves of £5.4m attached. Whilst this report so far has focused on claims against the 2013/2014 policy year, it is important to remember that claims can continue to be received against old policy years – we have had a number of claims going back as far as the early 1970's. These normally relate to Employers Liability claims as shown below. We currently have open 36 Employers Liability claims, of which ten are disease related claims with reserves of £124k. Seven are for noise related injuries and three for vibration white finger.

**Illustration 3 – Open claims by Policy Year**

Employer's Liability	Number of Claims	Value £
1973/1974	5	63,000
1979/1980	2	21,940
1987/1988	1	23,000
2000/2001	1	3,000
2009/2010	2	76,150
2010/2011	6	251,713
2011/2012	5	123,280
2012/2013	8	668,895
2013/2014	5	46,834
1989/1990	1	13,000
	<b>36</b>	<b>1,290,813</b>

7.7.2 The majority of claims received are of a low value with 47% (215 claims) being valued at less than £1,000. This is because the majority of claims we receive relate to vehicle damage caused by the highway conditions. A further 45% (208 claims) are valued between £1,000 and £25,000. Whilst 47% of the number of claims are valued under £1,000, the combined value of these claims (£57k) represents just 1% of the overall reserve.

7.7.3 We have just seven claims that are valued above £100,000 – the combined reserves of these claims being £2.45m. Liability is denied against all seven claims. One of these claims, with a value of £375k was successful at Court and we are in the process of recovering our costs.

**Illustration 4 - By detailed status**

By Service Area	No.	Value (£)
Repudiated	328	4,154,547
Liability Accepted	99	847,882
Under Investigation	31	365,259
Grand Total	458	5,367,689

7.7.4 Of the 458 claims open, 71.6% have been repudiated (328 claims) and as such the £4.2m reserved against these claims is not likely to be paid. Of course there will be dispute over this which will result in legal action (and increased costs in some areas). 31 claims remain under investigation at present and 99 claims have been accepted and we are negotiating settlement. The value of the accepted claims is approximately £0.8m.

**7.8 MMI Clawback**

7.8.1 Following recent Court action which saw Municipal Mutual Insurance (our previous Insurer's) lose, it has meant that the company can no longer foresee a solvent run off and as such they have triggered the Scheme of Arrangement to which Shropshire Council is party (having taken over the liabilities of the former County, District and Borough Councils). This has resulted in a levy charge being applied to any payment MMI have made since the Scheme was put in place in 1993.

7.8.2 A levy of 15% was applied to creditors in early 2014 which meant Shropshire Council (as one of over 700 Scheme Creditors) had to arrange to make a payment to MMI based on claims that had been paid since the Scheme came into effect – the payment made by Shropshire Council was £834k.

7.8.3 In addition to this, going forward MMI will apply a 15% reduction against any claim payments made – the 15% will have to be funded from Council funds. Therefore if we see an increase in disease type claims, we can also expect to see an increase in the payments being made from the Internal Insurance Fund. Under the terms of the Scheme of Arrangement, a further levy may be applied going forward if necessary.

7.8.4 As the MMI years relate to the old Shropshire County days before the Telford & Wrekin split, the above payments are split between Shropshire Council and Telford & Wrekin.

## 7.9 Insurance Contract

7.9.1 March 2014 saw the end of the five year long term contract with RMP and therefore an OJEU procurement process was undertaken to award the next insurance contract.

7.9.2 The insurance team took this opportunity to carry out a detailed review of the insurance portfolio to establish the optimum levels of indemnity required and the appropriate policy deductibles. Following this review it was decided that we should increase the level of the liability deductible from £100,000 to £250,000 and the property deductible from £100,000 to £500,000. The liability limits of indemnity were also reduced from £50,000,000 to £30,000,000. This was based on an analysis of claims payments and premiums to achieve the optimum level.

7.9.2 There are a very limited number of insurance companies that quote for public sector business (only four main players) and on this occasion only two companies quoted for the majority of the insurance policies required. The change in the limits of indemnity and deductibles gave a reduction in the premium charged by the insurers, but the savings have been retained in the insurance fund to reflect the increased liability to the fund because of the increased deductibles.

7.9.3 The contract was awarded to RMP with the property insurance being underwritten by AIG and the liability insurance underwritten by QBE.

## 7.10 Other Policies

7.10.1 In addition to Shropshire Council, the insurance policy is also in the names of ip&e Ltd, ip&e Trading and STAR Housing. Therefore these companies are covered under the same policy and conditions as Shropshire Council.

7.10.2 The Insurance Team supports and advises the above companies.

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

Annual Governance Statement

Risk Management Audit Report 2014

Insurance Audit Report 2014

Opportunity Risk Management Strategy

Business Continuity Management Policy

Business Continuity Plan

Insurance Annual Report 2014

**Cabinet Member**

Mike Owen, Portfolio Holder Resources & Support

**Local Member**

N/A

**Appendices**

Appendix A Public Risk Management Article

Following the success of the Opportunity Risk Management Strategy's implementation, a risk led approach is now implemented for all key projects, programmes of work and is also adopted for major undertakings and public events at Shropshire Council. The importance of integrating opportunity risk management techniques in decision-making and planning processes was recognised and acknowledged at senior levels at the Council, as was the need to raise general awareness and understanding of risk. The new strategy for Opportunity Risk Management set out how the Council intended to do this and the process for moving forward. The Leader of the Council, Council Members, Chief Executive and Senior Management Team were fully committed to the strategy and saw it as part of the Council's responsibility to deliver excellent public services.

Angela Beechey explains: "For us, successful opportunity risk management was about ensuring we had the correct level of control to provide sufficient protection from risks, without stifling our opportunities for development. The strategy set out a completely different approach by identifying and prioritising our opportunities in the first instance, then identifying and managing the associated risks which could prevent our achievement of these".

A fertile climate for innovation is required

to embed a strategy in the Council's operations, and to enable the management of opportunity risk. Awareness of the constraints should not stop people coming up with ideas and putting them forward. "One of the key messages we give staff is to identify all opportunities for development and prioritise them on the opportunity matrix. We can look at the associated risks and undertake the same analysis and then weigh up the feasibility of going ahead with the opportunity. At no point is any opportunity disregarded until the level of risk associated with its delivery far outweighs the potential benefit," explains Jane Cooper, the primary trainer of the strategy.

#### Strategic thinking

The stages involved in the Opportunity Risk Management Process are defined as 'Decide', 'Develop' and 'Deliver'.

- **Decide** – set the strategic aims and the business objectives, and identify the opportunities that can be achieved from these objectives.
- **Develop** – plan projects, appraise options and identify key risks.
- **Deliver** – deliver the aims and the detailed risk registers that accompany any project.

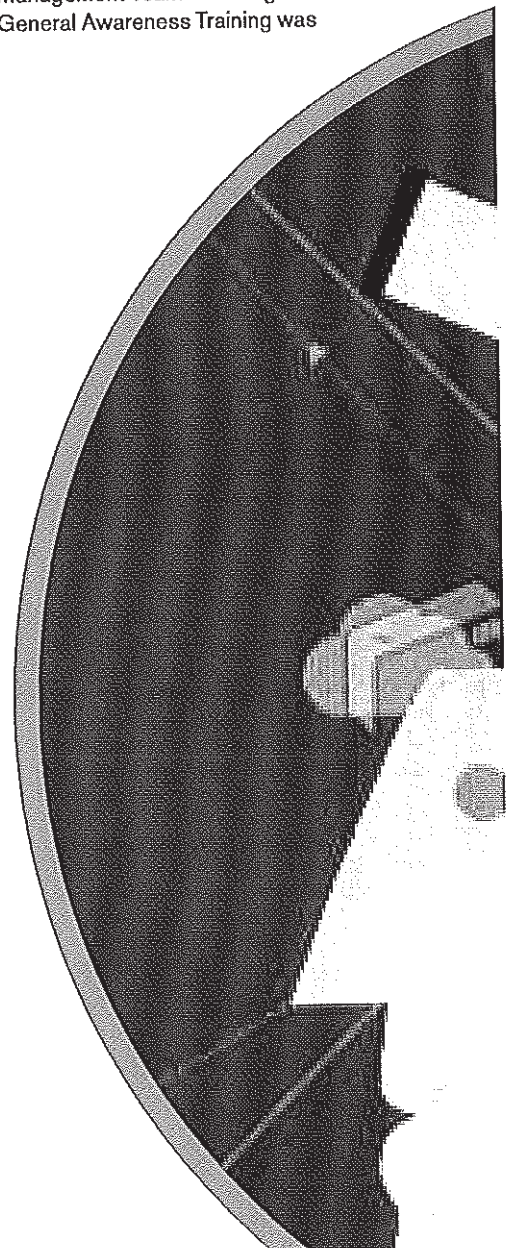
Two actions were required to embed the strategy. One was to amend the standard report template and raise general awareness. The report template

was modified to include, on the front page of every report, an opportunity risk management appraisal. Risk management is about everything and anything the Council might realistically be challenged on, including the failure to take the action or the opportunity proposed. The author of the report highlights the detail of the opportunity(ies) and details the associated risks. "This section of the report can only be completed following a detailed analysis of the opportunity and the associated risks and what mitigation can be undertaken (informed from the detailed opportunity and risk registers). This enables senior management, Cabinet and Council to make effective informed decisions", says Angela.

The second action was to raise awareness of opportunity risk management through the development of training programmes. These were developed, facilitated and delivered by the Risk Management Team. "The regular General Awareness Training was

# Opportunity gazing

*During a time of uncertainty and change, Shropshire Council started a major transformation programme. To support this Angela Beechey, Risk Management Team Leader and Alarm Board Member, and Jane Cooper, Risk Management Officer, review their approach and launched the Opportunity Risk Management Strategy was born. In response to their inspiring workshop at the Alarm Forum, here they outline the development process.*



modified and extended to include practical exercises in the development and completion of opportunity and risk registers. This was rolled out to any member of staff, senior manager or officer who had involvement in projects, programmes of work or operational and strategic risk management," explains Jane.

A Member training programme was also developed based largely on the general awareness training for managers and officers. "This on-going programme provides Members with an understanding of the process that is undertaken prior to the completion of reports. It leaves them with a heightened awareness of the role and benefits that opportunity risk management plays within the Council and demonstrates how it can be used to realise our opportunities, support initiatives, improve performance and achieve the

Council's key priorities. This deepened and detailed understanding of the methodology enables Members to apply these principles of opportunity risk management to their own effective decision-making," says Jane.

### Strategy success

Recent undertakings include the successful transition of the Public Health function to Local Authority control, the foundation of a transformation programme for Adult Social Care, plus the development of the new delivery model for Shropshire Council and the on-going transfer of services into it. The approach has been successful in supporting the

application for funding to support the restoration and preservation of the Flax Mill Maltings (the first iron framed building constructed in the world) and its on-going project management.

During 2012 Shropshire Council and partners hosted a pageant for the Queen's Diamond Jubilee at RAF Cosford. Says Jane: "As the lead Authority it was crucial that the management of the event and associated risks were tightly controlled and justified. We also hosted the Olympic Torch Relay twice through Shropshire during 2012 and again the strategy was used to support the event. In such public arenas it is critical reputationally that the tangible benefits to effective and robust risk management are evidenced and demonstrated".

All of the undertakings were started with an Opportunity Risk Management Workshop. This often included input from external stakeholders and partners. These workshops are the foundation stones for setting the risk appetite and subsequent management of the project, programme of work or event. They are invaluable for forming robust dialogue, consistent approaches and effective management of the opportunity and associated risks, in developing the governance arrangements and on-going exception reporting.

"Opportunity Risk Management is a process where the benefits are tangible. The key is to ensure the management of the related risks is not dealt with in isolation, but is embedded in every piece of work the Council does. Opportunities will be risk assessed and will therefore be more likely to succeed as the risks are identified and controlled at an early stage. All stakeholders and Members will benefit through having the confidence that projects and programmes of work and their associated risks, have been considered properly and that Council's resources are being applied realistically and proportionately," concludes Angela. ●



The Council's Members and senior management team supported and endorsed the work of the risk management team in embedding an opportunity risk management culture across all levels of the Council's operations.

Angela Beechey (angela.beechey@shropshire.gov.uk) Risk Team Manager at Shropshire Council and Alarm Board Director, and Jane Cooper (jane.cooper@shropshire.gov.uk) Risk Management Officer at Shropshire Council are willing to share their learnings on Opportunity Risk Management with Alarm members.



## Committee and Date

Audit Committee

18<sup>th</sup> September 2014

9:30 am

## **INTERNAL AUDIT PLAN 2014/15 - PERFORMANCE REPORT**

**Responsible Officer** Ceri Pilawski

e-mail: [ceri.pilawski@shropshire.gov.uk](mailto:ceri.pilawski@shropshire.gov.uk) Telephone: 01743 252027

### **1. Summary**

- 1.1 This report proposes refinement of and revisions to the Internal Audit Plan which was presented as a draft in March 2014 amounting to 2,060 days. The new plan will provide 2,167 days across the Council's services and our external clients. Since March there have been a number of changes to the risks that the Council faces and as such the areas requiring assurances from Internal Audit, in addition team resources have experienced a period of long term sickness and successfully recruited to the two Auditor vacancies with employees starting mid-August and early September. These changes have necessitated revisions to the draft plan presented to Committee in March 2014 which have been discussed with and agreed by the Section 151 Officer.
- 1.2 This report provides members with details of the work undertaken by Internal Audit for the period 1<sup>st</sup> April to 17<sup>th</sup> August 2014 summarising progress against the Internal Audit Plan. Whilst it has been a challenging start to the year, 28% of the revised plan has been completed which is just below previous delivery records, but it is hoped to be in line with the target of 90% by year end.
- 1.3 Twenty five good and reasonable assurances, one unsatisfactory and 11 limited assurance opinions were issued. The 37 final reports contained 413 recommendations. One fundamental recommendation has been identified.

### **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 A**.

## **REPORT**

### **3. Risk Assessment and Opportunities Appraisal**

- 3.1 The delivery of a risk based Internal Audit Plan is an essential part of ensuring probity and soundness of the Council's financial and risk management systems and procedures and is closely aligned to the Council's strategic and operational risk

registers. The Plan is delivered in an effective manner; where Internal Audit independently and objectively examines, evaluates and reports on the adequacy of its customers control environments as a contribution to the proper, economic, efficient and effective use of resources. It provides assurances on the internal control systems, by identifying areas for improvement or potential weaknesses and engaging with management to address these in respect of current systems and during system design. Failure to maintain a robust internal control environment can lead to poor performance, fraud, irregularity and inefficiency going undetected leading to financial loss and reputational damage.

- 3.2 Areas to be audited have been identified following a risk assessment process which has considered the Council's risk register information and involved discussions with managers around their key risks.
- 3.3 Provision of the Internal Audit Annual Plan satisfies the Accounts and Audit Regulations 2011, part 2, section 6 in relation to internal audit which state: 'A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.'
- 3.4 'Proper practices' can be demonstrated through compliance with the Public Sector Internal Audit Standards (PSIAS).
- 3.5 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2011.
- 3.6 There are no direct environmental, equalities or climate change consequences of this proposal.

#### **4. Financial Implications**

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

#### **5. Background**

- 5.1 The draft 2014/15 audit plan was presented and approved by members at the 27 March Audit Committee with the caveat that some minor adjustments may be necessary before the plan was finalised. Since March the team has experienced a period of long term sickness and successfully appointed two auditors.
- 5.2 Part of the internal audit plan is being provided by external providers through Staffordshire County Council's framework contract for internal audit. Four companies have successfully been appointed to the framework and following a mini-tendering exercise the team is purchasing both general and IT audit days from the external providers.
- 5.3 This report summarises the work of the Internal Audit team up to the 17<sup>th</sup> August 2014. As reported previously, the team has experienced a number of staff changes



coupled with continuing high levels of unplanned work against a background of major changes and fluidity to Council services. This requires a more responsive approach to risk management and audit activity, culminating in necessary changes to the plan.

### Audit Work and Findings

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

<b>Good</b>	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.
<b>Reasonable</b>	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.
<b>Limited</b>	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.
<b>Unsatisfactory</b>	Evaluation and testing of the controls that are in place identified that the system of control is weak and there is evidence of non-compliance with the controls that do exist. This exposes the Council to high risks that should have been managed.

5.5 In total 37 final reports to Shropshire Council have been issued in just under five months of 2014/15, the breakdown of which appears in the table below. Internal Audit have also issued five reports to our external clients and drawn up the financial statements and completed the audits of five school and other honorary and voluntary body accounts. In addition 16 audit reports have been issued in draft for which we are awaiting management comments.

### Audit assurance opinions delivered to August 2014/15

Directorate	Good	Reasonable	Limited	Unsatisfactory	Total
Chief Executive	0	0	0	0	0
Adult Services	4	5	2	0	11
Commissioning	0	3	0	0	3
Children's Services	2	5	5	0	12
Public Health	0	0	0	0	0
Commercial Services	0	0	0	0	0
Customer Involvement	0	1	1	1	3
Finance, Governance and Assurance	1	3	1	0	5
Human Resources	0	0	1	0	1

Directorate	Good	Reasonable	Limited	Unsatisfactory	Total
Legal, Strategy and Democratic	0	1	1	0	2
<b>Total for the period</b>					
• <b>Numbers</b>	<b>7</b>	<b>18</b>	<b>11</b>	<b>1</b>	<b>37</b>
• <b>percentage</b>	<b>19%</b>	<b>48%</b>	<b>30%</b>	<b>3%</b>	<b>100</b>
<b>Total 2013/14</b>	<b>30%</b>	<b>45%</b>	<b>15%</b>	<b>10%</b>	<b>100</b>
<b>Total 2012/13</b>	<b>31%</b>	<b>56%</b>	<b>12%</b>	<b>1%</b>	<b>100</b>

5.6 Twenty five good and reasonable assurances were made up to the 17<sup>th</sup> August 2014. One unsatisfactory opinion was given on Lotus Notes Decommissioning, following which managers have agreed to implement robust project management processes at a Council wide level (i.e. not just Lotus decommissioning) to ensure there is a structured approach to systems decommissioning; identify the resources required, the time scales involved, prioritisation of systems and tasks, risks and contingencies.

5.7 Eleven limited opinions were issued in the following areas:

**Adult Services**

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

**Children’s Services**

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

**Customer Involvement**

- Patch Management

**Finance, Governance and Assurance**

- Purchase Ledger (2013/14)

**Human Resources**

- Payroll System (2013/14)

**Legal, Strategy and Democratic**

- Contract Audit (2013/14).

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

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

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

5.10 A total of 413 recommendations have been made in the 37 final audit reports issued by the 17<sup>th</sup> August 2014; these are broken down by area in the table below.

**Audit recommendations made in the period to 31 August 2014/15**

Audit Area	No. of Recommendations made				
	Best Practice	Requires Attention	Significant	Fundamental	Total
Chief Executive	0	0	0	0	0
Adult Services	2	34	24	0	60
Commissioning	0	20	5	0	25
Children's Services	4	125	72	0	201
Public Health	0	0	0	0	0
Commercial Services	0	0	0	0	0
Customer Involvement	0	5	15	1	21
Finance, Governance and Assurance	5	39	19	0	63
Human Resources	0	10	18	0	28
Legal, Strategy and Democratic	0	4	11	0	15
<b>Total for the period</b>					
• <b>numbers</b>	<b>11</b>	<b>237</b>	<b>164</b>	<b>1</b>	<b>413</b>
• <b>percentage</b>	<b>3%</b>	<b>57%</b>	<b>40%</b>	<b>0</b>	<b>100</b>
Total 2013/14	15%	57%	27%	1%	100
Total 2012/13	23%	57%	20%	0%	100

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

5.12 One fundamental recommendation has been agreed with managers as part of the Lotus Notes Decommissioning audit which is detailed in paragraph 5.6 of this report.

**Performance against the plan**

5.13 The draft internal audit plan was presented to Audit Committee in March 2014 with the caveat that some adjustments may be necessary which would be agreed by the Section 151 Officer and reported back to committee. There have been several changes to audit resources and areas to be audited since the original plan was

drafted, the opportunity has been taken to revisit the plan in the light of these changes and the audit work performed in the first part of the year.

5.14 Since March 2014, internal resources have been reduced following the long term illness of one of our auditors and we have managed to recruit successfully to two auditor posts, both posts will be in place for the start of September. As support, a number of additional audits have been purchased from our external contractors to deliver reviews in specialist areas. Unplanned work is a little above average and special investigation work is showing reduced demand in the early months. In a number of potential investigation cases, the team has been able to provide data and information to other officers to review potential situations therefore minimising audits input. Transformation work is running higher than previous years but no adjustment has been made at this time, projects include the transfer of services to external providers, new electronic systems and establishing controls as processes are designed. We will continue to closely monitor the situation and it is probable that we will have to revisit these contingencies later in the year to make further revisions to the plan to accommodate additional unforeseen work.

5.15 The team has achieved 28% of the revised plan by the 17<sup>th</sup> August 2014 which is just below previous delivery records, but it is hoped to be in line with the target to deliver 90% by year end. Performance to date is summarised in the following table. **Appendix A** provides a more detailed summary by Directorate and Service.

**Summary of audit days delivered and revisions to the audit plan 17 August 2014**

	Original Plan	August Revision	Revised Plan	Days Worked	% of Revised Complete
Chief Executive	18	0	18	11.2	62%
Adult Services	113	8	121	37.5	31%
Commissioning	104	16	120	10.5	9%
Children's Services	245	42	287	89.6	31%
Public Health	30	-5	25	6.5	26%
Resources and Support	636	35	671	100.8	15%
<b>S151 Planned Audit</b>	<b>1,146</b>	<b>96</b>	<b>1,242</b>	<b>256.1</b>	<b>21%</b>
Contingencies and other chargeable work	649	9	658	269.0	41%
<b>Total S151 Audit</b>	<b>1,795</b>	<b>105</b>	<b>1,900</b>	<b>525.1</b>	<b>28%</b>
External Clients	265	2	267	79.2	30%
<b>Total</b>	<b>2,060</b>	<b>107</b>	<b>2,167</b>	<b>604.3</b>	<b>28%</b>

5.16 Work for our external clients is progressing as scheduled and should be largely complete by Christmas leaving the remaining quarter to concentrate on Shropshire Council's audit plan.

5.17

**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  
 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: Audit Plan by Group and Service

## APPENDIX A

## AUDIT PLAN BY GROUP AND SERVICE – PERFORMANCE REPORT TO AUGUST 2014/15

	Original Plan Days	August Revision	Revised Plan Days	Aug 17 Actual	% of Revised Complete
<b>CHIEF EXECUTIVE</b>					
<b>Governance</b>	<b>18</b>	<b>0</b>	<b>18</b>	<b>11.2</b>	<b>62%</b>
<b>ADULT SERVICES</b>					
Provider Services - Comforts Funds	8	0	8	2.9	36%
Provider Services - Establishments	6	0	6	6.3	105%
Provider Services - Group Homes	8	1	9	6.4	71%
Provider Services - Trading Accounts	2	3	5	4.8	96%
Development Support	8	0	8	0.0	0%
Long Term Support	81	4	85	17.1	20%
<b>ADULT SERVICES</b>	<b>113</b>	<b>8</b>	<b>121</b>	<b>37.5</b>	<b>31%</b>
<b>COMMISSIONING</b>					
Waste Services	10	0	10	0.1	1%
Business & Enterprise	10	0	10	0.0	0%
Highways & Transport	14	16	30	0.6	2%
Development Management	9	6	15	0.3	2%
Visitor Economy	5	0	5	0.0	0%
Environmental Health	5	0	5	0.0	0%
Housing Services	51	-6	45	9.5	21%
<b>COMMISSIONING</b>	<b>104</b>	<b>16</b>	<b>120</b>	<b>10.5</b>	<b>9%</b>
<b>CHILDREN'S SERVICES</b>					
Assessment & Looked After Children	0	10	10	4.4	44%
Children's Placement and Joint Adoption	27	-5	22	2.5	11%
Business Support	22	0	22	1.3	6%
Children's Placement and Joint Adoption	15	0	15	0.0	0%
Education Improvements	31	14	45	9.5	21%
Primary/Special Schools	115	5	120	46.4	39%
Secondary Schools	35	18	53	25.5	48%
<b>CHILDREN'S SERVICES</b>	<b>245</b>	<b>42</b>	<b>287</b>	<b>89.6</b>	<b>31%</b>
<b>PUBLIC HEALTH</b>	<b>30</b>	<b>-5</b>	<b>25</b>	<b>6.5</b>	<b>26%</b>
<b>RESOURCES AND SUPPORT</b>					
<b>Commercial Services</b>					
Estates & Facilities	5	0	5	4.5	90%
Property Services	25	1	26	0.6	2%
Shire Services	8	0	8	0.4	5%

	Original Plan Days	August Revision	Revised Plan Days	Aug 17 Actual	% of Revised Complete
	<b>38</b>	<b>1</b>	<b>39</b>	<b>5.5</b>	<b>14%</b>
<b>Customer Involvement</b>					
Benefits	30	-7	23	1.7	7%
Customer Services	12	1	13	9.0	69%
ICT Implementation & Architecture	45	5	50	1.3	3%
ICT Operations	128	12	140	22.8	16%
	<b>215</b>	<b>11</b>	<b>226</b>	<b>34.8</b>	<b>15%</b>
<b>Finance Governance &amp; Assurance</b>					
Finance Transactions	63	0	63	0.5	1%
Financial Advice (S.151)	69	-10	59	8.7	15%
Financial Management	73	24	97	17.0	18%
Procurement	40	0	40	11.9	30%
Revenues	40	0	40	0.9	2%
Risk Management and Business Continuity	5	0	5	0.0	0%
Treasury	16	0	16	0.7	4%
	<b>306</b>	<b>14</b>	<b>320</b>	<b>39.7</b>	<b>12%</b>
<b>Human Resources</b>					
Payroll and Human Resources	<b>57</b>	<b>8</b>	<b>65</b>	<b>18.1</b>	<b>28%</b>
<b>Legal, Strategy and Democratic</b>					
Democratic Services	2	0	2	0.0	0%
Election Services	4	0	4	0.0	0%
Information Governance	4	1	5	2.6	52%
Legal Services	10	0	10	0.1	1%
	<b>20</b>	<b>1</b>	<b>21</b>	<b>2.7</b>	<b>13%</b>
<b>RESOURCES AND SUPPORT</b>	<b>636</b>	<b>35</b>	<b>671</b>	<b>100.8</b>	<b>15%</b>
<b>Total Shropshire Council Planned Work</b>	<b>1,146</b>	<b>96</b>	<b>1,242</b>	<b>256.1</b>	<b>21%</b>
<b>CONTINGENCIES</b>					
Advisory Contingency	40	0	40	7.2	18%
Fraud Contingency	200	0	200	66.6	33%
Transformation Projects	100	0	100	58.7	59%
Unplanned Audit Contingency	49	0	49	28.2	58%
Other non audit Chargeable Work	260	9	269	108.3	40%
<b>CONTINGENCIES</b>	<b>649</b>	<b>9</b>	<b>658</b>	<b>269.0</b>	<b>41%</b>
<b>Total for Shropshire</b>	<b>1,795</b>	<b>105</b>	<b>1,900</b>	<b>525.1</b>	<b>28%</b>

	<b>Original Plan Days</b>	<b>August Revision</b>	<b>Revised Plan Days</b>	<b>Aug 17 Actual</b>	<b>% of Revised Complete</b>
<b>EXTERNAL CLIENTS</b>	<b>265</b>	<b>2</b>	<b>267</b>	<b>79.2</b>	<b>30%</b>
<b>Total Chargeable</b>	<b>2,060</b>	<b>107</b>	<b>2,167</b>	<b>604.3</b>	<b>28%</b>





## Committee and Date

Audit Committee

18<sup>th</sup> September 2014

9:30am

## **INTERNAL AUDIT COUNTER FRAUD MANAGEMENT UPDATE**

**Responsible Officer** Katie Williams

e-mail: [Katie.williams@shropshire.gov.uk](mailto:Katie.williams@shropshire.gov.uk) Tel: 01743 252087

### **1 Summary**

This report provides members with an update on Internal Audit's counter fraud activities and current initiatives. These include:

- The Chartered Institute of Public Finance Accountancy (CIPFA's) Code of Practice on managing the risk of fraud and corruption.
- National Fraud Initiative (NFI) the next steps.
- An update on our counter fraud checklist and impact on the current years counter fraud activity.
- Money Laundering Procedure updates.

Internal Audit continue to stay up to date with their counter fraud activity, contributing to consultation requests from CIPFA on the proposed new Code of Practice; preparing to submit data for the NFI exercise, updating the Money Laundering procedures to reflect structural changes within the Council prior to reminding all staff of their responsibilities; and ensuring that the Internal Audit plan provides for focused counter fraud activity following a risk assessment and comparisons against best practice.

This active participation remains a positive and integral part of the Council's commitment to the detection and prevention of fraud. Further updates on these activities will be provided to the Committee as part of Internal Audit's performance reports.

### **2 Recommendations**

Members are asked to consider and endorse with appropriate comment, the content of this report and how the work contributes to the Council's Counter Fraud, Bribery and Anti-Corruption Strategy.

## **REPORT**

### **3 Risk Assessment and Opportunities Appraisal**

- 3.1 The Council has in place an effective Counter Fraud, Bribery and Anti-Corruption Strategy. The Council proactively encourages the identification, prevention,

detection and taking of appropriate action in response to fraud and irregularities and in doing so mitigates these risks.

- 3.2 Participation in counter fraud activities and compliance with best practice helps to strengthen the Council's approach and management of these risks. Working with partners, as demonstrated by the NFI, successfully illustrates the benefit of joined-up working and co-operation between all involved. The national sharing of data allows a number of organisations to effectively identify areas of potential fraud or error, reducing the future risk of such fraud or errors going undetected.
- 3.3 Counter fraud activity and the investigation of any issues ensures that where appropriate any monies lost as a result of identified frauds or errors are recovered and any weaknesses in procedures are addressed to improve the internal control environment and help prevent future fraud or error.
- 3.4 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.

#### **4 Financial Implications**

- 4.1 Delivery of the counter fraud work will be met from existing Internal Audit resources.

#### **5 Background**

##### **The CIPFA's Code of Practice on managing the risk of fraud and corruption**

- 5.1 CIPFA has drafted a Code of Practice on managing the risk of fraud and corruption and has invited comments from interested parties. The code of practice sets out a number of principles and contains five key elements.

To:

- Acknowledge the responsibility of the governing body for countering fraud and corruption;
- Identify the fraud and corruption risks;
- Develop an appropriate counter fraud and corruption strategy;
- Provide resources to implement the strategy; and
- Take action in response to fraud and corruption.

- 5.2 The Code aims to establish common principles for managing the risk of fraud and corruption. The principles provide a set of standards which can be applied in all public bodies, regardless of sector or size. They emphasise the importance of managing the risks of fraud and corruption in order to secure good governance and financial stewardship.
- 5.3 CIPFA has developed the principles working with counter fraud experts in the public services and have sought views from those in counter fraud and audit roles. As part of the Midland Chief Auditors Group and the County Chief Auditors Network, officers from Shropshire have fed into this consultation and await the

refined version of the code. Copies of the draft code can be found at: <http://www.cipfa.org/policy-and-guidance/consultations/code-of-practice-on-counter-fraud>.

- 5.4 Officers will bring a future report to Members once the final code is published.

#### **National Fraud Initiative (NFI) the next steps**

- 5.5 The NFI is an exercise that matches electronic data held within and between public and private sector bodies to prevent and detect fraud. The provision of data for the purposes of NFI is a requirement of the Audit Commission Act 1998 and the output to date has been used by the Audit Commission to help them assess the arrangements that the Council has in place to prevent and detect fraud in accordance with the Code of Audit Practice.
- 5.6 The Council is required by law to participate in the NFI by providing a range of datasets to the Audit Commission for matching. On receipt of the results the Council then has responsibility to follow up and investigate the matches, and identify fraud, overpayment and error. The main NFI data matching is undertaken every two years, the results of these matches is fed into a national report at the end of each cycle. The Council will be submitting data in the present year and matches for review are expected early 2015, members will be informed of the outcomes in future reports.
- 5.7 It should be noted that the NFI will continue following the abolition of the Audit Commission. The Local Audit and Accountability Bill 2013-14 makes provision for the future arrangements for the NFI. The bill transfers the Commission's current data-matching powers to the Secretary of State, who will delegate their operational management to the Cabinet Office's Efficiency and Reform Group when the Audit Commission closes in 2015.

#### **An update on our counter fraud plans**

- 5.8 Members were informed about the teams approach to counter fraud plans in a report to Audit Committee in September 2012. Areas focused on in 2013/14 included looking at the potential for qualification fraud, high overtime and mileage claims and use of pool cars. Outcomes from these have been reported in performance reports to subsequent committees, where findings identified the need for general control improvements and as part of the Fraud and Special Investigation updates where the cases were specific.
- 5.9 In identifying areas for review in the 2014/15 Internal Audit Plan, our approach was informed by assessments against the Audit Commission's Fighting Fraud checklist that was provided as part of their Protecting the Public Purse review of 2013; an update of a previous review of the National Fraud Authority's<sup>1</sup> Fighting Fraud Locally, Counter Fraud Checklist and a refresh of the Council's fraud risk assessment.

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<sup>1</sup> The NFA closed in March 2014.

#### 5.10 Counter fraud work will include:

- Reviewing the teams approach to housing tenancy fraud.
- Updating and communicating changes to money laundering processes.
- Taking part in the NFI.
- Completion of the Internal Audit plan and following up of recommendations to improve system controls and reduce the risk of fraud and losses.
- Conducting investigations where issues are raised; report on outcomes and produce management reports to address future control issues.
- Review the coverage on the web site to ensure it is fit for purpose.
- Select on a rolling basis, from the following areas topics for detailed review:
  - § Direct payments
  - § Council tax discounts
  - § New starters
  - § False references
  - § High overtime claims
  - § Travel and subsistence
  - § Fuel claims
  - § School frauds
  - § Right to buy.

5.11 The plan has an allocation of 35 days for counter fraud work, 20 days for NFI activity and a contingency of 200 days for investigations.

#### **Money Laundering Procedure updates**

5.12 Money laundering is the conversion of money obtained through illegal activity such as drug dealing or racketeering into “clean” money. This is achieved by processing cash through the financial system in order to hide its original source. It can then be used without suspicion by the criminals concerned. If the Council receives any income from any body or individual which was obtained illegally (i.e. as a result of a crime) we have a statutory duty to disclose this transaction confidentially to the National Crime Agency (NCA) otherwise we would be committing a criminal offence.

5.13 The Proceeds of Crime Act (POCA) 2002 and Money Laundering Regulations (MLR) 2003 which were extensively revised in 2007 were enacted to combat the laundering of monies obtained from the proceeds of crime. Under the legislation, money laundering is interpreted very widely and includes the processing, or in any way dealing with, or concealing, the proceeds of any crime. There is no minimum monetary value, therefore any crime, no matter how small, is subject to the legislation.

5.14 The Proceeds of Crime Act 2002 and the Money Laundering Regulations 2007 place disclosure obligations on bodies in the “Regulated Sector” which require the establishment of internal procedures to prevent or money laundering. Whilst Local Authorities are not legally obliged to apply the provisions of the Money

Laundering Regulations 2007; as responsible public bodies, CIPFA recommend: “that they should employ policies and procedures which reflect the essence of the UK’s anti-terrorist financing and anti-money laundering regimes”

5.15 In addition, there is an expectation that whilst the regulations may not apply to the public sector, public bodies have a public duty to report suspicious transactions voluntarily and to that end should adopt an anti-money laundering policy and appropriate reporting procedures.

5.16 The existing policy and guidance have been reviewed and minor changes made to reflect changes in the:

- Money Laundering Reporting Officer (MLRO) and her deputies;
- Replacement of the Serious and Organised Crime Agency, SOCA with the National Crime Agency, NCA; and
- Officer titles following restructure since the procedure was last reported to Audit Committee in March 2010.

An update of the procedure appears as **Appendix A** with proposed changes **underlined and marked in bold** font.

Once the Audit Committee have approved the proposed changes a reminder of the procedures will be circulated to members and officers.

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

Audit Commission Act 1998

Local Audit and Accountability Bill 2013-14

Proceeds of Crime Act (POCA) 2002

Money Laundering Regulations (MLR) 2003, revised in 2007

CIPFA Guidance Note – Combating Financial Crime - further guidance on Anti-money Laundering for Public Service Organisations, CIPFA 2009.

CIPFA Code of Practice on managing the risk of fraud and corruption

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

**Local Member** All

**Appendices** Appendix A: **ANTI-MONEY LAUNDERING PROCEDURE**

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## SHROPSHIRE COUNCIL ANTI-MONEY LAUNDERING PROCEDURE

### INTRODUCTION

1. Money laundering can be defined as “a process that makes money with an illegal origin appear legal so that it may be used”, it is interpreted very widely and includes possessing, or in any way dealing with, or concealing, the proceeds of any crime.
2. The Proceeds of Crime Act 2002 and the Money Laundering Regulations 2007 place disclosure obligations on bodies in the “Regulated Sector” which require the establishment of internal procedures to prevent or money laundering. Whilst Local Authorities are not legally obliged to apply the provisions of the Money Laundering Regulations 2007; as responsible public bodies, CIPFA recommend “that they should employ policies and procedures which reflect the essence of the UK’s anti-terrorist financing and anti-money laundering regimes”.
3. Anti money laundering legislation places responsibility upon Council employees to combat money laundering and covers a very wide area of financial transactions, including possessing, or in any way dealing with, or concealing, the proceeds of any crime. It applies to all employees involved with monetary transactions.

### PROCEDURE STATEMENT

4. Shropshire Council will do all it can to prevent the Council and its staff being exposed to money laundering, to identify the potential areas where it may occur, and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases.

### SCOPE OF THE PROCEDURE

5. This Procedure applies to all employees of the Council and aims to maintain the high standards of conduct which currently exist within the Council by preventing criminal activity through money laundering.
6. The legislative requirements concerning anti-money laundering procedures are extensive and complex. Further information is set out in the accompanying Guidance Notes. Both the Procedure and the Guidance Notes sit alongside one another and are entirely consistent with the Council’s Speaking up about Wrongdoing Policy, Counter Fraud, **Bribery** and Anti-Corruption Strategy and Code of Corporate Governance.
7. Failure by a member of staff to comply with these procedures may lead to disciplinary action and potentially criminal charges being brought against them. Any disciplinary action will be dealt with in accordance with the Council’s Disciplinary Policy and Procedure.

### WHAT IS MONEY LAUNDERING?

8. Money laundering is exchanging money or other assets obtained from criminal activity for 'clean' money or other assets with no obvious link to their criminal origins. It also

covers money, however come by, which is used to fund terrorism. All suspected incidents of money laundering must be reported to the ~~Serious Organised~~ **National Crime Agency (SOCA NCA)**. It is vital to recognise that the regime under which money laundering is monitored operates on an all crimes basis; there is no minimum limit provision in the legislation.

9. Money laundering offences include:

- a) Concealing, disguising, converting and transferring criminal property or removing it from the UK (section 327 of the 2002 Act); or
- b) entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (section 328); or
- c) acquiring, using or possessing criminal property (section 329); or
- d) becoming concerned in an arrangement facilitating concealment, removal from the jurisdiction, transfer to nominees or any other retention or control of terrorist property (section 18 of the Terrorist Act 2000); or
- e) “Tipping Off” a customer that:
  - A transaction was/is being delayed because consent from SOCA has been requested.
  - Details of their transactions or activities will be/have been reported to SOCA.
  - They are being investigated by law enforcement.
- f) Concealing, falsifying, destroying or disposing of any evidence of money laundering.

10. Potentially any member of staff could be caught by the money laundering provisions if they suspect money laundering and either become involved with it in some way and/or do nothing about it.

11. Whilst the risk to the Council of contravening the legislation is considered low, it is extremely important that all employees are familiar with their legal responsibilities, as serious criminal sanctions may be imposed for breaches of the legislation (up to 14 years imprisonment and/or an unlimited fine). The key requirement on employees is to promptly report any suspected money laundering activity to the Money Laundering Reporting Officer.

## THE OBLIGATIONS ON THE COUNCIL

12. The Money Laundering regulations 2007 require organisations conducting “relevant business” to:

- a) conduct due diligence measures;
- b) maintain client identification procedures in certain circumstances;
- c) maintain record keeping procedures;
- d) train relevant staff to recognise and deal with transaction that may be related to money laundering;
- e) appoint a Money Laundering Reporting Officer (“MLRO”) to receive disclosures from employees of money laundering activity; and



- f) implement procedures to enable the reporting of suspicions of money laundering.
13. Not all of the Council's business is "relevant" for the purposes of the legislation. The areas most likely to be affected are:
- All income receiving points
  - Accountancy and Internal Audit services.
  - Financial, company and property transactions undertaken by Legal and Democratic Services and Property Services.
14. The safest way to ensure compliance with the law is to apply them to all areas of work undertaken by the Council; therefore, all staff are required to comply with the reporting procedure set out below.

### THE MONEY LAUNDERING REPORTING OFFICER (MLRO)

15. The officer nominated to receive disclosures about money laundering activity within the Council is ~~Chris Kalinowski~~ **Ceri Pilawski**, Audit **Service** Manager; who can be contacted as follows:

**Ceri Pilawski**  
**Audit Service Manager**  
 Audit Services  
 Shropshire Council  
 Shirehall  
 Abbey Foregate  
 Shrewsbury  
 SY2 6ND

**Email: ceri.pilawski@shropshire .gov.uk**  
**Telephone: 01743 252027 (direct line)**

16. In the absence of the MLRO, ~~Ceri Pilawski~~ **Katie Williams, Barry Hanson or Peter Chadderton** (Head of Audit **Audit Engagement Officers**) ~~are~~ is authorised to deputise for him **her** in all aspects of this procedure. ~~Ceri can be C~~ contacted at **details are as the above for the address, or:**

- **Katie Williams**, telephone 01743 **252087** (direct line) or email **katie.williams@shropshire .gov.uk.**
- **Barry Hanson**, telephone 01743 **252089** (direct line) or email **barry.hanson@shropshire .gov.uk.**
- **Peter Chadderton**, telephone 01743 **252773** (direct line) or email **peter.chadderton@shropshire .gov.uk.**

### REPORTING TO THE MONEY LAUNDERING REPORTING OFFICER

17. Where any employee suspects that money laundering is or has taken place, or becomes concerned that their involvement in a matter may amount to a prohibited act under the legislation, they must disclose this as soon as practicable to the MLRO.

The disclosure should be within “hours” of the information coming to their attention, not weeks or months later. **Should they not do so, then they may be liable to prosecution.** If you wish, please discuss any suspicions with the MLRO first; see the Guidance Notes and Appendix 1 for more details.

18. The disclosing officer must follow any subsequent directions of the MLRO or deputy, and must not themselves make any further enquiries into the matter or take any further steps in any related transaction without authorisation from the MLRO.
19. The disclosing officer must not disclose or otherwise indicate their suspicions to anyone other than the MLRO. They must not discuss the matter with others or note on the file that a report has been made to the MLRO in case this results in the suspect becoming aware of the situation. Instead, they must keep any correspondence with the MLRO, including the acknowledgment of any disclosure, confidential and secure.
20. Upon receipt of a disclosure report, the MLRO must note the date of receipt on the report, acknowledge receipt and advise the discloser of the timescale within which they can expect a response.
21. The MLRO must promptly evaluate any Disclosure Report, to determine whether it should be reported to the ~~Serious and Organised~~ **National** Crime Agency (SOCA **NCA**). The MLRO must, if they so determine, promptly report the matter to SOCA **NCA** on the standard report form in SOCA's **NCA's** prescribed manner. Up to date forms can be downloaded from the SOCA **NCA** website at [www.seca.nca.gov.uk](http://www.seca.nca.gov.uk).
22. The MLRO or deputy will commit a criminal offence if they know or suspect, or have reasonable grounds to do so, through a disclosure being made to them, that another person is engaged in money laundering and they do not disclose this as soon as practicable to SOCA **NCA**.

## CUSTOMER DUE DILIGENCE (CDD)

23. Where the Council is carrying out certain ‘regulated activities’ then extra care needs to be taken to check the identity of the customer or client – this is known as carrying out Customer Due Diligence.
24. ‘Regulated activities’ is defined as the provision ‘by way of business’ of advice about tax affairs ; accounting services; treasury management, investment or other financial services; audit services; legal services; estate agency; services involving the formation, operation or arrangement of a company or trust or; dealing in goods wherever a transaction involves a cash payment of €15,000 or more.
25. The Regulations regarding customer due diligence are detailed and complex, but there are some simple questions that will help decide if it is necessary:
  - Is the service a regulated activity? (see paragraph 23)
  - Is the Council charging for the regulated activity i.e. is it ‘by way of business’?
  - Is the service being provided to a customer other than a UK public authority?

If the answer to any of these questions is **no** then you do not need to carry out customer due diligence.

If the answer to all these questions is **yes** then you must carry out customer due diligence before any business is undertaken for that client. If you are unsure whether you need to carry out customer due diligence then you should contact the MLRO.

26. Where the Council is carrying out relevant business (accountancy, audit and certain legal and property transactions) and:
- a) forms an ongoing business relationship with a client; or
  - b) undertakes a one-off or linked one-off transactions involving payment by or to the client in excess of £10,000 in cash or £30,000 in any form; or
  - c) it is known or suspected that a one-off transaction (or a series of them) involves money laundering; or
  - d) where there are doubts about previously obtained customer identification information;

then the Client Identification Procedure must be followed before any business is undertaken for that client, unless the client falls into the category of Simplified Due Diligence.

### **SIMPLIFIED DUE DILIGENCE**

27. Simplified Due Diligence is an exception to the obligation to apply the customer due diligence measures set out in Money Laundering Regulations 2007. Businesses are not required to apply the customer due diligence measures where they have reasonable grounds for believing that the customer is:
- a) a credit or financial institution which is subject to the requirements of the money laundering directive (or equivalent if from outside Europe); or
  - b) a company whose securities are listed on a regulated market subject to specified disclosure obligations; or
  - c) The customer is a public authority in the United Kingdom.
28. If the organisation with which the Council is carrying out relevant business with falls into one of the above categories, then no action is needed unless there are any doubts about the identity of the organisation.

### **CLIENT IDENTIFICATION PROCEDURE**

29. The Customer Due Diligence (CDD) measures that must be carried out involve:
- a) identifying the customer, and verifying their identity;
  - b) identifying where a customer is acting on behalf of a “beneficial owner” (i.e. the individual(s) behind the customer who ultimately owns or controls the customer or on whose behalf a transaction or activity is being conducted) and taking adequate steps to verify their identity;
  - c) obtaining information on the purpose and intended nature of a business relationship (e.g. the source of funds);
  - d) conducting ongoing monitoring of the business relationship and keeping relevant records.
30. When monitoring the ongoing business relationship it is important to pay attention to:

- a) Any complex or unusually large transactions;
  - b) Unusual patterns of transactions which have no apparent economic or visible purpose; and
  - c) Any other activity, particularly likely by its nature to be related to money laundering.
31. Once instructions to provide relevant business activities have been received (where Simplified Due Diligence does not apply), and it has been established that any of paragraph 26 (a) to (d) apply, evidence of identity should be obtained as follows:
- Checking with the customer's website to confirm their business address.
  - Conducting an on-line search via Companies House to confirm the nature and business of the customer and confirm the identities of any directors;
  - Seeking evidence from the key contact of their personal identity, for example their passport, and position within the organisation.
  - Appropriate additional evidence of identity such as written instructions on the organisation's official letterhead at the outset of the matter or an email from the organisation's e-communication system.
  - With instructions from new clients, or further instructions from a client not well known, additional evidence of the identity of other key individuals in the organisation and of the organisation itself; please see the Guidance Note for more information.
32. Such correspondence should then be placed on the Council's client file along with a prominent note explaining which correspondence constitutes the evidence and where it is located.
33. In all cases, the evidence should be retained for at least five years from the end of the business relationship or transaction(s). If satisfactory evidence of identity is not obtained at the outset of the matter then the business relationship or one off transaction(s) must not proceed any further.
34. In circumstances where the client cannot be physically identified officers should be aware that:-
- a) There is greater potential for money laundering where the client is not physically present when being identified;
  - b) If satisfactory evidence is not obtained, the relationship or the transaction must not proceed;
  - c) If the client acts, or appears to act for another person, reasonable measures must be taken for the purposes of identifying that third person.

## **RECORD KEEPING PROCEDURES**

35. Each unit of the Council conducting relevant business will maintain records of:
- a) client identification evidence obtained; and
  - b) details of all relevant business transactions carried out for clients

for at least five years. This is so that they may be used as evidence in any subsequent investigation by the authorities into money laundering.

36. The precise nature of the records is not prescribed by law, however they must be capable of providing an audit trail during any subsequent investigation, for example distinguishing the client and the relevant transaction and recording in what form any funds were received or paid. In practice, the business units of the Council will be routinely making records of work carried out for clients in the course of normal business and these should suffice in this regard.

## **OTHER PROCEDURES**

37. The Council will establish other procedures of internal control and communication as may be appropriate for the purpose of identifying and preventing money laundering:-

### **Cash receipts**

38. If the money offered in cash is £10,000 or more, then payment may be accepted but must not be processed i.e. banked until the employee has received guidance from the MLRO or a deputy MLRO.

### **Refunds**

39. Care will need to be taken especially with the procedures for refunds. For instance, a significant and unexplainable overpayment which results in a repayment will need to be properly investigated and authorised before the refund is made.

### **Training**

40. In support of the procedure and guidance, the Council will:
- Make all staff aware of the requirements and obligations placed on the Council and on themselves as individuals by the anti-money laundering legislation.
  - Give targeted training to those most likely to encounter money laundering.

## **REVIEW**

41. This Anti-Money Laundering Procedure and the attached guidance note should be reviewed annually by the MLRO to ensure that it remains up to date and practicable.

## **CONCLUSION**

42. The legislative requirements concerning anti-money laundering procedures are lengthy and complex. This Procedure has been written to enable the Council to meet the legal requirements in a way which is proportionate to the low risk to the Council of contravening the legislation.
43. Should you have any concerns whatsoever regarding any transactions then you should contact the MLRO.

Laura Rowley James Walton  
Director of Resources Section 151 Officer  
February 2010- August 2014

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

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