

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

Date: 10 February 2016
My Ref:
Your Ref:

**Committee:
Audit Committee**

Date: Thursday, 18 February 2016
Time: 10.45 am
Venue: Shrewsbury/Oswestry 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)
John Cadwallader
Chris Mellings

Pamela Moseley
David Turner

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 meeting held on the 26 November 2015 (Pages 1 - 8)

The Minutes of the meeting held on the 26 November 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 Internal Audit Performance and Revised Annual Audit Plan 2015/16 – Ten Month Report (Pages 9 - 20)

The report of the Audit Service Manager is attached marked 5.
Contact: Ceri Pilawski (01743) 257739

6 Management Report: Strategic Risk Report 2016 (Pages 21 - 24)

The report of the Risk and Insurance Manager is attached, marked 6.
Contact Angela Beechey (01743) 252073

7 Management Report: Treasury Strategy 2016/17 (Pages 25 - 70)

The report of the Head of Finance, Governance and Assurance (Section 151 Officer) is attached, marked 7.
Contact: James Walton (01743) 255011

8 Internal audit Risk Management Report 2015/16 (Pages 71 - 74)

The report of the Engagement Auditor is attached, marked 8.
Contact: Peter Chadderton (01743) 257737

9 Review of the Audit Committee's Annual Work Plan and Future Learning and Development Requirements 2016/17 (Pages 75 - 104)

The report of the Audit Service Manager is attached marked 9.
Contact: Ceri Pilawski (01743) 257739

10 Draft Internal Audit Annual plan 2016/17 (Pages 105 - 118)

The report of the Audit Service Manager is attached marked 10.
Contact: Ceri Pilawski (01743) 257739

11 External Assessment (Pages 119 - 124)

The report of the Audit Service Manager is attached, marked 11.
Contact: Ceri Pilawski (01743) 257739

12 External Audit: Audit Committee Update (Pages 125 - 146)

The report of the External Auditor is attached, marked 12.
Contact: Mark Stocks (0121) 232 5356

13 External Audit: Certification summary report 2014/15 Shropshire Council (Pages 147 - 156)

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

14 External Audit: Reporting on progress against recommendations from 2014/15 for Shropshire Council (Pages 157 - 162)

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

15 External Audit: The Audit Plan for Shropshire Council (Pages 163 - 180)

The report of the External Auditor is attached, marked 15.
Contact: Mark Stocks (0121) 232 5356

16 External Audit: Informing the audit risk assessment for Shropshire Council (Pages 181 - 200)

The report of the External Auditor is attached, marked 16.
Contact: Mark Stocks (0121) 232 5356

17 Date and Time of Next Meeting

The next meeting of the Audit Committee will be held on the 23 June 2016 at 9.30 am.

18 Exclusion of Press and Public

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

19 Exempt minutes of the previous meeting held on the 26 November 2015
(Pages 201 - 202)

The exempt minutes of the meeting held on the 26 November 2015 are attached for confirmation, marked 19.

Contact Michelle Dulson (01743) 257719

20 Fraud, Special Investigation and RIPA Update (Pages 203 - 206)

The report of the Engagement Auditor is attached, marked 20.

Contact: Katie Williams (01743) 257737



Committee and Date

Audit Committee

18 February 2016

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 26 NOVEMBER 2015 9.30AM - 12.30PM

Responsible Officer: Michelle Dulson

Email: michelle.dulson@shropshire.gov.uk Tel: 01743 257719

Present

Councillor Brian Williams (Chairman)

Councillors Michael Wood (Vice Chairman), John Cadwallader and Chris Mellings

Also Present

Councillor Pamela Moseley

53 Apologies for Absence / Notification of Substitutes

53.1 None received.

54 Disclosable Pecuniary Interests

54.2 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.

55 Minutes of the previous meetings held on the 17 September 2015

55.1 It was confirmed that the word 'contacts' in the second sentence of paragraph 38.3 should read 'contracts'.

55.2 RESOLVED:

That the minutes of the meetings held on 17 September 2015 be approved and signed by the Chairman as a correct record, subject to the above.

56 Public Questions

56.1 There were no public questions.

57 Management Report: Council tax and non-domestic rates performance monitoring report

57.1 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 Council Tax and National Non Domestic

Rates (Business Rates) income for the year to 31 March 2015, together with progress on the year to 31 March 2016.

- 57.2 The Revenues and Benefits Service Manager reported that the final collection rate for council tax for 2014-15 was 98.3% which compared favourable to the previous year's collection rate of 98.1%. In the year to 9 November 2015, 73.7% of council tax had been collected compared to 73.6% for the equivalent period last year. The total arrears for council tax as at 31 March 2015 stood at £8.6m but as at 1 November 2015 this had reduced to £6.7m.
- 57.3 In respect of Business Rates (NNDR), the Revenues and Benefits Service Manager stated that the final in-year collection rate for 2014/15 was 98.7% which again compared favourably with the previous year's collection rate of 98.3%. In the year to 9 November 2015, 75.5% of business rates debt had been collected compared to 73.1% for the equivalent period last year. The total arrears for Business Rates as at 31 March 2015 stood at £3.4m and as at 1 November 2015 this had reduced to £3m.
- 57.4 The Revenues and Benefits Service Manager drew attention to the difficulties collecting Council Tax and Business Rates over 12 months as opposed to the usual 10 months. In response to a query the Revenues and Benefits Service Manager explained that collection rates were slightly ahead of the previous year due in part to Council Tax payers being educated over a period of time that if they consistently did not pay, the Council would follow this up quickly and attempt to set up a proper recovery timetable etc.
- 57.5 Concern was raised about the level of aged debts and reference was made to an external audit consultation looking at improving the efficiency of collection rates. The Revenues and Benefits Service Manager was requested to attend a future meeting to discuss the results of this consultation. He was also requested to expand his analysis in future reports to cover the points raised by Members.
- 57.6 **RESOLVED:** That the contents of the report be noted.

58 **Management Report: Treasury Strategy Mid-Year Report 2014/15**

- 58.1 The Committee received the report of the Head of Finance, Governance and Assurance (S151 Officer) – copy attached to the signed Minutes – which informed Members of the Treasury activities of the Council for the first six months of the financial year.
- 58.2 The Head of Finance, Governance and Assurance (S151 Officer) reported that the internal treasury team had achieved a return of 0.58% on the Council's cash balances, outperforming the benchmark by 0.22%. The Council currently had £150m held in investments and borrowing of £332m however with interest rates being very low the Council was not getting any benefit from this.
- 58.3 In response to a query, the Head of Finance, Governance and Assurance (S151 Officer) reported that he meets on a monthly basis with the Pension Fund Managers who believed that investor confidence was increasing despite the slow-down in China, which was still a massive economy.

58.4 In response to a query about plans to develop a new capital programme, the Head of Finance, Governance and Assurance (Section 151 Officer) explained that over the last three or four years there had generally been a significant slow-down and very little major schemes had been added to the existing capital programme. He reported that three major schemes had now been identified however no figures had been attached as yet and there were another five large schemes on the horizon.

58.5 A query was raised about whether it would be worthwhile the Council paying back some of its borrowing whilst bank interest rates were so low. The Head of Finance, Governance and Assurance (Section 151 Officer) explained that they regularly looked at re-profiling the Council's finances however PWLB redemption conditions made it impossible to redeem these loans. He agreed to include a session on treasury management in the Committees' next training session.

58.6 RESOLVED:

That the position as set out in the report be accepted and that Members note that any capital schemes brought forward that would impact on the current strategy would need to be approved by Council.

59 Internal Audit: National Fraud Initiative Update

59.1 The Committee received the report of the Engagement Auditor – copy attached to the signed Minutes – which provided an update on the outcomes of the 2014/15 National Fraud Initiative (NFI), the results of which were reported to and monitored by the Cabinet Office (previously by the Audit Commission) using their secure NFI website.

59.2 The Engagement Auditor confirmed that savings of £5,096.53 had been identified so far during the 2014/15 exercise which had reduced significantly compared to 2012/13 due to the transfer of housing benefit fraud investigations to the Single Fraud Investigation Services.

59.3 It was reported that 17 days had been spent investigating the data matches and that the fee for participating in this mandatory exercise for 2014/15 was £3,650.00. The Engagement Auditor then took members through the significant matches identified and set out at paragraph 6.5 of the report.

59.4 In response to a query it was confirmed that the Registrar did have a duty to notify the Local Authority of a death, however the majority of matches were due to a timing issue between the data being submitted and the matches being returned.

59.5 The Engagement Auditor explained how the public were informed that their data was used for the purpose of detecting fraud and Members felt that awareness of this ought to be widened.

59.6 RESOLVED:

That the contents of the report be noted.

60 Annual review of Counter Fraud, Bribery and Anti-Corruption Strategy

- 60.1 The Committee received the report of the Audit Service Manager – copy attached to the signed Minutes – which outlined the measures undertaken in the last year to evaluate the potential for the occurrence of fraud and how the Council managed those risks with the aim of prevention, detection and subsequent reporting of fraud and corruption. It also informed Members that the Counter Fraud, Bribery and Anti-Corruption Strategy had been reviewed in line with best practice and continued to underpin the Council’s commitment to prevent all forms of fraud, bribery and corruption whether it be attempted on or from within the Council, thus demonstrating the strategy’s continuing and important role in the corporate governance and internal control framework.
- 60.2 The Audit Service Manager confirmed that the Council was meeting the standard set out in the CIPFA Code of Practice on managing the risk of fraud and corruption. She then drew attention to the main changes identified within the strategy and the revised RIPA Policy.
- 60.3 **AGREED:**
- To endorse the measures undertaken and detailed in the report together with the revisions to the Counter Fraud, Bribery and Anti-Corruption Strategy.

61 Annual review of Audit Committee Terms of Reference

- 61.1 The Committee received the report of the S151 Officer – copy attached to the signed Minutes – which set out minor changes being proposed to the Audit Committee Terms of Reference.
- 61.2 It was noted that when the Terms of Reference had been reviewed the previous year the word ‘Members’ had been added to Paragraph 44 however this had been omitted from the Terms of Reference attached at Appendix A.
- 61.3 **RESOLVED:**

That the current Audit Committee Terms of Reference be endorsed.

62 Annual Audit Committee self-assessment of good practice

- 62.1 The Committee received the report of the S151 Officer – copy attached to the signed Minutes – which requested Members to review and comment on the self-assessment questionnaire which allowed them to demonstrate the effectiveness of the Audit Committee and to identify whether there were any further improvements that could be made to improve the Committee’s overall effectiveness.
- 62.2 The Chairman took the Committee through the self-assessment questionnaire set out at Appendix A to the report. The Audit Service Manager agreed to share with Members the evidence which backed up the self-assessment responses. Members agreed that they would revisit the detail behind the Committee’s self-assessment as part of their training every second year.
- 62.3 **RESOLVED:** That the self-assessment questionnaire be approved.

63 Internal Audit Charter, annual review

63.1 The Committee received the report of the Audit Service Manager – copy attached to the signed Minutes – which set out the changes being proposed to the Internal Audit Charter.

63.2 RESOLVED:

That the Internal Audit Charter be endorsed.

64 Internal Audit performance report and revised Annual Audit Plan 2015/16

64.1 The Committee received the report of the Audit Service Manager – copy attached to the signed Minutes – which provided Members with an update of the work undertaken by Internal Audit in the two months since the last report in September 2015 and summarised the progress against the Internal Audit Plan.

64.2 The Audit Service Manager informed the meeting that 58% of the revised plan had been completed which was in line with the target of 90% by year end. She reported that twelve good and reasonable assurance opinions had been issued together with eleven limited and one unsatisfactory assurance opinion. She went on to say that twenty four final reports had been issued which contained 335 recommendations, none of which were fundamental.

64.3 The Audit Service Manager explained that the original plan had provided a total of 2,068 days however this had been revised down to 1,939 days due to the resignation of a member of staff and a planned maternity leave from March 2016. Also, no contingency had been put in for transformation work which had been unknown at the time. She then drew attention to the lower assurance levels in Children's Services and Customer Involvement which were considered to be low risk and would not affect the overall year end opinion.

64.4 Turning to the Council's Direction of Travel, the Audit Service Manager reported that comparison of assurance levels since 2013/14 demonstrated a falling level of overall control (30% good assurance in 2013/14 compared to 8% in 2015/16 to date; and 15% limited assurances in 2013/14 compared to 41% in 2015/16 to date).

64.5 The Chairman raised concerns in relation to the Council's Direction of Travel, which although not unexpected, he was nonetheless concerned whether other Members of the Council were generally aware that the required standards of control were lower/not being met and he wished for all Members to be made aware that the level of operational assurances were falling.

64.6 In response to a query about what was being done about the falling level of assurances, the Audit Service Manager informed the Committee that she had raised this issue with the Directors who realised that it was a consequence of redesign and reducing resources, they were aware of the situation and were concerned but were not clear how to manage it differently and felt that the situation may get worse before it got better.

64.7 The Section 151 Officer explained that the Directors were concerned about the Direction of Travel and had made a commitment that those areas highlighted as having limited and unsatisfactory assurance levels would be dealt with and additional resources allocated where necessary. The processes were still effective but the Council was in a period of change and it was felt that things would continue in this vein for the foreseeable future. The situation was therefore understood but it was accepted that nothing could be done to mitigate the risks.

64.8 The Chairman queried the action that could be taken to draw attention to the current situation. It was agreed for the Section 151 Officer and the Chairman to ensure that the Portfolio Holder was fully apprised of the situation and the content of the report and be requested to consider whether he would like to address Cabinet. The Committee also requested that the Portfolio Holder be invited to attend the next meeting of the Audit Committee in order to discuss the way forward and that the Audit Service Manager be requested to present a report highlighting the issues raised in various audit areas for the next meeting.

64.9 Concern was also raised about the detrimental effect on staff morale arising from the reduction in manpower across the authority.

64.10 RESOLVED:

- a) That performance to date against the 2015/16 Audit Plan as set out in the report be noted;
- b) That the adjustments required to the 2015/16 plan to take account of changing priorities, as set out in Appendix B of the report, be endorsed; and
- c) That the concerns of the Committee in relation to the deteriorating levels of assurance and the downwards Direction of Travel be drawn to the attention of the Portfolio Holder, and that he be requested to attend the next meeting of the Audit Committee in order to discuss the way forward.

65 External Audit: Annual Audit Letter 2014/15 Shropshire Council

65.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – which summarised the findings arising from the work carried out for the year ended 31 March 2015 in relation to the financial statements of both the Council and the Pension Fund and the Value for Money conclusion.

65.2 The External Audit Manager took Members through the report and highlighted the salient points. She drew attention to the key messages set out on page 7 of the report and confirmed that the fee for 2014/15 was £178,460, excluding VAT.

65.3 The Chairman was pleased to note the unqualified opinion given by External Audit. He commented that Appendix B had been very useful and he was pleased that this would become a regular feature of future External Audit reports.

65.4 In response to a query about how achievable the Council's savings plan was thought to be, following the work done on the Council's Value for Money conclusion, the External Audit Manager confirmed that the savings plans were felt to be achievable

and realistic. The payback period had been changed slightly however this was part of the Medium Term Financial Plan and as such was accepted as reasonable. External Audit were aware that there had been some changes to the way Services were being delivered, so not all of the savings were coming through straight away but hopefully they would come through eventually. She went on to say that the Council still had very healthy reserves during a very uncertain and transitional time and that any concerns would be discussed with Officers.

65.5 RESOLVED:

That the contents of the report be noted.

66 External Audit: Audit Committee update

66.1 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.

66.2 The External Audit Manager informed the Committee that the Chief Executive and Section 151 Officer were attending their Birmingham offices the following day to benefit from the CEO room where independent business and public sector experts would be available to discuss where the Council was going strategically. She also reported that a workshop was being developed to consider devolution from rural areas.

66.3 RESOLVED:

That the contents of the report be noted.

67 Date and Time of Next Meeting

67.1 Members were reminded that the next meeting of the Audit Committee would be held on the 18 February 2016 at 9.30am.

68 Exclusion of Press and Public

68.1 RESOLVED:

That in accordance with the provisions of Schedule 12A of the Local Government Act 1972 and paragraph 10.2 of the Council's Access to Information Procedure Rules, the public and press be excluded during consideration of the following items as defined by the categories specified against them.

69 Exempt minutes of the previous meeting held on the 17 September 2015

69.1 RESOLVED:

That the exempt minutes of the meetings held on 17 September 2015 be approved and signed by the Chairman as a correct record.

70 Management Report: IT Update Report (Exempted by Category 3)

70.1 The Committee received the exempt report of the Interim ICT Manager – copy attached to the signed Minutes - which provided a brief update on the current situation.

70.2 RESOLVED:

That the contents of the report be noted.

71 Internal Audit: Fraud and Special Investigation Update (Exempted by Categories 2, 3 and 7)

71.1 The Committee 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.

71.2 RESOLVED

That the contents of the report be noted.

Signed (Chairman)

Date:



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
18 February 2016	
09:30am	<u>Public</u>

INTERNAL AUDIT PERFORMANCE AND REVISED ANNUAL AUDIT PLAN 2015/16 – TEN MONTH REPORT

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

Telephone: 01743 257739

1. Summary

This report provides members with an update of work undertaken by Internal Audit in the three months since the last report in November 2015, summarising progress against the Internal Audit Plan. **79%** of the revised plan has been completed, in line with previous delivery records to achieve a target of 90% by year end.

Eight good and reasonable assurances, nine limited and one unsatisfactory assurance opinions have been issued. The 18 final reports contained 249 recommendations, none of which were fundamental.

This report proposes minor revisions taking the overall audit plan from 1,939 days, as reported in November 2015, to 1,932 days. Changes to the planned activity include a number of unanticipated transformation and advisory projects not included in the original plan. The changes have been discussed with, and agreed by, the Section 151 Officer.

The Council is undergoing significant change in its operational approach and is having to do so under ongoing financial constraint. An increase in risk taking has been evitable, and is reflected in a reduction in the level of assurance in the internal control environment. It is therefore important that this situation is kept under review and managed appropriately.

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 essential to ensuring the probity and soundness of the Council's control, financial, risk management systems and governance procedures, and is closely aligned to strategic and operational risk registers. The Plan is delivered in an effective manner in which the adequacy of control environments is

examined, evaluated and reported on independently and objectively by Internal Audit. This contributes to the proper, economic, efficient and effective use of resources. It provides assurances on the internal control systems, by identifying potential weaknesses and areas for improvement, and engaging with management to address these in respect of current systems and during system design. Failure to maintain robust internal control, 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 are identified following a risk assessment process which considers the Council's risk register information and involves discussions with managers concerning their key risks. These are refreshed throughout the period of the plan as the environment changes and impacts on risks and 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. These 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.
- 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 to, and approved by, members at the 26th November 2015 Audit Committee with the caveat that further adjustments may be necessary. This report provides an update on progress made against the plan up to 25th January 2016 and includes minor revisions to the plan.
- 5.4 Part of the internal audit plan continues to be met by external providers.

Performance against the plan 2015/16

- 5.5 The revised February 2016 plan provided for a total of 1,932 days and has required revisions to reflect changing risks and resources. The Audit Team have contributed to a number of unanticipated transformation projects and advisory work not included in the original plan. Performance to date has been good with 79% 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 In total 18 final reports have been issued in the period to 25th January 2016. These are broken down by service area in **Appendix A, Table 2a.**
- 5.7 Eight good and reasonable assurances were made in the period accounting for 44% of the opinions delivered. This represents a reduction in the higher levels of assurance compared to the previous year outturn of 64%. A corresponding 13% increase in limited (nine) and unsatisfactory (one) opinions make up the remaining 56% of opinions issued in the period.
- 5.8 During this period, Adult and Commissioning Services have attracted limited assurance levels in a number of areas audited. Children's Services and Customer Involvement continue to show lower assurance levels than other areas. As explained in previous reports, Children's Services reflect mainly audit reviews of schools. These are considered low risk to the Council overall and therefore, at this stage, are not expected to affect the Audit Service Manager's overall year-end opinion. The team are continuing to provide support to head teachers, teachers, administrators and governors through forums and area meetings to help improve the control environment. Customer Involvement service reviews include a number of ICT infrastructure reviews. These have been considered previously by officers and members and resulted in the Audit Service Manager giving a qualified opinion in the last two years. The assurance and direction of travel in this area remains a concern given the potential impact on delivering the Council's objectives (**Appendix A, Table 2b**). Further planned reviews in this area will help inform the position of the control environment. The overall direction of travel throughout the Council is explored in more detail in a later section.
- 5.9 Sixteen draft reports, awaiting management responses, 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 three school funds and the certification of three grant claims.
- 5.10 A summary of the planned audit reviews which resulted in unsatisfactory or limited assurance is included in **Appendix A, Table 3.** The appendix also includes descriptions of the levels of assurance used in assessing the control environment and the classification of recommendations, **Tables 4 and 5.**
- 5.11 A total of 249 recommendations have been made in the 18 final audit reports issued in the year; these are broken down by audit area and appear in **Appendix A, Table 6.**
- 5.12 No fundamental recommendations have been identified.
- 5.13 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, progress on recommendations is followed up after six months by obtaining an update from management.
- 5.14 One recommendation has been rejected by management. Pontesbury Primary School were advised to ensure that agendas and supporting documents presented to the Governing Body or any sub-committees, be retained with the meeting's minutes to ensure a full record of the meeting can be evidenced. This was rejected with a comment that the

associated papers are held in school. These were not available to the Auditor at the time of review and as such cannot be independently verified.

Direction of travel

- 5.15 This section compares the assurance levels (where given), and categorisation of recommendations made, to demonstrate the 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	14%	37%	43%	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%	55%	40%	1%	100%
2014/15	6%	53%	40%	1%	100%
2013/14	15%	57%	27%	1%	100%

- 5.16 The increased number of lower level assurances, 49% compared at the 2015/16 mid-year point compare to the 2014/15 outturn of 36%, suggest a falling level of overall control. The recommendation classifications at this mid-way point in the year are comparable with the outturn for 2014/15, both representing a significant decrease in assurance from 2013/14 results.
- 5.17 **Appendix A, Table three**, shows a full list of areas that have attracted limited and unsatisfactory assurances to date this year. This demonstrates, at a point in time, issues around control areas such as contract management, IT systems, financial administration in Adult Services and Schools. This needs to be considered in the context of a reduced Internal Audit resource that is increasingly focused on the higher level risk areas in terms of delivering the Council's business objectives.

Performance measures

- 5.18 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
 Internal Audit Performance Report 2015/16 - Audit Committee 26 November 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)

Malcom Pate, 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 2015 to the 25th January 2016

Table 2a: Final audit report assurance opinions issued in the period 1st November 2015 to 25th January 2016

Table 2b: Final audit report assurance opinions issued between 1st April 2015 and 25th January 2016

Table 3: Unsatisfactory and limited assurance opinions in the period 1st November 2015 to the 25th January 2016

Table 4: Audit assurance opinions

Table 5: Audit recommendation categories

Table 6: Audit recommendations made in the period 1st November 2015 to the 25th January 2016

Appendix B - Audit plan by service 1st April 2015 to 25th January 2016

Table 1: Summary of actual audit days delivered and revisions to the audit plan in the period 1st April to 25th January 2016

	Original Plan	Aug Revision	Nov Revision	Feb Revision	Revised Plan Days	25 Jan 16 Actual	% of Plan Achieved
Chief Executive	58	0	-15	12	55	23.5	43%
Adult Services	110	23	-1	-31	101	90.8	90%
Commissioning	118	10	-17	-10	101	75.8	75%
Children's Services	399	9	-28	53	433	376.8	87%
Public Health	32	0	-5	-10	17	1.4	8%
Resources and Support	517	-5	-37	-27	448	323.6	72%
S151 Planned Audit	1,234	37	-103	-13	1,155	891.9	77%
Contingencies and other chargeable work	595	-19	-28	-10	538	445.8	83%
Total S151 Audit	1,829	18	-131	-23	1,693	1,337.7	79%
External Clients	221	0	0	16	239	195.0	82%
Total	2,050	18	-131	-7	1,932	1,532.7	79%

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 1st November 2015 to 25th January 2016.

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Chief Executive	0	0	0	0	0
Adult Services	0	0	3	0	3
Commissioning	0	0	1	0	1
Children's Services	2	1	4	0	7
Public Health	0	0	0	0	0
Resources and Support					
Commercial Services	1	0	0	0	1
Customer Involvement	0	0	1	1	2
Finance, Governance and Assurance	3	1	0	0	4
Human Resources	0	0	0	0	0
Legal, Strategy and Democratic	0	0	0	0	0
Total for the period					
➤ Numbers	6	2	9	1	18
➤ Percentage	33%	11%	50%	6%	100%
% for 2015/16 to date	14%	37%	43%	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 2015 and 25th January 2016

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Chief Executive	0	0	0	0	0
Adult Services	0	1	6	1	8
Commissioning	0	0	5	0	5
Children's Services	3	16	13	1	33
Public Health	0	0	0	0	0
Resources and Support					
Commercial Services	1	1	1	0	3
Customer Involvement	0	1	10	2	13
Finance, Governance and Assurance	7	8	0	1	16
Human Resources	0	2	0	0	2
Legal, Strategy and Democratic	0	1	0	0	1
Total for year to date					
➤ Numbers	11	30	35	5	81
➤ Percentage	14%	37%	43%	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 1st April 2015 to 25th January 2016 listed by service area

Audit Name	Service Area	Audit Opinion
Adult Services		
Appointeeships and Deputyships / Court of Protection	Developmental Support	Unsatisfactory
Homepoint IT System	Housing Services	Limited
Adult Social Care Financial Assessments 2014/15	Long Term Support	Limited
CM2000 Electronic Homecare Monitoring - Application Review 2015-16	Long Term Support	Limited
Adult Social Care Management Controls	Developmental Support	Limited
Direct Payments - Adults	Long Term Support	Limited
Church Stretton Day Centre Transfer - Exit Audit	Provider Services - Establishments	Limited
Commissioning		
CIVICA Environmental Health System Application Review 2014/15	Environmental Health	Limited
Leisure Services Contract	Leisure Services	Limited
EDRM Sharepoint	Visitor Economy	Limited
Waste - Specialist Disposal Contracts	Waste & Bereavement	Limited
Parking - Cash Collection	Environmental Protection and Prevention	Limited
Children's Services		
ONE - Education Management System 2015-16	Business Support	Limited
Leaving Care	Children's Placement Services & Joint Adoption	Limited

Audit Name	Service Area	Audit Opinion
Bicton CE (Controlled) Primary School	Primary/Special Schools	Limited
Bomere Heath CE (Controlled) Primary School	Primary/Special Schools	Limited
Gobowen Primary School	Primary/Special Schools	Limited
Hadnall Primary School 2014/15	Primary/Special Schools	Limited
Our Lady & St Oswald's Catholic Primary School 2014/15	Primary/Special Schools	Limited
Radbrook Primary School	Primary/Special Schools	Limited
Grove School 2014/15	Secondary Schools	Unsatisfactory ¹
Ludlow CE School Specialist Technology and Sports College 2014/15	Secondary Schools	Limited
Myddle CE Primary School 2014/15	Primary/Special Schools	Limited
Pontesbury CE Primary School	Primary/Special Schools	Limited
Whitchurch CE (Controlled) Junior School	Primary/Special Schools	Limited
Section 17 Payments Children	Assessment & Looked After Children	Limited

Commercial Services

Contracts and Tendering - Premises Services	Property Services	Limited
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Customer Involvement

Cardholder Management System for Blue Badges	Customer Services	Limited
Mobile Devices - iPads, iPhone, Windows Phone 2014/15	ICT	Limited
Remote Support 2014/15	ICT	Limited
Hardware Replacement Programme Follow Up 2014/15	ICT	Unsatisfactory
Corporate Networking - Active Directory	ICT	Limited
Patch Management	ICT	Limited
Disposal of IT Equipment 2015-16	ICT	Limited
Internet Security 2015-16	ICT	Limited
IT Registration and Deregistration Procedures 2015-16.	ICT	Limited
Network Perimeter Defences 2015-16	ICT	Limited
Antivirus Controls	ICT	Limited
Social Media	Customer Services	Unsatisfactory

Finance Governance and Assurance

Sales Ledger 2014/15	Finance Transactions	Unsatisfactory
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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.

¹ NB The Grove has been re-audited and attained a 'Good' level of assurance but has not been taken out of these statistics in order not to distort them since both the 2014/15 and 2015/16 results have been finalised and reported this year.

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 1st November 2015 to 25th January 2016

Service area	Number of recommendations made				
	Best practice	Requires attention	Significant	Fundamental	Total
Chief Executive	0	0	0	0	0
Adult Services	1	20	14	0	35
Commissioning	0	3	7	0	10
Children's Services	4	88	65	0	157
Public Health	0	0	0	0	0
Resources and Support					
Commercial Services	0	3	0	0	3
Customer Involvement	3	14	17	0	34
Finance, Governance and Assurance	1	7	2	0	10
Human Resources	0	0	0	0	0
Legal, Strategy and Democratic	0	0	0	0	0
Total for the period					
➤ Numbers	9	135	105	0	249
➤ Percentage	4%	54%	42%	0%	100%
% for 2015/16 to date	4%	55%	40%	1%	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 25th JANUARY 2016

	Original Plan Days	Aug Revision	Nov Revision	Feb Revision	Revised Plan Days	25 Jan 16 Actual	% of Revised Plan Achieved
CHIEF EXECUTIVE							
Governance	58	0	-15	12	55	23.5	43%
ADULT SERVICES							
Social Care Operations							
Long Term Support	55	7	3	-7	58	47.3	82%
Provider Services - Establishments	13	11	-2	-12	10	10.4	104%
Housing Services	29	1	-8	-15	7	6.9	99%
	97	19	-7	-34	75	64.6	86%
Social Care Efficiency and Improvement							
Development Support	13	4	6	3	26	26.2	101%
ADULT SERVICES	110	23	-1	-31	101	90.8	90%
COMMISSIONING							
Waste & Bereavement	10	0	-3	0	7	7.1	101%
Leisure Services	13	0	-3	0	10	10.3	103%
Highways	14	1	1	1	17	7.6	45%
Development Management	18	3	-10	4	15	15.1	101%
Visitor Economy	5	0	4	0	9	9.0	100%
Business & Enterprise	15	0	0	0	15	0.0	0%
Project Development	5	0	-5	0	0	0.0	0%
Community Safety	23	6	4	-14	19	17.7	93%
Environmental Protection and Prevention	15	0	-5	-1	9	9.0	100%
COMMISSIONING	118	10	-17	-10	101	75.8	75%
CHILDREN'S SERVICES							
Safeguarding							
Assessment & Looked After Children	5	2	1	0	8	8.5	106%
Safeguarding	20	0	-11	0	9	6.9	77%
Children's Placement and Joint Adoption	58	-5	7	0	60	59.0	98%
	83	-3	-3	0	77	74.4	97%
Learning and Skills							
Business Support	17	7	-10	0	14	14.6	104%
Education Improvements	16	0	0	0	16	15.1	94%
Primary/Special Schools	250	7	-1	52	308	254.1	83%
Secondary Schools	23	3	-9	1	18	17.8	99%
	306	17	-20	53	356	301.6	85%

	Original Plan Days	Aug Revision	Nov Revision	Feb Revision	Revised Plan Days	25 Jan 16 Actual	% of Revised Plan Achieved
Learning Employment and Training	10	-5	-5	0	0	0.8	0%
CHILDREN'S SERVICES	399	9	-28	53	433	376.8	87%
PUBLIC HEALTH	32	0	-5	-10	17	1.4	8%
RESOURCES AND SUPPORT							
Customer Care, Commercial and Support Services							
Estates & Facilities	5	4	0	1	10	1.1	11%
Property Services	23	11	0	-6	28	15.0	54%
Shire Services	23	3	-5	0	21	20.4	97%
	51	18	-5	-5	59	36.5	62%
Service Support, Marketing and Engagement							
Customer Services	34	1	-6	-3	26	20.8	80%
ICT	83	6	-13	-7	69	53.8	78%
	117	7	-19	-10	95	74.6	79%
Finance Governance & Assurance							
Finance Transactions	69	-13	-8	-9	39	6.6	17%
Finance and S151 Officer	65	-10	5	-2	58	57.9	100%
Financial Management	37	3	-5	0	35	18.1	52%
Procurement and Contract Management	25	0	-5	-3	17	13.7	81%
Benefits	29	-5	0	-4	20	4.1	21%
Revenues	40	-10	1	2	33	33.4	101%
Risk Management and Business Continuity	5	1	0	0	6	6.6	110%
Treasury	10	4	1	0	15	15.0	100%
	280	-30	-11	-16	223	155.4	70%
Payroll and Human Resources	52	-7	0	3	48	43.5	91%
Legal, Democratic & Strategic Planning							
Information Governance	7	5	-2	1	11	1.5	14%
Legal Services	10	2	0	0	12	12.1	101%
	17	7	-2	1	23	13.6	59%

	Original Plan Days	Aug Revision	Nov Revision	Feb Revision	Revised Plan Days	25 Jan 16 Actual	% of Revised Plan Achieved
RESOURCES AND SUPPORT	517	-5	-37	-27	448	323.6	72%
Total Shropshire Council Planned Work	1,234	37	-103	-13	1,155	891.9	77%
CONTINGENCIES							
Advisory Contingency	40	0	0	0	40	36.0	90%
Fraud Contingency	250	-34	-63	-20	133	103.0	77%
Unplanned Audit Contingency	45	0	15	10	70	67.6	97%
Other non-audit Chargeable Work	260	15	20	0	295	239.2	81%
CONTINGENCIES	595	-19	-28	-10	538	445.8	83%
Total for Shropshire	1,829	18	-131	-23	1,693	1,337.7	79%
EXTERNAL CLIENTS	221	0	0	16	239	195.0	82%
Total Chargeable	2,050	18	-131	-7	1,932	1,532.7	79%



<u>Committee and Date</u>	<u>Item</u>	<u>Paper</u>
Audit Committee – 18 th February 2016		

STRATEGIC RISK REPORT 2016

Responsible Officer Angela Beechey

e-mail: Angela.beechey@shropshire.gov.uk

Tel: (01743)
252073

Fax (01743)
252858

1. Summary

- 1.1 This report sets out the current strategic risk exposure of the Council and details recent movements within the register following the latest review.

2. Recommendations

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

REPORT

3. Strategic Risk Exposure

- 3.1 The management of strategic risk is a key process which underpins the successful achievement of our priorities and outcomes. As the Council evolves risk management must also develop to ensure that the management of risk remains robust and is a tool which offers real benefits to the Council as a whole.
- 3.2 In accordance with previous years, the recent review of strategic risks in January 2016 has linked all strategic risks to the appropriate Annual Governance Statement Action Plan point.
- 3.3 The strategic risk review is achieved through face to face meetings with the risk owners, key officers, Directors, Chief Executive and Portfolio Holder. These meetings take place over a one week period resulting in an up to date and timely report detailing current risk exposures, changes that have occurred, reasons for changes to exposure and the identification of emerging risks.
- 3.4 Following the January review there are now 12 strategic risks as opposed to 16 previously. The reduction in the number of risks has risen due to the amalgamation of several risks:-
- The Commissioning Council risk is an amalgamation of a previous commissioning risk and a separate alternative service delivery vehicle risk.
 - The Governance risk is an amalgamation of a previous governance risk and a separate fraud and corruption risk.
- The current strategic risks together with the direction of travel are listed overleaf:-

Risk (AGS Action Plan Point)	Risk Owner	L	I	Status	Direction of Travel
ICT AGS 1	Clive Wright	4	5	20	=
Staffing AGS 4	Michele Leith	4	5	20	=
Work Related Stress AGS 4	Michele Leith	5	4	20	=
Sustainable Budget – 2017/2018 and beyond AGS 2	James Walton	3	5	15	=
Reputation ALL	Clive Wright	5	4	20	↑
Contract Management AGS 5	George Candler	5	4	20	↑
Governance AGS 3 & 5	Clive Wright	4	4	16	=
Strategic Vision AGS 3	Clive Wright	4	4	16	=
Failure to safeguard vulnerable children. AGS 7	Karen Bradshaw	4	4	16	↑
Commissioning Council AGS 5	George Candler	4	4	16	=
Failure to safeguard vulnerable adults. AGS 7	Andy Begley	3	4	12	=
Future Funding Levels – 2017/18 and beyond AGS 2	James Walton	3	4	12	↑

- 3.5 As can be seen from the direction of travel, four of the risks have increased.
- Reputation –The risk has been increased from medium to high.
 - Contract Management – The risk has been increased from medium to high
 - Failure to Safeguard vulnerable children – This was previously a medium risk, the change has resulted from an increase in the likelihood score but the overall risk has remained medium.
 - Future Funding Levels – This was previously a low risk but has been increased to a medium risk.
- 3.6 Two risks have been deleted as they were considered no longer relevant as strategic risks. These related to the University project (which has its own project risk register) and the transition programme.

- 3.7 During the December 2015 review a new strategic risk was added – Work Related Stress. This was identified through HR monitoring and also during the operational risk review.
- 3.8 Consideration is also given to the risks associated with the Council’s key projects. Each project has its own risk register and this is managed by either a member of the risk team on major projects, or a member of the project team. An overview of these risk registers by the Risk Management Team allows identification of any risks which are occurring across several projects and should be identified as a strategic risk.

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

Annual Governance Statement
Opportunity Risk Management Strategy

Cabinet Member

Michael Wood, Portfolio Holder Resources & Support

Local Member

N/A

Appendices

N/A

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Committee and Date

Cabinet
10 February 2016

Audit Committee
18 February 2016

Council
25 February 2016

TREASURY STRATEGY 2016/17

Responsible Officer James Walton

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

Tel: (01743) 255011

1. Summary

1.1 The report proposes the Treasury Strategy for 2016/17 and recommends Prudential Indicators for 2016/17 to 2018/19. The report is technical in nature but the key points to note are:-

- Borrowing is largely driven by the Capital Programme Strategy. From 2011/12 the Council's borrowing requirement has been significantly reduced due to the Government changing the way in which it funds the Council's capital expenditure and providing capital grants rather than supported borrowing approval with on-going revenue support grant to meet the financing costs of the borrowing. There is currently no borrowing required in future years based on the current Capital Programme and the continued policy of generating additional capital receipts to fund capital expenditure.
- The Council's lending continues to be restricted to highly credit rated Banks, three Building Societies, Nationalised and Part Nationalised Institutions which meet Capita's creditworthiness policy, other Local Authorities and the UK Government.
- The internal Treasury Team will continue to look for opportunities to make savings by actively managing the cash and debt portfolio in accordance with the Treasury Strategy.
- The bank rate is expected to remain at its historically low level of 0.50% until December 2016 when it is forecast to rise to 0.75%. Every 0.25% increase in the bank rate equates to around £375,000 of additional interest receivable per annum on the Council's investments.
- Long term borrowing rates are expected to be higher than investment rates during 2016/17 therefore long term borrowing may be postponed in order to maximise savings in the short term. No external borrowing is currently expected to be undertaken in 2016/17 or future years due to a review of the Capital Programme.

- The Council has agreed to offer to lend funds to Shropshire Housing Ltd (which incorporates both South Shropshire Housing Association and the Meres & Mosses Housing Association) and Severnside Housing at an agreed rate. In the current climate Housing Associations can find it difficult to obtain funding for new affordable housing. It has been agreed to offer to lend up to £10 million to each of these Housing Associations in order to support the building of affordable housing and shared office accommodation in Shropshire. For security purposes, each loan will be secured against existing assets held by or owned by the Housing Association. To date £9,770,000 has been drawn down by Shropshire Housing Ltd and £2,280,000 by Severnside Housing. Severnside Housing are looking to draw down their remaining outstanding balance by 31 March 2016.

2. Recommendations

2.1. Recommendations to Cabinet

Cabinet recommend that Council:-

- a) Approve, with any comments, the Treasury Strategy for 2016/17.
- b) Approve, with any comments, the Prudential Indicators, set out in Appendix 1, in accordance with the Local Government Act 2003.
- c) Approve, with any comments, the Investment Strategy, set out in Appendix 2 in accordance with the CLG Guidance on Local Government Investments.
- d) Approve, with any comments, the Minimum Revenue Provision (MRP) Policy Statement, set out in Appendix 3.
- e) Authorise the Section 151 Officer to exercise the borrowing powers contained in Section 3 of the Local Government Act 2003 and to manage the Council's debt portfolio in accordance with the Treasury Strategy.
- f) Authorise the Section 151 Officer to use other Foreign Banks which meet Capita's creditworthiness policy and Money Market Funds again as required.
- g) Note the proposed Prudential Indicators would enable the Authority to use the equivalent of up to 3% of Council Tax in 2016/17 or future years, to fund borrowing under the Prudential Code should the Council decide to do so.

2.2. Recommendations to Audit Committee

- h) Audit Committee are asked to consider and endorse, with appropriate comment, the Treasury Strategy 2016/17.

2.3. Recommendations to the Council

- i) Approve, with any comments, the Treasury Strategy for 2016/17.
- j) Approve, with any comments, the Prudential Indicators, set out in Appendix 1, in accordance with the Local Government Act 2003.

- k) Approve, with any comments, the Investment Strategy, set out in Appendix 2 in accordance with the CLG Guidance on Local Government Investments.
- l) Approve, with any comments, the Minimum Revenue Provision (MRP) Policy Statement, set out in Appendix 3.
- m) Authorise the Section 151 Officer to exercise the borrowing powers contained in Section 3 of the Local Government Act 2003 and to manage the Council's debt portfolio in accordance with the Treasury Strategy.
- n) Authorise the Section 151 Officer to use other Foreign Banks which meet Capita's creditworthiness policy and Money Market Funds as required.
- o) Note the proposed Prudential Indicators would enable the Authority to use the equivalent of up to 3% of Council Tax in 2016/17 or future years, to fund borrowing under the Prudential Code should the Council decide to do so.

REPORT

3. Risk Assessment and Opportunities Appraisal

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

4. Financial Implications

- 4.1 The financial implications arising from the Treasury Strategy are detailed in this report. The Council makes assumptions about the levels of borrowing and investment income over the financial year. Reduced borrowing as a result of capital receipt generation or delays in delivery of the capital programme will both have a positive impact of the council's cash position. Similarly, higher than benchmarked returns on available cash will also help the Council's financial position. For monitoring purposes, assumptions are made early in 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 Council currently has £140.2 million held in investments and borrowing of £329.0 million at fixed interest rates.

5. Background

- 5.1. The Council defines its treasury management activities as "the management of the authority's investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks".

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

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

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

6. Treasury Strategy 2016/17

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

6.2. As the Council is responsible for housing, Prudential Indicators relating to Capital Expenditure, financing costs and the Capital Financing Requirement will be split between the Housing Revenue Account (HRA) and the General Fund. The impact

of any new capital investment decisions on housing rents will also need to be considered.

- 6.3. The Act also requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
- 6.4. The proposed Strategy for 2016/17 in respect of the following aspects of the treasury management function is based upon the S151 Officers' view on interest rates, supplemented with leading market forecasts provided by the Council's Treasury Advisor, Capita Asset Services.
- 6.5. The proposed strategy will focus on the following areas of treasury activity:-
- Treasury limits in force which will limit the treasury risk and activities of the Council.
 - The determination of Prudential and Treasury Indicators.
 - The current treasury position.
 - Prospects for interest rates.
 - Capital borrowing strategy.
 - Policy on borrowing in advance of need.
 - Debt rescheduling.
 - Investment strategy.
 - Capital plans.
 - Creditworthiness policy.
 - Policy on use of external service providers.
 - The MRP strategy.
 - Leasing.
- 6.6. It is a statutory requirement under section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This therefore means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:-
- increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
 - any increase in running costs from new capital projects

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

7. Treasury Limits for 2016/17 to 2018/19

- 7.1. It is a statutory requirement under Section 3 of the Local Government Act 2003 and supporting Regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". This authorised limit represents the legislative limit specified in section 3 of the Local Government Act 2003.
- 7.2. The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax levels is 'acceptable'.

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

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

8. Prudential & Treasury Indicators for 2016/17 to 2018/19

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

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

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

Prudential Indicator No. 1 & 2	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	%	%	%	%
Non HRA ratio of financing costs (gross of investment income) to net revenue stream	10.2	8.9	8.6	8.2
Non HRA ratio of financing costs (net of investment income) to net revenue stream	9.6	8.3	8.0	7.6
HRA Ratio of financing costs to HRA net revenue stream	41.3	40.0	40.9	41.9

- 8.4. The 2016/17 to 2019/20 Capital Budget includes no prudential borrowing for 2016/17 or future years.
- 8.5. **Prudential Indicator 3** - In accordance with Prudential Guidelines the costs of all prudential borrowing are included in prudential indicators, even though they will be funded from existing revenue budgets. The HRA budgetary requirements for the authority have also been calculated by taking the difference between the existing capital programme and any changes proposed in the new capital programme. It is anticipated that there will be no unsupported borrowing relating to the HRA therefore the addition or reduction to average weekly housing rents for 2016/17 to 2018/19 is zero. The figures quoted include Prudential Borrowing already utilised and profiled totalling £28.8 million from 2006/07 to 2016/17.

Prudential Indicator No. 3	2016/17	2017/18	2018/19
Estimates of impact of Capital Investment decisions in the present capital programme	£ p	£ p	£ p
Cost of capital investment decisions funded from re-direction of existing resources (Band D, per annum)	23.64	20.32	19.31
Cost of capital investment decisions funded from increase in council tax (Band D, per annum)	0	0	0
Cost of capital investment decisions funded from increase in average housing rent per week	0	0	0
Total	24.86	21.46	19.31

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

Prudential Indicator No. 5 * No. 8 & 9^	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	£ m	£ m	£ m	£ m	£ m
Net Borrowing & Capital Financing Requirement:					
Non HRA Capital Financing Requirement^	246	253	246	240	233
HRA Capital Financing Requirement^	85	85	85	85	85
Total CFR	331	338	331	325	318
Gross Borrowing including HRA*	338	329	324	318	312
Investments*	110	140	140	140	140
Net Borrowing*	238	189	184	178	172

- 8.7. **Prudential Indicator 6 & 7** - The estimated capital expenditure has been split between Non HRA and HRA and represents commitments from previous years to complete ongoing schemes, the expenditure arising from the proposed new schemes within the capital programme for 2016/17, and the estimated expenditure for 2017/18 and 2018/19.

Prudential Indicator No. 6 & 7	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	£ m	£ m	£ m	£ m	£ m
Non HRA Capital expenditure	45	46	49	27	16
HRA Capital expenditure	9	5	7	4	0

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

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

Prudential Indicator No. 10	2016/17	2017/18	2018/19
External Debt	£ m	£ m	£ m
Authorised Limit for External Debt:			
Borrowing	449	432	412
Other long term liabilities	80	86	85
Total	529	518	497

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

Prudential Indicator	2015/16	2016/17	2017/18	2018/19
	£ m	£ m	£ m	£ m
HRA Debt Limit	96	96	96	96

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

Prudential Indicator No. 11	2016/17	2017/18	2018/19
External Debt	£ m	£ m	£ m
Operational Boundary:			
Borrowing	402	370	379
Other long term liabilities	80	86	85
Total	482	456	464

8.11. **Prudential Indicator 12** - The estimated external debt is based on the capital programme for 2015/16.

Prudential Indicator No. 12	31/03/15 Actual	31/03/16 Estimate
Actual External Debt	£ m	£ m
Borrowing	338	329
Other long term liabilities	23	82
Total	361	411

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

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

Prudential Indicator No. 14* Internal Indicator No. 1 ** No. 15 ^ Internal Indicator No. 2 ^^	2016/17	2017/18	2018/19
Borrowing Limits			
	£ m	£ m	£ m
Upper Limit for Fixed Interest Rate Exposure *	449	432	412
Upper Limit for Variable Interest Rate Exposure ^	225	216	206
Lower Limit for Fixed Interest Rate Exposure **	224	216	206
Lower Limit on Variable Interest Rate Exposure ^^	0	0	0

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

Upper limit for fixed rate exposure

Calculation:

A maximum of 100% of the Authorised Limit (£449m in 2016/17) exposed to fixed rates is

consistent with the Authority's objective to have a long term stable debt portfolio.

Upper limit for variable rate exposure

Calculation:

For efficient management of the debt portfolio it is considered prudent by Capita to permit up to 50% (£225m in 2016/17) of the Authorised Limit to be borrowed at variable interest rates.

Lower limit for fixed rate exposure

Calculation:

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

Lower limit for variable rate exposure

Calculation:

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

Prudential Indicator No. 14* Internal Indicator No. 3 ** No. 15 ^ Internal Indicator No. 4 ^^	2016/17	2017/18	2018/19
Investment Limits			
	£ m	£ m	£ m
Upper Limit for Fixed Interest Rate Exposure *	200	200	200
Upper Limit for Variable Interest Rate Exposure ^	200	200	200
Lower Limit for Fixed Interest Rate Exposure **	0	0	0
Lower Limit on Variable Interest Rate Exposure ^^	0	0	0

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

Upper limit for fixed rate exposure

Calculation:

Maximum amount of fixed rate investments in order to maintain a stable investment portfolio.

Upper limit for variable rate exposure

Calculation:

For the purposes of efficient portfolio management in response to interest rate conditions a maximum potential exposure to variable rates of £200m in 2016/17 is recommended.

Lower limit for fixed rate exposure

Calculation:

A lower limit of zero is locally set so as to enable full advantage to be taken of market conditions.

Lower limit for variable rate exposure

Calculation:

A lower limit of zero is locally set so as to enable full advantage to be taken of market conditions.

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

Prudential Indicator No. 16	Upper Limit	Lower Limit
Maturity Structure of Fixed Rate Borrowing 2016/17*	%	%
Under 12 months	15	0
12 months & within 24 months	15	0
24 months & within 5 years	45	0
5 years to 10 years	75	0
10 years to 20 years	100	0
20 years to 30 years	100	0
30 years to 40 years	100	0
40 years to 50 years	100	0
50 years and above	100	0

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

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

Prudential Indicator No. 17	2016/17	2017/18	2018/19
Investment Limits			
	£m	£m	£m
Upper Limit for Total Principal Sums Invested for over 364 days:			
Externally Managed (if appointed)	30	30	30
Internally Managed	40	40	40

Rationale:

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

9. Current Treasury Position

9.1. The Council's treasury position at 31 December 2015 is set out below:-

Outstanding debt for capital purposes	Actual
	£m
Long-term fixed rate PWLB	279.8
Long term fixed rate – Market	49.2
Total	329.0
Investments	£m
Internally managed - long term (1 Year)	41.2
- short term cash flow	99.0
Total	140.2

10. Prospects for Interest Rates

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

Capita's interest rate forecast as at January 2016

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Bank rate	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%
5yr PWLB rate	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%
10yr PWLB rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%
25yr PWLB rate	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%	4.10%
50yr PWLB rate	3.20%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%	4.00%

As no new external borrowing is required the Council has not budgeted for a cost of borrowing in 2016/17 to 2018/19, as any borrowing will be funded from internal borrowing. Interest received on revenue balances is expected to be 0.60% in 2016/17.

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

- rise from its current level of 0.50% to 0.75% in December 2016.
- reach 1.25% by December 2017.
- rise to 1.75% by December 2018.

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

Short-term interest rates (investments)

10.2. Taking all the evidence together, it is felt that the bank rate will remain at its current low level of 0.5% until December 2016 when it is expected to rise to 0.75%. The Bank rate is then expected to rise steadily to 1.25% by December 2017. As the threat of potential risks from a number of sources still remains, caution must be exercised in respect of all interest rate forecasts at the current time. Capita's Bank Rate forecasts will be liable to further amendment depending on how economic data transpires over 2016.

Long-term interest rates (borrowing)

10.3. The 50 year PWLB rate is expected to rise gradually to reach 3.5% by the end of the March 2017. It is then anticipated to rise further to reach 4% by the end of March 2019. There is scope for it to move around the central forecast by + or – 0.25%. The 25 year PWLB rate is also expected to rise gradually to reach 3.7% by the end of March 2017 and 4.1% by the end of March 2019. The 10 year PWLB rate is expected to rise to reach 3% by the end of March 2017. Again further rises are expected in 2017/18 & 2018/19. The 5 year PWLB rates are also expected to rise from 2% to 2.4% by the end of March 2017 and to 3.2% by the end of March 2019. The PWLB rates and forecasts shown above take into account the 0.2% certainty rate reduction effective as of the 1 November 2012.

11. Capital Borrowing Strategy

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

- i) As long term borrowing rates are expected to be higher than investment rates and look likely to be for the next couple of years or so all new external borrowing may be deferred in order to maximise savings in the short term. The running down of investments also has the added benefit of reducing exposure to interest rate and credit risk. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing up the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking market loans at long term rates which will be higher in future years.
- ii) Temporary borrowing from the money markets or other local authorities.
- iii) PWLB variable rate loans for up to 10 years.
- iv) Long term fixed rate market loans (including loans offered by the Municipal Bond Agency) at rates below PWLB rates for the equivalent maturity period.
- v) Short term PWLB rates are expected to be significantly cheaper than longer term borrowing therefore borrowing could be undertaken in the under 10 year period early on in the financial year when rates are expected to be at their lowest. This will also have the added benefit of spreading debt maturities away from a concentration in longer dated debt.
- vi) If it was felt that there was a significant risk in a sharp fall in long and short term rates then long term borrowings will be postponed. If it was felt there was a significant risk of a sharp rise in long and short term rates then the portfolio position would be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

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

12. External versus internal borrowing

12.1. The Prudential Code requires the Council to explain its policy on gross and net debt. The Council currently has gross debt of £329 million and net debt (after

deducting cash balances) of £188.8 million. The next financial year is expected to see the Bank Rate rise to 0.75% from the current historically low level of 0.5%. As borrowing rates are expected to be higher than investment rates this would indicate that value could best be obtained by avoiding new external borrowing and using internal cash balances to finance new capital expenditure. This is referred to as internal borrowing and would maximise short term savings.

- 12.2. However, by delaying unavoidable new external borrowing until later years when PWLB rates are forecast to be higher will mean the potential for incurring additional long term costs.
- 12.3. The Council has examined the potential for undertaking early repayment of some external debt in order to reduce the difference between its gross and net debt positions. However, the introduction by the PWLB of significantly lower rates for repayments than for new borrowing means that large premiums would be incurred and such levels of premiums cannot be justified on value for money grounds.
- 12.4. Against this background caution will be adopted with the 2016/17 treasury operations. The Section 151 Officer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to Members at the next available opportunity.

13. Policy on borrowing in advance of need

- 13.1. The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.
- 13.2. In determining whether borrowing will be undertaken in advance of need the Council will:-
 - Ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need.
 - Ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered.
 - Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow.
 - Consider the merits and demerits of alternative forms of funding.
 - Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.
 - Consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balance and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

14. Debt Rescheduling

- 14.1. The introduction of a differential in PWLB rates on 1 November 2007, which has been compounded further since 20 October 2010 by a considerable further widening of the difference between new borrowing and repayment rates following the Chancellor's announcement to increase new borrowing rates by up to 1% following the Comprehensive Spending Review, has meant that large premiums would be incurred if debt restructuring is undertaken which cannot be justified on value for money grounds. However, consideration will be given to the potential for

making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates currently paid on debt. However, this will need careful consideration in the light of premiums that may be incurred by such a course of action. The proposals for debt rescheduling are a continuation of the existing policy and such transactions will only be undertaken:-

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

15. Investment Strategy

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

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

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

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

16. Minimum Revenue Provision (MRP) Statement

16.1 In accordance with Statutory Instrument 2008 number 414 and guidance issued by the Government under section 21 (1A) of the Local Government Act 2003 a statement on the Council's policy for its annual MRP needs to be approved before the start of the financial year. Following a review of the previous MRP policy, it is proposed to amend the calculation basis for supported borrowing from 2016/17. This will generate a saving of £3.8m in 2016/17, compared to the previous calculation basis. It is proposed to take £2.8m of this as a base budget revenue saving in 2016/17 and retain £1m within the MRP budget to help fund any potential shortfall of capital receipts and allow for any investment in significant projects in the future. Full details of the revised calculation method are included in Appendix 3 and Council are asked to approve the Minimum Revenue Provision Statement set out in Appendix 3.

17. Leasing

17.1. In the past the Council has used operating leases to finance the purchase of vehicles and equipment. The Section 151 Officer will assess the relative merits of operating and finance leases on a case by case basis and enter into the most advantageous. Schools I.T equipment will continue to be internally financed by borrowing against a small fund set against school balances with schools repaying their borrowing over a period of 3 years.

18. Lending to Housing Associations

- 18.1. As previously approved by full Council, the Council has offered to lend funds to Shropshire Housing Ltd (which incorporates South Shropshire Housing Association and the Meres & Mosses Housing Association) and Severnside Housing at an agreed rate. In the current climate Housing Associations can find it difficult to obtain funding for new affordable housing and the Council is generating only a small amount of interest on revenue balances.
- 18.2. It has been agreed that the interest rate charged will depend on the period over which the loan is to be taken and that it will be linked to the applicable PWLB rate plus an administration fee. It has been agreed to offer to lend up to £10 million to each of these Housing Associations in order to support the building of affordable housing and shared office accommodation in Shropshire. For security purposes, each loan will be secured against existing assets held by or owned by the Housing Association. If Shropshire Rural were to request a similar facility, for a smaller amount given the size of this local Housing Association, this could also be facilitated.
- 18.3. Officers have sought advice from Wragge & Co who have confirmed that the Council has the power to lend funds to Housing Associations under the Housing Act 1996 and have drawn up the legal documentation relating to the loan agreement. To date £9,770,000 has been drawn down by Shropshire Housing Ltd and £2,280,000 by Severnside Housing. Severnside Housing are looking to draw down their remaining outstanding balance by 31 March 2016.

19. Housing ALMO

- 19.1 On 22 November 2012 Council gave approval for transfer of the management of the Council's housing stock to an Arm's Length Management Organisation (ALMO) from April 2013. Shropshire Towns and Rural Housing Limited is a company limited by guarantee wholly owned by the Council that has been set up specifically for this purpose. Under this arrangement all assets and liabilities of the Housing Revenue Account (HRA), including the housing stock and the self-financing debt, remain with the Council, but day to day management of the service and the HRA will be undertaken by the ALMO under the terms of a management agreement.
- 19.2 The new company has set up a separate bank account and this will initially be under the umbrella of the current Council arrangements which will enable any surplus funds will be invested by Shropshire Council Treasury Management Team. The Capital programme and debt management of the HRA will be subject to joint agreement between The Council and the ALMO.

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

Treasury Management Practices

Treasury Strategy 2015/16 (Council 26 February 2015)

Treasury Strategy 2015/16 Mid-Year Review (Council 17 December 2015)

Capital Strategy Report 2016/17 to 2019/20 (Cabinet 10 February 2016)

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

Cabinet Member : Malcolm Pate, Leader of the Council

Local Member

N/A

Appendices:

1 – Prudential Indicators

2 – Council’s Annual Investment Strategy

3 – Minimum Revenue Provision Policy Statement

Prudential Indicators

Prudential Indicator	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	%	%	%	%
Non HRA ratio of financing costs to net revenue stream	10.2	8.9	8.6	8.2
HRA ratio of financing costs to HRA net revenue stream	41.3	40.0	40.9	41.9

Prudential Indicator	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	%	%	%	%
Non HRA ratio of financing costs (net of investment income) to net revenue stream	9.6	8.3	8.0	7.6

Prudential Indicator	2016/17	2017/18	2018/19
Estimates of impact of Capital Investment decisions in the present capital programme	£ p	£ p	£ p
Cost of capital investment decisions funded from re-direction of existing resources (Band D, per annum)	23.64	20.32	19.31
Cost of capital investment decisions funded from increase in council tax (Band D, per annum)	0	0	0
Cost of capital investment decisions funded from an increase in average housing rents per week	0	0	0
Total	23.64	20.32	19.31

Prudential Indicator	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Net Borrowing & Capital Financing Requirement:	£ m	£ m	£ m	£ m
Non HRA Capital Financing Requirement	253	246	240	233
HRA Capital Financing Requirement	85	85	85	85
Total CFR	338	331	325	318
Gross Borrowing (including HRA)	329	324	318	312
Investments	140	140	140	140
Net Borrowing	189	184	178	172

Prudential Indicator	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	£ m	£ m	£ m	£ m	£ m
Non HRA Capital expenditure	45	46	49	27	16
HRA Capital expenditure	9	5	7	4	0

Prudential Indicator	2016/17	2017/18	2018/19
External Debt	£ m	£ m	£ m
Authorised Limit for External Debt:			
Borrowing	449	432	412
Other long term liabilities (PFI)	80	86	85
Total	529	518	497

Prudential Indicator	2015/16	2016/17	2017/18	2018/19
	£ m	£ m	£ m	£ m
HRA Debt Limit	96	96	96	96

Prudential Indicator	2016/17	2017/18	2018/19
External Debt	£ m	£ m	£ m
Operational Boundary:			
Borrowing	402	370	379
Other long term liabilities (PFI)	80	86	85
Total	482	456	464

Prudential Indicator	2014/15 Actual	2015/16 Estimate
External Debt	£ m	£ m
Borrowing	338	329
Other long term liabilities (PFI)	23	82
Total	361	411

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

Prudential Indicator	2016/17	2017/18	2018/19
Borrowing Limits	£ m	£ m	£ m
Upper Limit for Fixed Interest Rate Exposure	449	432	412
Upper Limit for Variable Interest Rate Exposure	225	216	206
Lower Limit for Fixed Interest Rate Exposure	224	216	206
Lower Limit on Variable Interest Rate Exposure	0	0	0

Prudential Indicator	2016/17	2017/18	2018/19
Investment Limits	£ m	£ m	£ m
Upper Limit for Fixed Interest Rate Exposure	200	200	200
Upper Limit for Variable Interest Rate Exposure	200	200	200
Lower Limit for Fixed Interest Rate Exposure	0	0	0
Lower Limit on Variable Interest Rate Exposure	0	0	0

Prudential Indicator	Upper Limit	Lower Limit
Maturity Structure of Fixed Rate Borrowing During 2016/17 **	%	%
Under 12 months	15	0
12 months & within 24 months	15	0
24 months & within 5 years	45	0
5 years & within 10 years	75	0
10 years & within 20 years	100	0
20 years & within 30 years	100	0
30 years & within 40 years	100	0
40 years & within 50 years	100	0
50 years and above	100	0

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

Prudential Indicator	2016/17	2017/18	2018/19
Investment Limits			
	£m	£m	£m
Upper Limit for Total Principal Sums Invested for over 364 days:			
Externally Managed (if appointed)	30	30	30
Internally Managed	40	40	40

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The Council's Annual Investment Strategy

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

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as credit default swaps and overlay that information on top of the credit ratings.

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

Creditworthiness Policy

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

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

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

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

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

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

Monitoring of Credit Ratings

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

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

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

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

Country Limits

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

Security of Capital

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

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

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

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

CLG Investment Guidance

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

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

(i) Specified Investments

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

- be denominated in sterling
- have less than 12 months duration
- not constitute the acquisition of share or loan capital
- either: be invested in the UK government or a local authority

or a body or investment scheme with a “high” credit quality.

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

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

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

(ii) Non Specified Investments

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

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

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

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

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

It is recommended that for specified investments the range of maximum limits is set between £5m and £30m for the internal treasury team. For non specified investments it is recommended that the limit for the internal treasury team should be restricted to £40m of the total investment portfolio. Any changes to the maximum limits must be approved by the S151 Officer.

Temporary Investment Strategy

The next financial year is expected to see investment rates remain at the historically low level of 0.5% until December 2016 when it is forecast to rise to 0.75%. By December 2017 the bank rate is expected to rise to 1.25%. This view is based on the latest forecasts obtained by the Authority’s treasury advisor, Capita Asset Services.

If an external fund manager is appointed in 2016/17 they would also have to adhere to the authorised specified and non-specified investments on the attached table. They would also have to comply with the Council’s Annual Investment Strategy and their agreement must stipulate guidelines and other limits in order to contain and control risk.

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

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

The present strategy is to diversify investments so as to spread risk over a range of investment types and periods and provide the opportunity to enhance returns. Due to the current lending restrictions in place diversification has been somewhat reduced due to the reduction in the number of institutions which we can lend to however, by taking this course of action the credit risk has been reduced. The current portfolio is set out in paragraph 9.1 of the Treasury Strategy 2016/17 report. Performance of the in-house operation will continue to be monitored on a quarterly basis by your officers in conjunction with the treasury advisor.

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

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

Policy on the use of external service providers

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

Scheme of Delegation

Full Council

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

Cabinet

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

Audit Committee

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

Role of the Section 151 Officer

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

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

Pension Fund Cash

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

LOCAL GOVERNMENT INVESTMENTS (England)

SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated.

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

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

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

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Monitoring of credit ratings:

All credit ratings will be monitored continuously and formally updated on a monthly basis. If a counterparty or investment scheme is downgraded with the result that it no longer meets the Council's minimum credit criteria, the use of that counterparty / investment scheme will be withdrawn.

Any intra-month credit rating downgrade which the Council has identified that affects the Council's pre-set criteria will also be similarly dealt with.

LOCAL GOVERNMENT INVESTMENT (England)

NON-SPECIFIED INVESTMENTS

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

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

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

Investment	(A) Why use it? (B) Associated risks?	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum credit rating **	Capital Expen- diture?	Circumstance of use	Max % of overall investments	<i>Maximum maturity of investment</i>
Corporate Bonds & Corporate Bond funds (the use of these investments would constitute capital expenditure although this is currently under review)	(A)(i) Excellent credit quality. (ii) Liquid. (iii) If held to maturity, known yield (rate of return) per annum – aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk (B)(i) "Market or interest rate risk" : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss	Yes	Yes	Minimum Sovereign rating AA-	Yes	To be used by external fund managers only	50%	<i>Suggested limit: 5 years</i>
Pooled property funds – including CCLA Local Authorities Property Fund	Enhanced return but increased risk, only to be used following advice from Capita	No	Yes	No Minimum Credit rating need to assess underlying assets within fund following advice taken from Capita	No	In House Use & External Fund managers following advice from Capita	20%	<i>5 years</i>
Floating Rate notes	(A)(i) Rate of return tied to some measure of current interest rates, so when interest rates are expected to go up they offer protection to investors against such rises (ii) In some circumstances may have access to banks which meet minimum credit criteria but generally don't take small fixed term deposit cash amounts (B)(i) Credit quality : if financial health of issuer deteriorates, investors will demand a greater yield and the price of the bond will fall	Yes	Yes	Minimum Colour band green	No	In House Use & External Fund managers following advice from Capita	10%	<i>3 years</i>
US Dollar Deposits (WME Only)	US dollar account to be utilised as a part of West Mercia Energy prudent management of income and expenditure, ensuring that ongoing US dollar commitments can be hedged, thus extinguishing any adverse risk of exposure to movements in the exchange rate and guaranteeing a known cashflow for West Mercia Energy. The account is only to be used for this purpose and not for the purpose of speculative or trading transactions.	No	Yes	Minimum Colour band green	No	West Mercia Energy Only	N/A	<i>3 Months</i>

The Council's Annual Minimum Revenue Provision Statement

Statutory Requirements

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

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

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

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

Policy for calculation of Prudent Provision

The options for the calculation of a prudent Provision are detailed in appendix 3A to this report. The Council is proposing to change the calculation basis for part of its debt from 2016/17. Up to 2015/16 the council policy for debt supported by the Government through the RSG system, has been to calculate MRP in accordance with the former regulations 28 and 29 of the 2003 Regulation. However from 2016/17 it will be calculated on the basis of expected useful life of the asset on a straight line basis in order to provide a more prudent approach to the calculation.

Option three (a), asset life method – equal instalment method will continue to be used for unsupported borrowing and specific treatment for PFI Assets and assets held under Finance Leases and long term capital loans.

Supported Borrowing

Up to 2015/16 the regulatory method has been used to calculate MRP for debt which is supported by the Government through the RSG system. MRP was calculated in accordance with the former regulations 28 and 29 of the 2003 Regulation. Adjustment "A" (variance between the credit ceiling and the capital financing requirement as at 1 April 2004) was applied at the value attributed to it in the financial year 2004/05. Authorities could also continue to take advantage of the commutation adjustment in the former regulation 29.

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

This option reduced the Capital Financing Requirement by adjustment “A” which reduced the MRP charged to revenue each year and was allowable in accordance with the regulations.

Following a review of the MRP policy, it is considered that this method of calculation is not the most prudent basis of calculation for the Council. On the basis that it is not in line with the remaining asset life of the assets linked to the borrowing and also not in line with the repayment profile of the Councils existing external debt, resulting in the Council becoming increasingly over borrowed. This position has arisen due to a change in Government policy, replacing supported borrowing approvals with grant funding, together with the Council currently not proposing to undertake any Prudential (unsupported) borrowing.

If the Council continues to calculate MRP based on 'Option 1 - Regulatory Method (Supported borrowing)', the Council would reduce its CFR annually and based on the current supported debt CFR make an annual MRP base budget saving of around £360k in year 1, reducing by around 4% pa. If no new borrowing was required, over time this would lead to the Council becoming increasingly over borrowed with the current policy of only repaying debt as it matures on the basis that it would not be prudent to repay debt early. Using this calculation method, it would take over 500 years to reduce the Council's CFR to zero or over 130 years to reduce it to £1m. On this basis this method does not link the MRP to the life of the assets and is not considered prudent, nor is it prudent from a Treasury Management perspective as it would result in the Council being increasing over borrowed, if no new schemes were approved financed from borrowing.

The new approach for calculating the MRP for the unsupported borrowing is to link the MRP to the average remaining useful life of the assets it was used to finance. This is in accordance with the general principle of achieving a prudent approach set out in the guidance, that MRP charges should reflect the economic benefit the Council gets from using the asset to deliver services over its useful life. This ensures the Council Tax payers are being charged each year in line with asset usage and prevents current taxpayers meeting the cost of future usage or future Council Tax payers being burdened with “debt” and the costs of that debt, relating to assets that are no longer in use.

An analysis of the average remaining asset life of the assets financed from previous supported borrowing, determined the average remaining life to be around 45 years and this has been used as the basis of calculation. An annuity calculation method was considered, which would result in a lower MRP payments in the early years, but increasing year on year. However, this was not consider to be a prudent approach given uncertainties amount the Council’s future finances and not wishing to burden future Council Tax payers with additional costs. As such, a straight line (equal instalments) calculation basis over 45 years has been used. In the short to medium

term this will also put the CFR more in line with the level of external borrowing, reducing any over/under borrowing.

This change in policy will generate a saving of £3.8m in 2016/17, compared to the previous calculation basis. It is proposed to take £2.8m of this as a base budget revenue saving in 2016/17 and retain £1m within the MRP budget to help fund any potential shortfall of capital receipts and allow for any investment in significant projects in the future.

Unsupported Borrowing – Asset Life method

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

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

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

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

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

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

PFI Assets and assets held under Finance Leases

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

Long Term Capital Loans

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

Housing Revenue Account MRP

As at 31/03/15 the HRA CFR is £84.6m, this includes the £83.35m transferred to the Council as part of housing self-financing. In managing the HRA debt and considering the HRA business plan there is no mandatory requirement to make provision in the HRA for annual MRP payments. However, the Council will make annual voluntary provision for debt repayment in the HRA based on affordable levels in the HRA against the need for investment and delivering services in the HRA. The annual level of provision will be determined annually as part of the closure of the HRA.

2016/17 Annual MRP Statement

Appendix 3B provides the MRP statement for the 2016/17 financial year.

Capital Receipts set aside

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

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

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

As the full level of capital receipts set aside were not required to finance capital expenditure between 2009/10 and 2014/15, a balance was retained as set aside as at the end of each financial year to enable a further MRP savings in the following financial years. In the 2016/17 MRP Statement it has been assumed all the capital receipts retained as set aside as at 31 March 2015 to reduce the CFR will be offset by an increase in the CFR in 2015/16 from capital expenditure incurred in 2015/16. In the event that the level of capital expenditure in 2015/16 to be financed from the capital receipts set aside is below the level of capital receipts set aside, it is proposed to retain the balance in capital receipts as set aside in order to achieve a further MRP saving in 2016/17. This will be reported for approval as part of the Capital Outturn report 2015/16.

Appendix 3A: Options for Prudent Provision

Option 1: Regulatory Method (Supported borrowing)

MRP is equal to the amount determined in accordance with the former regulations 28 and 29 of the 2003 Regulations, as if they had not been revoked by the 2008 Regulations. For the purposes of that calculation, the Adjustment A should normally continue to have the value attributed to it by the authority in the financial year 2004-05. However, it would be reasonable for authorities to correct any perceived errors in Adjustment A, if the correction would be in their favour.

Option 2: CFR Method (Supported borrowing)

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

Option 3: Asset Life Method (Unsupported borrowing)

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

(a) Equal instalment method

MRP is the amount given by the following formula:

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

Where:

A is the amount of the capital expenditure in respect of the asset financed by borrowing or credit arrangements

B is the total provision made before the current financial year in respect of that expenditure

C is the inclusive number of financial years from the current year to that in which the estimated life of the asset expires.

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

Expenditure Type	Maximum value of "C" in initial year
Expenditure capitalised by virtue of a direction under s16(2)(b)	"C" equals 20 years
Regulation 25(1)(a) Expenditure on computer programs	"C" equals the value it would have for computer hardware
Regulation 25(1)(b) Loans and grants towards capital expenditure by third parties	"C" equals the estimated life of the assets in relation to which the third party expenditure is incurred
Regulation 25(1)(c) Repayment of grants and loans for capital expenditure	"C" equals 25 years, or the period of the loan, if longer

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Regulation 25(1)(d) Acquisition of share or loan capital	“C” equals 20 years
Regulation 25(1)(e) Expenditure on works to assets not owned by the authority	“C” equals the estimated life of the assets
Regulation 25(1)(ea) Expenditure on assets for use by others	“C” equals the estimated life of the assets
Regulation 25(1)(f) Payment of levy on Large Scale Voluntary Transfers (LSVTs) of dwellings	“C” equals 25 years

(b) Annuity method

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

Option 4: Depreciation Method (Unsupported borrowing)

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

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

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

Appendix 3B: Minimum Revenue Provision Statement 2016/17

	£
<u>Supported Borrowing – Asset Life (45 years)</u>	
General Fund	
Closing CFR 2014/15	220,980,715
Proposed use of capital receipts voluntarily set aside to be applied in 2015/16	14,106,162
	<hr/> 235,086,877
Less LGR (98) Debt	<hr/> (220,600)
	<hr/> 234,866,277
Less MRP 2015/16	<hr/> (8,687,786)
CFR for Supported Borrowing MRP Calculation	<hr/> 226,178,491
Add back LGR (98) Debt	220,600
Closing CFR 31/03/16 – Supported Borrowing (GF)	<hr/> 226,399,091
Housing Revenue Account	
Closing CFR 2014/15	84,594,619
Less MRP 2015/16 (none budgeted as per HRA MRP policy)	<hr/> (0)
	<hr/> 84,594,619
Closing CFR 31/03/16 – Supported Borrowing (GF&HRA)	<hr/> 310,993,710
<u>Unsupported Supported Borrowing – Asset Life (based on individual assets)</u>	
Unsupported Borrowing brought forward	19,569,669
Add profiled prudential borrowing 2015/16	3,172,359
Less MRP – 2015/16	<hr/> (1,311,783)
Closing CFR 31/03/15 – Unsupported Supported Borrowing	<hr/> 21,430,245
Closing CFR (GF&HRA) 31/03/16 – Borrowing Requirement	<hr/> 332,423,955
Additional items included:	
Village Hall Loans	310,250
Housing Association Loans	<hr/> 5,043,804
	<hr/> 337,778,009
<u>Summary MRP</u>	
MRP 2016/17 at 45 year life from 2016/17	5,026,189
LGR (98) Debt MRP	35,332
Prudential Borrowing MRP	1,442,267
Total MRP 2016/17	<hr/> 6,503,788

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

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<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
18 th February 2016	
9:30 am	
	<u>Public</u>

INTERNAL AUDIT RISK MANAGEMENT REPORT 2015/16

Responsible Officer Peter Chadderton

e-mail: peter.chadderton@shropshire.gov.uk

Tel: 07990 086399

1. Summary

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

2. Recommendations

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

REPORT

3. Risk Assessment and Opportunities Appraisal

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

4. Financial Implications

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

5. Background

- 5.1 As part of the Public Sector Internal Audit Standards (PSIAS 2120), Internal Audit is required to evaluate the effectiveness, and contribute to the improvement of, the risk management process. Information gathered during the course of audit reviews provides an understanding of the Council’s risk management processes and their effectiveness. Internal Audit evaluates the Council’s risks relating to governance, operations and information systems. It does this in respect of:
- the achievement of the strategic objectives,
 - reliability and integrity of financial and operational information,
 - efficiency and effectiveness of operations and programmes,
 - safeguarding of assets and,
 - compliance with laws, regulations, policies, procedures and contracts.
- 5.2 To support the PSIAS, the Audit Committee’s Terms of Reference include a requirement to review annually the adequacy of the Council’s Risk Management arrangements. The last such review was undertaken in November 2015.

Internal Audit Risk Management Report – Executive Summary

- 5.3 Audit findings are evaluated to provide a level of assurance on the effectiveness of the system of internal control. These evaluations are defined as ‘Good’, ‘Reasonable’, ‘Limited’ and ‘Unsatisfactory’. On the basis of the audit work undertaken, the overall control environment for the system of Risk Management has been assessed as **Good**, the highest rating that can be given.
- 5.4 Evaluation and testing confirmed that a sound system of control is in place, designed to address relevant risks, with controls being applied consistently. The Risk Management Team have addressed the process weaknesses in respect of operational risks identified in the 2014/15 Audit.

Control Objective: Conclusion and Summary of Findings

5.5 The following table shows the audit opinion on each of the four control objectives. Full compliance has been achieved in all of the objectives.

	AUDIT OBJECTIVE	CONCLUSION AND SUMMARY OF FINDINGS
1.	Risks arising from business strategies and activities are identified and prioritised and management have determined the level of risk acceptable to the	This control objective is achieved. There are robust procedures in place for the identification and assessment of current and emerging strategic and operational risks. The Opportunity Risk Management Strategy is in place and a framework and appropriate structure embeds this within the Council.

	AUDIT OBJECTIVE	CONCLUSION AND SUMMARY OF FINDINGS
	organisation.	
2.	Risk mitigation activities are designed to reduce, or otherwise manage, risk at levels determined to be acceptable to management and the Cabinet.	This control objective is achieved. Risks are considered by management and controls are in place for all risks. There is increased focus on managing strategic risks which are reported monthly to the Senior Management Board and to informal Cabinet in line with the Operational Risk Management Strategy. The Risk Management Team are involved in new projects and transformation work to ensure emerging risks are identified at the earliest opportunity.
3.	On-going monitoring activities are conducted to periodically reassess risk and the effectiveness of controls to manage risk.	This control objective is achieved. Appropriate processes have been put in place to ensure compliance with the requirements of the 2015 Insurance Act. A full operational risk review was undertaken in February 2015 and the system was returned to spreadsheets to allow greater control and functionality in reporting. The current system provides a suitable risk register and a working mechanism for the regular review of risks.
4.	The Cabinet and management receive periodic reports of the results of the risk management process.	This control objective is achieved. Reports in respect of strategic risks are considered monthly by informal Cabinet and the Senior Management Board.

5.6 The audit did not identify any control weaknesses and no recommendations have been made.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)
Risk Internal Audit Review
Cabinet Member (Portfolio Holder) Malcolm Pate, Leader of the Council, Brian Williams, Chairman of Audit Committee
Local Member: N/A
Appendices - None

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<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
18 February 2016	
9:30 am	<u>Public</u>

REVIEW OF THE AUDIT COMMITTEE'S ANNUAL WORK PLAN AND FUTURE LEARNING AND DEVELOPMENT REQUIREMENTS 2016/17

Responsible Officer Ceri Pilawski

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

Tel: 01743 252027

1. Summary

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

2. Recommendations

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

- a) The Audit Committee work plan for 2016/17, **Appendix A**;
- b) A learning and development plan for Members of the committee taking in to account information in **Appendices A and B**.

REPORT

3. Risk Assessment and Opportunities Appraisal

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

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

4. Financial Implications

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

5 Background

- 5.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) identifies the purpose of an Audit Committee, in its Practical Guidance for Local Authorities and Police 2013 Edition, as providing those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. In local authorities, audit committees are necessary to satisfy the wider requirements for sound financial and operational management. Accounts and Audit (England) Regulations 2015 state 'the relevant authority must ensure that it has a sound system of internal control which; facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective; and includes effective arrangements for the management of risk'. With a known work plan, and appropriate and timely learning and development for Members, the committee will be well prepared and members will gain the knowledge and experience needed to carry out their role effectively.

Work Plan

- 5.2 The Work Plan in **Appendix A** is presented in a different format this year which better demonstrates how reports to Audit Committee contribute to the delivery of the Committee's Terms of Reference and what assurances they provide.
- 5.3 In addition, any proposals for changes for which member approval is sought are highlighted in bold and underlined in **Appendix A**. In considering the amendments the following information may be useful:
- a) Accounting policies. The annual statement of accounts should be reviewed to determine whether appropriate accounting policies have been followed and whether any concerns arising from financial statements, or from audits, need to be brought to the attention of the Council.
 - b) In future, the Director of Commissioning will produce an annual report on programme controls and risks. Previously, this was reported to all Audit Committee meetings. The frequency has been reduced to reflect the time required for the delivery of substantial projects. The report will provide assurances on the robustness of governance arrangements for all commissioning activity arising from the Council's business plan and financial strategy.

- c) A mid-year report on the direction of travel of internal control arrangements within IT Services, requested by members in September 2015. Following identification of key strategic risks and associated governance issues, this report will include assurances on disaster recovery testing.
- d) IT Audit updates. Updates on work completed will be set out in the planned and regular Internal Audit performance reports to each Committee.

Learning and Development

- 5.4 CIPFA identify a key characteristic of an effective Audit Committee as having a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. There is a range of knowledge and experience that audit committee members can bring to the committee which will enable it to perform effectively. No one committee member is expected to be an expert in all areas. There are however some core areas of knowledge which committee members need to acquire in addition to the need for regular briefings and training.
- 5.5 Members need to consider annually their learning and development plan to support them in delivery of their roles. So far in 2015/16 Members have received three half day sessions covering a number of topics in detail. These included:
- an Information Communications and Technology (ICT) update on the operational programme of work, associated management of risks, and progress towards improved controls, systems and processes;
 - an overview of the process of transferring services out of the Council. How options are assessed, risks considered, the process is managed and other information;
 - the processes used and approach taken by Financial Services to provide assurances on the Council's financial resilience and setting of a sustainable budget;
 - financial resilience from Grant Thornton's perspective as external auditor;
 - financial resilience and sustainable budgets in key service areas including Commissioning and Adult Services; and
 - treasury management.
- 5.6 It is proposed that training is again provided in three half day sessions over the next twelve months in May, October and January with dates to be agreed with the Chairman.
- 5.7 **Appendix B** identifies training topics for Audit Committee Members to consider. Training topics are identified as core areas of knowledge that all Audit Committee Members should seek to acquire plus specialisms that can add value to the committee. Members may also want to hear from key officers of the Council where new or changing activities are emerging and can request this as part of their training.

5.8 Members agreed at the November Committee, that they would revisit the detail behind the Committee's self-assessment as part of their training every second year. This will be covered in the October training. Whilst members are asked to endorse the initial sessions for learning and development, this will not prevent any additional items being added during the year or changes being made if these are felt to be of value.

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

Previous training session records

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

Accounts and Audit Regulations 2015

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

Local Member n/a

Appendices

Appendix A – Audit Committee Work Plan 2016/17 and Summary

Appendix B – Audit Committee Members development topics

Appendix A: Audit Committee Work Plan – 2016/17

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
Core business 23 June 2016		
1. Internal Audit: Annual Report	<p>Audit Service Manager’s overall opinion on the Council’s internal control environment</p> <p>Performance against the revised internal audit plan</p> <p>Provides a review of the effectiveness of the systems of internal control</p>	<p>To consider the Audit Service Manager’s annual report, specifically:</p> <p>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.</p> <p>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.</p>
2. Section 151 Officer: Approval of the Council's Statement of Accounts	<p>Ensure that the explanatory forewords to their accounts help the public understand the authority's financial management of public funds.</p> <p>Consider the outcome of the External Audit and the appropriateness of management responses.</p>	<p>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</p>

Appendix A: Audit Committee Work Plan – 2016/17

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
		to be brought to the attention of the Council.
3. <u>Review of Accounting Policies</u>	<u>Seek assurance that the Council has appropriate accounting policies in place to ensure that items are treated correctly in the accounts.</u>	<u>To review the annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are any concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council</u>
4. Section 151 Officer: Review of the Council's Annual Governance Statement	<p>Confirm that the final Annual Governance Statement accurately reflects the Committees understanding of how the Council is run.</p> <p>Gain assurance that management have progressed the agreed actions associated with the significant issues / key risks identified in the Annual Governance Statement</p>	<p>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.</p> <p>To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.</p>

Appendix A: Audit Committee Work Plan – 2016/17

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
5. Section 151 Officer: Review of Code of Corporate Governance	That the Council has very strong compliance with the Code of Corporate Governance which is part of the overall internal control framework and contributes to the Council's strong governance arrangements.	To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
6. Section 151 Officer: Annual review of the effectiveness of the system of internal audit and quality assurance and improvement programme (QAIP)	That Internal Audit complies with the Public Sector Internal Audit Standards and is effective in doing so. That there is an improvement programme in place to ensure that any identified gaps are addressed.	<p>To consider reports from the Audit Service Manager on Internal Audit's performance during the year, These will include reports on:</p> <ul style="list-style-type: none"> • the results of the Quality Assurance and Improvement Programme; and • 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. <p>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.</p>

Appendix A: Audit Committee Work Plan – 2016/17

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
<p>7. Internal audit: Annual assurance report of Audit Committee to Council</p>	<p>Provide assurance that the Committee has adequately discharged its terms of reference and has positively contributed to how well the Council is run.</p> <p>Provides Council with an independent assurance report that the Council has in place adequate and effective risk management and internal control systems that can be relied upon and which contribute to the high corporate governance standards that this Council expects and has consistently maintained.</p>	<p>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 control frameworks; internal and external audit functions and financial reporting arrangements.</p> <p>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.</p>
<p>8. Section 151 Officer: Revenue Outturn report</p>	<p>Provides the financial outturn of the Council's budget for the year and therefore considers the effect that any over/underspend has on the Council's balances.</p> <p>Provides details of the potential risks affecting the balances and financial health of the Council.</p>	<p>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.</p>

Appendix A: Audit Committee Work Plan – 2016/17

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
		To consider the Council's arrangements for securing value for money and review assurances and assessments on the effectiveness of these arrangements.
9. Section 151 Officer: Capital Outturn report	Provides the financial outturn of the Council's capital budget for the year and therefore considers the impact that slippage within the programme will have on the financing of the capital programme in the future, including any future revenue implications.	As above
10. Head of Human Resources: Annual Whistleblowing report	Assurance that as part of the Counter Fraud, Bribery and Anti-Corruption Strategy the Whistleblowing policy contributes to our zero tolerance of fraud, bribery and corruption.	To review the assessment of fraud risks and potential harm to the Council from fraud, bribery and corruption.
11. External Audit: Certification Plan	Seek assurances that claims and returns will be independently reviewed to ensure that there are no significant errors that would result in loss of funding for the Council.	To consider the External Auditor's annual letter, relevant reports, and the report to those charged with governance.
12. External Audit: Fee Letter	To provide a clear indication as to the external Auditor's fees for the year.	To consider the External Auditor's annual letter, relevant reports, and the report to those charged with governance.

Appendix A: Audit Committee Work Plan – 2016/17

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
13. External Audit: Audit Committee update	<p>Seek assurance over progress and delivery of the external audit plan and that any risks to successful production of the financial statements and audit are being managed.</p> <p>The paper also includes:</p> <ul style="list-style-type: none"> •a summary of emerging national issues and developments that may be relevant to the Council; and •a number of challenge questions in respect of these emerging issues which the Committee may wish to consider. 	<p>To consider specific reports as agreed with the External Auditor and other inspection agencies.</p> <p>To comment on the scope and depth of external audit work and to ensure it gives value for money.</p>
14. Internal Audit: Fraud, special investigations and RIPA update.	<p>Provide assurances and an update on current fraud and special investigations undertaken by Internal Audit and the impact these have on the internal control environment together with an update on current Regulation of Investigatory Powers Act (RIPA) activity.</p>	<p>To review the assessment of fraud risks and potential harm to the Council from fraud, bribery and corruption.</p> <p>To monitor the counter-fraud, bribery and corruption strategy, actions and resources.</p>
Other assurance		
15. Revenues and Benefits Service Manager: Council tax and NNDR Performance Monitoring report	<p>Provides assurances through performance monitoring information on the collection of this income.</p>	<p>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</p>

Appendix A: Audit Committee Work Plan – 2016/17

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
		<p>inspectors, resolving any outstanding differences between internal and external auditors and management when action or major recommendations have not been agreed.</p> <p>To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.</p>
<p>16. External Audit: Pension Fund Audit Plan (information).</p>		<p>To consider specific reports as agreed with the External Auditor and other inspection agencies.</p>
<p>Core business: 15 September 2016</p>	<p>Assurances Required / Being Sought</p>	<p>Relevancy – Terms of Reference</p>
<p>17. Risk and Insurance Manager: Risk and Insurance Annual report</p>	<p>To understand the current strategic risk exposure together with recent modifications and planned changes to strategic risk management within the authority.</p> <p>Gain assurance that the Council is effectively managing its key risks – has good risk management systems / processes in place that enable decision makers to understand the level of risk being taken and the Council is prepared to accept.</p>	<p>To monitor the effective development and operation of risk management in the Council.</p>

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Appendix A: Audit Committee Work Plan – 2016/17

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
18. Risk and Insurance Manager: Strategic Risks update	<p>Assurances that the management of strategic risks which is a key process that underpins the successful achievement of the Council's priorities and outcomes is robust. Strategic risks are a key aspect of the Annual Governance Statement.</p> <p>Provide information to confirm to the Audit Committee that they are receiving assurances on the key risk areas within the Council and how these are being managed through the internal controls and governance processes.</p>	To monitor the effective development and operation of risk management in the Council.
19. Section 151 Officer: Audited Annual Statement of Accounts	<p>Ensure that the explanatory forewords to their accounts help the public understand the authority's financial management of public funds.</p> <p>Consider the outcome of the External Audit and the appropriateness of management responses.</p>	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.
20. Section 151 Officer; Annual Treasury report	Provide assurance on the treasury activities for Shropshire Council, including the investment performance of the internal Treasury team.	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

Appendix A: Audit Committee Work Plan – 2016/17

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
		<p>activity.</p> <p>To review the treasury risk profile and adequacy of treasury risk management procedures and assurances on treasury management.</p>
<p>21. Internal Audit: Performance report and revised Annual Audit Plan</p>	<p>Understand the level of assurances being given as a result of audit work and their impact on the Council's governance, risk and control environment.</p> <p>Ensure management action is taken to improve controls / manage risks identified.</p> <p>Encouraging ownership of the internal control framework by appropriate managers</p> <p>Confirm appropriate progress being made on the delivery of the audit plan and performance targets.</p> <p>Understand any resourcing issues as a result of changes to the plan.</p>	<p>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 updates on the work of Internal Audit including key findings, issues of concern and action in hand as a result of Internal Audit work.</p> <p>To consider summaries of specific internal audit reports as requested.</p> <p>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.</p>

Appendix A: Audit Committee Work Plan – 2016/17

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
		To approve significant interim changes to the risk based internal audit plan and resource requirements.
22. External Audit: Findings report Shropshire Council	<p>Seek assurance over the adequacy of the External Audit opinion on the financial statements and the Council's value for money arrangements.</p> <p>Ensure any issues / risks identified are being effectively managed.</p>	To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.
23. External Audit: Audit Committee update	<p>Seek assurance over progress and delivery of the external audit plan and that any risks to successful production of the financial statements and audit are being managed.</p> <p>The paper also includes:</p> <ul style="list-style-type: none"> •a summary of emerging national issues and developments that may be relevant to the Council; and •a number of challenge questions in respect of these emerging issues which the Committee may wish to consider. 	<p>To consider specific reports as agreed with the External Auditor and other inspection agencies.</p> <p>To comment on the scope and depth of external audit work and to ensure it gives value for money.</p>
24. Internal Audit: Fraud, special investigations and RIPA update.	Provide assurances and an update on current fraud and special investigations undertaken by	To review the assessment of fraud risks and potential harm to the Council from

Appendix A: Audit Committee Work Plan – 2016/17

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	Internal Audit and the impact these have on the internal control environment together with an update on current Regulation of Investigatory Powers Act (RIPA) activity.	fraud, bribery and corruption. To monitor the counter-fraud, bribery and corruption strategy, actions and resources.
Other assurance		
Page 89 25. <u>Director of Commissioning: Programme controls and risks</u>	<u>Provide management assurance on the robustness of the governance arrangements for all commissioning activity arising from the Council's business plan and financial strategy.</u>	<u>To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.</u> <u>To consider the Council's arrangements for securing value for money and review assurances and assessments on the effectiveness of these arrangements.</u>
26. <u>IT Manager: IT update</u>	<u>Provide management assurance on the direction of travel and robustness of the internal control arrangements for IT activity and systems arising from the Council's identification of key strategic risks and associated governance issues.</u> <u>To include assurances on the delivery of disaster recovery testing.</u>	<u>To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.</u>
27. Revenues and Benefits Service Manager:	Seek assurances on the recovery of Housing	To monitor progress in addressing risk-

Appendix A: Audit Committee Work Plan – 2016/17

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
Housing benefit overpayment performance monitoring report	Benefit overpayments and receive performance monitoring information on the collection of this income for the year to 2014/15.	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. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
28. External Audit: Findings report Shropshire County Pension Fund (information)	Seek assurance over the adequacy of the External Audit opinion on the financial statements and the Council's value for money arrangements. Ensure any issues / risks identified are being effectively managed.	To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.
Core business: 24 November 2016	Assurances Required / Being Sought	Relevancy – Terms of Reference
29. Internal Audit: National Fraud Initiative update	Provides an update and assurances on the outcomes of the National Fraud Initiative.	To monitor the counter-fraud, bribery and corruption strategy, actions and resources.

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Appendix A: Audit Committee Work Plan – 2016/17

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
30. Internal Audit: Annual review of Audit Committee Terms of Reference	Ensures the Audit Committees continues to benefit the Council by continuing to provide an effective service assessed against current best practice.	To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.
31. Internal Audit: Annual review of Internal Audit Charter	Assurance that effective corporate governance arrangements are maintained in the Council part of which is evidenced by a current Internal Audit Charter.	To approve the Internal Audit Charter.
32. Internal Audit: Annual review of Counter Fraud, Bribery and Anti-Corruption Strategy	<p>Confirm that the Council's counter fraud activity is targeted and effective.</p> <p>Ensure that appropriate progress is being made on the delivery of the Counter Fraud plan.</p> <p>Ensure that lessons have been learnt – understand fraud risks facing the Council and actions being taken to reduce the risk</p> <p>Provides confirmation that the Counter Fraud, Bribery and Anti-Corruption Strategy has been reviewed in line with best practice and continues to underpin the Council's commitment to prevent all forms of fraud, bribery and corruption whether it be attempted on, or from within, the Council,</p>	To monitor the counter-fraud, bribery and corruption strategy, actions and resources.

Appendix A: Audit Committee Work Plan – 2016/17

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	thus demonstrating the strategy's continuing and important role in the corporate governance and internal control framework.	
33. Internal Audit: Performance report and revised Annual Audit Plan	<p>Understand the level of assurances being given as a result of audit work and their impact on the Council's governance, risk and control environment.</p> <p>Ensure management action is taken to improve controls / manage risks identified.</p> <p>Encouraging ownership of the internal control framework by appropriate managers</p> <p>Confirm appropriate progress being made on the delivery of the audit plan and performance targets.</p> <p>Understand any resourcing issues as a result of changes to the plan.</p>	<p>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 updates on the work of Internal Audit including key findings, issues of concern and action in hand as a result of Internal Audit work.</p> <p>To consider summaries of specific internal audit reports as requested.</p> <p>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.</p> <p>To approve significant interim changes to the risk based internal audit plan and</p>

Appendix A: Audit Committee Work Plan – 2016/17

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
		resource requirements.
34. Section 151 Officer: Treasury Strategy Mid-Year report	Provide assurance on the treasury activities for Shropshire Council, including the investment performance of the internal Treasury team.	<p>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 activity.</p> <p>To review the treasury risk profile and adequacy of treasury risk management procedures and assurances on treasury management.</p>
35. Section 151 Officer: Annual Audit Committee self-assessment	Confirmation that the Audit Committee is working effectively and where any further improvements are identified to improve its overall effectiveness, there are plans to implement these.	To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
36. External Audit: Annual Audit Letter	Provides assurances on the key findings arising from the work that External Audit have carried out at the Council.	To consider the External Auditor's annual letter, relevant reports, and the report to those charged with governance.
37. External Audit: Value Statement	Seek assurance from External Auditor on all	To consider the External Auditor's

Appendix A: Audit Committee Work Plan – 2016/17

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	relevant reports	annual letter, relevant reports, and the report to those charged with governance.
38. External Audit: Audit Committee update	<p>Seek assurance over progress and delivery of the external audit plan and that any risks to successful production of the financial statements and audit are being managed.</p> <p>The paper also includes:</p> <ul style="list-style-type: none"> •a summary of emerging national issues and developments that may be relevant to the Council; and •a number of challenge questions in respect of these emerging issues which the Committee may wish to consider. 	<p>To consider specific reports as agreed with the External Auditor and other inspection agencies.</p> <p>To comment on the scope and depth of external audit work and to ensure it gives value for money.</p>
39. Internal Audit: Fraud, special investigations and RIPA update	Provide assurances and an update on current fraud and special investigations undertaken by Internal Audit and the impact these have on the internal control environment together with an update on current Regulation of Investigatory Powers Act (RIPA) activity.	<p>To review the assessment of fraud risks and potential harm to the Council from fraud, bribery and corruption.</p> <p>To monitor the counter-fraud, bribery and corruption strategy, actions and resources.</p>
Other assurance		
40. Revenues and Benefits Service Manager: Council tax and NNDR Performance	Provides assurances through performance monitoring information on the collection of this	To monitor progress in addressing risk-related issues reported to the committee

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Appendix A: Audit Committee Work Plan – 2016/17

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
Monitoring report	income.	<p>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.</p> <p>To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.</p>
Core business: 22 February 2017	Assurances Required / Being Sought	Relevancy – Terms of Reference
41.Risk and Insurance Manager: Strategic Risks update	<p>Assurances that the management of strategic risks which is a key process that underpins the successful achievement of the Council's priorities and outcomes is robust. Strategic risks are a key aspect of the Annual Governance Statement.</p> <p>Provide information to confirm to the Audit Committee that they are receiving assurances on the key risk areas within the Council and how these are being managed through the internal controls and governance processes.</p>	To monitor the effective development and operation of risk management in the Council.

Appendix A: Audit Committee Work Plan – 2016/17

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
42. Section 151 Officer: Treasury Strategy	Provides assurances that the Council's Treasury Management practice complies with CIPFA's Code of Practice on Treasury Management, the Council's Treasury Policy Statement, Treasury Management Practices and the Prudential Code for Capital Finance and together with the rigorous internal controls will enable the Council to manage the risk associated with Treasury Management activities and reduce any potential for financial loss.	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.
43. Internal Audit: Report of the audit review of Risk Management	Provides independent assurance on the overall control environment for the Risk Management system that the Council is effectively managing its key risks – has good risk management systems / processes in place that enable decision makers to understand the level of risk being taken and the Council is prepared to accept.	To monitor the effective development and operation of risk management in the Council.
44. Internal Audit: Performance report and revised Annual Audit Plan	Understand the level of assurances being given as a result of audit work and their impact on the Council's governance, risk and control environment. Ensure management action is taken to improve controls / manage risks identified.	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 updates on the work of Internal Audit including key findings, issues of concern and action in hand as a result

Appendix A: Audit Committee Work Plan – 2016/17

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 97</p>	<p>Encouraging ownership of the internal control framework by appropriate managers</p> <p>Confirm appropriate progress being made on the delivery of the audit plan and performance targets.</p> <p>Understand any resourcing issues as a result of changes to the plan.</p>	<p>of Internal Audit work.</p> <p>To consider summaries of specific internal audit reports as requested.</p> <p>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.</p> <p>To approve significant interim changes to the risk based internal audit plan and resource requirements.</p>
<p>45. Internal Audit: Draft Annual Internal Audit risk based plan</p>	<p>That the Internal Audit Plan focuses on the key risks facing the Council and is adequate to support the Head of Audit opinion.</p> <p>Confirm that the plan achieves a balance between setting out the planned work for the year and retaining flexibility to changing risks and priorities during the year.</p> <p>Ensure that the Internal Audit Resource has</p>	<p>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.</p> <p>To make appropriate enquiries of both management and the Audit Service</p>

Appendix A: Audit Committee Work Plan – 2016/17

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
<p>Page 96</p>	<p>sufficiently capacity and capability to deliver the plan.</p> <p>Seek an understanding of what assurances Internal Audit will be providing the Committee to help it discharge its terms of reference.</p> <p>Gain assurance that the Council has effective arrangements in place to fight fraud locally and that counter fraud resources are targeted to the Council's key fraud risks.</p>	<p>Manager to determine if there are any inappropriate scope or resource limitations.</p>
<p>66. Internal Audit: Draft Audit Committee annual work plan and future training requirements</p>	<p>Assurance that the agreed plan of work for the year ahead will deliver against the terms of reference of the Audit Committee and that Members will receive appropriate learning and development in order to deliver their responsibilities effectively.</p>	<p>To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.</p>
<p>47. Internal Audit: Fraud, special investigations and RIPA update</p>	<p>Provide assurances and an update on current fraud and special investigations undertaken by Internal Audit and the impact these have on the internal control environment together with an update on current Regulation of Investigatory Powers Act (RIPA) activity.</p>	<p>To review the assessment of fraud risks and potential harm to the Council from fraud, bribery and corruption. To monitor the counter-fraud, bribery and corruption strategy, actions and resources.</p>
<p>48. External Audit: Annual Plan</p>	<p>Evidence that the External Auditor understands</p>	<p>To comment on the scope and depth of</p>

Appendix A: Audit Committee Work Plan – 2016/17

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	the Council's business, risk, challenges and opportunities it is facing. Explanation of its audit approach and the scope of its plans.	external audit work and to ensure it gives value for money.
49. External Audit: Certification Summary report	Seek assurances that claims and returns have been managed appropriately and that there are no significant errors that would result in loss of funding.	To consider the External Auditor's annual letter, relevant reports, and the report to those charged with governance.
50. External Audit: Informing the risk assessment	<p>As part of External Audit's risk assessment procedures they obtain an understanding of management processes and the Audit Committee's oversight of the following areas:</p> <ul style="list-style-type: none"> • Fraud • Laws and regulations • Going concern • Related party transactions • Accounting estimates <p>This report includes a series of questions on each of these areas and the response we have received from the Council's management for Audit Committee to consider whether the responses are consistent with the its understanding and whether there are any further comments it wishes to make.</p>	To comment on the scope and depth of external audit work and to ensure it gives value for money.
51. External Audit: Audit Committee update	Seek assurance over progress and delivery of the	To consider specific reports as agreed

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Appendix A: Audit Committee Work Plan – 2016/17

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	<p>external audit plan and that any risks to successful production of the financial statements and audit are being managed.</p> <p>The paper also includes:</p> <ul style="list-style-type: none"> •a summary of emerging national issues and developments that may be relevant to the Council; and •a number of challenge questions in respect of these emerging issues which the Committee may wish to consider. 	<p>with the External Auditor and other inspection agencies.</p> <p>To comment on the scope and depth of external audit work and to ensure it gives value for money.</p>

Audit Committee Work Plan 2016/17 Summary

Audit Committee Work Plan 2015/16	23 June 2016	15 Sept 2016	24 Nov 2016	22 Feb 2017	Report originator
Internal Audit Annual Report	✓				Internal Audit
Approval of the Council's Statement of Accounts	✓				Section 151 Officer
Review of Accounting Policies	✓				Section 151 Officer
Review of the Council's Annual Governance Statement	✓				Section 151 Officer
Review of Code of Corporate Governance	✓				Section 151 Officer
Annual review of the effectiveness of the system of Internal Audit and Quality Assurance and Improvement Programme (QAIP)	✓				Section 151 Officer
Annual Assurance Report of Audit Committee to Council	✓				Internal Audit
Revenue Outturn Report	✓				Section 151 Officer
Capital Outturn Report	✓				Section 151 Officer
Annual Whistleblowing report	✓				Head of Human Resources
Certification Plan	✓				External Audit
Audit Fee Letter 2015/16	✓				External Audit
Audit Committee Update	✓	✓	✓	✓	External Audit
Fraud, special investigations and RIPA Updates (part 2)	✓	✓	✓	✓	Internal Audit
Council Tax and NNDR Performance Monitoring Report	✓		✓		Revenues and Benefits Service Manager
Pension Fund Audit Plan (information)	✓				External Audit
Risk and Insurance Annual Report		✓			Risk and Insurance Manager
Strategic Risks update		✓		✓	Risk and Insurance Manager
Audited Annual Statement of Accounts		✓			Section 151 Officer
Annual Treasury Report		✓			Section 151 Officer
Performance Report and revised Annual Audit Plan		✓	✓	✓	Internal Audit

Audit Committee Work Plan 2015/16	23 June 2016	15 Sept 2016	24 Nov 2016	22 Feb 2017	Report originator
Findings Report Shropshire Council		✓			External Audit
Programme controls and risks		✓			Director of Commissioning
IT Update		✓			IT Manager
Housing Benefit Overpayment Performance Monitoring Report		✓			Revenues and Benefits Service Manager
Findings Report Shropshire County Pension Fund (Information)		✓			External Audit
National Fraud Initiative Update			✓		Internal Audit
Annual review of Audit Committee Terms of Reference			✓		Internal Audit
Annual review of Internal Audit Charter			✓		Internal Audit
Annual review of Counter Fraud, Bribery and Anti-Corruption Strategy			✓		Internal Audit
Treasury Strategy Mid-Year Report			✓		Section 151 Officer
Annual Audit Committee Self-Assessment			✓		Section 151 Officer
Annual Audit Letter			✓		External Audit
Value Statement			✓		External Audit
Treasury Strategy				✓	Section 151 Officer
Report of the Audit Review of Risk Management				✓	Internal Audit
Draft Annual Internal Audit Risk Based Plan				✓	Internal Audit
Draft Audit Committee annual work plan and future training requirements				✓	Internal Audit
Audit Plan				✓	External Audit
Certification Summary Report				✓	External Audit
Informing the risk assessment				✓	External Audit

Appendix B

Audit Committee Members development topics

Core areas of knowledge

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

Specialist knowledge that adds value to the Audit Committee

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

Core skills

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

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<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
18 February 2016	
9:30 am	<u>Public</u>

DRAFT INTERNAL AUDIT ANNUAL PLAN 2016/17

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

Tel: 01743 257739

1. Summary

This report provides Members with the proposed risk based Internal Audit Plan for 2016/17. The annual plan will provide coverage across the Council's services and deliver internal audit services for a range of external clients. It takes account of issues identified by the clients' risk management frameworks, including the risk appetite levels set by management for the different activities or parts of the organisations audited. The proposed plan takes into account the requirement to produce an annual internal audit opinion and assurance framework. Some minor adjustments may be needed to the plan before it is finalised; if significant, these will be agreed by the Section 151 Officer and reported to the next Audit Committee.

2. Recommendations

The Committee are asked to consider and endorse, with appropriate comment, the approach taken to create the proposed Internal Audit Plan for 2016/17 and approve its adoption.

REPORT

3. Risk Assessment and Opportunities Appraisal

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

critical to the Council's operations these will be reported and rectified where possible and viable.

- 3.2 Areas to be audited within the plan have been considered with the knowledge of risk register information both operational and strategic.
- 3.3 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.
- 3.4 Provision of the Internal Audit Annual Plan satisfies both the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2015, part 2 which sets out the requirements on all relevant authorities in relation to internal control, including requirements in respect of accounting records, internal audit and review of the system of internal control. Specifically:

'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.'

4. Financial Implications

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

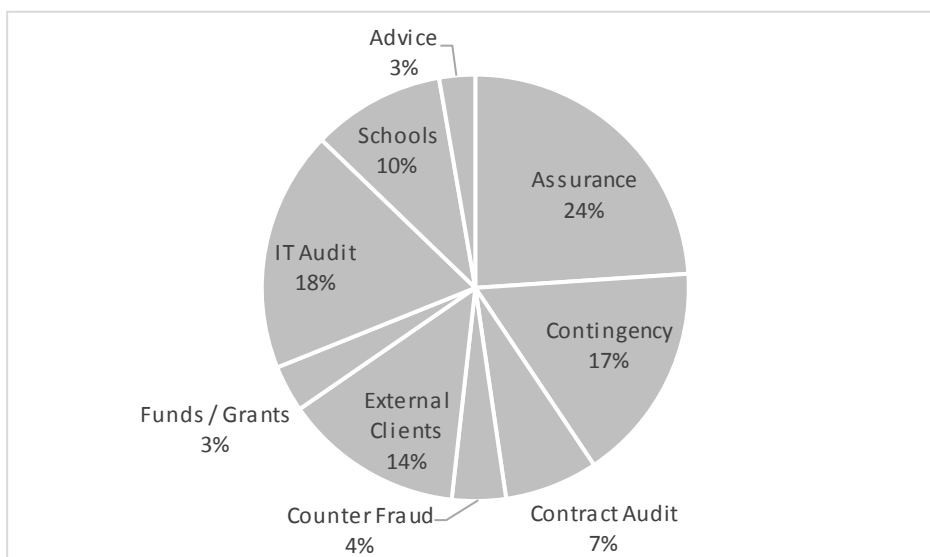
5. Background

- 5.1 The provision of a risk based Internal Audit Plan consistent with the Council's goals is an essential part of ensuring probity and soundness of the Council's internal controls, risk exposure and governance framework. The plan has been constructed to ensure that it delivers against the PSIAS and the requirement to produce an annual Head of Internal Audit opinion and assurance framework. In doing this it can be confirmed that the plan covers the following activities:
- Governance processes
 - Ethics
 - Information technology governance
 - Risk management and
 - Fraud management.
- 5.2 The audit risk assessment is reviewed annually with Directors, Area Commissioners, Heads of Service and the Section 151 Officer to ensure that it remains robust and relevant to the needs and risk profile of the Council. The process also recognises that the Council is continuing to strive to improve services and use innovative approaches in addressing service delivery against a background of reducing resources and the transformation into a commissioning organisation.
- 5.3 When considering the risks affecting audit areas account has been taken of:
- changes to and the introduction of new services;
 - the redesign/transformation programme and business plans of the Council;
 - budget pressures and saving commitments;
 - previous audit findings;
 - opening and closure of establishments;

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

5.4 Top risks facing councils continue to include pressures on finances and resources; technology; third party risk management; fraud and misconduct; crisis risk management; data security; achieving compliance with regulations; improving risk data aggregation and reporting. In addition, the Council’s strategic risks around the IT infrastructure, workforce planning, development and retention; financial sustainability and maintaining public confidence have also been considered when refining the plan.

5.5 **Appendix A** provides the summarised Internal Audit plan and identifies a planned day requirement of 1,270 days for Shropshire Council audit work and 200 days of work for external clients. These days are broken down by type in the chart below.



Resources

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

- 5.7 The team has 9.4 full time equivalents and has retained a rich mix of skills in finance, information technology, contract management, governance, job evaluation, establishments, systems, counter fraud, investigations and project management (**Appendix B**). This represents a post less than last year. Skills continue to be developed across the wider team and to help supplement the internal resources and respond to demand during this period of change, additional audit reviews are purchased from external contractors using the Staffordshire framework contract. The plan provides for this mixed provision to continue going forward into 2016/17, these resources will also support the team through a further period of planned maternity leave. In addition to this, consideration is being given to seeking a fixed term resource for the team to be funded from the vacancy within the present team structure if the funding remains available, this resource is not included in the proposed plan. Employment to such a post would hopefully reduce the amount of management time spent on contract management, given the continuing work pressures identified by the risk analysis, and therefore provide a better value for money solution to the resourcing challenges the team faces.
- 5.8 The Audit Plan for 2016/17 based on a risk analysis identified just under 2,000 days to review all high risk areas. Areas requiring review attracting a lower risk have not been considered in this year's planning process. Resources available after deducting allowances for non-chargeable time (leave, management meetings, administration, etc.); and chargeable time (attendance at corporate meetings - officer and members, responding to legislation, s151 officer work requests, training etc.) are restricted to 1,470 days of which 200 are to be used on providing services to customers other than Shropshire Council leaving a balance of 1,270 days.
- 5.9 In order to match the review areas to resources, it has been necessary to take out a number of reviews identified as high priority, details of which appear as **Appendix C**. These include the transformation contingency; a number of schools which have not been independently audited for five years; some IT audit areas; key projects; processes and contracts. The lack of a transformation contingency will mean that as work is identified throughout the year, those high risks perceived as being of 'lower value' may need to be considered for exclusion from the plan to enable new emerging areas to be reviewed. It was felt prudent at this time however to demonstrate any activity as it happens in order to provide a transparent audit trail. Equally, if contingencies for fraud, unplanned audits and advice are not required in full, reviews may be able to be brought back into the plan.
- 5.10 In preparing the plan for 2016/17 the key items to note are:
- The plan for the first time does not include time for all fundamental system audit reviews. A decision has been taken to review these on a cyclical basis after considering the risk profile of each area. Those of a good or reasonable assurance level are not included in the plan this year. The exception is the Payroll system which is of a high material value to the Council's operations and as such, even though its internal control environment is currently rated as good/ reasonable, will be reviewed every year.
 - A separate risk based analysis of the IT audit areas has been conducted and assessments for applications, projects, developmental changes, new technology and follow ups in areas requiring improvements are planned. IT continues to form a

significant part of the internal audit plan reflecting the Council's continuing reliance on technology and the developmental requirements as services are redesigned.

- The fraud contingency is being maintained at 200 days to reflect the current activity levels being experienced and, with ongoing changes to controls, management structures and job responsibilities, this is not considered to be an area of reducing risk.
- Internal Audit aims to review primary schools at least every five years and secondary schools every three. It is no longer possible to achieve full audit reviews within the time frame and if schools were prioritised over other business areas the resources used would be disproportional to those used elsewhere given the Council's strategic risks. Secondary schools will be reviewed every four years and an alternative approach is being taken with primary schools. When looking to prioritise schools in the plan any deficit position, previous assurance ratings (especially unsatisfactory or limited) concerns of the education service, submission and responses to the schools financial value statements and the date of the last audit are all considered. In this way Audit Services prioritise any slippage in this area with a view to managing associated risks. The plan is currently based on this methodology. In addition, a new approach is to be trialled this year. Primary schools will be asked to complete a self-assessment on a rolling basis. This data will be used on top of that already gathered to identify which schools are prioritised for internal audit review which will be a percentage of the number due for a full audit. The protocol for this is to be drafted and agreed with the Section 151 Officer and it is hoped to use this approach for the 2016/17 year. Further details of any plan changes as a result will be brought to the attention of Members.
- In considering how Internal Audit could support schools in improving their control environment, the plan continues to allow a small amount of time for auditors to work with governors, head teachers and administrators in understanding the level of controls required and how they can be improved and implemented, thereby aiming to prevent any control erosion which would lead to increased risks.
- Days are allocated to provide internal audit services to external clients: Shropshire Fire and Rescue, Shropshire Pension Fund, West Mercia Energy and Oswestry Town Council. In addition, discussions are planned with the Chief Executive, Director of Commissioning and Section 151 Officer to firm up proposals to review any areas of significant risk which are being transferred to other delivery models. Time has been included in the proposed plan to cover known activities that are currently under review.
- Procurement and commissioning continue to be areas of growth and as such there are planned initiatives in these areas. Work is planned on financial evaluations of companies tendering for work and reviews of governance processes on the client side. In addition, where services are moving to new delivery models, exit reviews will be conducted to ensure that transfers are conducted appropriately and at minimum risk to the Council.
- Discussions with senior managers have identified a number of areas considered low risk from an internal controls/ materiality perspective where managers are receiving a mix of assurances from their systems, personnel and/ or third parties on which

they can place reliance. These areas are identified in **Appendix D** and will not be considered for review by Internal Audit on a rolling risk basis. Members may wish to ask senior managers to provide assurance directly to Committee on these areas if required.

- The plan provides continual professional development and training for auditors during the year. This helps to retain staff, future proof the skills of team members and build skills in areas where updated knowledge is required for the benefit of the Council, external clients and the auditors.

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

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

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

Audit universe and resources analysis
 Public Sector Internal Audit Standards 2013
 CIPFA Audit Committees, Practical Guidance for Local Authorities and Police, 2013 edition
 Accounts and Audit Regulations 2015
 KPMG Key risk management issues for 2016

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

Local Member n/a

Appendices

Appendix A: Summary of Draft Internal Audit Plan by Service
 Appendix B: IA structure
 Appendix C: High risk areas not to be audited
 Appendix D: Audit areas where managers will seek and provide any necessary assurance

2016/17 SUMMARY OF DRAFT INTERNAL AUDIT PLAN BY SERVICE

	Days
CHIEF EXECUTIVE	
Governance	38
IT	176
Finance Governance and Assurance	166
Human Resources	43
Legal, Democratic and Strategic Planning	21
Total Chief Executive	444
ADULT SERVICES	
Social Care Operations	135
Social Care Efficiency and Improvement	5
Total Adult Services	140
COMMISSIONING	
Area Commissioner North	19
Area Commissioner South	20
Head of Business Growth and Prosperity	19
Head of Public Protection	19
Procurement	25
Total Commissioning	102
CHILDREN'S SERVICES	
Safeguarding	58
Learning and Skills	164
Learning Employment and Training	10
Total Children's Services	232
PUBLIC HEALTH	
Public Health	27
Commercial Services	40
Total Public Health	67
CONTINGENCIES	
IT Advice Contingency	20
Advisory Contingency	20
Fraud Contingency	200
Unplanned Audit Contingency	45
Other non-audit chargeable work	247
Total Contingencies	532
Total Shropshire Council	1,517
External Clients	200
Total Audit Plan	1,717

**Audit
Service
Manager**

Structure 2016
9.4 FTE

**Engagement
Officer**
IT Audit

**Engagement
Officer**
HR Assurance
(0.2)

**Engagement
Officer**
Audit

**Engagement
Officer**
Audit

Auditor (0.8)

Auditor (2.8)

Auditor (1.6)

Bought in IA services

2016/17 Audit areas of high priority for which no provision is made in this year's Internal Audit plan – management assurances may be sought by the Committee

Chief Executive	Director of Commissioning	Director of Children's Services
University Leasing Arrangements Medium Term Financial Strategy AUDIS - Direct Debit Income System Application Comino Document Management System Application Cash Offices - Regularity Audits Mobile Working HR Policies Redundancy Process CR Human Resources / Workforce Planning CASPAR Database Access / Admin / Management Digital Mailroom Project Internet Controls Networks and Connectivity Voice Over IP Wireless Networking	Waste - Bulky Waste CONFIRM-Highways Management System Highways Maintenance - Ringway Contract Quarry Swimming Pool Sports Development Community Car Scheme Public Transport - Concession Fares School Planning & Transport Arrangements TOMS-ITU Voluntary Car Scheme Funding & Programmes Building Control Section 106 Agreements Growth Point Investment and Infrastructure - Business Parks Theatre Severn Theatre Ticketing & Online Booking Application Parking - Cash Collection Parking - Enforcement and issue of NPOs & Fixed Penalty Notices Key Supply Contracts Procurement Arrangements Procurement Cards	Section 11 agreements Albrighton Primary School Belvidere Primary School Broseley CE Primary School Bryn Offa CE (Controlled) Primary School Buntingsdale Infant School Castlefields Primary School Coleham Primary School Crowmoor Primary School Ellesmere Primary School Greenacres Primary School Greenfields Primary School Harlescott Junior School Highley Primary School Ifton Heath Primary Market Drayton Infant and Nursery School Market Drayton Junior School Martin Wilson School Meole Brace C E Infant School Oakmeadow CE Primary and Nursery School St Andrew's CE Primary School, Shifnal St George's Junior School, Shrewsbury St John's Catholic Primary School St Laurence CE Primary School, Ludlow St Mary's CE Primary School, Shawbury St Peter's CE (Controlled) Primary School St Thomas & St Anne's C E Primary School, Hanwood Stoke-on-Tern Primary School Sundorne Infant School The Meadows Primary School, Trinity C E Primary School Weston Lullingfields CE (Controlled) Primary School Whitchurch C E Infant School Woodfield Primary School Woore Primary School

2016/17 Audit areas of high priority for which no provision is made in this year's Internal Audit plan – management assurances may be sought by the Committee

		Worfield Endowed C E Primary School
<p>Director of Adult Services</p> <p>Adult Protection & Safeguarding IBS Housing System Application Review People to People PFI PayMech Purchasing Adult Domiciliary Care Purchasing Adult Residential & Nursing Care Purchasing Mental Health Domiciliary Care Purchasing Mental Health Residential & Nursing Care</p>	<p>Director of Public Health</p> <p>Property Sales and Acquisitions Management of Council Controlled Property Property Repair and Maintenance Saffron Menu Planning (Shire Services) External Catering Contracts Credit Union Client Customer Service Points Public Health Contracts Public Health Projects Registrars Service</p>	<p>Contingency's</p> <p>Transformation Contingency</p>

2016/17 Deminimus Audit areas where managers will seek and provide any necessary assurance

Chief Executive	Director of Adult Services	Director of Children's Services
Benefits Administration Grant Inventories Management Localisation of Council Tax Benefits System Job Evaluation Asbestos Health & Safety Legionella ARIS Microwave Link to Jupiter House Register of Electors Security Management/Staff Guidance Regulation of Investigatory Powers Act (RIPA)	Occupational Therapy Supporting People Personal Allowances Shropshire Partners in Care (SPIC) Abbots Wood Comforts Fund Albert Road Day Centre Comforts Fund Aquamira Comforts Fund Avalon Comforts Fund Helena Lane / Friars Walk Day Centre Comforts Fund Wayfarers Comforts Fund Abbots Wood Day Opportunities Albert Road Day Opportunities Avalon Court Day Opportunities Helena Lane Day Centre Wayfarers Day Opportunities	Ludlow Training Centre Positive Activities Projects - Youth Service Shropshire Youth - Central Administration Social Care & Health Training The Gateway Education & Arts Centre Whitchurch Training Centre Chelmaren Comforts Fund Haven Brook Comfort Fund Shropshire Children's Trust Multi Agency Teams School Census Education Welfare Service Schools Advisory Service - Administration Shrewsbury Training & Development Centre Shropshire Music Service Standards Fund Surestart

2016/17 Deminimus Audit areas where managers will seek and provide any necessary assurance

Director of Public Health	Director of Commissioning	Director of Commissioning (cont.)
Fishing and Sporting Rights Shirehall Lettings SLA's & Invoicing Arrangements Smallholdings Estate Carbon Management Plan Furniture Design Group & County Furniture Group Cleaning DSO General Systems Cleaning equipment maintenance Internal Catering arrangements Post Opening Procedures Shirehall Restaurant Coroners	Performance Management & PI's Performance Plus Online Register Albrighton Library Bayston Hill Library Bishops Castle Library Bridgnorth Library Broseley Library Church Stretton Library Cleobury Mortimer Library Craven Arms Library Ellesmere Library Gobowen Library Highley Library Libraries General Library Fines & Charges Library HQ Library Procurement through WM Consortium Library Stock Management & Control Ludlow Library Market Drayton Library Much Wenlock Library Oswestry Library Pontesbury Library Schools Library service Shawbury Library Shifnal Library The Lantern Wem Library Whitchurch Library Bio Digester Waste - Statistics & Administration Arts Developments & Grants Community Working Flood Risk Management Arrangements Highways Development Control Highways Land Search Arrangements Land Drainage NRSWA - Road Openings & S278	Local Bus Network Passenger Transport Efficiency Operations Public Transport - Publicity Special Transport/ Routing Arrangements Surplus Seats Traffic Management & Regulation Economic Development General Enterprise and Business Grants Pump House Tourism Datawright Planning Development Lone Working Arrangements One App Online Planning Portal Application PLUMS - Planning Policy Control Public access mapping server/e-planning Ecology & Biodiversity Historic Environment & Listed Buildings SMR - Sites & Monuments Record Sustainability Tree Safety Countryside Access General North Shropshire Countryside Rangers Parks & Countryside Sites General Severn Valley Park AONB (Areas of outstanding natural beauty) Craven Arms Community Strategy Acton Scott Working Farm Museum Arts Festivals & Events Culture & Leisure Business Development Culture & Leisure Grants Culture & Leisure Marketing and Performance Ludlow Museum & Resource Centre Museum on the Move Museums & Audience Development Grant Arrangements Records Management Recruitment & Management of Volunteers

2016/17 Deminimus Audit areas where managers will seek and provide any necessary assurance

	<p>Bishops Castle SpArC Centre - Joint Use Idsall Sports Centre - Joint Use Joint Use Leisure Facilities Lakelands Sports Centre Ellesmere - Joint Use Much Wenlock Sports Centre - Joint Use Rhyn Park School Sports Centre Roman Road Sports Centre - Joint Use Community Transport Initiatives (SCOTI, OCTI etc.)</p>	<p>Shropshire Archives Fair Trading & Education Domestic Abuse Management & Control of CCTV Operations Road Safety Contaminated Land Environmental Enforcement & Byelaws Pest Control Street Scene - Dog Wardens Animal Health & Welfare</p>
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<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
18 February 2016	
9:30 am	<u>Public</u>

EXTERNAL ASSESSMENT

Responsible Officer Ceri Pilawski

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

Tel: 01743 252027

1. Summary

The Public Sector Internal Audit Standards (PSIAS), effective from 1st April 2013, contain the requirement for an external assessment of the Internal Audit function once every five years. The Council needs to ensure that the next assessment is undertaken by 31st March 2018. This report sets out the considerations of the Section 151 Officer in agreeing the approach with the Chairman of the Audit Committee and the Audit Service Manager.

2. Recommendations

- a) The Committee is asked to consider and approve, with appropriate comment, the approach adopted for the external assessment and agree that the final details of the assessment are agreed by the Section 151 Officer and Audit Service Manager in consultation with the Chairman of the Audit Committee.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The PSIAS define the nature of internal auditing, set out the basic principles for carrying out internal audit in the public sector and provide a framework for the service. These add value to the Council leading to improved organisational processes and operations. The PSIAS also establish a basis for the evaluation of internal audit performance to drive improvement planning.
- 3.2 An independent external assessment will demonstrate to the Audit Committee compliance with the PSIAS and the improvement plan will show actions to close any gaps.

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

4. Financial Implications

- 4.1 Funding for the assessment will be met from an approved corporate budget.

5 Background

- 5.1 Standard 1310 of the PSIAS sets out the requirement for a Quality Review and Improvement Programme (QAIP) which includes both internal and external assessments of the Internal Audit activity.
- 5.2 Standard 1311 states that the internal assessment should comprise two interrelated parts; on-going monitoring and periodic self-assessment. On-going monitoring covers day to day operational issues such as approval of work programmes, file reviews etc. Periodic self-assessment looks at compliance against the standards as a whole, which is required to be completed by the Chief Audit Executive or a senior audit member with the appropriate/relevant experience.
- 5.3 Standard 1312 states that an external assessment must be conducted at least once every five years. All councils will therefore need to have completed an external review prior to the 31 March 2018. Given the likelihood that demand for external reviews in the financial year 2017/18 is going to be high, it would be prudent to have the external review completed during 2016/17, retaining the option to complete in 2017/18 if this better suits the Council's needs.
- 5.4 The external assessment must be completed by a body independent to the organisation qualified in the practice of internal auditing. Independence for these reviews is critical to ensure an objective external assessment.
- 5.5 A peer review can provide a cost effective approach to external assessment. Independence must be maintained however. The standards advise that an assessor is independent provided they do not report to Audit Manager of the organisation under review.

Option appraisal

- 5.6 Staffordshire Chief Auditors Group (SCAG) is made up of Staffordshire County Council, the shire districts, High Peak BC and Staffordshire Fire and Rescue. The group, led by Newcastle under Lyme Borough Council, has undertaken an exercise to identify how external assessments can be conducted to the levels required by the Standards whilst keeping time and costs down for the participating authorities. They have invited Shropshire Council and Telford & Wrekin to join their arrangements.
- 5.7 SCAG has considered a number of options with regards to the requirements of the external assessment see summary in the table below:

Option	Comments, pros and cons	Estimated costs
1. Peer review	<p>This would involve the participating authorities undertaking a review of another authority.</p> <p>Considerations:</p> <p>(a) Due to the different management arrangements for the audit teams across Staffordshire plus Shropshire and Telford & Wrekin there is a danger of inconsistency.</p> <p>(b) Also, as Midlands authorities (including the ones involved in this arrangement) regularly support each other in the development of documents/processes via networking events, there is a risk that peer review would not be objective.</p> <p>(c) To undertake the reviews in-house would have a significant impact on Shropshire's internal resources. The work would include specification, completion of Shropshire's self-assessment and collating the necessary documentary evidence. This in itself would be a considerable task but would also require at least three days undertaking an assessment at another authority plus additional days for feedback, compiling a report and presentation to the Audit Committee.</p> <p>(d) There is also a strong view by those involved in this arrangement that to undertake the reviews in this way would not give a true independent assessment as required by the Standards.</p>	Minimum six days' time of Audit **
2. Collaborative procurement of an external self-assessment	<p>A collaborative procurement approach to the external assessment by appointing an external independent body/person to undertake the assessment for all the authorities.</p> <p>Benefits:</p> <p>(a) This option provides a true independent assessment.</p> <p>(b) Good practice ideas from other organisations already reviewed.</p> <p>(c) Economies of scale will be achieved by this collaborative procurement approach.</p>	<p>Market testing estimates from £1,500 to £7,500 for three day assessment per authority.</p> <p>Minimal additional Shropshire Council time providing consultation on the tendering, specification and</p>

Option	Comments, pros and cons	Estimated costs
	<p>(d) Limited authority time during the assessment – time only required for feedback, review of the report and response to Audit Committee.</p> <p>A number of providers have been approached to ascertain an indicative cost of this type of assessment being undertaken (separate to the collaboration).</p> <p>A detailed specification has been drawn up by the lead authority from SCAG with comments from participating councils.</p>	<p>procurement exercise which would be led by another authority.</p>
<p>Hybrid – Procure an external independent assessor and combine with a peer review</p>	<p>An additional approach provided by one supplier during market testing was an external assessor to be brought in at the beginning of the process to train member authorities to undertake a peer review to ensure a consistency in the approach undertaken. The assessments would then be completed by member authorities and the results reviewed by the external assessor to ensure that the approaches undertaken have been consistent and fair.</p> <p>This approach should eliminate the potential for an inconsistent approach but would impact on the resources of members</p>	<p>Share of £7,500 - £10,000 (at £2,500 per day) plus estimated eight days (up to two days training and minimum six days as per Peer review option above).</p>

** - excluding time required for the self-assessment which is required by all options.

5.8 The approach preferred by SCAG (and endorsed by their Finance Officers) is to adopt a collaborative approach by procuring an independent external assessor to undertake all the reviews for the Staffordshire authorities plus Shropshire and Telford and Wrekin Council. The benefits for Shropshire would be minimal procurement time, a consistent approach, being able to demonstrate a true independent assessment, and sharing in best practice. The procurement process would demonstrate value for money and assessment costs would be met from within an approved corporate budget.

5.9 After discussion with the Chairman, Section 151 Officer and Audit Service Manager, engagement with the SCAG procurement exercise was agreed. The specification will go out to potential tenderers early this year, the results of which will be reported back to members.

List of Background Papers (This MUST be completed for all reports, but does

not include items containing exempt or confidential information)

Public Sector Internal Audit Standards

CIPFA's Applying the IIA International Standards to the UK Public Sector

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

Local Member n/a

Appendices - none

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Audit Committee Update

Shropshire Council

Year ended 31 March 2016

February 2016

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Mark Stocks

Director

T 0121 232 5437

E mark.c.stocks@uk.gt.com

Emily Mayne

Manager

T 0121 232 5309

E emily.j.mayne@uk.gt.com

Kieran Armitage

Executive

T 0121 232 5422

E kieran.armitage@uk.gt.com

Agenda Item 12

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

Introduction

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

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

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

- Making devolution work: A practical guide for local leaders
- 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
- Getting aboard? our local government governance review 2015
- Knowing the ropes: Audit Committee effectiveness review
- Reforging local Government: financial health and governance review 2015

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>2015/16 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 2016	Yes	<p>We continue to assess the risks facing your Council and meet with Senior Officers to ensure that these risks are fully understood and our audit work is appropriate.</p> <p>If there are any changes to our plan between our initial risk assessment and the delivery of your opinion we will discuss this with the Head of Finance, Governance and Assurance before presenting to the Audit Committee.</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. 	January 2016 – April 2016	In progress	<p>We will:</p> <ul style="list-style-type: none"> • engage with the finance team to streamline and improve the audit approach for 2015/16 where possible, • discuss any technical issues early including asset valuations and disclosure, • undertake as much early testing as possible, • continue to meet with Senior officers to ensure our understanding of your business is up to date. <p>We will continue to work closely with Internal Audit in relation to risk, work on the financial statements and fraud.</p>
<p>2015/16 final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2015/16 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	June – September 2016	Not started	<p>We will undertake work on your draft financial statements to provide an opinion by the statutory deadline. Our discussions with the finance team have agreed that we will aim to deliver this work ahead of the national timetable in preparation for the shorter deadlines in 2016/17.</p>

Progress to date (continued)

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2015/16 VfM conclusion has recently been subject to consultation from the National Audit Office. The audit guidance on the auditor's work on value for money arrangements was published on 9 November 2015.</p> <p>Auditors are required to reach their statutory conclusion on arrangements to secure VFM based on the following overall evaluation criterion: <i>In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.</i></p> <p>To help auditors to consider this overall evaluation criterion, the following sub-criteria are intended to guide auditors in reaching their overall judgements:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties. <p>We will be required to report by exception if we conclude that we are not satisfied that the Council has in place proper arrangements to secure value for money in the use of its resources for the relevant period.</p>	<p>January – July 2016</p>	<p>In progress</p>	<p>The guidance and supporting information includes:</p> <ul style="list-style-type: none"> • the legal and professional framework; • definitions of what constitute 'proper arrangements'; • 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; • CCG specific guidance. <p>The guidance is available at https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/</p> <p>Now that the finalised auditor guidance is available, we will carry out an initial risk assessment to determine our approach and report this to the Audit Committee once complete.</p> <p>Our final conclusions will be reported in the Audit Findings Report presented to the September meeting of the Audit Committee.</p> <p>The Council is preparing itself for significant financial challenges in future years. We will also review the partnership working as this is a key theme within all areas of the assessment.</p>

Progress to date (continued)

Work	Planned date	Complete?	Comments
<p>Grant work (PSAA regime) We plan to certify the following claim:</p> <ul style="list-style-type: none"> Housing Benefits Claim 2015/16 (BEN01) 	June – November 2015	Not started	<p>We will 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.</p> <p>Progress will be reported through this update report at each meeting and we will report our conclusions to you once completed.</p>
<p>Annual Audit Letter A summary of all work completed as part of the 2015/16 audit</p>	October 2016	Not started	We will summarise our findings from the 2015/16 audit and report to the November 2016 Audit Committee.

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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"> • Updates with the Head of Internal Audit to ensure we are aware of progress on key issues. • Discussions with the LGA regarding your financial review. • Discussions with the Chief Executive on devolution and how we can support discussions with the Marches LEP for taking a rural deal forward. • Attempts to rearrange a date for the Chief Executive and Head of Finance, Governance and Assurance to attend our Birmingham offices and benefit from the CEO Room – we have still not been able to secure a date in diaries.

Reforging local government: Summary findings of financial health checks and governance reviews

Grant Thornton market insight

The recent autumn statement represents the biggest change in local government finance in 35 years. The Chancellor announced that in 2019/20 councils will spend the same in cash terms as they do today and that "better financial management and further efficiency" will be required to achieve the projected 29% savings. Based on our latest review of financial resilience at English local authorities, this presents a serious challenge to many councils that have already become lean.

Our research suggests that:

the majority of councils will continue to weather the financial storm, but to do so will now require difficult decisions to be made about services

most councils project significant funding gaps over the next three to five years, but the lack of detailed plans to address these deficits in the medium-term represents a key risk

- Whitehall needs to go further and faster in allowing localities to drive growth and public service reform including proper fiscal devolution that supports businesses and communities
- local government needs a deeper understanding of their local partners to deliver the transformational changes that are needed and do more to break down silos
- elected members have an increasingly important role in ensuring good governance is not just about compliance with regulations, but also about effective management of change and risk
- councils need to improve the level of consultation with the public when prioritising services and make sure that their views help shape council development plans.

Our report is available at <http://www.grantthornton.co.uk/en/insights/reforging-local-government/>, or in hard copy from your Engagement Lead or Engagement Manager.



CFO Insights— driving performance improvement

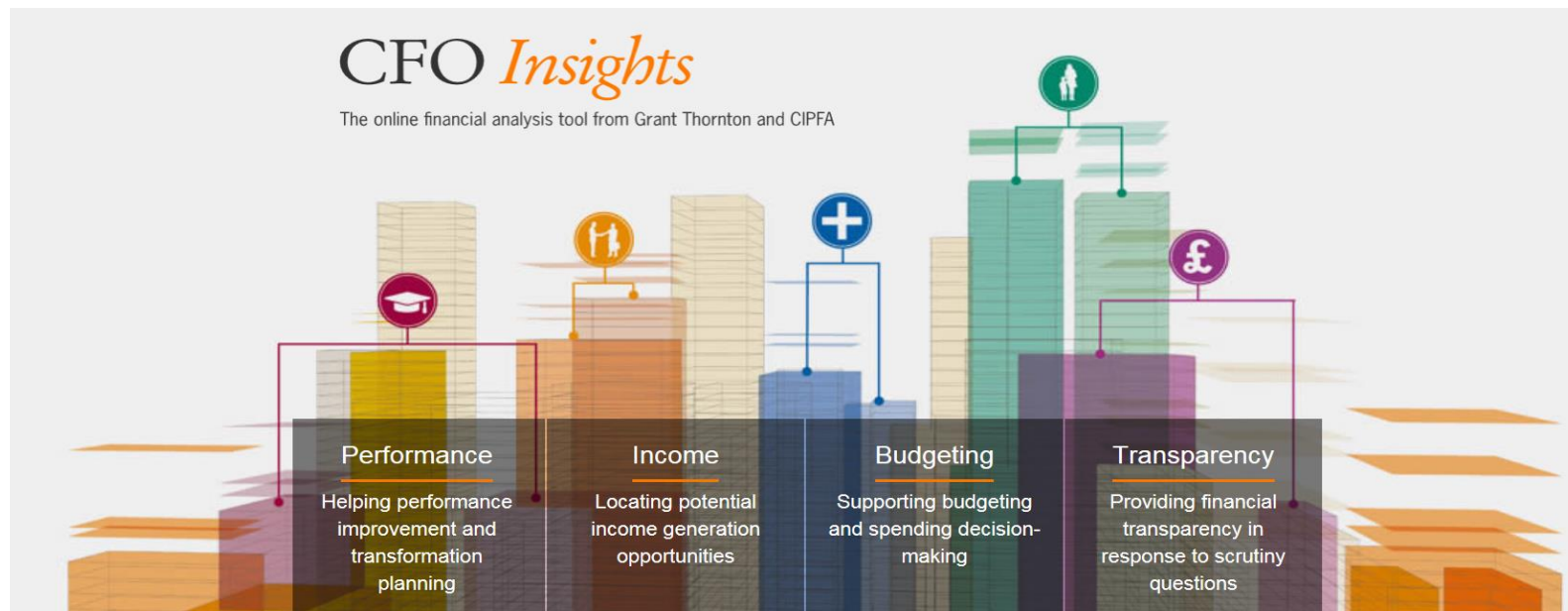
Grant Thornton and CIPFA Market insight

CFO insights is an online analysis tool that gives those aspiring to improve the financial position of their local authority instant access to insight on the financial performance, socio- economy context and service outcomes of every council in England, Scotland and Wales.

The tool provides a three-dimensional lens through which to understand council income and spend by category, the outcomes for that spend and the socio-economic context within which a council operates. This enables comparison against others, not only nationally, but in the context of their geographical and statistical neighbours. CFO Insights is an invaluable tool providing focused insight to develop, and the evidence to support, financial decisions.

We are happy to organise a demonstration of the tool if you want to know more.

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Innovation in public financial management

Grant Thornton Insight

In December 2015 we issued our report '*Innovation in public financial management*' which can be found On our website at:

<http://www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/>

This report draws on a survey of almost 300 practitioners worldwide and includes insights from experts at the International Consortium on Governmental Financial Management (ICGFM) and the Massachusetts Institute of Technology's Centre for Finance and Policy.

The report is the latest in a decade-long series jointly published by Grant Thornton and the ICGFM and it covers four major topics that, globally, will impact on the future of public financial management:

Changing practices. Our research showed that the biggest issue ahead will be finding the political commitment to support more difficult innovations on the agenda – such as increasing public engagement.

The right PPP formula. 90% of respondents felt that substantial investment in infrastructure was required to drive economic growth. In this age of austerity, most governments are also seeking ways to attract outside investment – with the majority using some form of public-private partnership (PPP). Many countries remain inexperienced with such arrangements and the results of their application have been mixed. There has been little improvement since our 2011 survey, which shows that it takes a long time to develop the requisite skills and experience to make PPPs work.

Transparency with technology. Public financial managers are convinced of the importance of enhancing transparency and most are trying to be innovative in this area. However, most are using outdated digital tools. Fewer than half use social media to enhance openness. Even among the best, most transparency efforts are focussed on releasing data sets than data insights.

The new normal. Public financial management remains weighed down by the effects of the global financial crisis, but respondents also focussed on important developments since 2008, such as the Eurozone problems and the collapse of commodity prices. This suggests that public financial management is having to come to terms with not just the lessons one major financial crisis, but with how governments can live with less over the long term.



CIPFA reports and publications

Local Government Issues

Audit Panels

In December 2015 the Chartered Institute of Public Finance and Accountancy (CIPFA) published its guidance on the establishment of auditor panels.

Under the Local Audit and Accountability Act 2014 'relevant authorities' are able to appoint their own local auditors via an auditor panel. The Secretary of State for Communities and Local Government has decided to implement a phased introduction of the new local audit framework, with all health bodies and smaller local government bodies moving to the new framework as planned on 1st April 2017 and larger local government bodies a year later, on 1st April 2018. In practice, this means that smaller local authorities must have appointed their local auditors by 31st December 2016 and larger principal authorities by 31st December 2017.

The guidance sets out the options available to local authorities in England for establishing an auditor panel; what form such a panel can take; the operation and functions of the panel; and the main task of the panel – that is, advising the authority in connection with the appointment of the local auditor

Better Care Fund

The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Healthcare Financial Management Association (HFMA) have issued a joint report examining the progress that has been made six months into the implementation of the government's £5.3bn Better Care Fund (BCF) arrangements. While the report points out that the fund has already begun to produce improved working relationships between NHS bodies and local public services, it highlights that more needs to be done to ensure the success of the BCF. The report is based on the results of a CIPFA and HFMA joint finance staff survey of NHS bodies and local authorities representing almost a third of BCF sites, and is available from the CIPFA website -

<http://www.cipfa.org/about-cipfa/press-office/latest-press-releases/better-care-fund-struggling-with-red-tape>.

Accounts - public rights of inspection and challenge

Local Government issues: National Audit Office

Council accounts: a guide to your rights

The NAO has published an updated version of Council accounts: a guide to your rights on its website. The guide has been updated to reflect the new requirements of the Local Audit and Accountability Act 2014, and applies to 2015-16 accounts. The document provides information on how people can ask questions and raise objections about the accounts of their local authority.

<https://www.nao.org.uk/code-audit-practice/council-accounts-a-guide-to-your-rights/>

Arrangements for the exercise of public rights:

The Accounts and Audit Regulations 2015 set out new arrangements for the exercise of public rights from 2015/16 onwards. A key implication of the Act is that the final approval of the statement of the accounts by an authority prior to publication cannot take place *until after the conclusion of the period for the exercise of public rights*. As the thirty working day period for the exercise of public rights must include the first ten working days of July, authorities will not be able to approve their audited accounts or publish before 15th July 2016.

Smaller authorities must also wait until the conclusion of the thirty working day period for the exercise of public rights before publishing their accounts and the auditor's report.

The Care Act and New Burdens

Local Government Issues: Public Accounts Committee Report

Further to the NAO reports on *Care Act first-phase reforms* and *Local government new burdens* both published in June 2015, and the hearing of the Public Accounts Committee (PAC) in October 2015 on the combined topics, the PAC has now published its report on the matter. The PAC report considers the additional cost burdens on, and uncertainty for, local councils. It also considers the government's ability to identify and respond to councils that are struggling.

Its main findings are as follows:

- following the decision to delay the second phase of the Care Act, there are concerns that people will have to pay more for their care for longer before the cap on care costs is implemented. However, as the government have announced that they will not claw back the £146m of funding that it provided to councils in 2015/16 to prepare for the second phase, local authorities will not have the financial burden that was anticipated
- The DCLG have failed to adequately identify and assess new burdens on local authorities and consider their impact, creating significant uncertainty for local authorities. Councils are faced with 'unfunded pressures' which are making it 'more difficult for them to meet their statutory duties and will increase pressure on council tax'
- The report calls for the Spending Review and annual finance settlements for local authorities to 'take full account of the many cost pressures local authorities face, whether or not they meet the government's definition of a new burden'. Funding must be monitored to ensure that vulnerable people do not lose out

The full report can be found at <http://www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/publications/>

Results of auditors' work 2014/15

Public Sector Audit Appointments

Following the closure of the Audit Commission on 31st March 2015, Public Sector Audit Appointments (PSAA) became responsible for appointing auditors to local Government bodies and for overseeing the delivery of consistent, high-quality and effective external audit services. The Audit Commission previously published Auditing the Accounts reports for Local Government bodies covering the 2012/13 and 2013/14 financial years. The reports summarised the results of the work of auditors appointed by the Commission at local bodies. This is the first such report published by PSAA, and it summarises the results of auditors' work at 509 principle bodies and 9,755 small bodies. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors utilised their statutory reporting powers.

The timeliness and quality of financial reporting for 2014/15 remained broadly consistent with the previous year for both principal and small bodies, according to Public Sector Audit Appointments Limited's *Report on the results of auditors' work 2014/15: Local government bodies*.

- for principal bodies, auditors at 345 of 356 councils (97 per cent) were able to issue the opinion on the accounts by the statutory accounts publication date of 30th September 2015.
- 97 per cent of police bodies and fire and rescue authorities also received the audit opinion by 30th September 2015.
- for the second year in a row there have been no qualified opinions issued to date to principal bodies.
- the number of qualified conclusions on value for money arrangements has remained consistent with the previous year at 4 per cent (17 councils, one police body and one fire and rescue authority).

IFRS 13 'Fair value measurement'

Accounting and audit issues

The 2015/16 Accounting Code applies IFRS 13 'Fair Value Measurement' for the first time. The standard sets out in a single framework for measuring fair value and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

There is no public sector adaptation to IFRS13 but the Treasury and therefore the Code has adapted IAS 16 Property, Plant and Equipment so that operational assets (providing service potential) are no longer held at fair value but current value. As such IFRS 13 does not apply to operational assets. This new definition of current value means that the measurement requirements for operational property, plant and equipment providing service potential have not changed from the prior year.

However, surplus assets will need to be measured under the new definition of fair value, reflecting the highest and best use from the market participant perspective.

Other areas affected by the new standard include investment property, available for sale financial assets and those items where fair values are disclosed - for example, long term loans and PFI liabilities. IFRS 13 also introduces extensive disclosure requirements.

Local authorities need to:

- identify/ review their classification of surplus assets and investment properties
- discuss IFRS 13 with their property valuers and treasury advisers to ensure that fair values provided are produced in line with the new standard
- update accounting policies and disclosures to reflect the new standard.

Progress at your Council

- The Finance team has already engaged with us regarding how it will undertake an exercise to review surplus assets and investment property categories to ensure what is included is correctly classified.
- Work will progress to bring in your internal valuer to ensure that he is aware of the fair value definitions under IFRS 13.
- We will review the accounting policies and disclosures in your accounts prior to the draft accounts being prepared to ensure that they have been updated to reflect the IFRS 13 requirements.

Highways Network Asset

Accounting and audit issues

CIPFA announced at the recent Local Government Accounting Conferences some key messages with regards to changes in accounting for the Highways Network Asset from 2016/17. These included:

- Transport Infrastructure Assets will now be referred to as single asset, the Highways Network Asset (HNA)
- this will be measured at Depreciated Replacement Cost (DRC) using the Modern Equivalent Asset (MEA) basis of valuation from 1 April 2016 and will be applied prospectively rather than requiring a full retrospective restatement
- the new requirements only apply to authorities with assets meeting the definition of a single HNA asset

CIPFA's expects that the transport infrastructure assets held by district councils/ non-highways authorities will be scoped out of the new requirements as assets are unlikely to form a single interconnected network. However, district councils will need to consider the nature of their transport infrastructure assets to assure themselves and evidence that their transport infrastructure assets are not part of an interconnected network.

The 2016/17 Accounting Code which will include further details on these announcements is expected to be published in Spring 2016. Grant Thornton has produced a short briefing on these announcements which is available from your Engagement Lead and Engagement Manager and will provide further briefings as further details become available.

Progress at your Council

- The Finance team is aware of the recent announcements and has started to engage in discussions about how to account for these changes.
- The Council has made progress in obtaining opening balances for assets of this nature. We will review these as part of our early testing.
- Work is on-going to obtain all the information to support full compliance in accounting for these assets.

Better Care Fund

Accounting and audit issues

The Better Care Fund was launched on 1 April 2015 to ‘...drive closer integration and improve outcomes for patients and service users and carers’. The intention was to set up the fund as a pooled budget with NHS organisations and local authorities contributing into a single pot that is used to commission or deliver health and social care services.

In practice, different Better Care Fund agreements have different and sometimes complex arrangements. As a result determining the correct accounting can be difficult and there is no one size fits all approach. NHS and local government partners need to agree on accounting for such arrangements to ensure that not only are there no material errors in their own accounts but also that there are no material errors on consolidation into Whole of Government Accounts.

NHS and local government partners therefore need to consider the specific terms of their agreements and considering where the control and risks lie in line with the definition of control in IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements. Individual authorities also need to consider whether they are acting as a principal or an agent. Judgement may be required, and may therefore need to be disclosed as a critical judgement in the accounts.

Although the local government timetable is moving forward, the NHS timetable is still significantly earlier so local authorities will need to include dates in their closedown plan to give NHS colleagues the information they need to prepare their accounts in good time for these deadlines.

Challenge question

- Has your Head of Finance, Governance and Assurance considered and agreed with partners the accounting requirements for the Better Care Fund and its treatment?

Unlodged non-domestic rate appeals

Accounting and audit issues

Last year, there were primarily no provisions for unlodged non-domestic rates appeals as appeals received on or after 1 April 2015 were only backdated to 1 April 2015. The effect of last years announcement was supposed to put authorities in the position as if the revaluation had been done in 2015 as initially intended before the extension to 2017. This was only a one year reprieve and so any unlodged appeals at 31 March 2016 will only be backdated to 1 April 2015 and therefore may not be material.

However, this year, local authorities will need to estimate a provision for unlodged appeals but as above it may not be material.

Under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and the Code it is in only extremely rare cases that a reliable estimate cannot be made. Therefore, if your local authority does have such an instance, the rationale needs backing up: both in terms of disclosures (as a contingent liability) and in providing evidence to those charged with governance as to why a reliable estimate for the provision cannot be made.

Challenge question

- Has your Head of Finance, Governance and Assurance made plans to assess the need for an unlodged non-domestic rates appeal provision?

Website re-launch

Grant Thornton

We have recently launched our new-look website. Our new homepage has been optimised for viewing across mobile devices, reflecting the increasing trend for how people choose to access information online. We wanted to make it easier to learn about us and the services we offer.

You can access the page using the link below - <http://www.grantthornton.co.uk/en/insights/?tag=local-gov&q=sustainable+communities>

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Future events

Grant Thornton

Accounting for pooled budgets – including the Better Care Fund

On the 7th March 2016 we will be running a half day seminar on accounting for pooled budgets in our Birmingham offices. The free event is aimed at both NHS and Council practitioners and will cover:

- The application of IFRS10,11,12 and the requirements of the Manual for Accounts
- Working with other members of the Better Care Fund (BCF)
- Getting it right for agreement of balances
- Working with your auditors

We will also cover governance and regularity arrangements insofar as they relate to the accounting for pooled budgets, including the BCF.

For further information, contact your audit manager or book your place with Nita Hollett:

Email: nita.hollett@uk.gt.com

Telephone: 0121 232 5383

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Grant Thornton

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James Walton
Head of Financial, Governance & Assurance (Section 151 Officer)
Shropshire Council
Shirehall
Abbey Foregate
Shrewsbury
Shropshire
SY2 6ND

Grant Thornton UK LLP
Colmore Plaza
20 Colmore Circus
Birmingham B4 6AT
T +44 (0)121 212 4000
F +44 (0)121 212 4014
DX 13174 Birmingham
grantthornton.co.uk

12 January 2016

Dear James

Certification work for Shropshire Council for year ended 31 March 2015

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

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) have taken on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015

The total amount Certified for HB COUNT is £70.3m. In addition to the housing benefit subsidy claim we have certified two claims and returns for the financial year 2014/15 with a total value of £15.0 million. Further details of the claims certified are set out in Appendix A.

Issues arising from our certification work which we wish to highlight for your attention are set out in the comments of Appendix A. We are satisfied that the Council has appropriate arrangements to compile complete, accurate and timely claims/returns for audit certification.

The indicative fee for 2014/15 for the Council is based on the final 2012/13 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Fees for schemes no longer requiring certification under the Audit Commission regime (such as the national non-domestic rates return, teachers pensions return and pooling housing capital receipts return) have been removed. The indicative scale fee set by the Audit Commission for the Council for 2014/15 is £15,340. In addition, certification of grant claims outside of the audit commission regime, for which assurance is still required has been commissioned directly by the council, The fees charged for the two claims totals £6,975. Fees and the claims certified are set out in more detail in Appendix B.

Yours sincerely

For Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2014/15

Claim or return	Value	Amended?	Amendment (£)	Qualified?	Comments
Housing benefits subsidy claim	£70,268,236	Yes	£74	Yes	Qualification Letter appended setting out basis of qualification, see appendix C.
Pooling of Housing Capital Receipts	£1,622,005	No	N/A	No	No issues noted
Teachers Pensions	£13,345,141	No	N/A	No	We identified trivial differences between raw payroll data and the amounts within the EOYCa form. These differences do not materially impact on the assurance provided. We have recommended that future working papers should ensure consistency of format and increase the clarity of the notes to ensure that these trivial differences are not present for 2015/16.

Appendix B: Fees for 2014/15 certification work

Claim or return	2012/13 fee (£)	2013/14 fee (£)	2014/15 actual fee (£)	Variance (£) (2013/14 to 2014/15)	Explanation for variances
Housing benefits subsidy claim (BEN01)	£17,933	£18,593	£15,340	£(3,253)	
Teacher's Pensions	£5,877	£4,200	£4,200	£nil	
Pooling of housing capital receipts	£1,460	£807	£2,775	£1,968	Part A & B Testing required
Total	£25,270	£23,600	£22,315	£(1,285)	

Appendix C: Housing Benefits Qualification letter

Our Ref: GT/Shropshire/2014-15/BEN01
Your Ref: MPF720A

Department for Work and Pensions
Housing Benefit Unit
Room B120D
Warbreck House
Blackpool
Lancashire
FY2 0UZ

30th November 2015

Dear Sir / Madam

Shropshire Council
Housing benefit subsidy claim for the year ended 31 March 2015
(Form MPF720A)
Qualification Letter referred to in the Auditor's Certificate dated 27
November 2015

Details of the matters giving rise to our qualification of the above claim are set out in the Appendix to this letter.

The factual content of our qualification has been agreed with officers of the Council.

My qualification refers you to the Authority's letter to you dated 25th November 2015

No amendments have been made to the claim for the issues raised in this qualification letter.

Yours faithfully

For Grant Thornton UK LLP

Cell 011 – Rent Rebates (Tenants of Non-HRA Properties) - Total expenditure (Benefit granted)

Cell Total: £835,572

Cell Population: 317 cases

Headline Cell: £835,572

Testing of the initial sample identified the following issue:

- 2 cases where a misclassification occurred due to the system using the Shared room rate to calculate the split between Cell 014 and 015, Northgate automatically uses this rate, and in these cases the authority should properly have calculated the split using a higher room rate, but had not applied a manual adjustment to override the default room rate. As Cell 015 attracts the lowest subsidy rate, this error could not result in the council claiming subsidy to which it was not entitled, as this error will always create a misclassification whereby Cell 014 is understated and Cell 015 is overstated.

The impact of these errors are that Cell 014 is understated by £2,207 and Cell 015 is overstated by £2,207. There is no impact on the headline cell.

The Council considers that it would not be cost effective to assess the extent of the under claim of subsidy, and as this error can only result in the amount of subsidy being under claimed (by over stating Cell 015 and understating Cell 014), the council considers that it is more cost effective for them to accept that they will not receive full benefit. This has been referred to in the letter from the Authority to the DWP dated 25th November 2015 and included with this QL.

We have not identified similar errors in previous years.

Cell 055 – Rent Rebates (Tenants of HRA Properties) - Total expenditure (Benefit granted)

Cell Total: £10,143,337

Cell Total £1,168,961 – sub population (Tax Credits)

Cell Population: 3063 cases

Cell Population: 453 cases – sub population (Tax Credits)

Headline Cell: £10,143,337

Testing of the initial sample identified:

- 1 Case where benefit had been overpaid as a result of the council incorrectly inputting Tax Credits in the assessment of benefit entitlement, total overpayment was £9, in this case cell 061 is overstated and cell 065 is understated, there is no effect on Cell 055
- 1 Case where benefit had been underpaid as a result of the council incorrectly inputting Tax Credits in the assessment of benefit entitlement, total underpayment was £1. As there is no eligibility to subsidy for benefit which has not been paid, the underpayment (or nil impact) identified does not affect subsidy and has not, therefore, been classified as an error for subsidy purposes

In agreement with the Council an additional sample of 40 cell 055 cases was selected for testing from the subpopulation of 055 for which claimants were in receipt of tax credits. This additional testing identified:

- 1 case where the Council had used the wrong amount of Child tax credit and Working tax credit in assessing claimant entitlement creating an overpayment of £509. This has been

included in the extrapolation below. As a result of this error Cell 061 is overstated by £509 and Cell 065 is understated by £509, the headline cell is not affected.

- 2 cases where the Council had used the wrong amount of Child tax credit and Working tax credit in assessing claimant entitlement creating an underpayment of £216. As there is no eligibility to subsidy for benefit which has not been paid, the underpayment (or nil impact) identified does not affect and has not, therefore, been classified as errors for subsidy purposes.

The results of our testing is out in the table below:

Sample	Movement / brief note of error:	Original cell total: sub population (Claims with Tax Credit)	Sample error:	Sample value:	Percentage error rate (to two decimal places):	Cell adjustment:
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV times CT]
Initial sample – 5 cases	Incorrect Tax Credits	£1,168,961	(£9)	£12,367		
Additional sample - 40 cases	Incorrect Tax Credits	£1,168,961	(£509)	£105,516		
Combined sample 45 cases	Combined – Incorrect Tax Credits	£1,168,961	(£518)	£117,883	(0.44%)	(£5,143)
Adjustment	Combined sample - Cell 061 is overstated	£1,168,961	(£518)	£117,883	(0.44%)	(£5,143)
Total Corresponding adjustment	Total understatement of Cell 065					(£5,143)

The percentage error rate in our sample reflects the individual cases selected. Errors ranged between £9 and £509, The benefit period of the errors was between 6 and 7 weeks.

Given the nature of the population and the variation in the error found, it is unlikely that even significant additional work will result in amendments to the claim form that will allow us to conclude that it is fairly stated.

We have not identified similar errors in previous years.

Cell 094 Rent Allowances – Total expenditure (Benefit granted)

Cell Total: £59,696,499

Cell Total £13,189,199 – sub population (Earnings)

Cell Population: 17,084 cases

Cell Population: 4,853 cases – sub population (Earnings)

Headline Cell: £59,696,499

Two issues were identified and reported in the 2013/14 qualification letter, affecting this cell on the claim. Incorrect earning from employment, and incorrect Rent used in the calculation of benefit entitlement Testing of the initial sample did not identify any errors of this kind

Given the nature of the population and the errors found in the prior year, a sample of 40 cases from cell 094 where the assessment of benefit entitlement included earnings from

employment was selected for testing from the subpopulation of earnings cases (worth a total of £94,397). This additional testing identified:

- 4 cases where the Council had incorrectly input earnings resulting in an underpayment totalling £178. As there is no eligibility to subsidy for benefit which has not been paid, the underpayment (or nil impact) identified does not affect subsidy and has not, therefore, been classified as errors for subsidy purposes.
- 2 cases where the Council had incorrectly input earnings resulting in an overpayment totalling £101. This is has been included in the extrapolation below. As a result of this error Cell 102 is overstated by £1, Cell 103 is overstated by £100 and Cell 113 is understated by £101, the headline cell is not affected.

No cases were identified in either the initial sample or the 40+ sample, for which the incorrect rent had been used.

The results of our testing is out in the table below:

Sample	Movement / brief note of error:	Original cell total: sub population (claims with earning)	Sample error:	Sample value:	Percentage error rate (to two decimal places):	Cell adjustment:
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV times CT]
Initial sample – 3 cases	Incorrect Income Calculation	£13,189,199	(£nil)	£6,856		
CAKE sample – 40 cases	Incorrect Income Calculation	£13,189,199	(£101)	£94,397		
Combined sample - 43 cases	Combined – Incorrect Income Calculation	£13,189,199	(£101)	£101,253	(0.11%)	(£14,508)
Adjustment:	Combined sample – Cell 102 is overstated	£13,189,199	(£1)	£101,253	(0.01%)	(£132)
	Combined sample – Cell 103 is overstated	£13,189,199	(£100)	£101,253	(0.10%)	(£14,376)
Total corresponding adjustment	Total understatement of Cell 113					(£14,508)

The percentage error rate in our sample reflects the individual cases selected. The value of the errors found ranged from £1 to £100 and the benefit periods from 9 to 31 weeks. Similar errors were reported in my qualification letter in the previous year.

Given the nature of the population and the variation in the error found, it is unlikely that even significant additional work will result in amendments to the claim form that will allow us to conclude that it is fairly stated.

Similar findings have been included in our qualification letters for the last 2 years.

Cell 094 Rent Allowances – Total expenditure (Benefit granted)

Cell Total: £59,696,499

Cell Total £2,679,509 – sub population (Occupational Pension)

Cell Population: 17,084 cases

Cell Population: 990 cases – sub population (Occupational Pension)

Headline Cell: £59,696,499

Testing of the initial sample identified

- One Case where the Council had incorrectly input occupational pension of the Claimant resulting in an overpayment of £4, this has been included in the extrapolation below. As a result of this error cell 102 is overstated by £4 and Cell 113 is understated by £4, Cell 094 is not affected.
- For the same case as the above, for a different period, the council has incorrectly input the claimant's occupational pension resulting in an underpayment of £7 As there is no eligibility to subsidy for benefit which has not been paid, the underpayment (or nil impact) identified does not affect subsidy and has not, therefore, been classified as an error for subsidy purposes.

In agreement with the Council an additional sample of 40 cell 094 cases was selected for testing (total value £106,003) from the subpopulation of 094 for which claimants were in receipt of occupational pensions. This additional testing identified:

- Three cases where the Council had incorrectly input occupational pension of the Claimant resulting in overpayments totalling £42, these have been included in the extrapolation below. As a result of this error cell 102 is overstated by £12, cell 103 is overstated by £30 and cell 113 is understated by £42, the headline cell is not affected.
- Five cases where the Council had incorrectly input occupational pension of the Claimant resulting in underpayments totalling £975. As there is no eligibility to subsidy for benefit which has not been paid, the underpayment (or nil impact) identified does not affect and has not, therefore, been classified as errors for subsidy purposes.

The results of our testing is out in the table below:

Sample	Movement / brief note of error:	Original cell total: sub population (claims with Occupational Pension)	Sample error:	Sample value:	Percentage error rate (to two decimal places):	Cell adjustment:
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV times CT]
Initial sample – 1 case	Incorrect Occupational pension cell 094	£2,679,509	(£4)	£6,272		
CAKE sample – 40 cases	Incorrect Occupational pension cell 094	£2,679,509	(£42)	£106,003		

Combined sample - 41 cases	Incorrect Occupational pension cell 094	£2,679,509	(£46)	£112,275	(0.04%)	(£1,072)
Corresponding adjustment:	Combined sample – Cell 102 is overstated	£2,679,509	(£16)	£112,275	(0.01%)	(£268)
	Combined sample – Cell 103 is overstated	£2,679,509	(£30)	£112,275	(0.03%)	(£804)
Total corresponding adjustment	Total understatement of Cell 113					(£1,072)

The percentage error rate in our sample reflects the individual cases selected. The value of the errors found ranged from £4 to £30 and the benefit periods from 4 to 44 weeks. This is the first year that these errors have been reported within my qualification letter.

Given the nature of the population and the variation in the error found, it is unlikely that even significant additional work will result in amendments to the claim form that will allow us to conclude that it is fairly stated.

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Reporting on progress against recommendations from 2014/15 for Shropshire Council

Year ended 31 March 2016

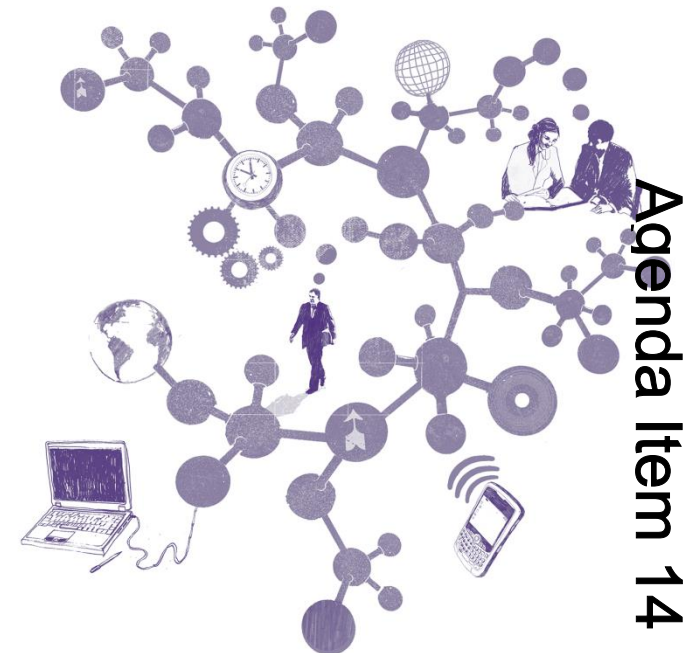
February 2016

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Mark Stocks
Director
T 0121 232 5437
E mark.c.stocks@uk.gt.com

Emily Mayne
Engagement Manager
T 0121 232 5309
E emily.j.mayne@uk.gt.com

Kieran Armitage
Executive
T 0121 232 5422
E kieran.armitage@uk.gt.com



Reporting on progress against recommendations from 2014/15

Our Audit Findings Report in 2014/15 raised a number of recommendations which we have set out in Appendix 1. As part of our initial planning in 2015/16 we enquire as to progress against these recommendations. As agreed with Audit Committee, we will report progress back to you.

Where actions have only recently been implemented, or where we already plan to revisit an area as part of our wider audit, we will obtain evidence in the most efficient way which may require further reporting to Audit Committee. We will cover this as part of our regular update reports.

Conclusion

All recommendations have been progressed.

- 2 IT recommendations have been fully implemented
- 2 IT recommendations have been delayed and revised dates agreed. These specific recommendations relate to IT security policies and disaster recovery. We consider that it is reasonable that these recommendations are picked up as part of the wider work being undertaken by the Council.
- 2 recommendations are due to be implemented in April 2016 and will be followed up as part of our on site work after this date.

Appendix A: Action plan

Priority

High – required prior to the opinion being signed, risk of significant misstatement

Medium – risk of inconsequential misstatement going forward

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
Page 159	1. Management should establish a formal documented process for reviewing user access rights to ensure that only authorised staff have access to the network, and the levels of access granted is appropriate for their roles and responsibilities.	Medium	<p>The ICT security team have a rights audit schedule that captures the various areas of audit that are undertaken. This is organised and carried out with evidence of the completion of activity. Any exception requiring escalation is reported.</p> <p>The security rights calendar is detailed with the activity to be carried out, when, and reporting lines plus other information.</p> <p>Outstanding element – A formal documented process will be written to ensure that this structure activity is identified and followed.</p>	February 2016 I&S Team Leader, Security Specialist
	2. ICT should send out user access rights to line managers to determine if the user access is still relevant and adequate.	Medium	<p>ICT is able produce a report on who is able to access a particular file or folder upon request of the data owner, so they can then determine if staff have access they no longer require. We also disable AD accounts if they have not been used in over 2 months, and are working with HR to determine if we have any disabled accounts which can be deleted as staff leave.</p> <p>It is the responsibility of managers in the council to follow the procedures we have in place for when staff leave or move departments.</p>	Complete
	3. Management should put controls in place in relation to IT hardware for back up and replication of systems, specifically enhancement to air conditioning and fire suppression for servers as a matter of urgency.	Medium	<p>The BMS system in Shirehall has recently been repaired to meet required DR compliance. The fire suppression and air conditioning systems in Shirehall have regular maintenance performed on them to ensure they meet requirements and a faulty air conditioning unit was recently replaced in the Shirehall comms room. The recent relocation of our DR site from Wem to Nuneaton has remediated the environmental concerns raised in the ICT Audit. The Nuneaton site is fully climate controlled and has effective access security, air conditioning and fire suppression systems in place.</p>	Complete

Appendix A: Action plan

Priority

High – required prior to the opinion being signed, risk of significant misstatement

Medium – risk of inconsequential misstatement going forward

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
4.	Management should strengthen ICT resilience during a major event in relation to business continuity and disaster recovery to reduce the risk that access to and functionality of significant data could be considerably compromised.	High	The relocation of the DR equipment to the new offices in Nuneaton has increased the resilience position of the council as it has remediated the environmental concerns relating to our previous DR site. A programme of work in being planned by an appointed Project Manager for BC & DR, this plan will include reviewing documentation and actively testing the plan to ensure that adequate controls and procedures are in place to ensure that access to those systems or data can be recovered in a timely manner. The Data Centre at Nuneaton also has a secondary Internet connection that is currently being commissioned and it is anticipated that services relying on an Internet link will have additional resilience by April 2016.	April 2016 I&S Team Leader
5.	The Council should review the parameters within the reporting package of Northgate to ensure that they are set up correctly and support the Council in its drive for efficiencies and the compiling of the Housing Benefit Subsidy claim.	Medium	The Northgate package cannot be changed for this amendment. However the Benefits Team are attending a Grant Thornton event in April on the Benefit claim process, and therefore will discuss alternative methods of addressing the concern raised with the auditors at this event.	April 2016 Revenue and Benefits Service Manager
6.	The Council should review the process by which declarations of interest are made to ensure 100% compliance without taking a disproportionate amount of officer time.	Medium	The Council continues to look for ways to streamline the related party declarations for members to encourage 100% compliance and disclosure. Members will be specifically reminded of the importance of declaring interests during the 2015/16 account process.	April 2016 Principal Accountant (revenue)

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The Audit Plan for Shropshire Council

Year ending 31 March 2016

February 2016

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Mark Stocks

Engagement Lead

T 0121 232 5437

E mark.c.stocks@uk.gt.com

Emily Mayne

Audit Manager

T 0121 232 5309

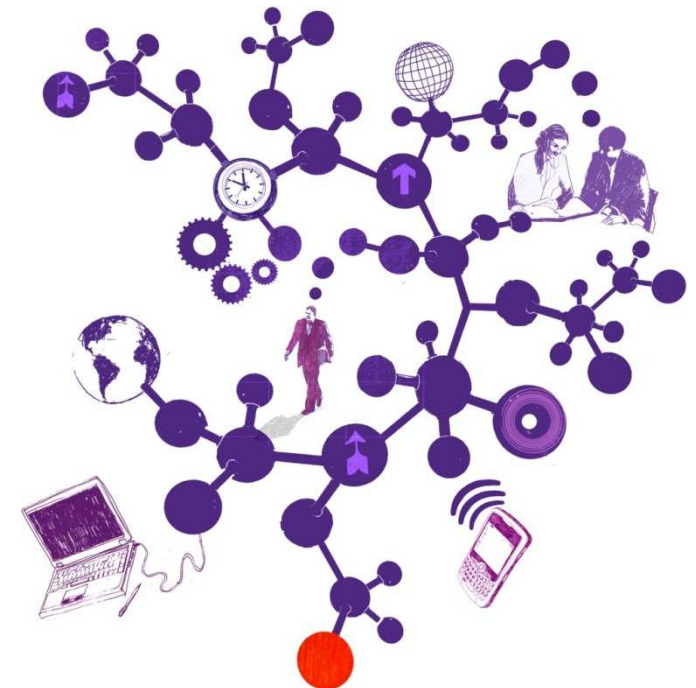
E emily.j.mayne@uk.gt.com

Kieran Armitage

Executive

T 0121 232 5422

E kieran.armitage@uk.gt.com



Agenda Item 15



Shropshire Council
Shirehall
Abbey Foregate
Shrewsbury
Shropshire
SY2 6ND
February 2016

Grant Thornton UK LLP
Colmore Plaza
20 Colmore Circus
Birmingham
B4 6AT

www.grant-thornton.co.uk

Dear Members of the Audit Committee

Audit Plan for Shropshire Council for the year ending 31 March 2016

This Audit Plan sets out for the benefit of those charged with governance (in the case of Shropshire Council, the Audit Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Yours sincerely

Mark Stocks

Engagement Lead

Chartered Accountants

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

Understanding your business

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

Challenges/opportunities

1. Finances – The Provisional Local Government Settlement

- The Chancellor proposed that local government would have greater control over its finances, although this was accompanied by a 24% reduction in central government funding to local government over 5 years.
- Despite the increased ownership, the financial health of the sector is likely to become increasingly challenging.
- There is a front-loading of reductions greater than that initially anticipated for Shropshire Council. The implications of this on service delivery going forward are significant.

2. Financial planning / strategy

- The recent financial settlement has created significant pressure on service delivery in future years.
- Despite raising Council Tax to 3.99% there is a recurring shortfall within the current budget proposals which sees the 'gap' grow to £49.7 million by 2020/21. This is in addition to a significant savings programme.
- The greatest pressures are in Adult and Children's social care.
- The Council is developing proposals on how to close this funding gap.

3. Housing

- The Autumn Statement included a number of announcements intended to increase the availability and affordability of housing.
- The reduction in council housing rents and changes to right to buy will have a significant impact on Councils' housing revenue account business plans.

4. Collaboration and commercialisation

- The level of Council services delivered through partnerships, joint ventures or commissioned from a subsidiary company will increase.
- There is uncertainty around how rural unitary Councils can maximise the benefits from devolution arrangements.
- Councils are involved in a number of pooled budgets and alternative delivery models which they need to account for in their financial statements.
- Setting up or entering into commercial arrangements requires strong governance and reporting arrangements.

5. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year.
- Complex financial reporting arrangements for partnerships will be harder in shorter timescales, so the LEP and Better Care Fund will require discussions with other parties to ensure reporting is not materially misstated.

Our response

- We will consider the Council's plans for addressing its financial position as part of our work to reach our VFM conclusion.
- We will monitor the delivery of your financial position throughout the year and ensure that reporting is clear to Members.

- We will consider your financial strategy and the reasonableness of assumptions going forward as part of our work in reaching our VFM conclusion.
- We will consider the adequacy of reporting to Members to ensure that the financial position of the Council is clear for those making key decisions.
- We will review the monitoring of plans to close funding gaps and how these are risk assessed and reported to Members.

- We will consider how the Council has reflected government announcements as part of its business planning process.
- We will share our knowledge of how other Councils are responding to these changes.

- We will review the decision making arrangements for delivering services with partners as part of our work in reaching our VFM conclusion.
- We will consider your plans as part of the local devolution agenda and provide support and challenge to your plans based on our knowledge of devolution elsewhere in the country.
- We will review your proposals for accounting for arrangements against the requirements of the CIPFA Code of Practice.
- We will review how your plans for the University Centre fit within the wider strategic vision for Shropshire.

- We will work with you to identify areas of your accounts production where you can learn from good practice in other authorities.
- We aim to complete all substantive work in our audit of your financial statements by 31 August 2016 to provide a transition to the earlier deadline.
- We are again proposing a series of meetings to discuss technical issues and changes in accounting requirements to ensure that there is clarity of expectations on both sides.

Developments and other requirements relevant to your audit

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

Developments and other requirements

1. Fair value accounting

- A new accounting standard on fair value (IFRS 13) has been adopted and applies for the first time in 2015/16.
- This will have a particular impact on the valuation of surplus assets within property, plant and equipment which are now required to be valued at fair value in line with IFRS 13 rather than the existing use value of the asset.
- Investment property assets are required to be carried at fair value as in previous years.
- There are a number of additional disclosure requirements of IFRS 13.

2. Corporate governance

- The Accounts and Audit Regulations 2015 require local authorities to produce a Narrative Statement, which reports on your financial performance and use of resources in the year, and replaces the explanatory foreword.
- You are required to produce an Annual Governance Statement (AGS) as part of your financial statements.
- Reporting arrangements for between the Council and any partnership, subsidiaries or joint ventures should be sufficient to provide assurance.

3. Highways Network Assets

- Although you are not required to include Highways Network Assets until 2016/17, this will be a significant change to your financial statements and you will need to carry out valuation work this year.

4. Integration with health sector

- Developments such as the increased scope of the Better Care Fund and transfer of responsibility for public health to local government are intended to increase integration between health and social care.
- Councils are seeing significant cost pressures in Adult Social Care in particular as a result of increased demand for services, health funding reductions, hospital discharge behaviour, people with increasingly complex needs and living longer, fragmented families and reductions in personal wealth.

5. IT Infrastructure

- The Council has identified that its IT infrastructure requires significant investment and the strategy should be refreshed to align with the overall vision.
- Being clear about that the Council will require in relation to IT infrastructure going forward is being determined.
- The Council is balancing the investment required with the financial challenges it faces in statutory services.

Our response

- We will keep the Council informed of changes to the financial reporting requirements for 2015/16 through ongoing discussions and invitations to our technical update workshops.
- We will discuss this with you at an early stage, including reviewing the basis of valuation of your surplus assets and investment property assets to ensure they are valued on the correct basis.
- We will review your draft financial statements to ensure you have complied with the disclosure requirements of IFRS 13.

- We will review your Narrative Statement to ensure it reflects the requirements of the CIPFA Code of Practice when this is updated, and make recommendations for improvement.
- We will review your arrangements for producing the AGS and consider whether it is consistent with our knowledge of the Council and the requirements of CIPFA guidance.
- We will consider the reporting arrangements between yourself and any partnership arrangements and report on any areas for improvement.

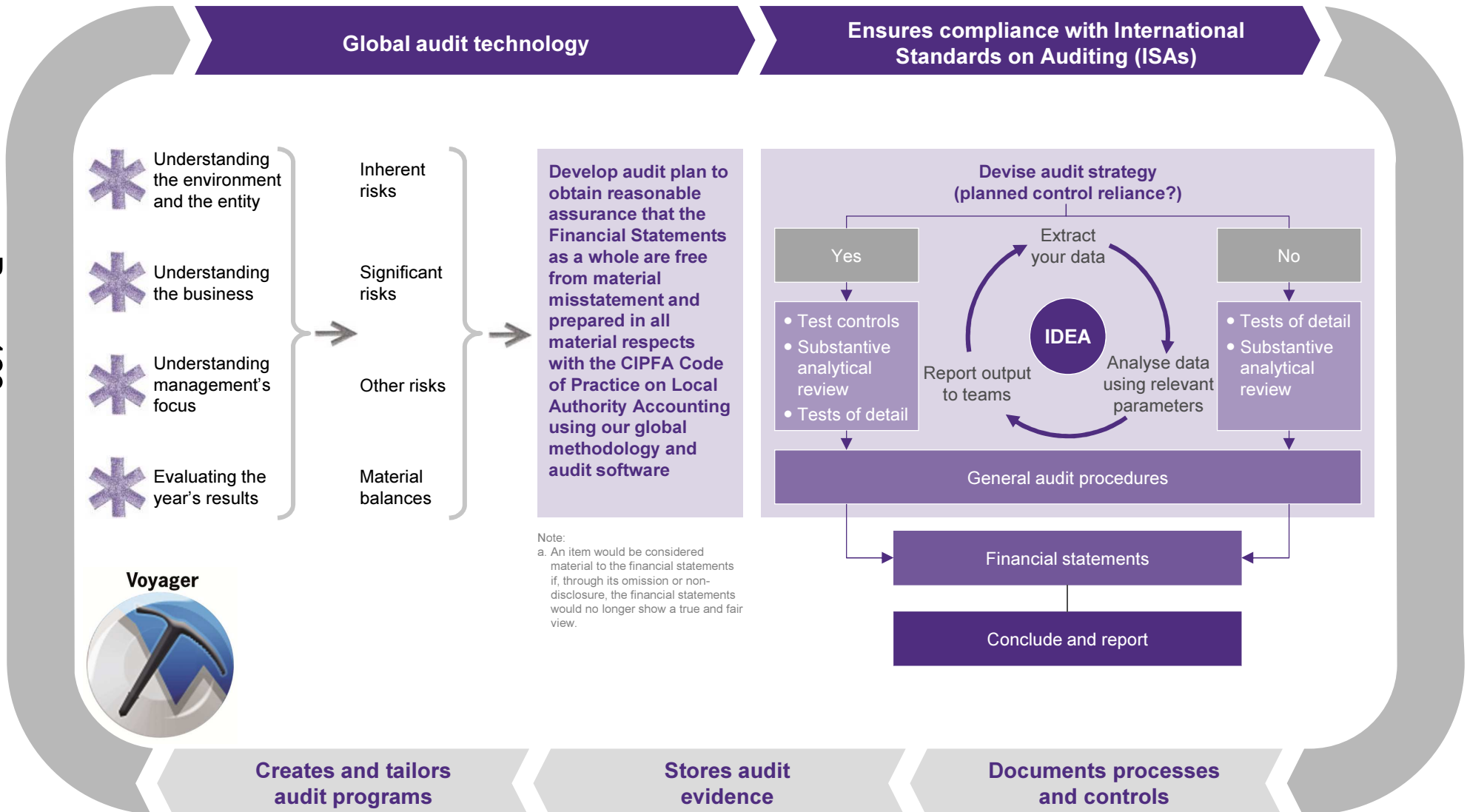
- We will discuss your plans for valuation of these assets at an early stage to gain an understanding of your approach and suggest areas for improvement.

- We will consider how the Council has reflected changes to its responsibilities in relation to public health and how it is working with partners, as part of our work in reaching our VFM conclusion.
- We will review the strategies to manage cost pressures in Adult Social Care and how this is being communicated to partners in the local area.
- We will also consider how the financial saving plans for Adult Social Care fit with the service delivery and whether savings are appropriately risk assessed.

- We will review the Council's strategy for IT infrastructure once developed.
- We will assess the strategy to identify whether it is in line with other strategies around services delivery and financial plans.

Our audit approach

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Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £9,810k (being 1.75% of gross revenue expenditure) We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £490k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have identified the following items where separate materiality levels are appropriate.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	Any errors identified by testing in excess of £10,000 would be deemed to have implications on the users understanding of the financial statements
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	Any errors identified by testing would be deemed to have implications on the users understanding of the financial statements
Related party transactions	Related party transactions have to be disclosed if they are material to the Council or to the related party	Any errors identified by testing will be assessed individually, with due regard given to the nature of the error and its potential impact on users of the financial statements. We are unable to quantify a materiality level as the concept of related party transactions takes in to account what is material to both the Council and the related party.

Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315). In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below :

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Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Shropshire Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Shropshire Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	<p>Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>Work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions
Valuation of property, plant and equipment	<p>In the prior year we identified that the council had used indexation to revalue its housing stock, which is not in line with the code of practice.</p> <p>This led to an estimation uncertainty of £8,707k, which was below materiality and so the decision was taken not to correct this in the prior year accounts.</p> <p>There is a risk that the council will not appropriately value assets in 15/16 giving rise to a material uncertainty</p>	<p>Work planned:</p> <ul style="list-style-type: none"> • Review of management's processes and assumptions for the calculation of the estimate. • Review of the competence, expertise and objectivity of any management experts used. • Review of the instructions issued to valuation experts and the scope of their work • Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions. • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register • Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

Other risks identified

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

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

Other risks	Description	Audit approach
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p>Work planned:</p> <ul style="list-style-type: none"> Document the processes and controls in place around accounting for operating expenses Undertake walkthrough tests to confirm the operation of the controls Test the control account reconciliations Search for unrecorded liabilities by testing whether the cut-off of post year end payments is appropriate Verify creditors to supporting documentation and subsequent payments to ensure that creditors are correctly classified and recorded in the correct period
Employee remuneration	Employee remuneration and benefit obligations and expenses understated	<p>Work planned:</p> <ul style="list-style-type: none"> Document the processes and controls in place around accounting for employee remuneration Undertake walkthrough tests to confirm the operation of the controls Agree staff costs per the financial statements to the General Ledger and the payroll system Undertake monthly trend analysis to gain assurance that there have been no significant omissions from staff costs recorded
Housing benefit expenditures	Welfare benefit expenditure improperly computed	<p>Work planned:</p> <ul style="list-style-type: none"> Document the processes and controls in place around accounting for welfare benefits Undertake walkthrough tests to confirm the operation of the controls Undertake a reconciliation of expenditure to welfare benefits system Undertake a reconciliation of welfare benefit income to grant claim and cash received Undertake Initial testing in accordance with the methodology required to certify the housing benefit subsidy claim including, <ul style="list-style-type: none"> housing benefit discovery testing housing benefit analytical review uprating model software tool

Other risks identified (continued)

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous section but will include:

- Assets held for sale
- Investments (long term and short term)
- Cash and cash equivalents
- Borrowing and other liabilities (long term and short term)
- Provisions
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Schools balances and transactions
- Segmental reporting note
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Housing Revenue Account and associated notes
- Collection Fund and associated notes

Other audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA / SO LACE guidance and consistent with our knowledge of the Council.
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on consolidation schedules for the whole of Government Accounts process in accordance with NAO instructions to auditors.
- We will give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts

Group audit scope and risk assessment

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

Component	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
West Mercia Energy	No	<ul style="list-style-type: none"> Analytical 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> Desktop review performed by Grant Thornton
Shropshire Towns and Rural Housing (STaRH)	No	<ul style="list-style-type: none"> Analytical 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> Desktop review performed by Grant Thornton
ip&e Ltd	Yes	<ul style="list-style-type: none"> Audit of component financial information 	<ul style="list-style-type: none"> Risk of material misstatement due to errors in ip&e Ltd accounts or consolidation errors 	<ul style="list-style-type: none"> We will write to the auditors of ip&e Ltd to obtain assurance over their accounts We will consider the need to perform additional tests to obtain sufficient assurance.

Value for Money

Background

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

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

This is supported by three sub-criteria as set out across:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> Acting in the public interest, through demonstrating and applying the principles and values of good governance Understanding and using appropriate cost and performance information to support informed decision making and performance management Reliable and timely financial reporting that supports the delivery of strategic priorities Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	<ul style="list-style-type: none"> Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions Managing assets effectively to support the delivery of strategic priorities Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none"> Working with third parties effectively to deliver strategic priorities Commissioning services effectively to support the delivery of strategic priorities Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for Money (continued)

Risk assessment

We shall carry out an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we will consider:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VFM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies, including the Care Quality Commission, Ofsted and any outputs from the recent LGA review.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

Following the completion of this risk assessment, we will issue a separate planning document setting out our planned work for 2015/16 to meet our duties in respect of the VFM conclusion. This will include any significant risks identified, along with details of the work we plan to carry out to address these risks.

Reporting

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

We will include our conclusion as part of our report on your financial statements which we will give by 30 September 2016.

Key dates



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Date	Activity
January 2016	Planning
February / March 2016	Interim site visit for accounting and housing benefits certification planning
February 2016	Presentation of audit plan to Audit Committee
June / July 2016	Year end fieldwork and progression of housing benefits certification work
July / August 2016	Audit findings clearance meeting with Chief Finance Officer
September 2016	Report audit findings to those charged with governance (Audit Committee)
September 2016	Sign financial statements opinion
September 2016	Submission of the consolidated schedules for Whole of Government Accounts
September / October 2016	Housing benefit certification work completed
November 2016	Annual Audit Letter

Fees and independence

Fees

	£
Council audit	133,845
Grant certification	13,945
Total audit fees (excluding VAT)	147,790

Our fee assumptions include:

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

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Service	Fees £
Audit related services:	
• Audit of West Mercia Energy (Fee being equally split between Shropshire, Herefordshire and Worcestershire)	9,824
• Grant work outside the PSAA regime – to be confirmed	TBC
Non-audit services	TBC

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter

Independence and ethics

We confirm that there are no significant facts or matters that in fact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

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

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

- An employee of Grant Thornton UK LLP is now a Parish Councillor in Shropshire with effect from October 2013. This employee will not be involved in the audit, grant certification work or any non-audit services work that is carried out.

Communication of audit matters with those charged with governance

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

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

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

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

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

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



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Informing the audit risk assessment for Shropshire Council

Year ended 31 March 2016

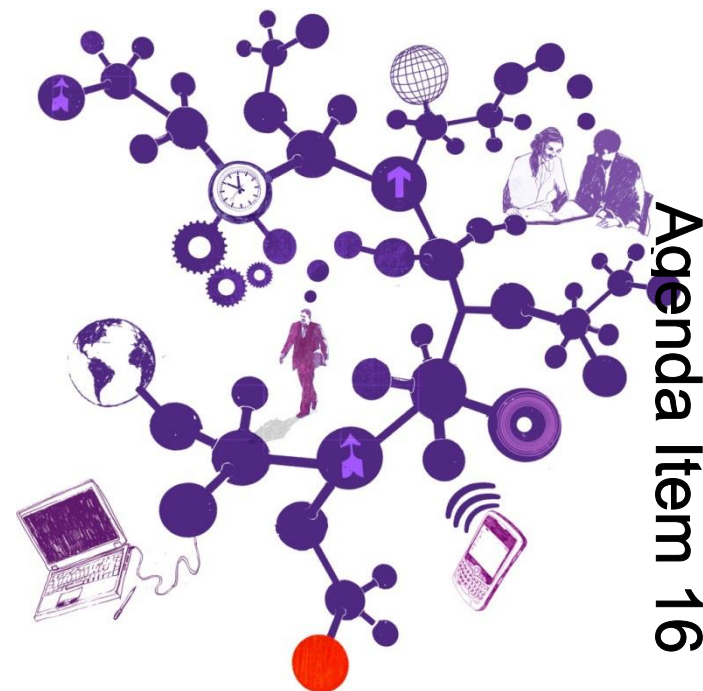
February 2016

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Mark Stocks
Director
T 0121 232 5437
E mark.c.stocks@uk.gt.com

Emily Mayne
Manager
T 0121 232 5309
E emily.j.mayne@uk.gt.com

Kieran Armitage
Executive
T 0121 232 5422
E kieran.armitage@uk.gt.com



Agenda Item 16

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

Purpose

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

Background

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

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

Communication

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

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

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

Fraud

Issue

Matters in relation to fraud

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

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

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

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

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

Fraud risk assessment

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

Fraud risk assessment

Question	Management response
Are there any areas where there is a potential for misreporting override of controls or inappropriate influence over the financial reporting process?	No, as detailed above, there are compensatory controls in place to flag any overrides of controls.
How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud? What arrangements are in place to report fraud issues and risks to the Audit Committee?	The Internal Audit Risk Based Plan is approved by Audit Committee before commencement each year. Internal Audit complete a robust review of internal controls on a risk basis and reports regularly to Audit Committee. Audit Committee are informed of the audit opinions and seek management reassurance on the improvement of controls where the consequences are considered high risk. At each meeting, Audit Committee members receive an update on instances of actual, suspected or alleged fraud investigations that have occurred since the last meeting and their outcomes.
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	The Council shares the whistleblowing policy with the public and all contractors. The terms and conditions within Council contracts also include ethical considerations for contractors and suppliers. The vision and values for the Council identify the need for staff to act with integrity in all the undertakings we make and this is tested and reviewed via team meetings and engagement surveys undertaken across the whole organisation.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	Staff are encouraged to report their concerns about fraud as set out in the Speaking up about wrongdoing (whistleblowing) policy and the Council's Counter Fraud, Bribery and Anti-Corruption Strategy.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	None identified.
Are you aware of any instances of actual, suspected or alleged, fraud within the Council as a whole since 1 April 2015.	All investigations of fraud are reported to the Audit Committee with internal audit present to consider the implications of the fraud.

Laws and regulations

Issue

Matters in relation to laws and regulations

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

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

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

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

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Impact of laws and regulations

Question	Management response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	Each year the Council's corporate governance arrangements and risk management arrangements are reviewed and reported upon by Internal Audit and Risk Management teams. The Council has a robust corporate governance and risk management process in place.
How does management gain assurance that all relevant laws and regulations have been complied with?	The Council has a Monitoring Officer and Section 151 Officer who provide assurance that all relevant laws and regulations have been complied with. Also all Cabinet reports now have a standard section detailing any legislative issues. Any non compliance is reported to management via Internal Audit reports and appropriate plans are put in place to remedy such issues.
How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	All reports on the Council's corporate governance arrangements are presented to Audit Committee to provide assurance that the appropriate arrangements are in place and that they are working well.
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2015, or earlier with an on-going impact on the 2015/16 financial statements?	The Section 151 Officer is not aware of any instances of non-compliance with relevant laws and regulations in 2015/16.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	Risk management, insurance and legal work together to identify and evaluate any potential litigation or claims against the Council. Any potential liabilities are highlighted each year in the Council's Statement of Accounts.
Is there any actual or potential litigation or claims that would affect the financial statements?	The Section 151 Officer is not aware of any actual or potential litigation or claims that would affect the financial statements.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No such reports have been received.

Going concern

Issue

Matters in relation to going concern

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

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

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

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

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

Going concern considerations

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

Going concern considerations

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

Related parties

Issue

Matters in relation to related parties

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

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

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

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

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

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

Related party considerations

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

Estimates

Issue

Matters in relation to Accounting Estimates

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

We need to obtain an understanding of:

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

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

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

Estimate considerations

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

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Estimate considerations

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

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Estimate considerations

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

Estimate considerations

Estimate	Method	Controls used to identify estimates	Use of an expert	Underlying assumptions - Assessment of degree of uncertainty - Consideration of alternative estimates	Change in accounting method in year?
<p>Accruals</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 198</p>	<p>Finance team collate accruals of expenditure and income. Activity is accounted for in the financial year that it takes place, not when money is paid or received.</p>	<p>Review financial systems and question service managers to identify where goods have been received but not paid for.</p>	<p>No</p>	<p>Accruals for income and expenditure often based on known values.</p> <p>Where accruals are estimated the latest available information is used.</p>	<p>No</p>
<p>Provisions for liabilities.</p>	<p>Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. Provisions are charged as an expense to the appropriate service line in the CI&ES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties</p>	<p>Charged in the year that the Council becomes aware of the obligation.</p>	<p>No</p>	<p>Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Council</p>	<p>No</p>

Estimate considerations

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



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