

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

Date: Monday, 16 November
2015

My Ref:

Your Ref:

Committee:
Audit Committee

Date: Thursday, 26 November 2015
Time: 9.30 am
Venue: Wilfred Owen 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
Vacancy

Your Committee Officer is:

Michelle Dulson Committee Officer
Tel: 01743 257719
Email: michelle.dulson@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 meetings held on the 17 September 2015 (Pages 1 - 10)

The Minutes of the meetings held on the 17 September 2015 are attached for confirmation, marked 3.

Contact Michelle Dulson (01743) 257719

4 Public Questions

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

5 Management Report: Council tax and non-domestic rates performance monitoring report (Pages 11 - 20)

The report of the Revenues and Benefits Service Manager is attached, marked 5.

Contact Phil Weir (01743) 256113

6 Management Report: Treasury Strategy Mid-Year Report 2014/15 (Pages 21 - 40)

The report of the Head of Finance, Governance and Assurance (Section 151 Officer) is attached, marked 6.

Contact: James Walton (01743) 255011

7 Internal Audit: National Fraud Initiative Update (Pages 41 - 46)

The report of the Engagement Auditor is attached, marked 7.

Contact: Katie Williams (07584) 217067

8 Annual review of Counter Fraud, Bribery and Anti-Corruption Strategy (Pages 47 - 76)

The report of the Audit Service Manager is attached, marked 8.

Contact: Ceri Pilawski (01743) 252027

9 Annual review of Audit Committee Terms of Reference (Pages 77 - 86)

The report of the S151 Officer is attached, marked 9.
Contact: James Walton (01743) 255011

10 Annual Audit Committee self-assessment of good practice (Pages 87 - 94)

The report of the S151 Officer is attached, marked 10.
Contact: James Walton (01743) 255011

11 Internal Audit Charter, annual review (Pages 95 - 110)

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

12 Internal Audit performance report and revised Annual Audit Plan 2015/16 (Pages 111 - 124)

The report of the Audit Service Manager is attached, marked 12.
Contact: Ceri Pilawski (01743) 252027

13 External Audit: Annual Audit Letter 2014/15 Shropshire Council (Pages 125 - 134)

The report of the Engagement Lead is attached, marked 13.
Contact: Mark Stocks (0121) 232 5356

14 External Audit: Audit Committee update (Pages 135 - 150)

The report of the Engagement Lead is attached, marked 14.
Contact: Mark Stocks (0121) 232 5356

15 Date and Time of Next Meeting

The next meeting of the Audit Committee will be held on the 18 February 2016 at 9.30am in the Wilfred Owen Room.

16 Exclusion of Press and Public

To RESOLVE that in accordance with the provision of Schedule 12A of the Local Government Act 1972, and Paragraphs 2, 3 and 7 of the Council's Access to Information Rules, the public and press be excluded during consideration of the following items.

17 Exempt minutes of the previous meeting held on the 17 September 2015
(Pages 151 - 154)

The exempt minutes of the meetings held on the 17 September 2015 are attached for confirmation, marked 17.
Contact Michelle Dulson (01743) 257719

18 Management Report: IT Update Report (Exempted by Category 3) (Pages 155 - 180)

The report of the Interim ICT Manager is attached, marked 18.
Contact: Karen Davis (01743) 258616

19 Internal Audit: Fraud and Special Investigation Update (Exempted by Categories 2, 3 and 7) (Pages 181 - 184)

The report of the Engagement Auditor is attached, marked 19.
Contact: Katie Williams (01743) 252087



Committee and Date

Audit Committee

26 November 2015

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 17 SEPTEMBER 2015 9.30 - 10.40 AM

Responsible Officer: Tim Ward

Email: tim.ward@shropshire.gov.uk Tel: 01743 257713

Present

Councillor Brian Williams (Chairman)

Councillors John Cadwallader, Chris Mellings, Robert Macey (Substitute) (substitute for Michael Wood) and Pamela Moseley (Substitute) (substitute for Mansel Williams)

30 Apologies for Absence / Notification of Substitutes

30.1 Apologies for absence were received from Councillors Mansel Williams and Michael Wood

30.2 Councillor Pamela Moseley substituted for Councillor Williams and Councillor Robert Macey substituted for Councillor Wood

31 Disclosable Pecuniary Interests

31.1 The Chairman reminded Members 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.

32 Exclusion of Press and Public

32.1 RESOLVED

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 items

33 IT Revised Implementation Plan for Audit Recommendations

33.1 Members received the exempt report of the Head of Programme Management (Copy attached to the signed minutes)

33.2 RESOLVED

That a further report be brought to the next meeting of the Audit Committee.

Signed (Chairman)

Date:



Committee and Date

Audit Committee

26 November 2015

**MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 17 SEPTEMBER 2015
10.50 AM - 12.55 PM**

Responsible Officer: Tim Ward
Email: tmward@shropshire.gov.uk Tel: 01743 257713

Present

Councillor Brian Williams (Chairman)
Councillors John Cadwallader, Chris Mellings, Robert Macey (Substitute) (substitute for Michael Wood) and Pamela Moseley (Substitute) (substitute for Mansel Williams)

34 Apologies for Absence / Notification of Substitutes

34.1 Apologies for absence were received from Councillors Mansel Williams and Michael Wood

34.2 Councillor Pamela Moseley substituted for Councillor Williams and Councillor Robert Macey substituted for Councillor Wood

35 Disclosable Pecuniary Interests

35.1 The Chairman reminded Members 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.

36 Minutes of the previous meeting held on the 25 June 2015

36.1 RESOLVED:

That the minutes of the meeting held on 25 June 2015 be approved and signed by the Chairman as a correct record

37 Public Questions

37.1 There were no public questions

The Chairman expressed his concern at the number of reports that were received after the publication of the agenda and asked Officers to ensure that Members received reports in good time to enable them to consider them fully.

38 Management Report on Programme Controls and Risks and the Top Fifty Contracts Controls and Risks

- 38.1 The Committee received the report of the Director of Commissioning – copy attached to the signed Minutes – which updated Members on the existing and emerging assurance and management controls and risk management arrangements within the Council.
- 38.2 The Director of Commissioning reminded Members that since April 2014 ip&e Ltd. had provided the Council’s programme management and service re-design functions and that following a review of how key decisions around commissioning activity were made across the Council, a Commissioning Directors’ Group had been formed to take overall responsibility for all strategic commissioning activity. He advised that this Group would report back to Council, Cabinet and Audit Committee, where appropriate.
- 38.3 The Director of Commissioning informed Members that the Strategic Contract Monitoring Group had been set up to ensure appropriate contract management and good governance in relation to the management of the strategic contract held between Shropshire Council and ip&e ltd. He advised that the Group did not monitor individual contracts, a role that was undertaken by the service specific contract monitoring groups, but that it did receive appropriate information on individual contracts to advise the Group’s discussions, where appropriate.
- 38.4 The Director of Commissioning commented that as the Council moved to be a commissioning organisation it was increasingly important that decisions were based on robust information, and that commissioned services and contracts were managed in a consistent way. He advised members that a Commissioning Support Unit was being developed to provide this information and that Members of the unit would work closely with Commissioners in the first instance to ensure they had the necessary information to support their work.
- 38.5 The Director of Commissioning reminded Members that a “Commissioning Approach” had been developed to enable services to be commissioned out of Shropshire Council in a consistent and robust way. He advised that a recent review of the approach had been undertaken to look at the relationship with the “Enabling Services” element of the strategic contract with a view to maximising its effect. He added that a process for determining an “Enabling Services” request had been developed along the same lines as the Commissioning Approach and that the Group had also reviewed and updated the guidance around decommissioning of services and had developed a checklist to ensure that all the necessary tasks were completed in order to ensure a robust and safe process.
- 38.6 The Chairman thanked the Director of Commissioning for his report and commented that it had been helpful in understanding the evolution of the commissioning process.
- 38.7 **RESOLVED:**
- That the contents of the report be noted

39 Management Report on Housing Benefit Overpayment Performance

- 39.1 The Committee received the report of the Revenues and Benefits Service Manager – copy attached to the signed Minutes – which provided Members with performance monitoring information on the collection of housing benefit overpayments for the year 2014 – 15.
- 39.2 The Revenues and Benefits Service Manager advised Members that in the year 2014/15 invoices to the value of £3,969,891.11 had been created, with £2,792,605.45 being recovered with a further £127,265.32 being written off.
- 39.3 The Revenues and Benefits Service Manager informed Members that at the 31 July 2015 the total amount outstanding, including previous years was £5.4 million, an increase of £1.1 million on the previous year. This rise was due to a number of factors around improved data and information collection which had led to more discrepancies being identified. He advised that, in order to deal with the higher level of overpayments, additional functionality had been purchased for the benefits system which enabled Officers to ensure that outstanding amounts were recovered at the appropriate rates, and that Housing Benefit Overpayment Recovery Team had been merged with the Revenues Recovery Team. He commented that this work had enabled the production of improved management information which was reviewed by managers on a monthly basis.
- 39.4 In response to a query, the Revenues and Benefits Service Manager advised that the level of repayment rate and timescales for repayment varied according to individual circumstances.
- 39.5 **RESOLVED:**
- That the report be noted.

40 Sales Ledger update on progress implementing improved management controls

- 40.1 The Committee received the report of the Head of Financial Management and Reporting – copy attached to the signed Minutes – which provided an update on progress with implementing improved management controls within Sales Ledger in order to address the “unsatisfactory” assurance opinion given in the Internal Audit review carried out in May 2015.
- 40.2 The Head of Financial Management and Reporting reminded Members that the review had highlighted one “fundamental” and six “significant” recommendations and outlined what was being done to address the concerns raised.
- 40.3 In answer to a query the Head of Financial Management and Reporting stated that there was currently £10.5 million of aged debt and £6.5million current debt, and that a debt was considered to be aged once the debtor had received two reminders.
- 40.4 The Chairman thanked the Head of Financial Management and Reporting for her report and commented that he was pleased that the Audit recommendations were being addressed.

40.5 RESOLVED:

That the progress made since May 2015 in addressing Internal Audit recommendations be noted.

41 External Audit: Shropshire Council Audit Findings 2014/15

41.1 The Committee considered the report of the External Auditor – copy attached to the signed Minutes – which summarised the key matters arising from the audit of Shropshire Council's financial statements for the year ending 31 March 2015.

41.2 The Engagement Lead advised that, since the publication of the report, certain matters had been brought the attention of the external auditors which had meant that the audit could not be formally concluded until these matters had been fully considered. He was however satisfied that the matters in question did not have a material effect on the financial statements or a significant impact on the Value for Money conclusion. He distributed an updated report and drew Members' attention to the amended paragraphs.

41.3 RESOLVED:

That the satisfactory audit opinion and Value for Money conclusion be noted.

42 Audited Annual Statement of Accounts 2014/15

42.1 The Committee considered the report of the Head of Finance, Governance and Assurance (Section 151 Officer) – copy attached to the signed Minutes – which set out the final audited outturn position for the financial year 2014/15 to be confirmed by Council on the 24 September 2015.

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

42.3 RESOLVED:

- That the 2014/15 Statement of Accounts be approved and that the Chairman of the Council be recommended to sign them in accordance with the requirements of the Accounts and Audit Regulations 2015.
- That the Head of Finance, Governance and Assurance be authorised to make any minor adjustments to the Statement of Accounts prior to the 30th September 2015.
- That the Head of Finance, Governance and Assurance and the Chairman of the Audit Committee be authorised to sign the letter of representation in relation to the financial statements on behalf of the Council and send to the External Auditor.

43 Annual Treasury Report 2014/15

43.1 The Committee received the report of the Head of Finance, Governance and Assurance – copy attached to the signed Minutes – which informed Members of the treasury activities for Shropshire Council for 2014/15.

42.2 The Head of Finance, Governance and Assurance advised Members that the Internal Treasury Team had outperformed their investment benchmark by 0.26% in 2014/15 and that performance for the last three years was 0.38% per annum above benchmark. He reported that during the year 204/15 the performance or the Treasury team had delivered an underspend of £0.673 million compared to budget which had contributed to the overall underspend achieved by the Council at year end.

43.3 **RESOLVED:**

That the position as set out in the report be accepted.

44 Risk Annual Report 2014/15

44.1 The Committee considered the report of the Risk and Insurance Manager – copy attached to the signed Minutes – which set out the challenges and achievements accomplished by the Risk Management Team during 2014/15.

44.2 The Risk and Insurance Manager informed Members that following an audit of risk management an assurance level of “reasonable” had been identified with two recommendations; one significant relating to the monitoring of operation risks, as a result of which, a new process for the management of operation risk and robust reporting had been introduced, and one of best practice around the consideration of a bespoke Risk Management software package. She added that due to cost and the lack of availability of a suitable package this would not take place in the foreseeable future.

44.3 The Risk and Insurance Manager advised that there had been a reduction of 29% in insurance claims compared with the previous year which was mainly due to the reduction in public liability claims due to the milder winter and an increase in funding for highways repairs.

44.4 In response to a query regarding illustration 4, the Risk and Insurance Manager clarified that the year stated in the table was the year when the liability occurred not necessarily the year the claim was made. She commented that the majority of the older claims were disease related claims and that claimants had 3 years to claim from the date of diagnosis.

44.5 **RESOLVED:**

That the position as set out in the report be accepted.

45 Strategic Risks Update

45.1 Members considered the report of the Risk and Insurance Manager – copy attached to the signed Minutes – which set out the current strategic risk exposure

and advised of recent modifications and planned changes to the management of strategic risk within the authority.

45.2 The Risk and Insurance Manager stated that strategic risks were reviewed on a monthly basis and reported to relevant officers, Directors and the Resources & Support Portfolio Holder through monthly meetings. She informed Members that there were currently 13 risks identified on the strategic risks register.

45.3 The Risk and Insurance Manager advised that the Risk Management Team continuously monitored the most appropriate and effective way to manage the Council's risk exposure and that with the adoption of a thematic approach by Directors to support the direction of travel for the authority, changes to how the management of strategic risk exposure going forward were being implemented. It was proposed that the strategic risks would be managed by identifying which of the three key themes they related to and, once identified, strategic risks would also be identified as inward or outward facing risks.

45.4 **RESOLVED:**

That the position as set out in the report be accepted.

46 **Internal Audit Plan Performance Update 2015/16**

46.1 Members received the report of the Audit Service Manager – copy attached to the signed Minutes – which set out refinements and revisions to the Internal Audit Plan and provided details of work undertaken by Internal Audit for the period 1 April to 23 August 2015.

46.2 The Audit Service Manager informed the meeting that the new Plan would provide 2,068 audit days across the Council's services and external clients compared with 2,050 days in the draft Plan published in February. She advised that this was due to the fact that there had been a number of changes in the risks faced by the Council which had resulted in slight adjustments to the areas requiring assurances from Internal Audit.

46.3 The Audit Service Manager advised Members that 37% of the revised Plan had been completed which was in line with previous delivery records, and that 21 good and reasonable assurances, 15 unsatisfactory and 3 limited assurance opinions were issued and that the 39 final reports contained 594 recommendations. She added that two fundamental recommendations had been identified.

46.4 **RESOLVED:**

- a) That the performance to date against the 2015/16 Audit Plan be noted
- b) That the adjustments required to the 2015/16 Plan as set out in Appendix B to the report, be approved.

47 External Audit: Shropshire County Pension Fund Audit Findings Report 2014/15

47.1 Members received The External Audit Findings for Shropshire County Pension Fund (copy attached to the signed Minutes). They were reminded that the Committee received the report for information and that the report would be considered fully by the Pensions Committee

47.2 RESOLVED

That the Report be noted.

48 External Audit: Audit Committee update

48.1 The Committee received the report of the External Auditor (copy attached to the signed minutes) which provided Members with a report on progress together with a summary of emerging national issues and developments which may be of relevance to the Council. It also included several challenge questions in respect of the emerging issues which the Audit Committee may wish to consider in its future work or training programmes.

48.2 The External Audit Manager drew attention to the progress to date and also drew Members' attention to several publications which may be of interest.

48.3 RESOLVED:

That the contents of the report be noted.

49 Date and Time of Next Meeting

49.1 Members were reminded that the next meeting of the Audit Committee would be held on the 26 November 2015 at 9.30 am in the Ludlow Room.

50 Exclusion of Press and Public

50.1 RESOLVED

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 items.

51 Exempt Minutes of the previous meeting held on the 25 June 2015

51.1 RESOLVED:

That the exempt minutes of the meeting held on 25 June 2015 be approved and signed by the Chairman as a correct record.

52 Fraud and Special Investigation Update September 2015 (Exempted by Categories 2, 3 and 7)

52.1 Members received the exempt report of the Engagement Auditor – copy attached to the signed Minutes – which provided an update on current fraud and special investigations undertaken by Internal Audit and on current Regulation of Investigatory Powers Act (RIPA) activity.

52.2 RESOLVED

That the contents of the report be noted.

Signed (Chairman)

Date:



<u>Committee and Date</u> Audit Committee 26 November 2015	<u>Item</u> <u>Public</u>
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COUNCIL TAX AND NON DOMESTIC RATES PERFORMANCE MONITORING REPORT

Responsible Officer Phil Weir
e-mail: phil.weir@shropshire.gov.uk

Tel: (01743)
256113

Fax (01743)
251444

1. Summary

The Council's Revenues Team collects over £235 million of income each year in respect of Council Tax and National Non Domestic Rates (Business Rates). This report provides Members with performance monitoring information on the collection of this income for the year to 31 March 2015, and progress on the year to 31 March 2016.

2. Recommendations

Members are asked to note the report.

REPORT

1. The Council raises over 145,000 demands per year with a value of over £225 million to collect Council Tax and Business Rates. It is important that this income is collected promptly so as to maximise the amount of interest earned on the Council's revenue balances.
2. The Council require the payment of liability by 10 instalments from April to January in accordance with the statutory instalment scheme for Council Tax and Business Rates. However, with effect from 1 April 2013 onwards the regulations have changed and now any Council Tax payer can request payment over 12 months rather than 10 months. With effect from 1 April 2014 any business rate payer can also request payment over 12 months rather than 10 months.
3. The change in regulations affects collection of Council Tax and Business Rates in two ways. Firstly, it affects the Council's cash flow, as more money is due to be collected in February and March. Secondly, it impacts on overall collection rates because if Council Tax and Business Rates payers fail to pay their February and March instalment it gives the

Revenues Teams less time to take appropriate action before the end of the financial year.

Council Tax

4. The final in-year collection rate for Council Tax for the year 2014-15 was 98.3%. This compares well with the previous year's collection rate of 98.1%.
5. National statistics to monitor collection rate trends for 2014-15 were published in July 2015. These showed that the average national in-year collection rate for Council Tax was 97% in 2014-15. The average collected for all Unitary Authorities was 96.8%. Shropshire Council achieved the sixth highest collection rate for Council Tax out of 56 Unitary Authorities.
6. A comparison of Shropshire Council's Council Tax collection performance for 2014-15 against national statistics is at Appendix A.
7. Regarding the 2015-16 financial year, in the year to 9 November 2015 the Revenues Team had collected 73.7% of its in-year Council Tax debt. In the equivalent period last year we had collected 73.6% Council Tax.
8. As at 31 March 2015 the total arrears for Council Tax stood at 8.6 million. Work is continuing to recover this debt. As at 1 November 2015 Council Tax arrears stood at 6.7 million (a reduction of £1.9 million, see Appendix B).
9. A report categorising the debt stages of all Council Tax arrears is attached at Appendix C.

Business Rates

10. The final in-year collection rate for Business Rates for the year 2014-15 was 98.7%. This compares well with the previous year's collection rate of 98.3%.
11. National statistics to monitor collection rate trends for 2014-15 were published in July 2015. These showed that the average national in-year collection rate for business rates was 98.1% in 2014-15. The average collected for all Unitary Authorities was 97.9%. Shropshire Council achieved the twelfth highest collection rate for Business Rates out of 56 Unitary Authorities.
12. A comparison of Shropshire Council's Business Rates collection performance for 2014-15 against national statistics is at Appendix A.
13. Regarding the 2015-16 financial year, in the year to 9 November 2015 the Revenues Team had collected 75.5% of its in-year Business Rates debt. In the equivalent period last year we had collected 73.1% Business Rates.

14. As at 31 March 2015 the total arrears for Business Rates stood at 3.4 million. Work is continuing to recover this debt. As at 1 November 2015 Business Rates arrears stood at 3 million (a decrease of £400,000 see Appendix D).
15. A report categorising the debt stages of all Business Rates arrears is attached at Appendix E.
16. In addition the Business Rates Team have also been collecting the BID levy for the Shrewsbury BID since June 2014. As at 9 November 2015 we had collected 96.4% of the liability due for 2014-15 and 94.9% of the liability due for 2015-16.

3. Risk Assessment and Opportunities Appraisal

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

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

4. Financial Implications

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

5. Background

Council Tax is collected and administered in accordance with The Council Tax (Administration and Enforcement) Regulations 1992. Business Rates is collected in accordance with the Non-Domestic Rating (Collection and Enforcement) (Local Lists) Regulations 1989.

6. Additional Information

None

7. Conclusions

Members are asked to note the content of the report.

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

N/A

Cabinet Member (Portfolio Holder)

Mike Owen

Local Member

N/A

Appendices

Appendix A - 2014/15 Collection Rate Comparison with National Performance

Appendix B - Council Tax Arrears Analysis

Appendix C - Council Tax Aged Debt Analysis

Appendix D - Business Rates Arrears Analysis

Appendix E - Business Rates Debt Analysis

Appendix A

	Council Tax	Business Rates
2013-14 collection rate	98.1%	98.3%
2014-15 collection rate	98.3%	98.7%
2014-15 National position (out of 326 Authorities*)	joint 82nd	joint 89th
2014-15 National average	97.0%	98.1%
2014-15 Unitary average	96.8%	97.9%
2014-15 Unitary position (out of 56 Unitary Authorities)	6th	12th
2014-15 West Midland Position (out of 31 Authorities*)	joint 8th	joint 7th

*includes Unitary, District and Metropolitan Authorities

Appendix B

COUNCIL TAX ARREARS ANALYSIS AS AT 1st Nov 2015				
As at rollover 1 April 2015	TOTALS	DR	CR	NET TOTAL
		8,613,681.09	-1,841,640.10	6,772,040.99
		DR	CR	
1993-94		14.01	-5,432.99	-5,418.98
1994-95		206.18	-8,942.64	-8,736.46
1995-96		111.73	-12,094.56	-11,982.83
1996-97		1,447.04	-11,974.20	-10,527.16
1997-98		2,493.19	-10,840.30	-8,347.11
1998-99		4,617.83	-9,339.77	-4,721.94
1999-00		7,745.04	-14,679.86	-6,934.82
2000-01		8,012.83	-11,064.73	-3,051.90
2001-02		10,513.72	-21,456.49	-10,942.77
2002-03		17,950.81	-25,918.80	-7,967.99
2003-04		36,676.71	-29,513.30	7,163.41
2004-05		55,130.28	-40,988.81	14,141.47
2005-06		86,666.64	-62,371.01	24,295.63
2006-07		131,032.96	-64,837.92	66,195.04
2007-08		165,679.23	-65,054.98	100,624.25
2008-09		297,168.33	-120,572.09	176,596.24
2009-10		424,682.97	-237,064.62	187,618.35
2010-11		580,835.04	-153,368.04	427,467.00
2011-12		689,994.84	-104,944.80	585,050.04
2012-13		842,772.53	-108,202.16	734,570.37
2013-14		1,277,377.79	-180,316.49	1,097,061.30
2014-15		2,101,059.41	-266,143.56	1,834,915.85
		6,742,189.11	-1,565,122.12	5,177,066.99
Reduction in Arrears		1,871,491.98	-276,517.98	1,594,974.00

Appendix C

Council Tax Aged Debt analysis 1 Nov 2015		
	accounts	£ value
14 Day letter	1,091	£708,825.71
Adjourned Committal		
Potential Special Arrangement		
Arrest Warrant - Bail	71	£39,807.49
Charging Order	128	£153,119.09
Attachment of Benefits	800	£289,822.02
Attachment of Earnings	997	£621,514.80
Bailiff Return	398	£229,621.00
Bailiff Return Spa		
Bankruptcy		
Committal - Suspended Sentence	3	£1,283.09
Committal		
Committal Summons	2	£442.50
Datload 14 Day		
Datload Bailiff		
Datload AOB		
Datload SPA	0	£0.00
Enforcement Hold	255	£148,851.07
Liability Order Granted		
Mutiple Liability Order	9	£4,978.40
No Enforcement Stage		
Pending Attachment of Benefits	807	£387,943.15
Pending Attachment of Earnings	402	£311,950.14
Pre Committal Letter	2,890	£1,785,812.55
Small Balance Letter	266	£19,097.86
Special Arrangement	1,586	£827,746.54
Special Arrangment Reminder	321	£174,741.94
Tracing Agent	93	£75,324.12
With Bailiff	5,108	£2,452,371.48
Write Off	27	£12,602.51
Write Off Pending	2,588	£857,080.31
Totals	17,842	£9,102,935.77

Appendix D

NNDR ARREARS ANALYSIS AS AT 1st Nov 2015			
As at 1 Jul 2015	TOTALS	DR	CR
		3,415,547.28	-1,084,227.87
			2,331,319.41
		DR	CR
1990-91		0.00	0.00
1991-92		0.00	0.00
1992-93		0.00	0.00
1993-94		0.00	0.00
1994-95		0.00	0.00
1995-96		0.00	-352.16
1996-97		0.00	-543.55
1997-98	1,230.83	-4,400.71	-3,169.88
1998-99	16.20	-1,893.15	-1,876.95
1999-00	0.00	-423.08	-423.08
2000-01	0.00	-4,393.70	-4,393.70
2001-02	0.00	-8,724.06	-8,724.06
2002-03	5.00	-12,779.53	-12,774.53
2003-04	77.58	-10,312.22	-10,234.64
2004-05	1,594.11	-11,862.22	-10,268.11
2005-06	38,946.00	-8,827.57	30,118.43
2006-07	99,437.99	-17,754.42	81,683.57
2007-08	86,980.07	-18,135.18	68,844.89
2008-09	171,561.35	-72,270.44	99,290.91
2009-10	195,651.21	-240,852.08	-45,200.87
2010-11	218,992.26	-70,523.80	148,468.46
2011-12	276,109.69	-35,816.84	240,292.85
2012-13	320,487.95	-21,924.80	298,563.15
2013-14	555,782.91	-82,269.26	473,513.65
2014-15	1,000,404.02	-73,560.96	926,843.06
		2,967,277.17	-697,619.73
			2,269,657.44
Reduction in Arrears		448,270.11	-386,608.14
			61,661.97

Appendix E

NDR Aged Debt Analysis 1st Nov 2015		
	accounts	£ value
Small Balance	24	1,260.69
7 Day Letter	53	275,665.35
warrant no bail	1	1,053.50
Bailiff Return	234	644,351.13
Insolvency proceeding	0	0.00
Bankruptcy	0	0.00
Committal Summons	3	2,326.75
Enforcement Hold	16	83,508.36
Liquidation	0	0.00
Multiple Liability Order	2	5,090.50
No Enforcement Stage	2	0.00
Pre Committal Letter	183	422,806.90
Spa Reminder	21	73,215.31
Special Arrangement	84	307,281.44
Tracing Agent	9	74,664.71
Warrant with bail	1	988.00
With Bailiff	287	590,643.69
Write Off	336	590,199.67
Totals	1,256	3,073,056.00

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<u>Committee and Date</u>	<u>Item</u>
Audit Committee 26 November 2015	
Cabinet 9 December 2015	
Council 17 December 2015	
	<u>Public</u>

TREASURY STRATEGY 2015/16 – MID YEAR REVIEW

Responsible Officer James Walton

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1. Summary

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

- An economic update for the first six months of 2015/16
- A review of the Treasury Strategy 2015/16 and Annual Investment Strategy
- A review of the Council's investment portfolio for 2015/16
- A review of the Council's borrowing strategy for 2015/16
- A review of any debt rescheduling undertaken
- A review of compliance with Treasury and Prudential limits for 2015/16

1.2 The key points to note are:-

- The internal treasury team achieved a return of 0.58% on the Council's cash balances outperforming the benchmark by 0.22%. This amounts to additional income of £179,480 for the first six months of the year which is included within the Council's projected outturn position.
- In the first six months all treasury management activities have been in accordance with the approved limits and prudential indicators set out in the Council's Treasury Strategy.

2. Recommendations

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

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

REPORT

3. Risk Assessment and Opportunities Appraisal

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

4. Financial Implications

- 4.1 The Council makes assumptions about the levels of borrowing and investment income over the financial year. Reduced borrowing as a result of capital receipt generation or delays in delivery of the capital programme will both have a positive impact of the council's cash position. Similarly, higher than benchmarked returns on available cash will also help the Council's financial position. For monitoring purposes, assumptions are made early in the year about borrowing and returns based on the strategies agreed by Council in the preceding February. Performance outside of these assumptions results in increased or reduced income for the Council.
- 4.2 The six monthly performance is above benchmark and has delivered additional income of £179,480 which will be reflected in the Period 6 Revenue Monitor.
- 4.3 The Council currently has £150m held in investments as detailed in Appendix A and borrowing of £332m at fixed interest rates.

5. Background

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

6. Economic update

- 6.1 **Global Economy** – The US economy made a strong comeback after a weak first quarter's growth at 0.6% (annualised), to grow by 3.9% in quarter 2 of 2015. While there had been confident expectations during the summer that the US Federal Reserve could start increasing rates before the end of 2015, the recent downbeat news about Chinese and Japanese growth and the knock on impact on emerging countries that are major suppliers of commodities, was cited as the main reason for

the US Federal Reserve's decision to pull back from making that start. With US growth likely to weaken, expectations of a first rate increase have been pushed back from 2015 into 2016.

- 6.2 In the Eurozone, the European Central Bank (ECB) unleashed a €1.1 trillion programme of quantitative easing in January 2015 to buy up high credit quality government and other debt of selected Eurozone countries. This programme of €60 billion of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This already appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. Gross Domestic Product (GDP) growth rose to 0.5% in quarter 1 2015 but came in at 0.4% in quarter 2 and looks as if it may maintain this pace in quarter 3. However, the recent downbeat Chinese and Japanese news has raised questions as to whether the ECB will need to boost its Quantitative Easing programme if it is to succeed in significantly improving growth in the Eurozone and getting inflation up from the current level of around zero to its target of 2%.
- 6.3 UK Economy – UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any major advanced economy. The 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate again. However, quarter 1 of 2015 was weak at 0.4% though there was a rebound in quarter 2 to 0.7%. Growth is expected to weaken to about 0.5% in quarter 3 as the economy faces headwinds for exporters from the appreciation of Sterling against the Euro and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme, although the pace of reductions was eased in the May Budget. Despite these headwinds, the Bank of England August Inflation Report had included a forecast for growth to remain around 2.4 – 2.8% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen below zero over the last quarter.
- 6.4 The August Bank of England Inflation Report forecast was notably subdued in respect of inflation which was forecast to barely get back up to the 2% target within the 2-3 year time horizon. However, with the price of oil taking a fresh downward direction and Iran expected to soon re-join the world oil market after the impending lifting of sanctions, there could be several more months of low inflation still to come, especially as world commodity prices have generally been depressed by the Chinese economic downturn.
- 6.5 There are therefore considerable risks around whether inflation will rise in the near future as strongly as had previously been expected. This will make it more difficult for the central banks of both the US and the UK to raise rates as soon as was being forecast until recently, especially given the recent major concerns around the slowdown in Chinese growth, the knock on impact on the earnings of emerging countries from falling oil and commodity prices, and the volatility we have seen in equity and bond markets in 2015 so far, which could potentially spill over to impact the real economies rather than just financial markets.

7 Economic Forecast

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

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%
5yr PWLB rate	2.40%	2.50%	2.60%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%
10yr PWLB rate	3.00%	3.20%	3.30%	3.40%	3.50%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
50yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%

- 7.2 Capita believes the Bank Rate will remain at its current low level of 0.50% until June 2016 when it is expected to rise to 0.75% before rising to 1.00% in December 2016. This means investment returns will continue to be at historically low levels during this period. The Bank Rate is then expected to reach 1.75% by 31 March 2018.
- 7.3 Long term PWLB rates are expected to rise to 4.20% in March 2017 before steadily increasing over time to reach 4.60% by 31 March 2018 when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank rate, and the eventual unwinding of Quantitative Easing.
- 7.4 Economic forecasting remains difficult with so many external influences weighing on the UK. Despite market turbulence since late August causing a sharp downturn in PWLB rates, the overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established.
- 7.5 Downside risks to current forecasts for UK gilt yields and PWLB rates include geopolitical risks in Eastern Europe, the Middle East and Asia, weak growth or recession in the UK's main trading partners the EU, US and China, a resurgence of the Eurozone sovereign debt crisis and recapitalisation of European banks requiring more government financial support.
- 7.6 The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, particularly longer term PWLB rates include uncertainty around the risk of a UK exit from the European Union, the European Central Bank severely disappointing financial markets with a programme of asset purchases which proves insufficient to significantly stimulate Eurozone growth, the commencement by the US Federal Reserve of increases in the Federal Funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities and UK inflation returning to significantly higher levels than in the wider EU and US.

8. Treasury Strategy update

- 8.1 The Treasury Management Strategy (TMS) for 2015/16 was approved by Full Council on 26 February 2015. This Treasury Strategy does not require updating as there are no policy changes or any changes required to the prudential and treasury indicators previously approved.

9. Annual Investment Strategy update

- 9.1 The Council's Annual Investment Strategy, which is incorporated in the TMS, outlines the Council's investment priorities as the security and liquidity of its capital. As outlined in paragraph 6 & 7 above there is still considerable uncertainty and volatility in the financial and banking market, both globally and in the UK. It is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. In this context it is considered that the Annual Investment Strategy approved on 26 February 2015 is still fit for purpose in the current economic climate.
- 9.2 The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term (up to 1 year), and only invest with highly credit rated financial institutions using Capita's suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Capita. The Treasury Team continue to take a prudent approach keeping investments short term and with the most highly credit rated organisations. This approach has been endorsed by our external advisors, Capita Asset Services.
- 9.3 In the first six months of 2015/16 the internal treasury team outperformed its benchmark by 0.22%. The investment return was 0.58% compared to the benchmark of 0.36%. This amounts to additional income of £179,480 during the first six months which is included within the Council's projected outturn position.
- 9.4 A full list of investments held as at 30 September 2015, compared to Capita's counterparty list, and changes to Fitch, Moody's and Standard & Poor's credit ratings are shown in **Appendix A**. None of the approved limits within the Annual Investment Strategy were breached during the first six months of 2015/16 and have not been previously breached. Officers continue to monitor the credit ratings of institutions on a daily basis. Delegated authority has been put in place to make any amendments to the approved lending list.
- 9.5 As illustrated in the economic background section above, investment rates available in the market are at an historical low point. The average level of funds available for investment purposes in the first six months of 2015/16 was £163 million.
- 9.6 The Council's interest receivable/payable budgets are currently projecting a surplus of £1.210 million as reported in the monthly revenue monitoring reports due to no long term borrowing being undertaken and investment balances and interest rates achieved being higher than anticipated.

10. Borrowing

- 10.1 It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits". Council's approved Prudential Indicators (affordability limits) are outlined in the TMS. A list of the approved limits is shown in **Appendix B**.

The schedule at **Appendix C** details the Prudential Borrowing approved and utilised to date.

- 10.2 Officers can confirm that the Prudential Indicators were not breached during the first six months of 2015/16 and have not been previously breached.
- 10.3 The 2015/16 Capital Programme includes borrowing for the refurbishment of Mardol House for Student accommodation. This has been financed via internal borrowing against Council balances, avoiding the requirement for new external borrowing and the ongoing revenue costs of the borrowing will be financed from the additional income generated by the scheme. No new external borrowing is currently required for future years, although work to develop a new capital programme is continuing, but the business cases for a number of proposed schemes are still in development and dependant on external decisions before the Council can make a commitment to them. Once this programme is finalised it will be presented to Council for consideration and the prudential borrowing implications updated in the Treasury Strategy. The schemes being considered are already within the current authorised borrowing limits in place. As outlined in the table below, the general trend has been an increase in interest rates during the first six months of the year across all maturity bands. The dates of the low points and high points across different maturity bands are shown in the table below.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.11%	1.82%	2.40%	3.06%	3.01%
Date	02/04/2015	02/04/2015	02/04/2015	02/04/2015	02/04/2015
High	1.35%	2.35%	3.06%	3.66%	3.58%
Date	05/08/2015	14/07/2015	14/07/2015	02/07/2015	14/07/2015
Average	1.26%	2.12%	2.76%	3.39%	3.29%

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

11. Debt Rescheduling

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

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

Audit Committee 26 November 2015, Cabinet 9 December 2015, Council 17 December 2015: Treasury Strategy 2015/16 – Mid Year Review

Council, 26 February 2015, Treasury Strategy 2015/16

Cabinet Member:

Keith Barrow, Leader of the Council

Local Member

N/A

Appendices

A. Investment Report as at 30th September 2015

B. Prudential Limits

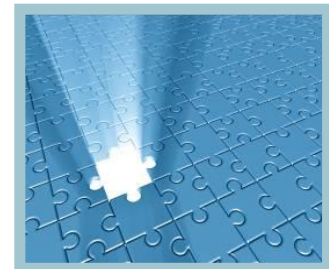
C. Prudential Borrowing Schedule

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Shropshire Council

Monthly Investment Analysis Review

September 2015



Monthly Economic Summary

General Economy

After months of speculation, a highly awaited Federal Reserve (Fed) meeting led to no change in the base rate. The Fed cited “Recent global economic and financial developments” for why monetary policy was left unchanged. This was in the context of China’s economy showing no improvement as its manufacturing sector had its worst month since the global financial crisis of 2009.

The Monetary Policy Committee (MPC) voted 8-1 in favour of keeping rates unchanged at their historic low of 0.5% in its September meeting. The MPC believed it was too soon to confirm the extent of the adverse impacts of China’s slowing economy on the UK. The committee further stated that price pressures showed little change on the month and that higher levels of core inflation are compensated by dropping oil prices. In the past few months, the Governor of the central bank has hinted that a rate hike could be appropriate around the turn of the year, but market expectations have now shifted to next summer. The Governor has, however, said that he believes China’s problems do not appear to have yet had a detrimental effect on the UK.

British inflation stumbled to 0% again as a result of the biggest drop in oil prices since the beginning of the year. Another factor contributing to lower inflation is a slower seasonal increase in prices of clothing than in 2014. Inflation remaining stubbornly below the Bank of England’s 2% target is likely to keep the Bank’s outlook dovish. The final reading of UK Q2 GDP saw economic growth revised down to 2.4%, year on year. UK public finances for August added more gloom as it recorded the widest budget deficit since 2012. Public Sector Net Borrowing rose to £12.1bn in August from £10.7bn, well above economists’ forecasts. However, income tax receipts for July have still yet to be accounted for, which may well change the figure. The unemployment rate in the UK remained stable at 5.5% in the three months to July, a record low since before the financial crisis. In addition, average weekly earnings displayed a 2.9% rise in the 3 months to July, both excluding and including bonuses. Furthermore, private sector pay grew even faster, rising by 3.7%. Non-existent inflation combined with solid wage growth figures displayed that households are finally starting to experience strong real income gains.

The European Central Bank (ECB) left its rate unchanged at 0.05%, as expected. The central bank downgraded its inflation forecasts and ECB President Mario Draghi stated the bank is prepared to increase its €1.1tn bond buying programme. The 19-nation bloc experienced deflation for the first time in 6 months as annual inflation fell to -0.1% in September predominantly driven by a decline in energy prices. This reinforced the argument for the ECB to expand its asset purchasing programme. On a more positive note, the second reading of Q2 Eurozone GDP was revised up to 0.4% quarter-on-quarter from its previous estimate of 0.3%. Year-on-year, the Eurozone expanded by 1.5%. The revision was mainly due to Italy’s economy performing better than expected, as well as Germany and France reporting stronger growth figures. Eurozone unemployment was announced at 11% for August, with the July figure being revised upwards also to 11% from a previously reported 10.9%. Spain and Greece are still experiencing the highest unemployment levels in the bloc, with 22.2% and 25.2% respectively, whilst Germany, Austria and Malta were among the lowest.

The August Non-farm payrolls data release showed the US economy created 173,000 jobs, far less than the expected figure of 220,000. The manufacturing sector lost the most jobs in more than two years and the August figure showed the lowest increase in five months. The unemployment rate, however, fell to 5.1%, the lowest in nearly 10 years. US Q2 GDP was revised up to 3.9% from the 3.7% previously reported. The rise was mainly attributed to growth in consumer spending, particularly on healthcare and transport.

A widely anticipated Federal Reserve meeting, which some analysts believed would finally result in a rate hike, was of little excitement as the Fed maintained the status quo. Although the forecasts for the current year were upbeat with GDP and inflation forecasts both revised up and unemployment revised down, global economic weakness was the main reason to keep rates steady. Particularly, China’s economic slowdown was viewed as a great cause for concern. However, the Fed is still open to the possibility of a rate rise later this year with 13 out of the 17 Fed policymakers predicting a rate rise later this year.

Currency

Sterling opened the month at \$1.533 against the US dollar and closed at \$1.514. Against the Euro, Sterling opened at €1.361 and closed at €1.356.

Forecast

Capita Asset Services did not alter its forecast this month. Capita Asset Services expects the first rate hike to come in the second quarter of 2016. Capital Economics left their forecast unchanged in September. They expect the first Bank Rate increase to come in Q2 2016.

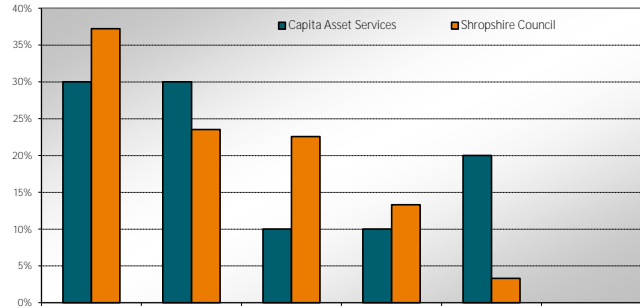
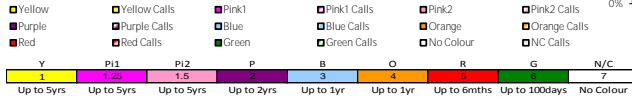
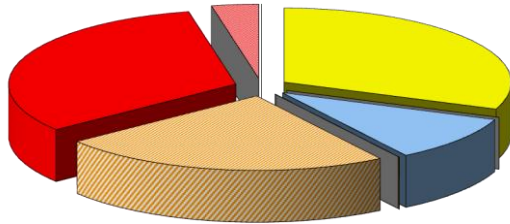
Bank Rate	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Capita Asset Services	0.50%	0.50%	0.75%	0.75%	1.00%
Capital Economics	0.50%	0.50%	0.75%	0.75%	1.00%

Shropshire Council

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
HSBC Bank Plc	20,000,000	0.80%		Call	AA-	0.000%
Svenska Handelsbanken AB	15,370,000	0.45%		Call	AA-	0.000%
Devon County Council	2,000,000	0.30%	10/09/2015	09/10/2015	AA+	0.000%
Nationwide Building Society	2,100,000	0.66%	13/04/2015	12/10/2015	A	0.002%
Birmingham City Council	5,000,000	0.40%	13/07/2015	13/10/2015	AA+	0.000%
Stockport Metropolitan Borough Council	1,350,000	0.30%	14/09/2015	14/10/2015	AA+	0.000%
Kingston Upon Hull City Council	3,000,000	0.30%	15/09/2015	15/10/2015	AA+	0.000%
Glasgow City Council	2,000,000	0.30%	22/09/2015	23/10/2015	AA+	0.000%
Birmingham City Council	5,000,000	0.40%	28/07/2015	29/10/2015	AA+	0.001%
Barclays Bank Plc	5,000,000	0.58%		Call35	A-	0.006%
Cornwall Council	5,000,000	0.40%	05/05/2015	05/11/2015	AA+	0.001%
London Borough of Barking & Dagenham	5,000,000	0.33%	08/09/2015	09/11/2015	AA+	0.001%
Lloyds Bank Plc	1,400,000	0.57%	11/08/2015	11/11/2015	A	0.007%
Eastleigh Borough Council	4,000,000	0.45%	19/05/2015	19/11/2015	AA+	0.001%
Lancashire County Council	5,000,000	0.45%	22/05/2015	20/11/2015	AA+	0.001%
North Tyneside Metropolitan Borough Council	4,000,000	0.35%	20/08/2015	20/11/2015	AA+	0.001%
Nationwide Building Society	3,000,000	0.66%	22/06/2015	21/12/2015	A	0.014%
Lloyds Bank Plc	900,000	0.57%	22/09/2015	22/12/2015	A	0.014%
Nationwide Building Society	2,000,000	0.50%	23/09/2015	23/12/2015	A	0.014%
Lloyds Bank Plc	1,520,000	0.57%	29/09/2015	04/01/2016	A	0.016%
Lancashire County Council	5,000,000	0.42%	01/07/2015	05/01/2016	AA+	0.002%
Lloyds Bank Plc	4,320,000	1.00%	08/01/2015	07/01/2016	A	0.017%
Lloyds Bank Plc	3,600,000	1.00%	09/01/2015	08/01/2016	A	0.017%
Nationwide Building Society	2,900,000	0.66%	04/08/2015	04/02/2016	A	0.022%
Barclays Bank Plc	3,250,000	0.70%	06/08/2015	05/02/2016	A-	0.022%
Barclays Bank Plc	5,000,000	0.70%	16/09/2015	15/03/2016	A-	0.028%
Lloyds Bank Plc	2,420,000	1.00%	17/03/2015	16/03/2016	A	0.029%
Lloyds Bank Plc	2,580,000	1.00%	31/03/2015	30/03/2016	A	0.031%
Lloyds Bank Plc	3,260,000	1.00%	01/04/2015	31/03/2016	A	0.031%
Lloyds Bank Plc	5,000,000	1.00%	08/04/2015	07/04/2016	A	0.032%
Lloyds Bank Plc	5,000,000	1.00%	16/04/2015	14/04/2016	A	0.033%
National Westminster Bank Plc	10,000,000	0.86%	16/06/2015	15/06/2016	BBB+	0.107%
National Westminster Bank Plc	5,000,000	0.92%	22/07/2015	21/07/2016	BBB+	0.122%
Total Investments	£149,970,000	0.65%				0.019%

Portfolio Composition by Capita Asset Services' Suggested Lending Criteria



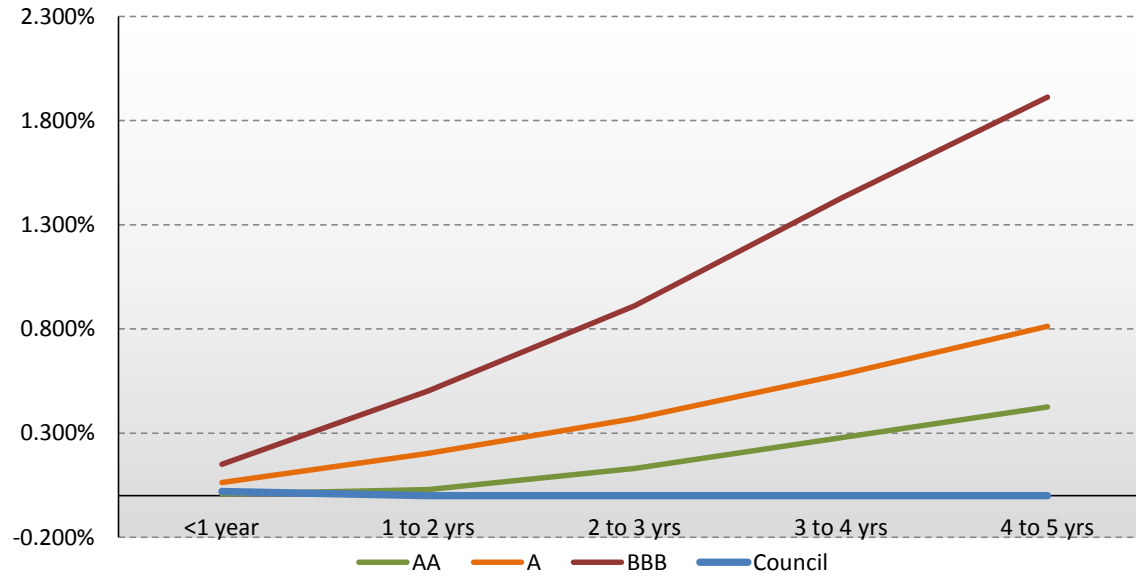
Portfolios weighted average risk number = **3.33**

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

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/EMMFs	
									WAM	WAM at Execution
Yellow	30.91%	£46,350,000	0.00%	£0	0.00%	0.38%	40	116	40	116
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	10.00%	£15,000,000	0.00%	£0	0.00%	0.88%	271	365	271	365
Orange	23.58%	£35,370,000	100.00%	£35,370,000	23.58%	0.65%	0	0	0	0
Red	35.51%	£53,250,000	9.39%	£5,000,000	3.33%	0.81%	126	248	135	270
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Total	100.00%	£149,970,000	26.92%	£40,370,000	26.92%	0.65%	84	160	114	218

Investment Risk and Rating Exposure

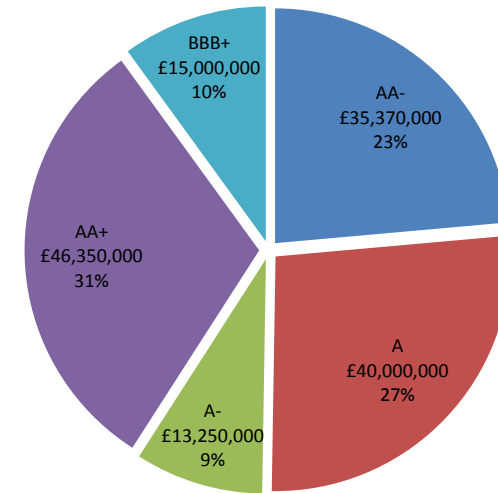
Investment Risk Vs. Rating Categories



Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.007%	0.029%	0.130%	0.278%	0.425%
A	0.062%	0.202%	0.370%	0.581%	0.813%
BBB	0.150%	0.502%	0.910%	1.428%	1.912%
Council	0.019%	0.000%	0.000%	0.000%	0.000%

Rating Exposure



Historic Risk of Default

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

Chart Relative Risk

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

Rating Exposures

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

Monthly Credit Rating Changes
FITCH

Date	Update Number	Institution	Country	Rating Action
02/09/2015	1382	Riyad Bank	Saudi Arabia	Changed the Outlook on the Long Term Rating of Riyad Bank to Negative from Stable. Affirmed its 'A' Long Term and 'F1' Short Term Ratings

**Monthly Credit Rating Changes
MOODY'S**

Date	Update Number	Institution	Country	Rating Action
16/09/2015	1383	Skipton Building Society	United Kingdom	Affirmed the 'Baa2' Long Term and 'P-2' Short Term Ratings of Skipton Building Society. The Long Term Rating was removed from Positive Watch and placed on Stable Outlook.
17/09/2015	1384	Santander UK plc	United Kingdom	Affirmed the 'A1' Long Term and 'P-1' Short Term Ratings of Santander UK plc. The Long Term Rating was removed from Positive Watch and placed on Stable Outlook.
18/09/2015	1386	Abbey National Treasury Services	United Kingdom	Affirmed the 'A1' Long Term and 'P-1' Short Term Ratings of Abbey National Treasury Services plc. The Long Term Rating was removed from Positive Watch and placed on Stable Outlook.
21/09/2015	1387	France	France	Downgraded the Sovereign Rating to 'Aa2' from 'Aa1' and the Outlook was changed to Stable from Negative
24/09/2015	1388	Credit Industriel et Commercial	France	Downgraded the Long Term Rating to 'Aa3' from 'Aa2' while the Short Term Rating was affirmed. The Outlook on the Long Term Rating was changed to Stable from Negative.

Monthly Credit Rating Changes
S&P

Date	Update Number	Institution	Country	Rating Action
17/09/2015	1385	Sumitomo Mitsui Banking Coporation Europe Ltd	United Kingdom	Downgraded the Long Term Rating to 'A' from 'A+' and changed the Outlook to Stable from Negative.
25/09/2015	1389	Finland	Finland	The Long Term Rating was affirmed at 'AA+' and the Outlook was changed to Negative from Stable.

Appendix B

Prudential Indicators – Quarter 2 2015/16

Prudential Indicator	2015/16 Indicator £m	Quarter 1 – Actual £m	Quarter 2 – Actual £m	Quarter 3 – Actual £m	Quarter 4 – Actual £m
Non HRA Capital Financing Requirement (CFR)	248	248	248		
HRA CFR	85	85	85		
Gross borrowing	329	338	332		
Investments	90	152	150		
Net borrowing	239	186	182		
Authorised limit for external debt	442	338	332		
Operational boundary for external debt	406	338	332		
Limit of fixed interest rates (borrowing)	442	338	332		
HRA debt Limit	96	85	85		
Limit of variable interest rates (borrowing)	221	0	0		
Principal sums invested > 364 days	40	0	0		
Maturity structure of borrowing limits	%	%	%		
Under 12 months	15	3	2		
12 months to 2 years	15	1	2		
2 years to 5 years	45	5	4		
5 years to 10 years	75	7	6		
10 years to 20 years	100	26	31		
20 years to 30 years	100	22	18		
30 years to 40 years	100	17	17		
40 years to 50 years	100	10	10		
50 years and above	100	9	10		

* Based on period 6 Capital Monitoring report

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Capital Financing 2015/16 - Period 6 2015/16

Prudential Borrowing Approvals	Date Approved	Amount Approved	Applied (Spent) 2006/07	Applied (Spent) 2007/08	Applied Outturn 08/09 2008/09	Applied Outturn 09/10 2009/10	Applied Outturn 10/11 2010/11	Applied Outturn 11/12 2011/12	Applied Outturn 12/13 2012/13	Applied Outturn 13/14 2013/14	Applied Outturn 14/15 2014/15	Budgeted Period 6 15/16 2015/16	Budgeted Period 6 15/16 2016/17	First year MRP Charged	Asset Life	Final year MRP Charged	
		£	£	£	£	£	£	£	£	£	£	£	£	£			
Monkmoor Campus	24/02/2006	3,580,000															
Capital Receipts Shortfall -Cashflow Applied:	24/02/2006	5,000,000															
Monkmoor Campus			3,000,000		0												2007/08 25 2031/32
William Brooks					0		3,580,000										2011/12 25 2035/36
Tem Valley					2,000,000												2010/11 35 2044/45
		8,580,000	3,000,000	0	2,000,000	0	3,580,000	0	0	0	0	0	0				
Highways	24/02/2006	2,000,000	2,000,000														2007/08 20 2026/27
Accommodation Changes	24/02/2006	650,000	410,200	39,800													2007/08 6 2012/13
Accommodation Changes - Saving	31/03/2007	(200,000)															
		450,000	410,200	39,800	0	0	0	0	0	0	0	0	0				
Waste Management Site - Oswestry	29/06/2007	712,500															
Waste Management Site - Oswestry	20/06/2008	(712,500)															
		0	0	0	0	0	0	0	0	0	0	0	0				
William Brooks	18/07/2008	0															2011/12 25 2035/36
Primary School Capital Programme	19/12/2008	0															2012/13 25 2036/37
The Plarmigan Building	05/11/2009	3,744,000					3,744,000										2010/11 25 2034/35
The Mount McKinley Building	05/11/2009	2,782,000					2,782,000										2011/12 25 2035/36
The Mount McKinley Building	05/11/2009	0					-										2011/12 5 2015/16
Capital Strategy Schemes - Potential Capital Receipts shortfall - Desktop Virtualisation	25/02/2010	187,600					187,600										2010/11 25 2014/15
Carbon Efficiency Schemes/Self Financing	25/02/2010	1,512,442						115,656	1,312,810	83,976							2011/12 5 2017/18
Transformation schemes		92,635						92,635									2012/13 3 2014/15
New School amalgamations - Self Financing	25/02/2010	0															2013/14 25 2037/38
Renewables - Biomass - Self Financing	14/09/2011	92,996						82,408	98,258	(87,670)							2014/15 25 2038/39
Solar PV Council Buildings - Self Financing	11/05/2011	56,342						1,283,959	124,584	(1,352,202)							2013/14 25 2038/39
Depot Redevelopment - Self Financing	23/02/2012	0															2014/15 10 2023/24
Oswestry Leisure Centre Equipment - Self Financing	04/04/2012	124,521						124,521									2012/13 5 2016/17
Leisure Services - Self Financing	01/08/2012	711,197							711,197								2013/14 5 2016/17
Mardol House Acquisition	26/02/2015	4,160,000									4,160,000						2015/16 25 2039/40
Mardol House Adaptation and Refit	26/02/2015	3,340,000									167,641	3,111,929	60,430				2016/17 25 2041/41
Previous NSDC Borrowing		955,595			821,138	134,457											2009/10 5/25
		28,789,327	5,410,200	39,800	2,821,138	6,848,057	3,695,656	2,896,333	1,018,015.37	(1,439,872)	4,327,641	3,111,929	60,430				
MRP Charged			0.00	(288,367.00)	(296,326.67)	(339,361.72)	(589,162.85)	(860,518.50)	(1,240,619.37)	(1,250,979.56)	(1,181,963.23)	(1,311,782.82)	(1,439,849.81)				
Prudential Borrowing CFR				5,161,632.52	7,686,443.86	14,195,138.94	17,301,632.44	19,337,446.83	19,114,842.83	16,423,990.88	19,569,668.49	21,369,814.83	19,990,395.02				
Contributions to MRP budget (X1950) from existing budgets on an ongoing basis:								0	0	0	0	0	0				
Highways Revenue - Highways Infrastructure		100,000		100,000													
Dedicated School Grant - Monkmoor Campus		0											143,200				
		100,000	0	100,000	0	0	0	0	0	0	0	0	143,200				
Contributions to interest budget (X1905 73111) from existing budgets on an ongoing basis:																	
Highways Revenue - Highways Infrastructure (4.05%)		81,000		81,000													
Dedicated School Grant - Monkmoor Campus (4.25%)		0											152,150				
		81,000	0	81,000	0	0	0	0	0	0	0	0	152,150				

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<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
26 November 2015	
09:30 am	<u>Exempt</u>

National Fraud Initiative (NFI) 2014/15 Update

Responsible Officer Katie Williams

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1. Summary

This report provides an update on the outcomes of the 2014/15 National Fraud Initiative (NFI). The results of the exercise are reported to and monitored by the Cabinet Office (previously the Audit Commission) using their secure NFI website.

In addition to the data already submitted in 2014, data relating to Council Tax and the Register of Electors will, for the first time, be submitted in December 2015. This information will be used to generate details of potential single person discount fraud.

Participation in this exercise remains mandatory and is an integral part of the Council's commitment to the detection and prevention of fraud. The sharing of data and working with other public bodies improves the detection of fraud and corruption across the public sector.

The 2014/15 exercise has so far identified financial savings of £5,096.53, with progress on recovery on-going. This has reduced significantly compared to the 2012/13 exercise due to the transfer of housing benefits fraud investigators to the Single Fraud Investigation Services (SIFIS).

The main NFI exercise operates over a two year cycle.

2. Recommendations

The Committee is asked to consider and endorse, with appropriate comment, the contents of the NFI Update report.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The National Fraud Initiative remains a positive and integral part of the Council's commitment to the detection and prevention of fraud and successfully illustrates the benefits that joined up working and co-operation between organisations can

produce. The sharing of data nationally allows a number of organisations to identify effectively areas of potential fraud or error, reducing the future risk of such fraud or errors going undetected.

- 3.2 The provision of data for the purposes of NFI is required under Part 6 of the Local Audit and Accountability Act 2014 (previously the Audit Commission Act 1998). The Cabinet Office (previously the Audit Commission) uses the output to help them assess the arrangements that the Council has in place to prevent and detect fraud. Internal Audit use the output to help predict the likelihood of fraud occurring, and to evaluate the Council's effectiveness in managing it. This is done in accordance with the Public Sector Internal Audit Standards. The subsequent investigation of the NFI matches ensures that any monies lost as a result of identified frauds or errors are identified, allowing weaknesses in procedures to be addressed thus improving the overall internal control environment. This process helps prevent future fraud or error.
- 3.3 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2015.
- 3.4 There are no direct environmental, equalities, climate change or consultation consequences of this proposal.

4. Financial Implications

- 4.1 To date, a total of 17 days have been spent in the 2015/16 audit plan investigating the matches. Additional time will be spent in 2015/16 providing data for Council Tax and Register of Electors to identify potential single person discount fraud. This compares to 2014/15, in which a total of 16 days were spent providing the data, ensuring compliance with the Code of Data Matching Practice and investigating the matches.
- 4.2 Participation in the exercise is mandatory and the fees for the 2014/15 exercise were £3,650.
- 4.3 The 2014/15 exercise has identified savings of £5,096.53 to date, and progress on recovery is on-going.

5 Background

- 5.1 The National Fraud Initiative (NFI) is an exercise to detect and prevent potential fraud by examining electronic data shared between public and private sector bodies. Introduced in 1996 by the Audit Commission, responsibility has now transferred to the Cabinet Office. This will allow the NFI to continue to develop in line with Government activities to save taxpayers' money through addressing fraud or error, and improving debt recovery.
- 5.2 The NFI matches data from 1,300 public sector and 77 private sector organisations. It flags up inconsistencies in the information that may indicate a fraud, an error, or an overpayment may have taken place, signalling the need for review and potential investigation.

6 Report

6.1 The mandatory data sets required for the 2014/15 NFI exercise were:

- Payroll
- Pensions
- Trade creditors
- Housing
- Insurance
- Private supported care home patients
- Transport passes and permits
- Blue badges
- Licenses
- Personal budgets for social care

6.2 Some matches identified do not have any financial implications but *do* result in records being updated. . Discovering deceased concessionary bus pass holders is an example of this. The update allows the pass record to be marked invalid thus preventing further fraudulent use or re-issue.

6.3 As part of the NFI commitment, the Council is required to respond to other participating bodies' requests for further information. This can be done through the NFI secure website. Shropshire has provided information on investigations for a number of other Local Authorities and public bodies.

6.4 In addition to the data already submitted in 2014 the Council are required to submit Council Tax and the Register of Electors data in December 2015. This data will be used to generate details of potential single person discount fraud in a real time report. This data will be passed to the Revenues and Benefits Service Manager for review.

6.5 Further details of the significant matches identified and examined, together with associated results, are detailed below:

Area Investigated	Outcome of Investigation
Housing Benefits	The Benefits Service has 2,098 matches in total, 507 of which were recommended for review. The service has taken the decision to not review all 507 recommended matches as there are other controls in place which provide more relevant recent data to capture any potential discrepancies in these areas. Further details can be found in section 7 of this report.
Deceased Pensioner Matches	This identified 69 potentially deceased pensioners. All matches were investigated by the Pensions team which identified 12 cases where the death had not been reported to the Council. This identified £4,196.53 overpayments which are

Area Investigated	Outcome of Investigation
	currently in the process of being recovered from the next of kin or executors.
Deferred Deceased Pensioner Matches	This report identified 91 potential matches. Records were updated where appropriate. As deferred payments are not yet being paid, no fraud has occurred.
Payroll	Various reports relating to payroll matches with other bodies, pensions and creditors were received. Review of the matches did not identify any fraud or errors.
Blue Badges to Deceased Persons	This report identified 308 potential matches. Many of these were the result of timing differences between the data being submitted and the matches being returned. 151 records were updated to reflect the death. This does not necessarily indicate fraudulent activity however, as the family may have disposed of the badge but omitted to notify the Council of the death.
Concessionary Bus Fares to Deceased Persons	This report identified 624 potential matches. The matches were investigated by the Highway and Transportation team who confirmed that they were already aware of the matches which were due to timing issues. The cards have been hot-listed, which means they can no longer be used.
Residential Care Home Residents to Deceased Persons	This report identified 65 potential matches. The matches were investigated by Social Care who confirmed that they were already aware of the matches and they had occurred due to timing issues between the data being submitted in October 2014 and the matches being returned in January 2015.
Creditor Reports	Creditor reports on possible duplicate payments, invalid VAT registration numbers and duplicate supplier accounts were provided. The reports were referred to the Payments Team Manager for review. No further work was undertaken however as additional control measures within the service have been applied. An historical duplicate payment match was identified in the reports with a value of

Area Investigated	Outcome of Investigation
	£900. This is currently in the process of being recovered from the creditor.
Housing Tenants	These reports match housing tenancy records within the council and other local authorities. No tenancy fraud was identified. A number of mismatches resulted in the updating of tenant information to improve data quality.
Other Reports	Other reports such as apparently deceased parking permit holders and possible duplicate insurance claims have been investigated and where appropriate records have been updated. No frauds or savings have been identified from these reports.

7 Housing Benefit Additional Controls

In addition to the NFI, Housing Benefits Service uses a number of other controls to detect, manage and minimise the risk of fraudulent claims and errors in benefit applications.

7.1 Real Time Information

Employers and pension providers are now required to provide Her Majesty's Revenue and Customs (HMRC) with income details immediately after a payment is made. HMRC has a new system for collecting this information known as Real Time Information (RTI). The Department for Work and Pensions (DWP) matches local authority benefits information with HMRC earnings and non-state pensions information to identify cases of under or non-declaration. Since September 2014, the DWP has been sending local authorities monthly mismatch reports to investigate. Benefits have found that the RTI data provides a higher quality and timelier solution than the existing data sources being used to identify fraud and error across DWP systems. As a result, discrepancies dating back to 2012 have been identified.

7.2 Housing Benefit Matching Service

Benefits also participate in a national data matching program called the Housing Benefit Matching Service (HBMS). This is a mandatory function for all local authorities in order to help prevent and detect fraud and is administered by the DWP. The scheme allows the local authority to identify discrepancies between its housing and council tax records against those held by the DWP, such as income support, job seekers allowance, incapacity benefit, pension credits, etc. This information may also be supplied to credit reference agencies and any subsequent investigations could possibly include checks on undeclared cohabitants. The Council receives monthly HBMS discrepancy reports.

7.3 Fraud and Error Reduction Incentive Scheme

The Fraud and Error Reduction Incentive Scheme (FERIS) was introduced in November 2014 and made funding available to local authorities to reduce fraud and error in housing benefit caseloads. The Council’s Benefits Service successfully secured funding to review all high risk claims. To date the service has reviewed working age caseload assessed against earned income and will be looking to review all of the Council’s pensioner cases with occupational pensions during the next quarter. It is believed that this initiative will continue into 2016/2017.

<p>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Accounts and Audit Regulations 2015 Local Audit and Accountability Act 2014 Public Sector Internal Audit Standards (PSIAS)</p>
<p>Cabinet Member (Portfolio Holder) Keith Barrow, Leader of the Council and Brian Williams, Chairman of Audit Committee.</p>
<p>Local Member - N/A</p>
<p>Appendices - None</p>

- 3.3 Internal Audit, working to the Public Sector Internal Audit Standards (PSIAS), has a responsibility to evaluate the potential for the occurrence of fraud and any subsequent management response. This report sets out some of the initiatives employed.
- 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

All revisions can be met from within existing budgets.

5. Background

- 5.1 The Council sets itself high standards for both members and officers in the operation and administration of the Council's affairs and has always dealt with any allegations or suspicions of fraud and corruption promptly. It has in place policies, procedures and initiatives to prevent, detect and report on fraud, bribery and corruption, including a Speaking up about Wrongdoing policy supported by an overarching Counter Fraud, Bribery and Anti-Corruption Strategy.
- 5.2 The Counter Fraud, Bribery and Anti-Corruption Strategy is contained in part five of the Constitution. It was last reviewed and updated in December 2014. The revisions were discussed at Audit Committee.

6. Issues

National Picture

- 6.1 The first Protecting the English Public Purse (PEPP 2015) report by The European Institute for Combatting Corruption and Fraud (TEICCAF) was developed by the former counter fraud team of the Audit Commission (now part of TEICCAF). The Institute continues the national series of reports previously published by the Audit Commission, and reports on national, regional and local fraud detection by English councils.
- 6.2 In total, English councils detected fewer cases of fraud in 2014/15 compared with the previous year. However, the value, in monetary terms, increased by more than 11 percent. In particular:
- the number of detected cases fell by 18 per cent to over 84,000 while their value increased by 11 per cent to £207 million;
 - the number of detected cases of housing benefit and council tax benefit fraud fell by more than half to just over 27,000 while their value fell by almost 17 per cent to nearly £23.5 million. This decline was expected; and
 - the number of detected cases of non-benefit (corporate) fraud decreased by 8 per cent to 57,000, while their value increased by 63 per cent to £97 million.

- 6.3 In addition, councils detected fewer housing tenancy frauds in 2014/15. Regional and local fraud detection results suggest an emerging divergence in the capacity, capability and commitment of some councils to play an effective part in the fight against fraud. As a result, Right to Buy (RTB) and No Recourse to Public Funds¹ (NRPF) have emerged as significant areas of fraud risk for councils.
- 6.4 The report sets out some recommendations for consideration by both councils and the government, many of which Shropshire Council is already working towards. This includes reviewing counter fraud arrangements, strategy assessment, and methods of recording and reporting fraud. It is recognised that further work is required in these areas.
- 6.5 The full report can be found at: <http://www.teiccaf.com/protecting-the-english-public-purse-2015/>

CIPFA's Counter Fraud Assessment Tool

- 6.6 CIPFA have developed and shared a counter fraud assessment tool. The tool is designed to help councils assess their counter fraud arrangements against the standards set out in the CIPFA counter fraud code which was reported to Committee last November. The tool can be used as a basis for ongoing improvement and development planning and to provide assurance on the adequacy and effectiveness of the Council's counter fraud arrangements.
- 6.7 The assessment tool contains 68 performance statements which can be used to measure effectiveness against the five key principles of managing the risks of fraud and corruption, which are to:
- Acknowledge responsibility;
 - Identify risks;
 - Develop strategy;
 - Provide resources and
 - Take action.

Completion of the assessment generates a written statement of performance to date and a summary assessment against each of these principles. The model also facilitates a data exchange and comparison with other organisations. It is not intended to use this facility at the current time however as the benefits are considered limited.

- 6.8 Following the assessment, Shropshire's compliance with CIPFA's Code of Practice on managing the risks of fraud and corruption were summarised as follows:

Acknowledge responsibility

The Council has reached a good level of performance. The leadership team is acknowledging the risks and demonstrating positive leadership to help build an anti-fraud culture and proactively manage risk. There are some areas where

¹ A number of councils, mainly London boroughs, have highlighted this as an emerging fraud risk, namely, 'No Recourse to Public Funds' (NRPF). This fraud involves persons from abroad who are subject to certain immigration controls which prevents them from gaining access to specific welfare benefits or public housing, fraudulently claiming such benefits.

more could be done on a regular basis to ensure the focus is maintained and to publicly demonstrate the Council's anti-fraud commitment.

Identify risks

The Council is meeting the standard set out in the Code of Practice. It has comprehensive arrangements for fraud risk identification and assessment and is working to actively manage those risks. The Council's high level of performance in this area means that it is taking robust steps to improve and maintain its resilience to fraud.

Develop strategy

The Council has reached a good level of performance. It has in place a strategy to address its fraud and corruption risks and it includes proactive as well as responsive approaches. There are some areas where more could be done to ensure the strategy is operating effectively across the Council and provides for clear leadership, review and oversight.

Provide resources

The Council is meeting the standard and has in place robust processes for reviewing its capacity and capability which aligns with its counter fraud strategy. It is taking robust steps to improve and maintain its resilience to fraud.

Take action

The council is meeting the standard and is actively implementing the actions identified in its counter fraud strategy and responding effectively to the risks emerging. It reviews its performance and has arrangements in place to provide assurance and accountability. The Council's high level of performance in this area means it is taking robust steps to improve and maintain its resilience to fraud.

In summary

The Council is meeting the standard set out in the CIPFA Code of Practice on managing the risk of fraud and corruption. Leadership has acknowledged its responsibilities for managing risks and it has robust arrangements in place to identify and manage risks. It has a counter fraud strategy, backed up by the resources and arrangements to carry it out, and is proactive in managing fraud and corruption risks and responds effectively. Stakeholders can be confident in the approach taken by the Council and meeting the standards of this code contributes to good governance. Whilst no organisation is fraud proof, Shropshire Council has taken robust steps to ensure its resilience.

- 6.9 Areas identified for improvements following this review will be targeted as such and reported back to Committee.

National Fraud Initiative (NFI)

- 6.10 The Council continues to participate in this exercise, the details and results of which are reported upon in a separate report on this agenda.

Transparency requirements

- 6.11 New legislation on transparency also applies to anti-fraud activities. The Local Government Transparency Code sets out the minimum data that local authorities

should be publishing, the frequency with which it should be published and how it should be published. The Council has complied with these requirements, the results of which can be found on the web site at:

<https://www.shropshire.gov.uk/open-data/fraud-data/>

Counter Fraud, Bribery and Anti-Corruption Strategy

- 6.12 CIPFA's Code of practice on managing the risks of fraud and corruption states that an organisation needs a counter fraud strategy setting out its approach to managing its risks and defining responsibilities for action.
- 6.13 Shropshire's strategy clearly identifies the Council's commitment to an effective Counter Fraud, Bribery and Anti-Corruption approach as part of its overall Corporate Governance arrangements. This strategy is designed to:
- Acknowledge and understand fraud risks;
 - Prevent and detect more fraud; and
 - Pursue and punish fraud and recover losses.
- 6.14 This strategy reflects best practice from CIPFA's Code of practice on managing the risks of fraud and corruption, CIPFA's Red Book, the National Fraud Authority (NFA) Fighting Fraud Strategies and guidance from organisations such as ALARM (National Forum for Public Sector Risk Management) and the IIA (Institute of Internal Auditors).
- 6.15 It is recognised that to reduce losses to fraud, bribery and corruption to an absolute minimum, a strategic approach with a clear remit covering all areas of fraud, bribery and corruption that may affect the organisation is required. There needs to be a clear understanding of the importance of the links between policy work (to develop a counter fraud, bribery and anti-corruption culture, create a strong deterrent effect and prevent fraud, bribery and corruption by designing robust policies and systems) and operational work (to detect and investigate fraud, bribery and corruption and seek to apply sanctions and recover losses where they are found).
- 6.16 The temptation may be to 'pick and choose' actions. However, the full range of integrated action must be taken forward with the organisation's focus clearly on outcomes (i.e. reduced losses) and not just activity (i.e. the number of investigations, prosecutions, etc.).
- 6.17 The strategy has been reviewed to ensure that it continues to:
- Link to the Council's priorities.
 - Emphasise the Council's remit to reduce losses to fraud, bribery and corruption to an absolute minimum.
 - Demonstrate links between 'policy' work and 'operational' work.
 - Show agreement by both the political and executive authority for the Council.
 - Acknowledge fraud and identify accurately the risk.
 - Create and maintain a strong structure to pursue its remit including:
 - Having the necessary authority and support;
 - Providing for specialist training and accreditation;
 - Completing appropriate propriety checks;
 - Developing effective relationships with other organisations;

- Take action to tackle the problem by:
 - Integrating different actions;
 - Building a strong counter fraud and anti-corruption culture;
 - Having clear actions to deter any problem;
 - Taking action to prevent fraud and corruption;
 - Early detection of any issues;
 - Investigating appropriately in accordance with clear guidance;
 - Having clear and consistent sanctions where fraud or corruption is proven;
 - Having clear policies on redressing losses.
- Focus on outcomes and not merely activity.

6.18 Members are asked to comment on the strategy attached as **Appendix A**, all changes are identified in **bold type and underlined**.

6.19 The main changes reflect:

- Transfer of the responsibility for housing benefit investigation from the Council to the Department of Work and Pensions (DWP) Single Person Fraud Service (SFIS). (Meaning that responsibilities in relation to fraud investigation of benefits are removed from the Strategy document and replaced by details on how to report crime to the DWP.)
- Responsibility for commissioning communications services transferred from the Head of Support Services, a deleted post, to the Director of Public Health.

Update on Regulation of Investigatory Powers Act 2000 (RIPA) Activity

6.20 The Council's Regulation of Investigatory Powers Policy ('the Policy') that sets out the Council's position in respect of the use of surveillance techniques was adopted on 1 August 2013. The Policy needed updating to reflect changes brought into effect through the RIPA legislative framework and to take account of changes to Council personnel. This has resulted in a revised RIPA Policy being formally approved by the Council on 24 September 2015 and adopted with effect from 1 October 2015.

6.21 The Policy states that the Council will ensure that all officers charged with the responsibility of being an authorised officer/designated person will be appropriately supported and trained. In this respect, training was delivered to 16 named authorising officers in October 2015. To ensure RIPA matters are considered across all relevant Council functions at an appropriate level of seniority, all authorising officers are at service manager level (or equivalent) or above and are drawn from a wide range of service areas covering Finance, Governance and Assurance, Business Support and Regulatory Services, Safeguarding, Education Access, Environmental Maintenance, Revenues and Benefits, Outdoor Partnerships and Social Care. Senior officers from Legal and Democratic Services and the Chief Executive support the process. To further embed understanding of RIPA principles into the 'front-line' of service delivery, 31 officers, drawn from across all service areas identified above, were also trained in October this year.

6.22 The use of RIPA is independently overseen by the Office of Surveillance Commissioners (OSC), the Interception of Communications Commissioner's Office (IOCCO) and the Investigatory Powers Tribunal (IPT). The Council was

the subject of an OSC inspection on 9 November 2015, the outcome of which will be reported to Audit Committee in due course.

Other activities

6.23 Following the restructuring in Internal Audit, the service is investing in training to ensure that sufficient officers remain up to date and capable of undertaking investigations in a professional manner as the need arises. Four senior officers have received RIPA training and an Engagement Auditor has successfully completed CIPFA's certificate in investigative practices. The certificate ensures the officer has the legal knowledge and skills essential to carry out an investigation and secure admissible evidence. The course covered legislation, procedures and rules of evidence that impact on auditors' everyday work, plus best practice standards in interviewing, collecting and recording evidence, writing statements and reports and giving evidence in the witness box. Two further auditors are booked on CIPFA's accredited counter fraud technician course (CACFT) in February. This course examines the impact of fraud in the UK and includes an overview of the civil and criminal justice systems. It focuses on fraud awareness, how to gather evidence and how to obtain information without prejudicing any later investigation. In total over a third of the Audit team will have qualifications and/or considerable experience in conducting investigations.

6.24 In terms of *potential* for fraud, a current counter fraud risk assessment has identified one high risk area and a number of medium risk areas. These include:

High

- Treasury management²

Medium

- Human resources and payroll, including employees committing benefit fraud, travel and overtime expense frauds;
- Procurement frauds, including false invoices, bank mandate changes;
- Cash collection thefts and petty cash;
- Housing, national non domestic rates (NNDR) and council tax benefits;
- Blue badge disabled parking;
- Social care direct payments and other financial support;
- Abuse of clients funds;

6.25 In the current year, a number of internal audit reviews have been conducted, or are planned, to help ensure appropriate controls are in place and are operational to counter the risk of fraud:

- Treasury management
- Payroll
- Housing benefits
- Council tax
- NNDR
- Parking
- Direct payments
- Personal budgets

² The high risk score is attracted due to the potential impact of any fraudulent activity being of a high material value. Given the mitigating controls in place and the assurances received from an independent annual audit, the likelihood of such an occurrence in this area attracts the lowest score of one, it would be a rare risk occurring in exceptional circumstances. However, a likelihood of one and impact of five, scores high on the Council's risk matrices.

- Purchase ledger
- Sales ledger
- Income collection

These are further supported by specific counter fraud work conducted in the last twelve months in relation to strike payments, driving documentation, and overtime payments with further initiatives planned. In addition, every investigation, where weaknesses have been identified in internal controls, results in a report which lists areas to be improved to help reduce a repeat of any inappropriate activity.

6.26 In summary, the Audit Committee are asked to take assurances as to the level of counter fraud activity currently undertaken with the present resources and approve the minor changes to the Counter Fraud, Bribery and Anti-Corruption Strategy.

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

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

The Bribery Act 2010

NFA Fighting Fraud Together, The strategic plan to reduce fraud

Fighting Fraud Locally: The Local Government Fraud Strategy

Enterprise and Regulatory Reform Act 2013

Protecting the English Public Purse (PEPP 2015) report

Report to Council on 24 September 2015 entitled 'Regulation of Investigatory Powers Policy'

Regulation of Investigatory Powers Policy (Version4 09/2015) adopted with effect from 1 October 2015

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

Local Member n/a

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

Shropshire Council Counter Fraud, Bribery and Anti-Corruption Strategy

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

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

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

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

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

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INTRODUCTION

Context

Shropshire Council employs a high number of staff and spends millions of pounds every year commissioning and providing a wide range of services to individuals and households, working with a range of many other private, public and voluntary sector organisations.

As with any large organisation, the size and diversity of services, means that the risk of loss due to fraud, bribery and corruption, from both internal and external sources, poses an ever present risk.

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

Links to Corporate Values-Priorities

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

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

Objectives of the Counter Fraud, Bribery and Anti-Corruption Strategy

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

The key message to publicise as a result of this work is that the Council expects all members, permanent employees, temporary employees, agency staff, consultants, contractors, volunteers and service users to act honestly and with integrity, and to provide the Council with any information, help and support needed to deal with fraud, bribery and corruption. In so doing, to comply with the spirit of the law as well as the letter, and regulations of all jurisdictions in which the Council operates, in respect of the lawful and responsible conduct of activities.

WHAT IS FRAUD, BRIBERY AND CORRUPTION?

Fraud

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

- False representation.

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

The Act also created four new offences of: -

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

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

Theft

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

Bribery

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

There are four key offences under the Bribery Act 2010:

- Bribery of another person (section 1).
- Accepting a bribe (section 2).
- Bribing a foreign official (section 6).
- Failing to prevent bribery (section 7).

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

Is Shropshire Council a "commercial organisation"?

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

Therefore the Council is a "commercial organisation".

Corruption

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

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

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

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

Ethical awareness

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

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

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

Policies, Procedures and Codes

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

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

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

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

Internal control environment

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

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

Internal Audit Activity

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

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

The Strategy

OBJECTIVES OF THE STRATEGY

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

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

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

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

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

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

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

ADOPTING THE RIGHT STRATEGY

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

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

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

ACKNOWLEDGING FRAUD: ACCURATELY IDENTIFYING THE RISKS

Measuring the level of illicit activity in a large organisation is inherently difficult, but must be done where practicable. Through ascertaining the extent of fraud and the associated learning derived from establishing where and how it occurred, valuable knowledge can be gained regarding where it is necessary to strengthen or introduce systems of control.

CREATING AND MAINTAINING A STRONG STRUCTURE

Authority

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

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

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

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

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

Culture

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

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

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

- Head of Paid Service, Directors, Heads of Service or Senior Managers
- Internal Audit Services Standards Hotline on 01743 252627
- **Housing Benefits Fraud Telephone 0345 6789033. National Benefit Fraud Hotline 0800 854 440 – or 0800 678 3722 for Welsh speakers**

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

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

Contractors and Partners

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

The Public and External Organisations

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

Safe Recruitment

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

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

Training and Staff Development

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

The Council will ensure that key counter fraud, bribery and anti-corruption staff work to personal development and training plans incorporating the competency levels required to help prevent, identify and investigate fraud.

Management are supported in the provision of induction and refresher training, particularly for employees involved in internal financial control systems, to ensure that duties and responsibilities in respect of counter fraud, bribery and anti-corruption are highlighted and reinforced regularly.

The Council continues to provide fraud awareness training using an E-Learning package and to train appropriate staff on the Money Laundering Policy.

Relationships with other organisations

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

The public agencies may include the: -

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

TAKING ACTION TO TACKLE THE PROBLEM

Deterrence

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

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

Prevention

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

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

Detection

It is often the alertness of members and employees that facilitates detection. The public also have a role to play.

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

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

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

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

Investigation

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

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

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

Sanctions and Redress - Pursue

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

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

DEFINING SUCCESS

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

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

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

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

KEEPING AHEAD

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

- Audit Commission
- National Fraud Initiative Website
- Protecting the Public Purse Report
- HM Treasury Publications
- Annual Fraud Reports

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

CONCLUSIONS

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

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

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

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

This Strategy will be reviewed annually by the Audit Committee.



FRAUD RESPONSE PLAN

INTRODUCTION

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

WHAT YOU SHOULD DO IF YOU SUSPECT FRAUD

9. Immediately report your suspicions to:

- Your immediate Supervisor or Line Manager (or more senior manager depending on the seriousness and sensitivity of the issues involved and who is thought to be involved in the wrongdoing)
- The Audit Services Manager, Ceri Pilawski on 01743 25~~2027~~ **7739** or the Section 151 Officer on 01743 255011
- The Whistleblowing Hotline on 01743 252627 or email audit@shropshire.gov.uk
- Audit Services, Shropshire Council, Shirehall, Abbey Foregate, Shrewsbury SY2 6ND
- If the fraud is in relation to ~~Housing or Council Tax~~ Benefits **details for reporting appear on the Council's web site email fraud@shropshire.gov.uk or telephone 0345 6789033 at:**

<https://www.shropshire.gov.uk/benefits/report-benefit-fraud/>

TOP TIPS

10.

DON'T

DO

Delay – report the matter quickly.

Record your suspicions – write down what you have found, seen and heard.

Approach or accuse individuals directly – you may alert them and evidence may be destroyed.

Keep any evidence you have in a safe place until you can pass it to the Audit Service Manager. However, do not do this if such action would risk alerting the suspect.

Tell anybody else – you don't know who may be involved.

Tell Audit who you are – they will want to talk to you as you may know more than you realise.

Investigate yourself – you may spoil the evidence and prevent a criminal prosecution.

Keep outwardly calm and carry out your own work as usual.

SAFEGUARDS

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

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

INVESTIGATION

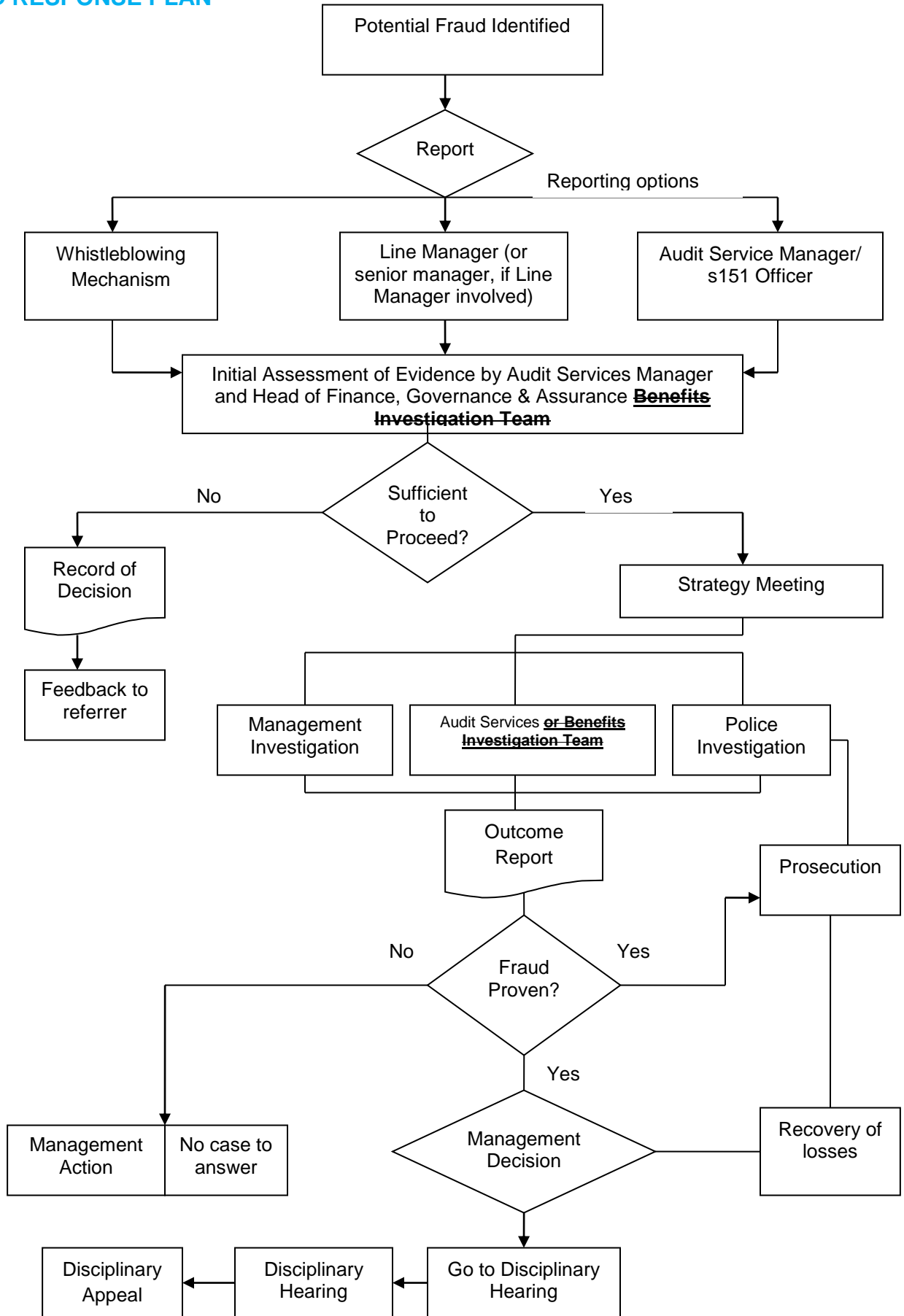
15. **All suspected fraud must be either referred to the Audit Services Manager or Benefit Services Investigation team.**
16. The **Audit Service relevant Senior** Manager will assess the initial information and decide how to proceed. This will include a strategy meeting with the relevant manager where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

POTENTIAL OUTCOMES

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

of fraud and error in the future.

FRAUD RESPONSE PLAN



NOLAN COMMITTEE REPORT – THE SEVEN PRINCIPLES OF PUBLIC LIFE

Selflessness

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

Integrity

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

Objectivity

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

Accountability

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

Openness

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

Honesty

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

Leadership

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

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

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



Committee and Date

Item

Audit Committee

26 November 2015

9:30am

Public

ANNUAL REVIEW OF AUDIT COMMITTEE TERMS OF REFERENCE

Responsible Officer James Walton

e-mail: James.walton@shropshire.go.uk

Tel: 01743 255011

1. Summary

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

2. Recommendations

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

REPORT

3. Risk Assessment and Opportunities Appraisal

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

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

4. Financial Implications

There are no financial implications.

5. Background

- 5.1 Part of the responsibility of this Committee is to review annually its Terms of Reference, making any recommendations for significant changes in them to Full Council.
- 5.2 CIPFA defines the purpose of an audit committee as being to provide those charged with governance an independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting and annual governance processes. By doing this, the committee brings an important source of assurance to the Council's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance matters.
- 5.3 The Audit Committee satisfies the wider requirement for sound financial management as set out in the Accounts and Audit Regulations, 'for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which include the arrangements for the management of risk.' In addition, section 151 of the Local Government Act 1972 requires the authority to, 'make arrangements for the proper administration of its financial affairs'. To be fully effective, the Section 151 Officer, in discharging sound financial management, requires an effective audit committee as well as an adequate and effective internal audit service which evaluates the effectiveness of its risk management, control and governance processes. Both elements are enshrined in the Public Sector Internal Audit Standards and the supporting Local Government Application Note.
- 5.4 Effective audit committees bring many benefits to the Council. They can:
- Increase public confidence in the objectivity and fairness of financial and other reporting;
 - Reduce the risk of illegal or improper acts;
 - Reinforce the importance and independence of internal and external audit and any other review processes that report to the Committee;
 - Provide a sharper focus on financial reporting both during the year and at year end, leading to increased confidence in the objectivity and fairness of financial reporting;
 - Assist the co-ordination of sources of assurance and, in so doing, make management more accountable;
 - Provide additional assurance through a process of independent and objective review;
 - Raise awareness of the need for internal control and the implementation of audit recommendations.
- 5.5 It is therefore important that the Terms of Reference are reviewed to ensure that best practice guidance is incorporated.
- 5.6 Proposed changes are shown in **bold and are underlined** in the attached

Appendix.

- 5.7 Adjustments following the review reflect updates to comply with changes in the new Accounts and Audit Regulations 2015 for local authorities, under which organisations are no longer required to undertake an annual review of the effectiveness of the internal function. It should be noted however that the Public Sector Internal Audit Standards require audit committees to have an ongoing programme of quality assessment and improvement. Sections 27 and 41(h) reflect these adjustments.

- 5.8 The deletion at Section 41(o) reflects that housing benefit enforcement activities have transferred to the Single Investigation Fraud Service (SFIS) at the Department for Work and Pensions.

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

Chartered Institute of Public Finance and Accountancy's (CIPFA), Audit Committees, Practical Guidance for Local Authorities and Police 2013 Edition
TIS Online CIPFA November 2008 Audit Committee
Various consultation documents on the Future of Local Audit
Public Sector Internal Audit Standards, CIPFA 2012
Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards, CIPFA 2013
Local Government Act 1972
Accounts and Audit (England) Regulations 2015

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

Local Member N/A

Appendices Audit Committee Terms of Reference

AUDIT COMMITTEE TERMS OF REFERENCE

Membership

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

Meetings

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

CORE FUNCTIONS

Governance risk and control

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

Internal Audit

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

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

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

External Audit

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

Financial reporting

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

Treasury Management

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

Accountability Arrangements

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

¹ Clause 3 Treasury Management Code of Practice

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

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

Work plan

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

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

Powers of the Audit Committee

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

Audit Committee Competency Framework

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

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

And that the Committee should receive appropriate levels of training.

Reviewed and updated **November 2015**.



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
26 November 2015	
9:30 am	<u>Public</u>

AUDIT COMMITTEE SELF-ASSESSMENT OF GOOD PRACTICE

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

1. Summary

Members are asked to review and comment on the self-assessment of good practice questionnaire attached to this report. The questionnaire allows members to assess the effectiveness of the Audit Committee and identify whether there are any further improvements that could be made which would improve its overall effectiveness.

2. Recommendations

Members are asked to:

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

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The Audit Committee has a key function in ensuring effective corporate governance, risk and control arrangements are in place in the Council. The effectiveness of the committee should be judged by the contribution it makes to, and beneficial impact it has on, the Council's business. A good standard of performance against recommended practice, together with a knowledgeable and experienced membership, are essential requirements which empower an effective Audit Committee. By reviewing effectiveness annually using a good practice self-assessment, it can be established that the Committee is

demonstrating a high degree of performance, is soundly based, and has a knowledgeable membership unimpaired in any way. Completion of the self-assessment can also be used to support the planning of the Audit Committee work programme and training plans, and inform the Committee's annual report to Council.

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

4. Financial Implications

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

5. Background

- 5.1 The Chartered Institute of Public Finance and Accountancy, CIPFA, have produced guidance on the function and operation of audit committees; 'Audit Committees in Local Authorities and Police, 2013 edition'. The guidance represents CIPFA's view of best practice for Audit Committees in local authorities throughout the UK.
- 5.2 In the guidance, CIPFA provide a suggested self-assessment against recommended practice. Authorities are encouraged to use the checklist to determine if they are meeting recommended practice and as an indicator of the Committee's effectiveness; following which any changes or improvements identified to enhance the Committee's performance should be managed.
- 5.3 The Section 151 Officer and the Audit Service Manager have completed an initial review of the self-assessment, based on information from previous assessments and with knowledge of the Committee's compliance with recommended practices, for members to consider, discuss and amend as appropriate. Members did this at Audit Committee meetings and during training sessions in February and November 2014. An annual refresh is now due. In preparation for which, the self-assessment has been updated and circulated to members for consideration prior to this meeting attached as **Appendix A**.
- 5.5 In 2014, Members completed the following activities to gain a better picture of the Committee's understanding of its effectiveness as part of the review process:
- A self-assessment of individual training requirements.
 - A self-assessment of the effectiveness of the audit committee.

Learning from these self-assessments is still valid, as membership of the committee has seen few changes, and the data extracted continues to inform training sessions and identify areas for continued improvement. These are balanced alongside ongoing requests from committee members in response

to current topics. Training sessions provided in February, June and November 2015 have included:

- Updates from the Council’s external auditors on fraud.
- Discussions around the Statement of Accounts.
- Guidance on what good governance looks like and how to review the Annual Governance Statement robustly.
- How members can approach a review of the audit plan.
- Presentations on ICT including updates on the operational programme of work, associated management of risks, progress towards improved controls, systems and processes.
- An insight into the Commissioning framework and supporting processes used to transfer services out of the Council. How options are assessed, risks are considered, how the process is managed and other information.
- Information on the processes used and approach taken in order to provide assurances on the Council’s financial resilience and setting of a sustainable budget from both a financial perspective and that of services.
- Financial resilience from Grant Thornton’s perspective as external auditor.

Appendix 2 provides a summary from the self-assessment showing the areas members have identified for future focus and refresh sessions and also where updated training has been provided.

5.6 Following the last review in November 2014, no areas of partial compliance were identified.

Members are asked to consider if this is still the case?

5.7 Compliance against the self-assessment can be demonstrated. Members are asked to endorse the self-assessment of good practice and identify any areas for improvement or additional training.

Are there any areas that Members would like to prioritise for further improvement or updating?

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) CIPFA: Audit Committees in Local Authorities and Police, 2013 edition
Cabinet Member (Portfolio Holder) Keith Barrow (Leader of the Council) and Brian Williams (Chairman of Audit Committee)
Local Member n/a
Appendices A Self-assessment of good practice November 2015 B Analysis of training requirements and the effectiveness of the Audit Committee based on the 2014 self-assessments

Appendix A: Self-assessment of Good Practice November 2015

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

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

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

Appendix B: Analysis of training requirements based on 2014 self-assessments.

Training requirements

Level of confidence reported in skills set and knowledge across the majority of committee members

H	High
M	Medium
L	Low

CORE SKILLS

Evidence of training

H	Organisational knowledge	2014
H	Audit Committee role and functions	2014
H	Governance	2015, 2014
H	Internal Audit	2015, 2014
H	Financial management and accounting	2015
H	External Audit	
H	Risk Management	2014
H	Counter-fraud	2015
H	Values of good governance	2015, 2014
H	Treasury management	
H	Strategic thinking and understanding of materiality	
H	Questioning and constructive challenge	2014
H	Focus on improvement	
H	Able to balance practicality against theory	
H	Clear communication skills and focus on the needs of users	

SPECIALIST SKILLS

M	Accountancy	2015
M	Internal Audit	2015, 2014
M	Risk Management	2015, 2014
L	Governance and Legal	2015
M	Service knowledge relevant to the functions of the organisation	2014
M	Programme and project management	2015, 2014
M	IT system and IT governance	2015, 2014

Analysis of the effectiveness of Audit Committee based on 2014 self-assessments.

- M Promoting the principles of good governance and their application to decision making.
- M Contributing to the development of an effective control environment.
- M Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.
- M Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.
- M Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence.
- L Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements.
- M Supporting the development of robust arrangements for ensuring value for money.
- M Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risk.
- L Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
26 November 2015	
9:30 am	<u>Public</u>

INTERNAL AUDIT CHARTER

Responsible Officer Ceri Pilawski

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

Tel:

01743 252027

1. Summary

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

2. Recommendations

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

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 Audit Committee has a key function in ensuring that effective corporate governance arrangements are maintained in the Council. The Internal Audit Charter provides evidence of such arrangements in respect of the Internal Audit function, and has been updated to reflect the recent adoption of the Public Sector Internal Audit Standards.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.

4. Financial Implications

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

5. Background

5.1 Public Sector Internal Audit Standard 1000 requires that Purpose, Authority and Responsibility be defined in an Audit Charter. In addition, the Charter establishes Internal Audit's position within the organisation, including the nature of the Audit Service Manager's reporting relationship with the Audit Committee, authorises access to personnel, records, and physical properties relevant to audit work, and defines the scope of internal audit activities. Final approval of the Internal Audit Charter resides with the Audit Committee.

5.2 The Internal Audit Charter should also refer to;

- The nature of assurance services provided to the Council.
- Organisational independence.
- Individual objectivity.
- Impairment to independence or objectivity.
- Proficiency and due professional care.
- Continuing professional development.
- Quality assurance and improvement programme – internal and external.

5.3 The charter will communicate the contribution that Internal Audit makes to the Council and includes:

- Internal Audit's purpose and responsibilities.
- Independence and objectivity.
- Competencies and standards.
- Planning.
- Nature of work.
- Reporting.
- Quality assurance.
- Fraud and corruption.
- Rights of access.

5.4 The Accounts and Audit Regulations have been updated, issued and apply from the start of the financial year 2015/16. The previous requirement, to have internal audit undertake an effective internal audit of accounting records and systems of internal control in accordance with proper practices, has been updated to: 'evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'. There are some changes to the access rights of internal audit requiring the organisation to supply any documents, records and information and explanations as are considered necessary by the internal auditors. In addition, organisations are no longer required to undertake an annual review of effectiveness, although audit committees should note the requirements of the Public Sector Internal Audit Standards to maintain an ongoing programme of quality assessment and improvement. To reflect these

changes, members will find adjustments to the Charter in the mission statement and in section four. No other changes are proposed.

- 5.5 The proposed adjustments can be found at **Appendix A** and appear in **bold font and underlined**

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

Accounts and Audit Regulations 2015;

Public Sector Internal Audit Standards 2013

Cabinet Member (Portfolio Holder)

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

Local Member All

Appendices Internal Audit Charter



INTERNAL AUDIT CHARTER

MISSION STATEMENT

“To examine, evaluate and report objectively on the adequacy of the risk management, control and governance processes as a contribution to the proper economic, efficient and effective use of Shropshire council resources for the benefit of residents, businesses and external clients.”

INTERNAL AUDIT CHARTER

INTRODUCTION

1. This charter defines for the Council and the community Internal Audit's activities, purpose, authority and responsibilities consistent with the requirements of the Public Sector Internal Audit Standards (PSIAS)¹. It establishes Internal Audit's position within the Council, including functional reporting relationships with the Audit Committee², authority to access personnel, records, and physical properties relevant to the undertaking of its engagements³; and defines the scope of the Internal Audit activity. Final approval of this Charter rests with the Audit Committee⁴.
2. The PSIAS which encompasses the mandatory elements of the Institute of Internal Auditors (IIA) define Internal Audit as follows: *"Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper economic, efficient and effective use of resource"*.
3. The basis of internal financial administration within the Council lies in the Financial Rules contained in the Council's Constitution. This Charter should be read in conjunction with the relevant sections of these Financial Rules.
4. The authority and requirement for an internal audit function derives from two pieces of legislation: - Section 151 of the Local Government Act 1972 requires that authorities 'make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs'. The Accounts and Audit Regulations **2015**, **require that a relevant body must 'evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'. undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. (The PSIAS is now the definitive proper practice)**

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

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

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

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

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

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

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

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

INTERNAL AUDIT PURPOSE AND RESPONSIBILITIES

Purpose

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

Objectives

8. Internal Audit's objective is to give assurance and an opinion to the Section 151 Officer, Audit Committee and the Council, on the adequacy of the Council's risk management, governance and control environment and the extent to which it can be relied upon, in line with the Accounts and Audit (England) Regulations 2015⁴.

Responsibilities

9. Internal Audit is responsible for conducting an independent appraisal of all the Council's (and that of its external clients) activities, financial or otherwise, including services provided in partnership or under contract with external organisations. It provides this service to the Council and all levels of management.
10. Internal Audit complies with the requirements of the Public Sector Internal Audit Standards (PSIAS) including the Definition of Internal Auditing and the Code of

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

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

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

Ethics (see **Annex A**) and other relevant guidance; including those issued by individual auditors' professional bodies.

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

INDEPENDENCE AND OBJECTIVITY

13. Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out their responsibilities in an unbiased manner.
14. Objectivity is an unbiased mental attitude that allows internal auditors to perform audit reviews in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not allow their judgement on audit matters to be influenced, distorted, or subordinated by others.
15. Threats to objectivity and independence must be managed at the individual auditor, audit, functional and organisational levels.
16. Internal Audit has no executive responsibilities and is independent of the activities that it audits to enable Auditors to provide impartial and unbiased professional evaluations, opinions and recommendations. Internal Audit is free

to plan, undertake and report on its work as the Audit Service Manager deems appropriate, in consultation with relevant managers.

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

COMPETENCIES AND STANDARDS

23. Audits must be performed with proficiency and due professional care. Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities.
24. The Audit Service Manager holds a relevant professional accountancy qualification and is suitably experienced. In addition the Audit Service Manager must maintain a team of staff who are properly trained to fulfil all their responsibilities and continue to enhance their knowledge, skills and competencies through continuing professional development.

25. Internal auditors are expected to:
- exercise due professional care based upon appropriate experience, training, ability, integrity and objectivity;
 - apply confidentiality as required by law and best practice and
 - obtain and record sufficient audit evidence to support their findings and recommendations.

INTERNAL AUDIT PLANNING

26. The Audit Service Manager produces the Council's annual risk based audit plan, in consultation with the Section 151 Officer, to establish priorities, achieve objectives and ensure the efficient and effective use of audit resources. The plan takes into account the Accounts and Audit (England) Regulations 20151, the management of risk, previous internal/external audit work, discussions with the Head of the Paid Service and senior managers, external networking intelligence, local and national risks, comments from the Audit Committee and any requirements of the External Auditor.
27. The Plan is subject to regular reviews and revisions as required to reflect changes to the risk environment and these changes are approved when significant. The Plan includes an element of contingency to allow Internal Audit to be responsive to changing risks and requests for assistance from managers. It is the responsibility of the Section 151 Officer to ensure that the budget⁸ and resources allocated to Internal Audit are sufficient to ensure delivery of the plan and to report any concerns to the Audit Committee. The Audit Committee agree the annual risk based plan and any significant change to the plan during the year.

NATURE OF WORK

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

Governance

29. The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:
- promoting appropriate ethics and values within the organisation;
 - ensuring effective organisational performance management and accountability;
 - communicating risk and control information to appropriate areas of the organisation;

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

- coordinating the activities of, and communicating information among, the audit committee, external and internal auditors and management;
- the internal audit activity must assess whether the information technology governance of the organisation supports the organisation's strategies and objectives.

Risk Management

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

Control

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

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

INTERNAL AUDIT REPORTING

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

- compares the work actually undertaken with the work as planned and summarises the performance of the Internal Audit function against its performance measures and criteria;
- comments on compliance with these standards and communicates the results of the Internal Audit quality assurance and improvement programme.

QUALITY ASSURANCE

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

FRAUD AND CORRUPTION

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

RIGHTS OF ACCESS

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

⁹ Qualified independent assessor or assessment team

¹⁰ For both internal and external reviews

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

Reviewed 26th November 2015

Public Sector Internal Audit Standards

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

Code of Ethics -

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

There are four principles in the code of ethics:

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

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

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

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

Shropshire and Wrekin Fire and Rescue Authority

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

Oswestry Town Council

Senior Management	Town Clerk
Board	Town Council

STaR

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

West Mercia Energy

Senior Management	Section 151 Officer Managing Director
Board	Joint Committee

Shropshire County Pension Fund

Senior Management	Section 151 Officer Directors
Board	Pensions Committee

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<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
26 November 2015	
09:30am	<u>Public</u>

INTERNAL AUDIT PERFORMANCE REPORT 2015/16

Responsible Officer Ceri Pilawski
e-mail: ceri.pilawski@shropshire.gov.uk

Telephone: 01743 257739

1. Summary

This report provides members with an update of the work undertaken by Internal Audit in the two months since the last report in September 2015 summarising progress against the Internal Audit Plan. 58% of the revised plan has been completed which is in line with previous delivery records to achieve the target of 90% by year end.

Twelve good and reasonable assurances, 11 limited and one unsatisfactory assurance opinions were issued. The 24 final reports contained 335 recommendations. No fundamental recommendations have been identified.

This report proposes revisions to the revised Internal Audit Plan presented in September 2015 amounting to 2,068 days. The new plan will provide 1,939 days across the Council's services and our external clients. The reduction in days available reflects the resignation of a member of the Audit team and planned maternity leave for another member of staff from March 2016. In addition, there have been changes to the planned activity to include a number of transformation projects and advisory reviews that were unknown and therefore not included in the original plan. The changes have been discussed with and agreed by the Section 151 Officer.

2. Recommendations

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

- a) The performance to date against the 2015/16 Audit Plan set out in this report.
- b) The adjustments required to the 2015/16 plan to take account of changing priorities set out in **Appendix B**.

REPORT

3. Risk assessment and opportunities appraisal

- 3.1 The delivery of a risk based Internal Audit Plan is an essential part of ensuring probity and soundness of the Council's control, financial, risk management systems and

governance 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 examine, evaluate and report 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 robust internal control, financial, risk and governance procedures creates an environment where poor performance, fraud, irregularity and inefficiency can go 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. These are refreshed throughout the period of the plan as the environment changes and impacts on risks and their controls.
- 3.3 Provision of the Internal Audit Annual Plan satisfies the Accounts and Audit Regulations 2015, part 2, section 5(1) in relation to internal audit which state that:

'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
- 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 2015.
- 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 Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal audit reviews, appraises and reports on the efficiency, effectiveness and economy of financial and other management controls.
- 5.2 The Audit Committee is the governing body charged with monitoring progress on the work of Internal Audit.
- 5.3 The revised Internal Audit Plan was presented and approved by members at the 17th September Audit Committee with the caveat that further adjustments may be necessary.

This report provides an update on progress made against the plan up to the 31st October 2015 and minor revisions to the plan.

5.4 Part of the internal audit plan continues to be provided by external providers.

Performance against the plan 2015/16

5.5 The revised September 2015 plan provided for a total of 2,068 days and has required revisions to reflect changing risks and resources. The new plan will provide 1,939 days across the Council's services and our external clients. It has been necessary to reduce the available audit days due to the resignation of a member of the Audit team and planned maternity leave for another member of staff from March 2016. In addition the team have contributed to a number transformation projects and advisory work that was unknown at the time and therefore not included in the original plan. Performance to date has been good with 58% of the revised plan being achieved. This is in line with previous delivery records and is on target to deliver 90% of the annual plan by year end. **Appendix A, Table 1.**

5.6 Added value provided by the service through transformation and advisory work has included:

Advice on pre-paid cards

Internal Audit have provided advice to the project group in respect of a trial of pre-paid cards for direct payments. This has included attendance at project group meetings, presentations from the provider and the provision of consultancy advice in relation to controls, IT and information governance.

Review of direct payments audit team

In order to improve the reporting of social care fraud Internal Audit have been working with the Direct Payments Audit team and Financial Assessment team to review their processes and procedures. Through this review a number of changes to existing processes have been identified to streamline the process, reduce backlogs, and improve the recording and reporting of fraud.

IT advice

Specialist IT audit support and consultancy has been provided for the following: Support on the network resilience issues with the current wide area network provider; Advice and guidance around material system hosting arrangements and contract queries with hosted service suppliers; IT operations management support during the transformation process; Assurance assessments on contractual documentation with suppliers; Project input and IT advisory work on the assessment of new initiatives and technologies; Assurance and advice on the migration of data from on premise systems to hosted environments and support to the IT consultant as service delivery is reviewed.

Fulcrum/ inspire to learn / ip&e Ltd/ P2P¹

Attendance on the ip&e annual business plan working group, review of key documents such as business plans; annual reports; performance records; minutes; cabinet and management reports and the provision of advice around governance controls and wider commissioning activities have been provided.

¹ People to people

Transfer of county training

Audit assurance and support was provided on the externalisation of County Training project. Specific advice and guidance covered: IT migration, inventory management, IT management, user and account management migration and email transfer.

Department of Transport asset management

The award of local highways maintenance funding from the Department of Transport is changing from 2016/17 based on an assessment against 22 criteria. Internal Audit are involved in reviewing the evidence put forward in respect of the assessment and acting as a critical friend to ensure that the Council's assessment is robust and accurately reflects the current position of the Council. The base platform established will allow the Council to undertake a cost analysis of the requirements to move to the next level against the level of funding increased that would be available in future years.

Schools self-assessment document

Internal Audit are preparing pages to appear on the Schools Learning Gateway. Schools will be able to use them to access self-help tools which enable them to check their internal controls, prepare for audit, and recognise and counter the risks of fraud, plus general audit information and advice.

- 5.7 In total 24 final reports have been issued in the period to 31st October 2015. These are broken down by service area in **Appendix A, Table 2a**.
- 5.8 Twelve good and reasonable assurances were made in the period accounting for 50% of the opinions delivered. This represents a reduction in the higher levels of assurance compared to the previous year outturn of 64%, offset by a 14% increase in limited and unsatisfactory opinions. Eleven limited opinions and one unsatisfactory assurance opinion have been issued, 50% of those issued in the period.
- 5.9 Children's Services and Customer Involvement continue to show lower assurance levels than others. Children's Services reflect audit reviews of schools. These are considered low risk to the Council overall and will therefore, at this stage, not be expected to affect the Audit Service Manager's overall year-end opinion. The team are continuing to provide some educational support to head teachers, teachers, administrators and governors through forums and area meetings in respect of the control environment to help improve it. Customer Involvement service reviews include a number of ICT infrastructure reviews. The results of these have been considered previously by officers and members and resulted in the Audit Service Manager's opinion being qualified for the last two years. The overall assurance and direction of travel remains a concern given the systems' impact on delivering the Council's objectives. Further reviews in this area will help inform the position of the control environment. **(Appendix A, Table 2b)**.
- 5.10 Twelve draft reports have been issued and management responses are awaited, these will be included in the next quarter results. Work has also been completed for external clients in addition to the drafting and auditing of financial statements in respect of four voluntary bodies.
- 5.11 A summary of the planned audit reviews conducted, resulting in an unsatisfactory or limited assurance is included in **Appendix A, Table 3**. The appendix also includes

descriptions for the levels of assurance used in assessing the control environment and the classification of recommendations, **Tables 4 and 5**.

- 5.12 A total of 335 recommendations have been made in the 24 final audit reports issued in the year; these are broken down by audit area and appear in **Appendix A, Table 6**.
- 5.13 No fundamental recommendations have been identified.
- 5.14 It is management’s responsibility to ensure accepted audit recommendations are implemented within an agreed timescale. With the exception of annual audits where recommendations are revisited as a matter of course, recommendations are followed up after six months by obtaining an update from management on progress made.
- 5.15 No recommendations have been rejected.

Direction of travel

- 5.16 This section compares the Assurance Levels (where given) and categorisation of recommendations made at the Council to demonstrate a direction of travel in relation to the control environment.

Comparison of Assurance Levels (where given)

Assurances	Good	Reasonable	Limited	Unsatisfactory	Total
2015/16 to date	8%	45%	41%	6%	100%
2014/15	17%	47%	28%	8%	100%
2013/14	30%	45%	15%	10%	100%

Comparison of recommendation by categorisation

Categorisation	Best practice	Requires attention	Significant	Fundamental	Total
2015/16 to date	4%	56%	40%	0%	100%
2014/15	6%	53%	40%	1%	100%
2013/14	15%	57%	27%	1%	100%

The statistics continue to suggest a falling level of overall control demonstrated by the increased number of lower level assurances (47% compared at the 2015/16 mid-year point compare to the 2014/15 outturn of 36%). The recommendation classifications at this mid-way point in the year are comparative with the outturn for 2014/15, a significant decrease in assurance from 2013/14 results.

Performance measures

- 5.17 All Internal Audit work has been completed in accordance with the agreed plan and the outcomes of final reports have been reported to the Audit Committee.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)
 Draft Internal Audit Risk Based Plan 2015/16 - Audit Committee 23 February 2015

Internal Audit Performance Report 2015/16 - Audit Committee 17 September 2015
Public Sector Internal Audit Standards (PSIAS).
Various internal documents supporting self-assessment against the PSIAS.
Audit Management system.
Accounts and Audit Regulations 2015

Cabinet Member (Portfolio Holder)

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

Local Member: All

Appendices

Appendix A

Table 1: Summary of actual audit days delivered against plan 1st April to the 31st October 2015

Table 2a: Final audit report assurance opinions issued in the period 24th August to 31st October 2015

Table 2b: Final audit report assurance opinions issued between 1st April and 31st October 2015

Table 3: Unsatisfactory and limited assurance opinions in the period 24th August to the 31st October 2015 listed by service area

Table 4: Audit assurance opinions

Table 5: Audit recommendation categories

Table 6: Audit recommendations made in the period 24th August to the 31st October 2015

Appendix B - Audit plan by service 1st April to 31st October 2015

APPENDIX A

Table 1: Summary of actual audit days delivered and revisions to the audit plan in the period 1st April to 31st October 2015

	Original Plan	August Revision	November Revision	Revised Plan Days	Oct 31 Actual	% of Plan Achieved
Chief Executive	58	0	-15	43	11.8	27%
Adult Services	110	23	-1	132	74.8	57%
Commissioning	118	10	-17	111	59.0	53%
Children's Services	399	9	-28	380	258.8	68%
Public Health	32	0	-5	27	1.4	5%
Resources and Support	517	-5	-37	475	246.7	52%
S151 Planned Audit	1,234	37	-103	1,168	652.5	56%
Contingencies and other chargeable work	595	-19	-28	548	340.3	62%
Total S151 Audit	1,829	18	-131	1,716	992.8	58%
External Clients	221	0	2	223	131.3	59%
Total	2,050	18	-129	1,939	1,124.1	58%

Please note that a full breakdown of days by service area is shown at **Appendix B**

Table 2a: Final audit report assurance opinions issued in the period from 24th August to 31st October 2015

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Chief Executive	0	0	0	0	0
Adult Services	0	1	1	1	3
Commissioning	0	0	3	0	3
Children's Services	0	7	2	0	9
Public Health	0	0	0	0	0
Resources and Support					
Commercial Services	0	0	1	0	1
Customer Involvement	0	0	4	0	4
Finance, Governance and Assurance	1	2	0	0	3
Human Resources	0	1	0	0	1
Legal, Strategy and Democratic	0	0	0	0	0
Total for the period					
➤ Numbers	1	11	11	1	24
➤ Percentage	4%	46%	46%	4%	100%
% for 2015/16 to date	8%	45%	41%	6%	100%
% for 2014/15	17%	47%	28%	8%	100%
% for 2013/14	30%	45%	15%	10%	100%

Table 2b: Final audit report assurance opinions issued between 1st April and 31st October 2015

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Chief Executive	0	0	0	0	0
Adult Services	0	1	3	1	5
Commissioning	0	0	4	0	4
Children's Services	1	15	9	1	26
Public Health	0	0	0	0	0
Resources and Support					
Commercial Services	0	1	1	0	2
Customer Involvement	0	1	9	1	11
Finance, Governance and Assurance	4	7	0	1	12
Human Resources	0	2	0	0	2
Legal, Strategy and Democratic	0	1	0	0	1
Total for year to date					
➤ Numbers	5	28	26	4	63
➤ Percentage	8%	45%	41%	6%	100%
% for 2014/15	17%	47%	28%	8%	100%
% for 2013/14	30%	45%	15%	10%	100%

Table 3: Unsatisfactory and limited assurance opinions issued in the period from 24th August to 31st October 2015 listed by service area**Unsatisfactory assurance****Adult Services**

Appointeeships and Deputyships / Court of Protection

Limited assurance**Adult Services**

CM2000 Electronic Homecare Monitoring – Application Review

Commissioning

Leisure Services Contract

EDRM Sharepoint

Waste – Specialist Disposal Contracts

Children's Services

One – Education Management System

Hadnall Primary School

Commercial Services

Contracts and Tendering – Premises Services

Customer Involvement

Disposal of IT equipment

Internet Security

IT Registration and Deregistration Procedures

Network Perimeter Defences

:

Table 4: Audit assurance opinions: awarded on completion of audit reviews reflecting the efficiency and effectiveness of the controls in place, opinions are graded as follows

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

Table 5: Audit recommendation categories: an indicator of the effectiveness of the Council's internal control environment and are rated according to their priority

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

Table 6: Audit recommendations made in the period from the 24th August to 31st October 2015

Service area	Number of recommendations made				
	Best practice	Requires attention	Significant	Fundamental	Total
Chief Executive	0	0	0	0	0
Adult Services	0	12	29	0	41
Commissioning	0	9	15	0	24
Children's Services	11	110	78	0	199
Public Health	0	0	0	0	0
Resources and Support					
Commercial Services	0	5	4	0	9
Customer Involvement	3	20	14	0	37
Finance, Governance and Assurance	0	9	1	0	10
Human Resources	0	11	4	0	15

Service area	Number of recommendations made				
	Best practice	Requires attention	Significant	Fundamental	Total
Legal, Strategy and Democratic	0	0	0	0	0
Total for the period					
➤ Numbers	14	176	145	0	335
➤ Percentage	4%	53%	43%	0%	100%
% for 2015/16 to date	4%	56%	40%	0%	100%
% for 2014/15	6%	53%	40%	1%	100%
% for 2013/14	15%	57%	27%	1%	100%

AUDIT PLAN BY SERVICE –PERFORMANCE REPORT FROM 1ST APRIL TO 31ST OCTOBER 2015

	Original Plan Days	Aug. Revision	Nov. Revision	Revised Plan Days	31 Oct. 2015 Actual	% of Revised Plan Achieved
CHIEF EXECUTIVE						
Governance	58	0	-15	43	11.8	27%
ADULT SERVICES						
Social Care Operations						
Long Term Support	55	7	3	65	38.2	59%
Provider Services - Establishments	13	11	-2	22	8.4	38%
Housing Services	29	1	-8	22	6.7	30%
	97	19	-7	109	53.3	49%
Social Care Efficiency and Improvement						
Development Support	13	4	6	23	21.5	93%
ADULT SERVICES	110	23	-1	132	74.8	57%
COMMISSIONING						
Waste & Bereavement	10	0	-3	7	7.1	101%
Leisure Services	13	0	-3	10	10.3	103%
Highways	14	1	1	16	6.8	43%
Development Management	18	3	-10	11	1.9	17%
Visitor Economy	5	0	4	9	9.0	100%
Business & Enterprise	15	0	0	15	0.0	0%
Project Development	5	0	-5	0	0.0	0%
Community Safety	23	6	4	33	17.2	52%
Environmental Protection and Prevention	15	0	-5	10	6.7	67%
COMMISSIONING	118	10	-17	111	59.0	53%
CHILDREN'S SERVICES						
Safeguarding						
Assessment & Looked After Children	5	2	1	8	8.0	100%
Safeguarding	20	0	-11	9	4.4	49%
Children's Placement and Joint Adoption	58	-5	7	60	59.0	98%
	83	-3	-3	77	71.4	93%
Learning and Skills						
Business Support	17	7	-10	14	14.6	104%
Education Improvements	16	0	0	16	14.8	93%

	Original Plan Days	Aug. Revision	Nov. Revision	Revised Plan Days	31 Oct. 2015 Actual	% of Revised Plan Achieved
Primary/Special Schools	250	7	-1	256	148.9	58%
Secondary Schools	23	3	-9	17	8.3	49%
	306	17	-20	303	186.6	62%
Learning Employment and Training	10	-5	-5	0	0.8	0%
CHILDREN'S SERVICES	399	9	-28	380	258.8	68%
PUBLIC HEALTH	32	0	-5	27	1.4	5%
RESOURCES AND SUPPORT						
Customer Care, Commercial and Support Services						
Estates & Facilities	5	4	0	9	0.1	1%
Property Services	23	11	0	34	14.6	43%
Shire Services	23	3	-5	21	20.3	97%
	51	18	-5	64	35.0	55%
Service Support, Marketing and Engagement						
Customer Services	34	1	-6	29	18.2	63%
ICT	83	6	-13	76	38.9	51%
	117	7	-19	105	57.1	54%
Finance Governance & Assurance						
Finance Transactions	69	-13	-8	48	5.8	12%
Finance and S151 Officer	65	-10	5	60	51.7	86%
Financial Management	37	3	-5	35	10.1	29%
Procurement and Contract Management	25	0	-5	20	11.4	57%
Benefits	29	-5	0	24	3.3	14%
Revenues	40	-10	1	31	17.4	56%
Risk Management and Business Continuity	5	1	0	6	0.0	0%
Treasury	10	4	1	15	15.0	100%
	280	-30	-11	239	114.7	48%
Payroll and Human Resources	52	-7	0	45	27.3	61%
Legal, Democratic & Strategic Planning						
Information Governance	7	5	-2	10	0.5	5%
Legal Services	10	2	0	12	12.1	101%
	17	7	-2	22	12.6	57%

	Original Plan Days	Aug. Revision	Nov. Revision	Revised Plan Days	31 Oct. 2015 Actual	% of Revised Plan Achieved
RESOURCES AND SUPPORT	517	-5	-37	475	246.7	52%
Total Shropshire Council Planned Work	1,234	37	-103	1,168	652.5	56%
CONTINGENCIES						
Advisory Contingency	40	0	0	40	30.1	75%
Fraud Contingency	250	-34	-63	153	82.8	54%
Unplanned Audit Contingency	45	0	15	60	56.3	94%
Other non-audit Chargeable Work	260	15	20	295	171.1	58%
CONTINGENCIES	595	-19	-28	548	340.3	62%
Total for Shropshire	1,829	18	-131	1,716	992.8	58%
EXTERNAL CLIENTS	221	0	2	223	131.3	59%
Total Chargeable	2,050	18	-129	1,939	1,124.1	58%

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The Annual Audit Letter for Shropshire Council

Year ended 31 March 2015

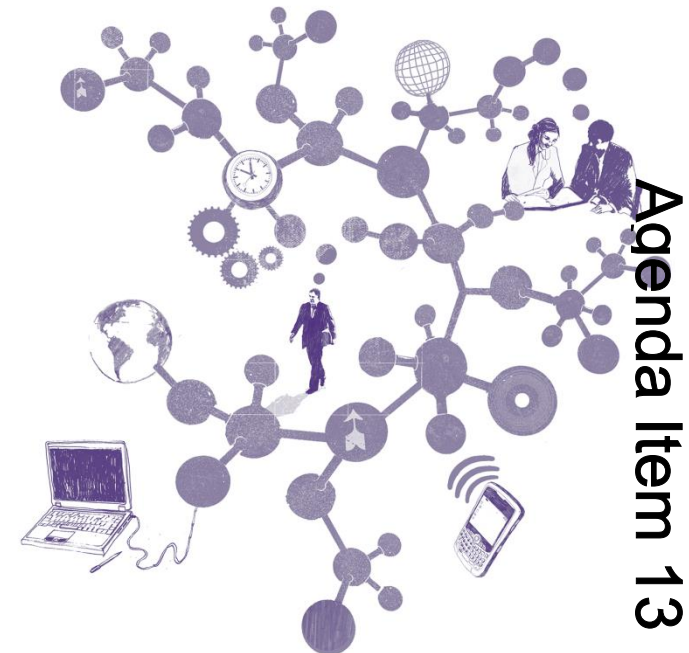
October 2015

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B How we have worked with you during the year	9

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Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Shropshire Council ('the Council') for the year ended 31 March 2015.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 23 February 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

**Financial
statements audit
(including audit
opinion)**

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We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 17 September 2015 to the Audit Committee. The key messages reported were:

- We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.
- The standard of the draft accounts and supporting working papers provided by the Council was good. We consider that work to declutter the financial statements has provided additional clarity to the reader of the significant transactions of the Council.
- There were no amendments to the financial statements which impacted on the prime statements or changed the draft reported financial position of the Council. The majority of changes related to presentation and disclosure either to comply with the Code or to make the business of the Council more easily understood by the reader of the accounts. There were fewer amendments to disclosures than in previous years.
- The Council worked hard in year to strengthen financial reporting arrangements in areas where we reported issues last year or with current technical issues, specifically PFI and accounting for schools. No adjustments were made to the draft financial statements in these areas.
- We were satisfied that the overall approach taken by the Council in accounting for schools is reasonable. The Council demonstrated clear consideration of IFRS 10 and concluded that voluntary controlled and voluntary aided schools should be kept off the Balance Sheet where these are owned by religious bodies.
- The Council's approach to their estimates and judgements are reasonable and appropriately disclosed, using expert advice where appropriate. Our review of key estimates and judgements has not highlighted any issues with the exception of the valuation of housing stock. The Council indexed its prior year revaluation increasing the valuation of its housing stock by £10.7 million. The Council is required to revalue its housing stock annually so obtained a desk based valuation from its Valuer which indicated an increase of £2 million. With a difference of £8.7 million, this valuation confirms that the carrying value in the accounts is not materially different from the fair value of the Housing stock as estimated by the Valuer.

Key messages continued

<p>Financial statements audit (including audit opinion) continued</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 128</p>	<ul style="list-style-type: none"> • The Council carries out a rolling programme of asset valuations which ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. In our view, however, this rolling programme is not fully embedded to fully meet the Code's requirement in paragraph 4.1.2.35 to value items within a class of property, plant and equipment simultaneously. We are satisfied that the Council has been able to demonstrate that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2015. • Internal Audit issued a number of lower level assurances on the ICT infrastructure systems. These, combined with the direction of travel, resulted in the Audit Service Manager (Chief Audit Executive) qualifying her overall opinion on the Council's internal control environment. These risks are already known to Directors and Members and are recorded in the strategic risk register. The ICT infrastructure continues to provide a clear risk to service continuity, however, there is no evidence of significant IT business failure or other error that could result in a material misstatement in the Council's accounts, and reliance can still be placed upon them for that purpose. <p>We issued an unqualified opinion on the Council's 2014/15 financial statements on 25 September 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.</p>
<p>Pension Fund Financial statements audit (including audit opinion)</p>	<p>We issued an unqualified opinion on the Pension Fund's 2014/15 financial statements on 25 September 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2015 and the amount and disposition of the fund's assets and liabilities as at 31 March 2015, other than liabilities to pay pensions and other benefits after the end of the scheme year. We also issued an opinion on the same date reporting that the pension fund financial statements within Shropshire County Pension Fund's Annual Report are consistent with the full annual statement of accounts of Shropshire Council.</p> <p>We reported the findings arising from our audit of the financial statements in our Audit Findings Report on 25 September 2015 to the Pensions Committee. The key messages arising from our audit of the Fund's financial statements were:</p> <ul style="list-style-type: none"> • The draft and final version of the financial statements recorded net assets carried forward of £1,512,730,000. We have not identified any material adjustments affecting the Fund's net assets position. • We have agreed with officers a number of minor adjustments to the notes to the financial statements. • We identified one non-trivial adjustments which netted to £0.7 million in respect of discrepancies between the values of investments reported by the custodian and fund managers. <p>Officers did not amend for this adjustment as the values were not materially different. If an amendment had been made it would have decreased both the Fund's reported surplus and net assets by £0.7 million. This was agreed by the Pensions Fund Committee acting as 'those charged with governance' for these accounts.</p>

Key messages continued

<p>Pension Fund Financial statements audit (including audit opinion) continued</p>	<p>Our work identified one control weaknesses which we reported to you in relation to obtaining audited control reports for all fund managers. We noted that two fund manager organizations did not produce independently audited control reports to enable the governance of these funds to be assessed by the Pensions Committee. There are some mitigating processes in place, but to deliver best practice, the Pensions Fund Committee should consider if they wish to alter their investment policy to make the provision of an independently audited controls report part of the decision on where to place investment funds.</p>
<p>Value for Money (VfM) conclusion</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 129</p>	<p>We issued an unqualified VfM conclusion for 2014/15 on 25 September 2015.</p> <ul style="list-style-type: none"> • The Council has a strong balance sheet and low levels of debt. The out-turn positions for 2013/14 for both revenue and capital delivered ahead of the financial plans. The outturn for the Revenue Budget for 2014/15 was an underspend of £0.300m, representing 0.05% of the original gross budget of £578 million. • The level of general fund balance stands at £15.206 million, which is above the anticipated level included within the Council's Financial Strategy but below that previously identified as required by the Head of Finance, Governance and Assurance. Whilst reserve levels are currently projected to marginally fall the level of reserves is still considered reasonable. • The Council has continued to demonstrate a drive and commitment to making changes in response to the recent reductions in Government funding. This has been systematically delivered across all service areas and an overall move to becoming a commissioning Council through creation an Alternative Delivery Service Vehicle, ip&e Ltd. Changes made to services are generally providing savings although some areas have seen improved performance initially but both are providing an improved use of resources for taxpayers. • The majority of the £20.1 million savings required for 2015/16 are being delivered. the Council's proposals currently require savings of £66.3 million to be delivered by 2015/16. Implementing all of these savings would result in a surplus of £4.6 million in 2015/16. This is a significant reduction in overall Council spending since initial grant funding reductions were announced. The Council recognises the challenge and has already allocated the use of some reserves to ensure that it delivers its required out-turn. • The workforce has diminished over the last two years due to voluntary and some compulsory redundancies, but more recently due to the seconding of staff to ip&e Ltd. At this stage, there are no concerns around capacity with reduced staffing numbers although the pace of delivery can stall where staff absence impacts on a lack of knowledge in some areas. We have not identified any governance issues directly due to staffing levels. • The Council's governance structure is embedding following a period of change. The pace of change has been driven by the timetable to reduce Government funding. Members, Officers and partner organisations need to ensure that everyone understands the changes and their implications. As ip&e Ltd grows in size, the Council should align governance structures to industry standards by introducing formal reporting lines and Committee structures as appropriate to the business.

Key messages continued

Value for Money (VfM) conclusion continued

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- The Council has demonstrated a drive and commitment to making changes in response to the recent reductions in Government funding. There is an understanding of the current financial position and finance is a continuing thread evidenced through all elements of the corporate plan. There is a focus on being a Council of tomorrow and delivering services in new innovative ways which enable leaner structures, flexible working and greater partnership arrangements with both the public and private sectors.
- The Council has a relatively strong financial position and delivers a balanced budget each year. Ear marked reserves are used in line with their purpose to support service delivery in challenged areas.
- We have regularly liaised with Internal Audit during the year and worked with the Head of Finance, Governance and Assurance. Our relationship with Internal Audit is one which is sound and continues to strengthen. There are no concerns about the adequacy of its internal audit arrangements.
- The Council understands that prioritising resources is both about internal resources and those it has access to through partnership arrangements. Part of the Council's commissioning strategy continues to be to keep money and jobs locally within Shropshire to support the local economy.
- Service redesign continues to be delivered successfully and the Council continues to learn from this experience. The re-prioritisation of resources is customer driven, taking into account the local needs and views to ensure that services delivered are what is wanted by the local community whilst remaining realistic about what is deliverable within the reduced budgets.
- The Council has worked hard to support the establishment of the University Centre of Shrewsbury and develop sufficient student accommodation for the first intake of students within a short space of time. This initiative is expected to enable local people to remain within Shropshire to study and work as well as bringing the right skills into the County to support economic development.
- The Council continues to perform well against statutory requirements. Assessments by the Care Quality Commission (CQC) and Ofsted indicate that the Council is performing well.
- The Council has a clear vision to move to a Commissioning model and continues to be proactive about driving out inefficiencies in services. Strengthening commissioning skills within the Council will be key to maintaining efficient and effective services going forward.
- The Council is starting to successfully roll out a service redesign methodology throughout the Council demonstrating a culture for change. This has been supported by the seconding of staff who generally feel more empowered to deliver services differently. The skills provided by the Business Design Team within ip&e Ltd are being transferred to Council employees. This STEP arrangement (Service Transformation Enablement Process) will provide a pivotal role in co-ordinating change projects that require a commissioning solution. Undertaking a zero based budgeting exercise after the initial service redesign grasps the opportunity of stripping out any excess from service costs to enable the Council the scope to maximise impact.

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

Key messages continued

Whole of Government Accounts	We reviewed the consolidation pack which the Council prepared to support the production of Whole of Government Accounts. We reported that the Council's pack was consistent with the audited financial statements on 30 September 2015.
Certification of housing benefit grant claim	We are currently planning to certify the Council's 2014/15 housing benefit grant claim by the end of November 2015 in line with the deadline set by the Department of Work and Pensions. This work will be summarised in a Certification Letter which will be released in December 2015 and presented to the Audit Committee.
Audit fee	Our fee for 2014/15 was £178,460, excluding VAT which was in line with our planned fee for the year. There were additional charges for the grant claim work and objection work from 2013/14. Further detail is included within appendix B.
Additional work	We have undertaken or are still completing various additional pieces of work as detailed in the additional fees section of Appendix B. This work is undertaken under separate engagements and reported to the Council or the certification body as appropriate. All fees are reported to the Audit Committee and summarised at the time of issuing our opinion and in this annual audit letter.
Completion of objection on 2013/14 accounts	During the year we completed work relating to an objection that members of the public had raised regarding their concerns over the Council's taxi licensing arrangements. We did not uphold this objection and kept officers and members of the Audit Committee involved throughout the process.
Certification of audit completion	As a result of matters that came to our attention during the latter stages of our audit our certificate for completion is not yet issued for the year. Officers are currently working on providing us with the necessary information to resolve this position. We were satisfied that these matters did not have a material effect on the financial statements or a significant impact on our value for money conclusion.

Appendix A: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

Fees

	Per Audit plan £	Actual fees £
Council audit 2014/15	178,460	178,460
Additional work to inform DWP on errors reported in the 2013/14 qualification letter	1,800	1,800
Grant certification on behalf of Audit Commission	15,340	TBC*
Fees in relation to an objection from 2013/14	TBC**	14,276
Total audit fees	TBC	TBC

* Our work on the grant certification required by the Audit Commission will not be complete until 30 November 2015. At this stage, we will know the actual fees involved and will report these to you in the Certification Letter in December 2015.

** At the time of issuing the Audit Plan we had not completed our work on the objection from 2013/14 and so did not know the final cost. This fee has been approved by PSAA Ltd, our contracting body.

Reports issued

Report	Date issued
Audit Plan	February 2015
Informing the Risk Assessment	February 2015
Audit Findings Report	September 2015
Annual Audit Letter	October 2015
Certification Letter	December 2015

Fees for other services

Service	Fees £
Certification of the Teachers' Pension Agency 2014/15 claim	4,200 ***
Homes and Communities Agency Decent Homes Compliance Testing – 2014/15 (also reported in the 2013/14 Annual Audit Letter)	4,250
Homes and Communities Agency Decent Homes claim 2014/15	2,750 ****
Pooling of Capital Receipts claim	TBC
Total non audit fees	8,450

*** Our work on the Teachers' Pension Agency claim has not been completed as yet, but is estimated to be provided at the same cost as 2013/14.

**** Our work on the HCA Decent Homes claim has not been completed as yet, but is estimated to be provided at the same cost as previous years.

Appendix B: How we have worked with you during the year

Audit Committee Members

We:

- provided assurance on financial reporting and financial resilience by giving a timely audit opinion and value for money conclusion
- shared our thinking on key issues, including issuing members and management with our annual reports on Governance and Financial Health (Tipping Point) and our reports on Pensions Governance, Alternative Delivery Models, High Growth Index and 2020 Vision
- ran training for local government audit committee members that was attended by your members
- met regularly with the Audit Committee to ensure you were kept up to date with the audit progress, as well as emerging issues affecting the wider Local Government Sector
- invested in regular dialogue with the audit committee to ensure there were no surprises and to maintain a robust and independent stance
- provided regular, timely and transparent reports from our work and briefing notes on key sector developments

Other Councillors

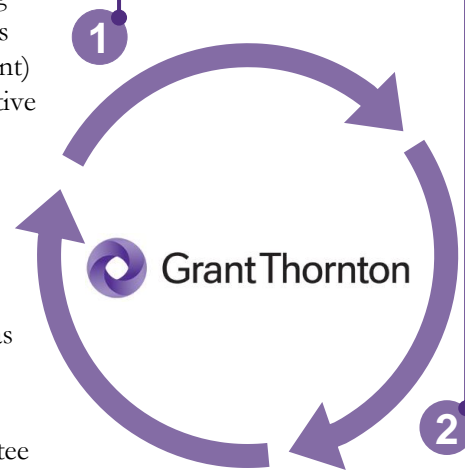
We:

- attended meetings with Senior Officers and Members on specific issues when requested

Senior Officers

We:

- ensured a smooth external audit process through regular dialogue and meetings to promptly discuss opinion audit and Whole of Government Accounts work to ensure you submitted accurate figures to central government
 - met regularly with the Senior Officers to discuss your major challenges, share our insight into national sector issues and provide support where possible
 - completed work on the 2013/14 objection to national timescales and worked with the Council on obtaining information and evidence as efficiently as possible
 - introduced Taxation and Advisory colleagues who specialise in Local Government issues to provide tailored support in key areas
 - worked with the finance department to further improve the accounts production process and to strengthen controls and systems
 - engaged early on audit requirements reflecting our engagement and partnership working with finance including making recommendations to strengthen controls and systems where appropriate
 - provided an opportunity to network with other Local Government bodies at our annual finance seminar
 - met with Directors from the Council's company to better understand their strategy, planning and growth ambitions which informed a case study in our national report on Alternative Delivery Models 'Spreading their Wings'.
 - shared our understanding of key issues facing Local Government through our thought leadership reports covering Financial Sustainability in Local Government, Devolution, Governance and Financial Resilience
- shared technical knowledge, provided early warning on key risks and provided an opportunity to network with other Local Government bodies at our workshops covering taxation issues, building a successful local authority trading company, and 20:20 vision





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Audit Committee Update for Shropshire Council

Year ended 31 March 2015

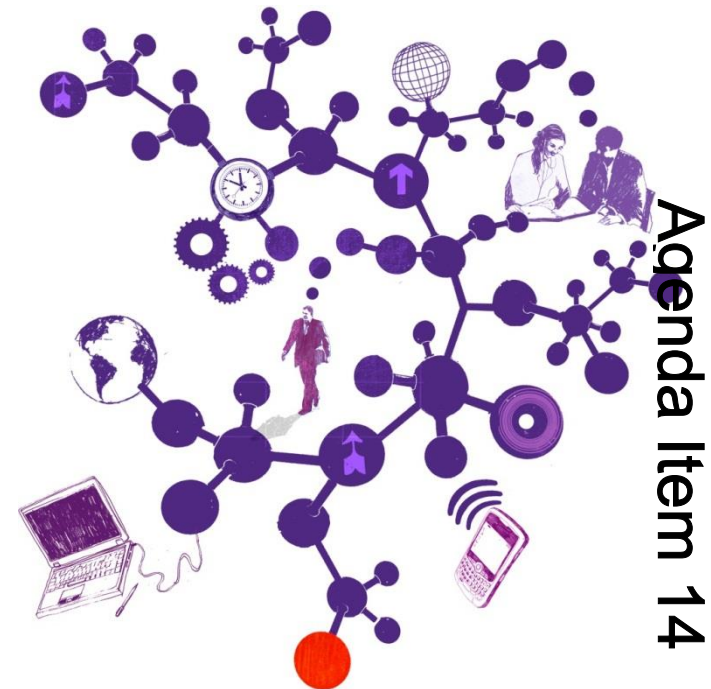
November 2015

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

Introduction

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

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

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- Spreading their wings: Building a successful local authority trading company
- Easing the burden, our report on the impact of welfare reform on local government and social housing organisations
- All aboard? our local government governance review 2015
- Stronger futures: development of the local government pension scheme
- Rising to the challenge: the evolution of local government, summary findings from our fourth year of financial health checks of English local authorities
- 2020 Vision, exploring finance and policy future for English local government
- Where growth happens, on the nature of growth and dynamism across England

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

Progress to date

Work	Planned date	Complete?	Comments
<p>2013/14 Objection</p> <p>We received a formal objection to an element of expenditure within the 2013/14 financial statements relating to taxi licence fees. This did not impact on our ability to provide our opinion on the financial statements.</p>	November 2014 – March 2015	Yes	We have provided a statement of reasons to the objector within the timescales set out by the Audit Commission. We have now been able to formally close the audit and issue the certificate for 2013/14. The fee for this work is £14,276 which has been approved by PSAA.
<p>2014/15 Accounts Audit Plan</p> <p>We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on Council's 2014/15 financial statements.</p>	February 2015	Yes	<p>We continued to assess the risks facing your Council and met with Senior Officers to ensure that these risks were fully understood and our proposed audit work was appropriate to support our final opinion and VfM conclusion.</p> <p>There were no revisions to the plan during the year.</p>
<p>Interim accounts audit</p> <p>Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 	November 2014 – April 2015	Yes	<p>We have undertaken regular meetings with the finance team to streamline and improve the audit approach for 2014/15 and discuss technical issues early. This covered a range of topics covering particular technical areas for Shropshire and national issues arising in 2014/15.</p> <p>We continue to work closely with Internal Audit in relation to risk, work on the financial statements and fraud.</p> <p>Our approach for 2014/15 has been to undertake as much early testing as possible to reduce pressure on the finance and audit team over the summer months.</p>

Progress to date (continued)

Work	Planned date	Complete?	Comments
<p>2014/15 final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2014/15 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	June – September 2015	In progress	We delivered an opinion on 25 September 2015 ahead of the statutory target date of 30 September 2015.
<p>Value for Money (VfM) conclusion</p> <p>For 2014/15, auditors of Local Government bodies are required to give their statutory conclusion on arrangements to secure value for money based on the following two criteria specified by the Audit Commission:</p> <ul style="list-style-type: none"> • The organisation has proper arrangements in place for securing financial resilience. • The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. 	December 2014 – July 2015	In progress	<p>We conducted meetings with key Senior Officers to inform our overall understanding of the Council and capture evidence of how the Council is securing value for money in all areas of service delivery.</p> <p>There is a strong focus on financial resilience and how the Council is preparing itself for future years.</p> <p>We delivered our conclusion on 25 September 2015 ahead of the statutory target date of 30 September 2015.</p>
<p>Grant work (PSAA regime)</p> <p>We plan to certify the following claim:</p> <ul style="list-style-type: none"> • Housing Benefits Claim 2014/15 (BEN01) 	June – November 2015	Not started	We did not prepare a Certification Plan on the basis that there is only one claim now under the PSAA regime and the fee is communicated via the annual fee letter.

Progress to date (continued)

Work	Comments
<p>Other areas of work We have been appointed to complete the certification work outside the PSAA regime.</p>	<p>Grant work undertaken outside of the PSAA regime includes;</p> <ul style="list-style-type: none">• Pooling of Capital Receipts,• Teachers' Pensions, and• Homes and Communities Agency assurances. <p>We will summarise all grant work to the Audit Committee once completed.</p>
<p>Engagement with the Council since the last Committee meeting</p>	<ul style="list-style-type: none">• Meeting with the Head of Finance, Governance and Assurance to update on audit and client facing matters.• Presentation and discussion with Senior Officers and Members on the outsourcing of services, the risks and rewards and various models available to the Council.• Training provided to Audit Committee Members on Financial Stability.• Confirmation of a date for the Chief Executive and Head of Finance, Governance and Assurance to attend our Birmingham offices and benefit from the CEO Room.

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Making devolution work: A practical guide for local leaders

Grant Thornton market insight

Our latest report on English devolution is intended as a practical guide for areas and partnerships making a case for devolved powers or budgets.

The recent round of devolution proposals has generated a huge amount of interest and discussion and much progress has been made in a short period of time. However, it is very unlikely that all proposals will be accepted and we believe that this the start of an iterative process extending across the current Parliament and potentially beyond.

With research partner Localis we have spent recent months speaking to senior figures across local and central government to get under the bonnet of devolution negotiations and understand best practice from both local and national perspectives. We have also directly supported the development of devolution proposals. In our view there are some clear lessons to learn about how local leaders can pitch successfully in the future.

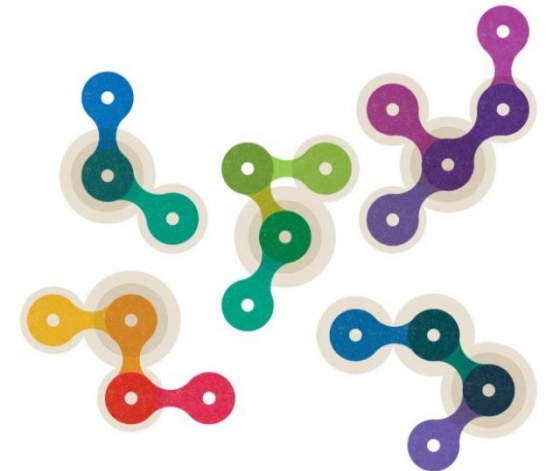
In particular, our report seeks to help local leaders think through the fundamental questions involved:

- what can we do differently and better?
- what precise powers are needed and what economic geography will be most effective?
- what governance do we need to give confidence to central government

The report 'Making devolution work: A practical guide for local leaders' can be downloaded from our website:

<http://www.grantthornton.co.uk/en/insights/making-devolution-work/>

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

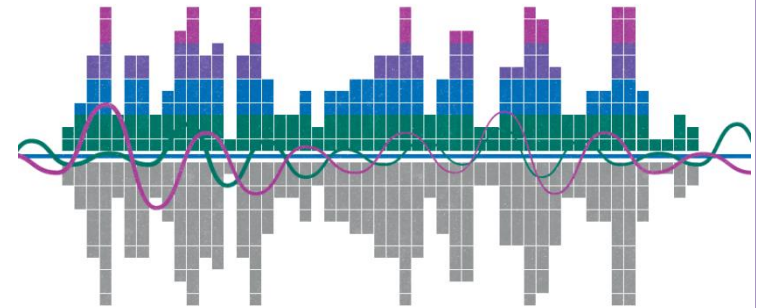


Turning up the volume: The Business Location Index

Grant Thornton market insight

Inward investment is a major component of delivering growth, helping to drive GDP, foster innovation, enhance productivity and create jobs, yet the amount of inward investment across England is starkly unequal.

The Business Location Index has been created to help local authorities, local enterprise partnerships, central government departments and other stakeholders understand more about, and ultimately redress, this imbalance. It will also contribute to the decision-making of foreign owners and investors and UK firms looking to relocate.



Based on in-depth research and consultation to identify the key factors that influence business location decisions around economic performance, access to people and skills and the environmental/infrastructure characteristics of an area, the Business Location Index ranks the overall quality of an area as a business location. Alongside this we have also undertaken an analysis of the costs of operating a business from each location. Together this analysis provides an interesting insight to the varied geography that exists across England, raising a number of significant implications for national and local policy makers.

At the more local level, the index helps local authorities and local enterprise partnerships better understand their strengths and assets as business locations. Armed with this analysis, they will be better equipped to turn up the volume on their inward investment strategy, promote their places and inform their devolution discussions.

The report 'Turning up the volume: The Business Location Index' can be downloaded from our website:

<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2015/business-location-index-turning-up-the-volume.pdf>

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

Growing healthy communities: The Health and wellbeing index

Grant Thornton market insight

Our Place Analytics team reveals how collaboration between local authority stakeholders can help address health quality determinants (social, economic and environmental) and result in improved health outcomes (quality of lifestyle and health conditions).

It has long been recognised that the health of a population is strongly linked to the circumstances in which people live. Our index assesses 33 key health determinants and outcomes of health for the 324 English local authorities, to provide a coherent, national story on health and wellbeing. It highlights the scale and nature of inequality across the country and reiterates the need for a local, place-based approach to tackling health outcomes.

The purpose of this report is to help stakeholders – NHS providers and clinical commissioning groups (CCGs), local authorities, health and social care providers, housing associations, fire authorities and the police – to improve collaboration through a better understanding of the correlation between the economic, social and environmental health determinants and the health outcomes within their locality. It includes a concluding checklist of questions to help facilitate discussions in the light of joint service needs assessments.

The data behind the index also allows segmentation which reveals areas around the country with similar health determinants, but better outcomes. This underscores the need to work in collaboration with peers that may not be 'next door' if there is an opportunity to learn from 'others like us'.

Our report, Growing healthy communities: Health and Wellbeing Index, can be downloaded from our website:

<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2015/growing-healthy-communities-health-and-wellbeing-index.pdf>

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Knowing the Ropes – Audit Committee Effectiveness Review

Grant Thornton

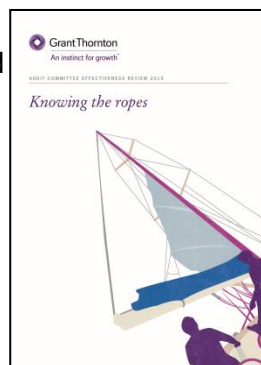
This is our first cross-sector review of audit committee effectiveness encompassing the corporate, not for profit and public sectors. It provides insight into the ways in which audit committees can create an effective role within an organisation's governance structure and understand how they are perceived more widely. It is available at <http://www.grantthornton.co.uk/en/insights/knowning-the-ropes--audit-committee-effectiveness-review-2015/>

The report is structured around four key issues:

- What is the status of the audit committee within the organisation?
- How should the audit committee be organised and operated?
- What skills and qualities are required in the audit committee members?
- How should the effectiveness of the audit committee be evaluated?

It raises key questions that audit committees, board members and senior management should ask themselves to challenge the effectiveness of their audit committee.

Our key messages are summarised opposite.



Size: 3-5 members is an ideal size for an audit committee

Frequency: meetings should be regular and the length should adapt to content

Relevance: audit committee members should be selected based on the skills and experience they bring

Clarity: the role of the audit committee and its relationship with other committees, should be clearly defined

Communication: papers should strike the balance between detail and length

Ability: training should be provided for audit committee members

Evolution: audit committees should continually develop

The two key things that audit committee members should be asking are:

- 1 What is expected of the audit committee and does it reflect the specific nature of the industry in which the organisation sits?
- 2 Does the audit committee have clear terms of reference in place? Audit committees should set themselves targets for what they want to achieve and define how these will be measured to ensure they are operating effectively.

George Osborne sets out plans for local government to gain new powers and retain local taxes

Local government issues

The Chancellor unveiled the "devolution revolution" on 5 October involving major plans to devolve new powers from Whitehall to Local Government. Local Government will now be able to retain 100 per cent of local taxes and business rates to spend on local government services; the first time since 1990. This will bring about the abolition of uniform business rates, leaving local authorities with the power to cut business rates in order to boost enterprise and economic activity within their areas. However, revenue support grants will begin to be phased out and so local authorities will have to take on additional responsibility. Elected Mayors, with the support of local business leaders in their LEPs, will have the ability to add a premium to business rates in order to fund infrastructure, however this will be capped at 2 per cent.

There has been a mixed reaction to this announcement. Some commentators believe that this will be disastrous for authorities which are too small to be self-sufficient. For these authorities, the devolution of powers and loss of government grants will make them worse off. It has also been argued that full devolution will potentially drive up council's debt as they look to borrow more to invest in business development, and that this will fragment the creditworthiness of local government.

Challenge question

Do members understand the implications of the Chancellor's "devolution revolution" announcement and its likely impact on the Council?

Councils must deliver local plans for new homes by 2017

Local government issues

The Prime Minister announced on 12 October that all local authorities must have plans for the development of new homes in their area by 2017, otherwise central government will ensure that plans are produced for them. This will help achieve government's ambition of 1 million more new homes by 2020, as part of the newly announced Housing and Planning Bill.

The government has also announced a new £10 million Starter Homes fund, which all local authorities will be able to bid for. The Right to Buy Scheme has been extended with a new agreement with Housing Associations and the National Housing Federation. The new agreement will allow a further 1.3 million families the right to buy, whilst at the same time delivering thousands of new affordable homes across the country. The proposal will increase home ownership and boost the overall housing supply. Housing Association tenants will have the right to buy the property at a discounted rate and the government will compensate the Housing Associate for their loss.

Challenge question

Have members been briefed by the Head of Finance, Governance and Assurance on the government's new homes announcements and their likely impact on the Council?

Improving efficiency of council tax collection

Local government issues

DCLG have published "Improving Efficiency for Council Tax Collection", calling for consultation on the proposals to facilitate improvements in the collection and enforcement processes in business rates and council tax. The consultation is aimed specifically at local authorities, as well as other government departments, businesses and any other interested parties. The consultation document states that council tax collection rates in 2014-15 are generally high (at 97 per cent), however the government wishes to explore further tools for use by local authorities and therefore seeks consultation from local authorities on DCLG's proposals. The consultation closes on 18 November.

The Government proposes to extend the data-sharing gateway which currently exists between HMRC and local authorities. Where a liability order has been obtained, the council taxpayer will have 14 days to voluntarily share employment information with the council to enable the council to make an attachment to earnings. If this does not happen, the Government proposes to allow HMRC to share employment information with councils. This would help to avoid further court action, would provide quicker access to reliable information, and would not impose any additional costs on the debtor. The principle of this data-sharing is already well-established for council taxpayers covered by the Local Council Tax Support scheme, and it would make the powers applying to all council tax debtors consistent. Based on the results of the Manchester/HMRC pilot, Manchester estimate that £2.5m of debt could potentially be recouped in their area alone.

Challenge question

Are members aware of the government's council tax collection consultation and the Council's response to it?

Code of Audit Practice

National Audit Office

Under the Local Audit and Accountability Act 2014 the National Audit Office are responsible for setting the Code of Audit Practice which prescribes how local auditors undertake their functions for public bodies, including local authorities.

The NAO have published the Code of Audit Practice which applies for the audit of the 2015/16 financial year onwards. This is available at <http://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Final-Code-of-Audit-Practice.pdf>

The Code is principles based and will continue to require auditors to issue:

- Opinion on the financial statements
- Opinion on other matters
- Opinion on whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the "VFM conclusion".)

The NAO plan to supplement the new Code with detailed auditor guidance in specific areas. The published draft audit guidance for consultation on the auditor's work on value for money arrangements in August 2015, which is due to be finalised in November 2015. The draft guidance includes the following.

- Definition of the nature of the opinion to be given – i.e. a "reasonable assurance" opinion as defined by ISAE 300 (revised)
- Definitions of what could constitute "proper arrangements" for securing economy, efficiency and effectiveness in the use of resources
- Guidance on the approach to be followed by auditors in relation to risk assessment, with auditors only required to carry out detailed work in areas where significant risks have been identified
- Evaluation criteria to be applied
- Reporting requirements.

Grant Thornton submitted a response to the consultation which closed on 30 September 2015.

Supporting members in governance

Grant Thornton and the Centre for Public Scrutiny

We have teamed up with the Centre for Public Scrutiny to produce a member training programme on governance. Elected members are at the forefront of an era of unprecedented change, both within their own authority and increasingly as part of a wider local public sector agenda. The rising challenge of funding reductions, the increase of alternative delivery models, wider collaboration with other organisations and new devolution arrangements mean that there is a dramatic increase in the complexity of the governance landscape.

Members at local authorities – whether long-serving or newly elected – need the necessary support to develop their knowledge so that they achieve the right balance in their dual role of providing good governance while reflecting the needs and concerns of constituents.

To create an effective and on-going learning environment, our development programme is based around workshops and on-going coaching. The exact format and content is developed with you, by drawing from three broad modules to provide an affordable solution that matches the culture and the specific development requirements of your members.

- Module 1 – supporting members to meet future challenges
- Module 2 – supporting members in governance roles
- Module 3 – supporting leaders, committee chairs and portfolio holders

The development programme can begin with a baseline needs assessment, or be built on your own understanding of the situation.

Further details are available from your Engagement Lead and Audit Manager





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