

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

Date: 16 November 2016  
My Ref:  
Your Ref:

**Committee:**  
**Audit Committee**

**Date:** Thursday, 24 November 2016  
**Time:** 9.30 am  
**Venue:** Shrewsbury Room, Shirehall, Abbey Foregate, Shrewsbury,  
Shropshire, SY2 6ND

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

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

**Members of Audit Committee**

Tim Barker (Chairman)	Pamela Moseley
John Cadwallader (Vice Chairman)	David Turner
Chris Mellings	

Your Committee Officer is:

**Michelle Dulson** Committee Officer  
Tel: 01743 257719  
Email: [michelle.dulson@shropshire.gov.uk](mailto: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 15 September 2016 (Pages 1 - 10)**

The Minutes of the meeting held on the 15 September 2016 are attached for confirmation marked 3.

Contact Michelle Dulson (01743) 257719

**4 Public Questions**

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

**5 Management Report: AGS Action Plan Update (Pages 11 - 18)**

The report of the Chief Executive Officer is attached, marked 5.

Contact Clive Wright (01743) 258675

**6 Management Report: Assurances on Social Care Commissioning**

The report of the Chief Executive Officer is to follow.

Contact Clive Wright (01743) 258675

**7 Management Report: Council Tax and Non-Domestic Rates Performance Monitoring Report (Pages 19 - 28)**

The report of the Revenues and Benefits Service Manager is attached, marked 7.

Contact Phil Weir (01743) 256159

**8 Management Report: Treasury Strategy Mid-Year Report 2016/17 (Pages 29 - 50)**

The report of the Head of Finance, Governance and Assurance (Section 151 Officer) is attached, marked 8.

Contact: James Walton (01743) 255011

**9 Annual Review of Counter Fraud, Bribery and Anti-Corruption activities, including an update on the National Fraud Initiative (Pages 51 - 58)**

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

**10 Annual Review of Audit Committee Terms of Reference (Pages 59 - 68)**

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

**11 Annual Audit Committee Self-Assessment (Pages 69 - 92)**

The report of the S151 Officer is attached, marked 11.  
Contact: James Walton (01743) 255011

**12 Internal Audit Performance Report and Revised Annual Audit Plan 2016/17 (Pages 93 - 104)**

The report of the Head of Audit is attached, marked 12.  
Contact: Ceri Pilawski (01743) 257739

**13 External Audit: Annual Audit Letter 2015/16 Shropshire Council (Pages 105 - 124)**

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

**14 External Audit: Audit Committee update (Pages 125 - 134)**

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

**15 Changes to arrangements for appointment of External Auditors (Pages 135 - 140)**

The report of the S151 Officer is attached, marked 15.  
Contact: James Walton (01743) 255011

**16 Date and Time of Next Meeting**

The next meeting of the Audit Committee will be held on the 22 February 2017 at 9.30am in the Shrewsbury Room.

**17 Exclusion of Press and Public**

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

**18 Exempt Minutes of the previous meeting held on 15 September 2016**  
(Pages 141 - 144)

The exempt Minutes of the meeting held on 15 September 2016 are attached for confirmation, marked 18.

Contact: Michelle Dulson (01743) 257719

**19 Internal Audit: Fraud, Special Investigation and RIPA Update (Exempted by Categories 2, 3 and 7)** (Pages 145 - 146)

The report of the Principal Auditor is attached, marked 19.

Contact: Peter Chadderton (01743) 257737



## Committee and Date

Audit Committee

24 November 2016

## **MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 15 SEPTEMBER 2016 9.30 AM - 12.25 PM**

**Responsible Officer:** Michelle Dulson

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

### **Present**

Councillor Tim Barker (Chairman)

Councillors John Cadwallader (Vice Chairman), Chris Mellings, Pamela Moseley and Nic Laurens (Substitute) (substitute for David Turner)

### **27 Apologies for Absence / Notification of Substitutes**

27.1 An apology for absence was received from Councillor David Turner. Councillor Nic Laurens substituted for him.

### **28 Disclosable Pecuniary Interests**

28.1 Members were 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.

28.2 With reference to Agenda Items 6, 9 and 17 Councillor Tim Barker declared that he was a Board Member of ip&e however as the reports only made a passing reference to ip&e he would remain in the room unless it was discussed in more detail.

### **29 Minutes of the previous meeting held on the 23 June 2016**

#### **29.1 RESOLVED:**

That the minutes of the meeting held on 23 June 2016 be approved and signed by the Chairman as a correct record.

### **30 Public Questions**

30.1 There were no public questions.

### **31 Exclusion of Press and Public**

#### **31.1 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.

## **32 Management Report on IT**

32.1 The Committee received the exempt report of the Head of Human Resources and Development - copy attached to the exempt signed Minutes - which provided an update on a number of areas within ICT which had been prioritised for improvement.

### **32.2 RESOLVED:**

That the contents of the exempt report be noted.

## **33 Exempt minutes of the previous meeting held on the 23 June 2016**

### **33.1 RESOLVED:**

That the exempt minutes of the meeting held on 23 June 2016 be approved and signed by the Chairman as a correct record.

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

34.1 The Committee received the exempt report of the Engagement Auditor – copy attached to the exempt signed Minutes - which provided an update on the current fraud and special investigations undertaken by Internal Audit together with an update on the RIPA activity since the last meeting.

### **34.2 RESOLVED:**

That the contents of the exempt report be noted.

*At the conclusion of this item the meeting reverted to open session.*

## **35 Management Report on Programme Controls and Risks**

35.1 The Committee received the report of the Director of Place and Enterprise – copy attached to the signed Minutes – which provided a further update on the existing and emerging assurance and management controls and risk management arrangements within the Council. It included work undertaken to develop strong governance around commissioning, and also provided an update on the Commissioning Support Unit.

35.2 The report gave assurance on the robustness of governance arrangements for all commissioning activity arising from the Council's 2014-2017 business plan and financial strategy. The Director of Place and Enterprise explained that higher value contracts went through quite a vigorous process and that the relevant Scrutiny Committee also looked at some of the larger Contracts which demonstrated that full governance arrangements were in place.

35.3 The Director of Place and Enterprise drew attention to the Commissioning Support Unit and the Intelligence Led Organisation updates. He confirmed that Shropshire Council was a commissioning authority as 60/70% of its work was commissioned out. Further guidance on the Council's approach to transitioning services out of the Council was set out in Appendix three to the report.

- 35.4 Turning to the Procurement and Contract Management update, the Director of Place and Enterprise explained that this section built on previous reports and referred to the new Contract Reference System and Delta, the Council's e-tendering system. In response to a query on the highways term maintenance contract, the Director of Place and Enterprise felt that the market place was reasonably broad enough to provide competition with possibly six to eight large contractors. However there was a framework in place for planned activity whereby more contractors were available.
- 35.5 In response to a further query on the same contract, the Director of Place and Enterprise was confident that the correct performance management measurements were in place following strong dialogue with contractors. He confirmed that the Council always had good working relationships with its Contractors. These measurements were of course always under review.
- 35.6 In addition, the Commissioning Development and Procurement Manager informed Members of the very detailed process for recommissioning which was taking place in relation to that particular procurement. He believed that there would be sufficient competition when tenders were invited. Turning to performance indicators within the contract for that procurement, he confirmed that these were being looked at very carefully by the project team and should lead to better results in terms of performance.
- 35.7 In response to a query, the Commissioning Development and Procurement Manager explained the process of due diligence undertaken around the ability of potential suppliers to deliver, such as undertaking financial checks and looking at references. The Head of Audit reported that they undertook as much research as possible into the financial stability of a company, using all the facilities open to them. The Commissioning Data Analysis and Intelligence Manager confirmed that those assurances were being developed and strengthened by working very closely with internal audit.
- 35.8 **RESOLVED:**  
That the contents of the report be noted.
- 36 **Management Report on Housing Benefit Overpayment Performance Monitoring**
- 36.1 The Committee received the report of the Revenues and Benefits Service Manager – copy attached to the signed Minutes – which provided Members with performance monitoring information on the collection of Housing Benefit overpayments for the year 2015/16.
- 36.2 The Revenues and Benefits Service Manager informed Members that as at the 31 July 2016 the total amount outstanding, including previous years was £6.2 million, compared to £5.4m the previous year. He explained that, according to DWP figures, there had been a 19% increase in Housing Benefit Overpayments nationally (this figure was just over 15% for Shropshire Council).
- 36.3 The Revenues and Benefits Service Manager drew attention to a number of national initiatives detailed in the report which may explain why the figures had increased. He also drew attention to paragraph 6 which set out the action taken in order to address the higher level of overpayments. In response to a query it was confirmed that better

data matching was leading to more overpayments being identified. He explained that most overpayments were usually caused by claimant error rather than fraud.

36.4 In response to a query, the Revenues and Benefits Service Manager explained that in the last 12 to 18 months the service had been restructured and there was now a bigger recovery team which was why the current recovery rate was significantly higher than in 2015/16.

**36.5 RESOLVED:**

That the contents of the report be noted.

**37 Management Report on Sales Ledger; update on progress in implementing improved internal controls**

37.1 The Committee received the report of the Head of Financial Management and Reporting – copy attached to the signed Minutes – which provided an update on progress in implementing management controls within Sales Ledger in order to address the Limited assurance opinion that emerged from the Internal Audit review in June 2016.

37.2 The Head of Financial Management and Reporting drew attention to the positive Direction of Travel set out at paragraph 5 of the report. She reported that a number of actions had been undertaken to address the significant recommendations highlighted by the review and a more targeted approach to debt recovery had been created.

37.3 In response to a query, the Head of Financial Management and Reporting agreed to let Members have a breakdown of aged and current debt outside of the meeting.

**37.4 RESOLVED:**

That the progress made since June 2016 to address Internal Audit recommendations be noted.

**38 Audited Annual Statement of Accounts 2015/16**

38.1 The Committee received the report of the Head of Finance, Governance and Assurance – copy attached to the signed Minutes – which presented Members with the final audited outturn position for the financial year 2015/16. It was confirmed that no material objection had been received to the accounts which had to go through Full Council by 30 September 2016 following which the audit opinion would be given.

**38.2 RESOLVED:**

- A. That the 2015/16 Statement of Accounts be approved and that the Chairman of the Council be recommended to sign them in accordance with the requirements of the Accounts and Audit Regulations 2015.
- B. That the Head of Finance, Governance and Assurance be authorised to make any minor adjustments to the Statement of Accounts prior to the 30<sup>th</sup> September 2016.



- C. That the Head of Finance, Governance and Assurance and the Chairman of the Audit Committee be authorised to sign the letter of representation in relation to the financial statements on behalf of the Council and send to the External Auditor.

### **39 Annual Treasury Report 2015/16**

- 39.1 The Committee received the report of the Head of Finance, Governance and Assurance (Section 151 Officer) – copy attached to the signed Minutes – which informed Members of the treasury activities for Shropshire Council for 2015/16 and included the investment performance of the internal treasury team to 31 March 2016.
- 39.2 The Head of Finance, Governance and Assurance (Section 151 Officer) explained that the Annual Treasury Report was scrutinised by the Audit Committee whose Members had received training on treasury management issues by completing the CIPFA treasury management self-assessment and had received further training with the Council's Treasury Advisor, Capita on risk strategy and attitude to risk.
- 39.3 The Head of Finance, Governance and Assurance (Section 151 Officer) reported that the Council had a reasonable level of return against risk with a higher level of returns than similar authorities for the same level of risk. He confirmed that the internal treasury team had outperformed their investment benchmark by 0.27% in 2015/16. The Head of Finance, Governance and Assurance (Section 151 Officer) explained that the Council was currently cash rich and as such would not be looking to borrow any money.
- 39.4 **RESOLVED:**  
That the position as set out in the report be accepted.

### **40 Management Report Risk and Insurance Annual Report 2015/16**

- 40.1 The Committee received the report of the Risk and Insurance Manager – copy attached to the signed Minutes – which set out the challenges and achievements accomplished by the Risk Management Team during 2015/16.
- 40.2 The Risk and Insurance Manager informed Members that following an audit of both risk management and insurance, an assurance level of "good" had been identified with no recommendations being made. She explained that strategic risks were updated monthly and monitored closely through meetings with key officers, Directors, the Chief Executive and Portfolio Holder. The outcome of each review was then reported to Directors and Informal Cabinet.
- 40.3 The Risk and Insurance Manager drew attention to the new Risk Profile and Action Plan template which had been adopted for managing strategic risks. The Chairman felt that the Committee ought to be looking more at the detailed Governance of Risk Management as part of their role. In response, the Risk and Insurance Manager explained the assurance process and the three lines of defence (Management; Internal Governance; independent assurance including External and Internal Audit). She reported that all relevant strategic risks had been linked to the Annual Governance Statement Action Plan points and that there was an assurance framework for each risk.

- 40.4 In response to a question, the Head of Audit gave independent assurance that the audit review provided confidence in the Council's risk management process. The Risk and Insurance Manager confirmed that; specific more detailed reports could be provided to members which would set out the relevant controls and action plans in relation to any of the strategic risks. It was agreed for the Head of Finance, Governance and Assurance (Section 151 Officer) to discuss the contents of future risk reports to the Committee with Directors.
- 40.5 In response to a query about the reserve of £278K for one claim alone, the Risk and Insurance Manager explained that it was a personal injury claim and that she would let members of the Committee have the detail outside of the meeting. The case was currently being investigated but it was felt that it could be repudiated.
- 40.6 In response to a query in relation to MMI (Municipal Mutual Insurance), the Risk and Insurance Manager explained that the agreement was if the mutual failed and had insufficient funds, then each member would have to contribute to ensure that sufficient funds were available. She reported that Shropshire Council had to make two payments, one for 15% and a further one of 10% following an increase in historic claims. Any claim payment thereafter the Council would have to pay the first 25%.
- 40.7 **RESOLVED:**  
That the position as set out in the report be accepted.

#### 41 **Management Report Strategic Risks Update**

- 41.1 The Committee received the report of the Risk and Insurance Manager – copy attached to the signed Minutes – which set out the current strategic risk exposure together with recent modifications and planned changes to strategic risk management within the authority.
- 41.2 **RESOLVED:**  
That the position as set out in the report be accepted.

#### 42 **Internal Audit Performance Report and revised Annual Audit Plan 2016/17**

- 42.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which provided Members with an update of work undertaken by Internal Audit in the five months since the beginning of the financial year and the start of Shropshire Council's approved audit plan implementation.
- 42.2 The Head of Audit advised Members that 29% of the revised Plan had been completed which, although lower than in previous years, was in line with the profile of available resources and it was hoped to achieve 90% completion by year end. She reported that two good and ten reasonable assurances, eight unsatisfactory and eight limited assurance opinions were issued and that the 28 final reports contained 549 recommendations. She added that two fundamental recommendations had been identified and that three had been rejected by management.
- 42.3 The Head of Audit drew attention to Performance to date and the Direction of Travel. She explained that compared to previous years Internal Audit resources were much reduced so they had been focussing on the high risk areas which may impact on the year end opinion.

42.4 In response to a query, it was confirmed that the plan had been adjusted to include an additional 45 days spent on external clients. The Head of Audit agreed to email Members to explain the reduction in audit days for Children's Services. Members felt that this should be looked at by Young Peoples' Scrutiny Committee however the Head of Finance, Governance and Assurance (Section 151 Officer) explained that it was important to ensure the distinction between Audit and Scrutiny.

**42.5 RESOLVED:**

- A. That the performance to date against the 2016/17 Audit Plan be noted.
- B. That the adjustments required to the 2016/17 Plan to take account of changing priorities as set out in Appendix B to the report, be approved.

**43 Internal Audit Charter**

43.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which set out the changes being proposed to the Internal Audit Charter following a refresh of the Public Sector Internal Audit Standards (PSIAS) in March 2016.

**43.2 RESOLVED:**

That the proposed adjustments to the Internal Audit Charter be noted.

**44 Internal Audit Quality Assurance Improvement Programme**

44.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which provided Members with an update on the External Assessment review planned for 21 November 2016 by CIPFA during which Members of Audit Committee may be interviewed.

**44.2 RESOLVED:**

That the contents of the report be noted.

**45 Code of Governance**

45.1 The Committee received the report of the Head of Finance, Governance and Assurance (Section 151 Officer) – copy attached to the signed Minutes – which sought approval to the Code which had been refreshed following publication of a new governance framework for local authorities, police and fire authorities in April 2016 for application for the 2016/17 year.

**45.2 RESOLVED:**

That Cabinet be recommended to approve the revised Code of Corporate Governance contained in Appendix A to the report.

**46 External Audit: Shropshire Council Audit Findings 2015/16**

46.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – which summarised the key matters arising from the audit of Shropshire Council's financial statements for the year ending 31 March 2016.

46.2 The Engagement Lead advised that the vast majority of the financial statements had been completed and he anticipated that an unqualified opinion would be given. He reported that there had been one material change to how the CIES was disclosed but this had no overall impact on the total income or expenditure.

46.3 The Engagement Lead highlighted the control issues identified in the areas of ICT resilience and Sales Ledger. He confirmed that an unqualified Value for Money conclusion would be given.

46.4 The Head of Finance, Governance and Assurance (Section 151 Officer) confirmed that the Action Plan would be completed and circulated to Members of the Committee within the next six weeks.

46.5 **RESOLVED:**

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

47 **External Audit: Shropshire County Pension Fund Audit Findings Report 2015/16**

47.1 Members received the report the External Auditor - copy attached to the signed Minutes which set out the Audit Findings for Shropshire County Pension Fund for the year ending 31 March 2016. The Engagement Lead drew attention to the key audit and financial reporting issues set out on page 6 and confirmed that no significant adjustments had been identified. He also confirmed that no significant control weaknesses had been noted. He explained that a change had been made in the final set of financial statements in relation to Related Party Transactions. They Committee were informed that the report would be considered fully by the Pensions Committee and Pensions Board.

47.2 **RESOLVED**

That the contents of the report be noted.

48 **External Audit: Audit Committee update**

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

48.2 The Head of Finance, Governance and Assurance (Section 151 Officer) reminded the Committee that a report had been presented to Full Council in July on the flexible use of capital receipts.

48.3 **RESOLVED:**

That the contents of the report be noted.

49 **Date and Time of Next Meeting**

49.1 Members were reminded that the next meeting of the Audit Committee would be held on the 24 November 2016 at 9.30am.

Signed ..... (Chairman)

Date: .....

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<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
24 November 2016	
9:30am	
	<u>Public</u>

## **MANAGEMENT REPORT: ANNUAL GOVERNANCE STATEMENT (AGS) ACTION PLAN UPDATE**

**Responsible Officer** Clive Wright  
e-mail: Clive.wright@shropshire.go.uk

Tel: 01743 258675

### **1. Summary**

The 2015/16 Annual Governance Statement (AGS) was considered by Audit Committee in June 2016 and approved alongside the Audited Annual Statement of Accounts 2015/16, at Council in September 2016.

The Annual Governance Statement includes an action plan that identifies activities to improve the control system where significant governance risks were identified. This report provides members with an interim progress update against each of the activities.

### **2. Recommendations**

Members are asked to consider and endorse the activities delivered to date against the approved Annual Governance Action Plan.

## **REPORT**

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

- 3.1 The AGS has been drafted based on information contained in the risk register alongside data obtained from assurance statements and officer review groups. The strategic risk register is regularly monitored and updated by senior managers and is a useful, up to date, tool to identify governance issues. Consequently, this creates a clear link between the AGS, the strategic risk register, business planning and performance. Delivering the activities set out in the AGS action plan will help to mitigate the strategic risks.

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

#### 4. Financial Implications

There are no financial implications.

#### 5. Background

- 5.1 The Council is required under Regulation 6 of the Accounts and Audit Regulations 2015, to produce an Annual Governance Statement to accompany the annual statement of accounts. The statement is signed by the Leader of the Council and the Head of Paid Service and follows a review of the effectiveness of the Council's system of internal controls as required by the Accounts and Audit Regulations 3.
- 5.2 Audit Committee members have requested that Management, being responsible for the first line of defence, provide an update and therefore assurance as to delivery of the key activities set out in the AGS action plan. This in turn will demonstrate improvements in the risk environment of the Council.

#### 6. Delivery to date

- 6.1 An update of delivery to date is provided against each of the targeted outcomes in the AGS action plan:

***Outcome: Regular Sound engagement is in place between health and social care for the future provision of services, which includes the agreement of Clinical Health Commissioning funding on a case by case level through to service redesign and commissioning through the Better Care Fund, the Transforming Care Partnership and the Strategic Transformation Plan.***

***Activities:***

*Delivery against the BCF programme and Health and Well Being Board three Exemplar Projects: Rod Thomson, March 2017.*

***Update:*** *The work on the three exemplar projects continues as planned coordinated by the Health and Wellbeing Board.*

*Agreement for Continuing Health Care funding agreed on a case by case basis using jointly agreed risk tool: Andy Begley, June 2016.*

***Update:*** *Despite numerous requests and attempts by Adult Social Care this has not yet been resolved with the Clinical Commissioning Group (CCG) and a joint tool has not yet been agreed. The outstanding debt owed to the Council of £3m which has accrued over three years is also not resolved despite agreement having been reached in the Summer on an arbitration approach the CCG have bow*



*cancelled two meetings to take this forward and have not provided the evidence as agreed.*

*Service redesign and commissioning through the Better Care Fund (BCF), the Transforming Care Partnership (TCP) and the Strategic Transformation Plan in conjunction with the Health and Wellbeing Board. Andy Begley, April 2016 onwards.*

**Update:** *Both the BCF and the TCP are subject to ongoing work between the CCG and Adult Social Care. The TCP plan has not yet been signed off by any of the four partners (Telford and Wrekin and Shropshire Council local authorities and Telford and Wrekin and Shropshire CCG's) due to a lack of clarity on the funding available from National Health Service and the subsequent financial risk to the partnership.*

*The BCF is under continual review with CCG colleagues and proposals for the disinvestment of services by the CCG that are included in the BCF have been challenged by Adult Social Care.*

*Public Health to be focussed on short term evidence based cost reducing interventions: Rod Thomson, June 2016*

**Update:** *The preventive programme continues and it has been included within the county's NHS Sustainability and Transformation Plan and in particular with the neighbourhood component of the plan.*

*Overspend on discharge from hospitals is brought under control. Andy Begley, June 2016*

**Update:** *The implementation of a centralised brokerage facility, the use of block contracts, a controlled maximum hourly rate and changes to the Integrated Care Services (ICS) team providing more scrutiny of discharge decisions is controlling expenditure on hospital discharge. However there is still a risk of increased costs due to no additional winter pressures money allocation from the CCG and the disinvestment and reduction by the CCG in re-ablement and discharge to assess beds that have previously been purchased to facilitate hospital discharge.*

**Outcome: The Council is considering devolution opportunities with at least four partners:**

- **The Marches**
- **West Midlands Combined Authorities**
- **Northern Gateway**
- **Middle England Authorities**

**Activities:**

*Involvement in three way discussions, shaping the devolution proposals with Telford and Wrekin and Herefordshire Councils: George Candler, June 2016.*

*Involvement with West Midlands Combined Authorities to understand and be at the forefront of key strategic thinking decision making: George Candler, June 2016.*

**Update:** *Discussions continue although as yet there is no agreement on when to submit the final proposal, as all three local authorities are now non-constituent members of West Midlands Combined Authority (WMCA) and the proposal may subsequently be subsumed into this wider combined authority*

*The Chief Executive attends the regular Board meetings and separate Non-Constituent Council meetings. The Leader also attends the member-led Board. Shropshire has recently contributed to the call for evidence in developing a Land Commission for the WMCA and has also nominated a number of officers and elected members for a number of subsidiary Programme Boards and Working Groups.*

*Partner on the Northern Gateway Partnership to maximise opportunities from the HS2 Crewe station development along the A500 corridor: George Candler, March 2017.*

**Update:** *Discussions on the Northern Gateway Partnership have taken place although not as frequent as is hoped. Shropshire has subsequently made contact with colleagues in Cheshire East (lead authority) to reinforce our commitment to the work and a future discussion is planned on 1st November 2016.*

*Exploring shared opportunities with other adjacent authorities (Staffs CC, Cheshire East, Powys) in areas such as shared services, skills or staff: George Candler, March 2017.*

**Update:** *Discussions with Powys CC have started although a wider LEP approach is also being explored with a meeting planned in November to progress discussions further. Staffs CC and Shropshire have recently shared best practice with one another on Social Capital and developing resilient communities and most recently exploring what the impacts and opportunities there may be on the recent Brexit decision.*

**Outcome: Shropshire Council has maximised all opportunities from the Marches LEP**

**Activities:**

*Development of Local Growth Fund (LGF)3 Bids and submission for funding from the Local Majors Fund to develop an outline Business Case for the North West Relief Road*

**Update:** *LGF 3 Deals have been finalised and two Shropshire specific bids have been put forward by the LEP Board – the Flax Mill and Oswestry Innovation Park. The outcomes of these will be known at the time of the Autumn Statement (23<sup>rd</sup> November).*

*An application was submitted for Local Transport Majors funding for updating the Outline Business Case for the Oxon Link Road on 27<sup>th</sup> July 2016. A decision will be announced around the time of the Autumn Statement (23<sup>rd</sup> November*

**Outcome: There is an Economic Vision and Strategy for Shropshire**

**Activities:**

*Economic Development Needs Assessment being delivered by Oxford Economics*

*Shropshire Council working in partnership with IPPR (North) to co-design the vision and strategy*

**Update:** *Oxford Economics are currently carrying out scenario modelling as part of the Economic Development Needs Assessment. The work will be completed by mid-December. This will form part of the evidence base in preparing the updated Local Plan.*

*The development of a new Economic Growth Strategy is progressing well. Phase 1 (data analysis) and Phase 2 (Stakeholder engagement) have been completed and a first draft of the Strategy has been shared. It is hoped to finalise this by December 2016.*

**Outcome: The Council is communicating where it is going to all stakeholders through an approved Corporate Plan and associated strategies (E.g. workforce and IT).**

**Activities:**

*Completion of Draft Corporate Plan*

*The draft Corporate Plan was presented to Council on the 21 July 2016. Following this it has been out for comment to staff and Members.*

**Update:** *A Scrutiny Task and Finish Group is currently considering a redraft of the Corporate Plan and will be considering the draft Strategic Action Plans which underpin the Corporate Plan and set out the high level actions that will deliver the medium term outcomes and objectives.*

*The Corporate Plan will be presented to Council on the 15 December 2016 for adoption.*

**Outcome: There are clear links between service delivery and the Corporate Plan.**

**Activities:**

*Strategies, policies and service plans reviewed to ensure delivery of Corporate plan*

**Update:** *Although there will be a future version, the draft Corporate Plan, including the high-level outcomes, are available to help inform service and team planning, and strategies and policies are beginning to be amended and adapted. It is planned to have a redraft of the draft Corporate Plan, including the Strategic Action Plans available in November.*

**Outcome:** *The Council's IT Strategy is established and underpins the Corporate Plan.*

**Activities:**

*IT strategy drafted*

**Update:** *IT Strategy to be discussed at Cabinet Directors on 9<sup>th</sup> November 2016*

**Outcome:** *IT solutions and systems have robust controls embedded within them to ensure business continuity in the event of a disaster.*

**Activities:**

*Work completed on IT system controls and reported to Directors on a monthly basis.*

**Update:** *Work is ongoing regarding testing and documenting. Disaster Recovery/ Business Continuity Programme Board has been reinstated and meets on a monthly basis. Recent switch over to back up at Nuneaton was successful.*

**Outcome:** *A balanced budget is achieved and resources allocated and managed effectively within known financial constraints.*

**Activities:**

*Financial Strategy approved and communicated*

*Service plans reflect any proposed changes to budgets and senior managers complete and report on regular budget monitoring reports to Directors*

*Directors provide robust challenge of achievements against the financial strategy.*

**Update:** *Financial Strategy approved by Council in July 2016. This approved savings proposals and identified the funding gap for 2017/18 and 2018/19, which it was proposed be met by use of one-off funds. On 28 September 2016 Cabinet approved one-off funding to balance the budget in 2017/18 and close the funding gap to £2m in 2018/19. All Directors have reviewed and approved their savings plans and in-year monitoring in 2016/17 will identify any pressures that need to be met in future years.*

*No detail is available as to the impact of fair funding in 2019/20 and beyond, hence the current approach approved by Council. The Council has, however, signed up to the Government's four year*

*settlement which provides assurance over the reducing level of RSG plus RSDG and Transition Grant for 2016/17 to 2019/20 financial years.*

***Outcome: Human resources are skilled, knowledgeable and appropriate to deliver the Council's Corporate Plan. Especially in the areas of ICT and commissioning and structural changes aligned to business plans are consulted upon, supported by staff and members, implemented and monitored for effectiveness.***

***Activities:***

*A Workforce Strategy is in place to complement and deliver the Corporate Plan.*

***Update:*** *Leadership programme, succession planning programme and talent management programmes agreed in principle with Directors and Cabinet. Fully Draft programme to be presented to Directors in November.*

*Second Wellbeing day planned for mid-November. Absence monitoring reports highlighted to directors with actions to identify hot spots and appropriate interventions. Reporting back to Directors in December.*

*Relationship with Trade Unions has improved and, whilst this remains a risk, the level of risk has reduced.*

***Outcome: Adults and children are safeguarded. There are supporting governance arrangements and processes in place and consultation with key stakeholders.***

***Activities:***

*Performance measures are under development for inclusion in an annual adult safeguarding report*

***Update:*** *Statutory performance data was submitted for the safeguarding adult return (SAR). Further local performance measures are being developed to monitor activity and provide qualitative information on safeguarding risks.*

- 5.7 Members will see from the above that progress is being made under each of the outcomes identified within the AGS and resources continue to be focused on their delivery.

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

- Audit Committee Report June 2016: Annual Governance Statement (AGS) and review of the effectiveness of the Council's system of internal controls 2015/16
- CIPFA/SOLACE - Publication - Delivering good governance in local government. Guidance note for English Authorities and Framework, 2007

- CIPFA: Delivering Good Governance in Local Government: Framework Addendum 2012
- Accounts and Audit Regulations 2015.
- Application Note to Delivering Good Governance in Local Government: A Framework CIPFA/SOLACE (March 2010)
- International Framework: Good governance in the Public Sector: International Federation of Accountants and CIPFA, July 2014

**Cabinet Member (Portfolio Holder)** Malcolm Pate (Leader of the Council) and Tim Barker (Chairman of Audit Committee)

**Local Member** N/A

**Appendices** None



pay their February and March instalment it gives the Revenues Teams less time to take appropriate action before the end of the financial year.

### **Council Tax**

4. The final collection rate for council tax for the year 2015-16 was 98.4%. This compared favourably with the previous year's collection rate of 98.3%.
5. To put the collection rate into perspective in purely cash terms during the period 1 April 2015 – 31 March 2016 in respect of the 2015-16 financial year the Revenues Team collected £153,091,967 Council Tax whereas during the same period the previous year we collected £149,829,554, which is an increase of £3,262,413.
6. National statistics to monitor collection rate trends for 2015-16 were published in July 2016. These showed that the average national in-year collection rate for Council Tax was 97.1% in 2015-16. The average collected for all Unitary Authorities was 96.9%. Shropshire Council achieved the joint seventh highest collection rate for Council Tax out of 56 Unitary Authorities. A table comparing performance for 2015-16 is at appendix F.
7. Regarding the 2016-17 financial year, in the year to 7 November 2016 the Revenues Team had collected 73.3% of its Council Tax debt. In the equivalent period last year we had collected 73.7% Council Tax.
8. We are now able to run a report to analyse the collection rate by benefit claimant and different types of Council Tax discount. The results for the 2016-17 financial year up to 1 November 2016 are at Appendix A.
9. As at 31 March 2016 the total arrears for Council Tax stood at 9 million. As at 1 November 2016 Council Tax arrears stood at 7.5 million (a reduction of £1.5 million, see Appendix B). While work continues to recover this debt it is important to recognise that this is a cumulative figure, added to at the completion of each financial year. Annual increases in Council Tax arrears follow a national trend. At the start of 2014-15 there was £2.6 billion of council tax arrears outstanding nationally. At 31 March 2015 this had increased to £2.7 billion.
10. A report categorising the debt stages of all Council Tax arrears is attached at Appendix C.

### **Business Rates**

11. The final collection rate for Business Rates for the year 2015-16 was 99.1%. This compare favourably with the previous year's collection rate of 98.7%.
12. To put this collection rate into perspective in purely cash terms during the period 1 April 2015 to 31 March 2016 in respect of the 2015-16 financial year the Revenues Team collected £78,124,707 Business Rates whereas



during the same period the previous year we collected £77,058,449, an increase of £1,066,258.

13. National statistics to monitor collection rate trends for 2015-16 were published in July 2016. These showed that the average national in-year collection rate for Business Rates was 98.2% in 2015-16. The average collected for all Unitary Authorities was 98%. Shropshire Council achieved the joint fifth highest collection rate for Business Rates out of 56 Unitary Authorities. A table comparing performance for 2015-16 is at appendix F.
14. Regarding the 2016-17 financial year, in the year to 7 November 2016 the Revenues Team had collected 73.4% of its Business Rates debt. In the equivalent period last year we had collected 75.5% Business Rates.
15. As at 31 March 2016 the total arrears for Business Rates stood at 3.5 million. Work is continuing to recover this debt. As at 1 June 2016 Business Rates arrears stood at 3.2 million (a reduction of £300,000, see Appendix D).
16. A report categorising the debt stages of all Business Rates arrears is attached at Appendix E.

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

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

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

### **4. Financial Implications**

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

### **5. Background**

Council Tax is collected and administered in accordance with The Council Tax (Administration and Enforcement) Regulations 1992. The Local Government Finance Act 1988 introduced business rates in 1990.

### **6. Additional Information**

None

### **7. Conclusions**

Members are asked to note the content of the report.

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

N/A

**Cabinet Member (Portfolio Holder)**

Malcolm Pate

**Local Member**

N/A

**Appendices**

Appendix A – Council Tax Collection Rate Breakdown

Appendix B - Council Tax Arrears Analysis

Appendix C - Council Tax Aged Debt Analysis

Appendix D - Business Rates Arrears Analysis

Appendix E - Business Rates Debt Analysis

Appendix F – Collection Rate Analysis

## Appendix A – Council Tax Collection Rate Breakdown

01-Nov-16		Collection rate	
Total Collection Rate	166,076,671	118,583,401	71.4%
Total Benefit Claimants	2,219,340	1,488,372	67.1%
former class A exempt PCLD_A_50%	214,198	143,005	66.8%
second home full tax-PCLB_2ND0%	2,056,953	1,407,939	68.4%
second home job protected-2NDHOME	31,515	22,968	72.9%
PCLC_5MTHS	955,459	432,128	45.2%
PCLC	1,384,749	916,827	66.2%
premium	1,140,125	822,960	72.2%

### Glossary of Terms

**Total Collection Rate** – overall collection rate for Shropshire

**Total Benefit Claimants** – collection rates for benefit claimants with a council tax liability

**PCLC** – This is unoccupied and unfurnished property that has been unoccupied and unfurnished for more than six months and less than two years. Shropshire Council charged 100% Council Tax for 2014-15

**Former class A exempt** – unoccupied and unfurnished property that is undergoing or requiring major repair work to make it habitable or undergoing structural alteration. Prior to 1 April 2013 this property was exempt from council tax for up to 12 months. For the 2014-15 financial year Shropshire Council awards 50% discount.

**Second Homes** – This is furnished property that is no one's main residence. No discount is currently awarded.

**Second Homes job protected** – Under certain circumstances some second homes retain a 50% discount.

**PCLC 5 Months** – unoccupied and unfurnished property that has been unoccupied for more than 1 month but less than 6 months

**PREMIUM** – Unoccupied and unfurnished property that has been unoccupied and unfurnished for more than 2 years attracted a 50% premium with effect from 1 April 2014

## Appendix B – Council Tax Arrears Analysis

<b>COUNCIL TAX ARREARS ANALYSIS AS AT 1st Nov 2016</b>			
<b>As at rollover 1 April 2016</b>	<b>DR</b>	<b>CR</b>	<b>NET TOTAL</b>
<b>TOTALS</b>	<b>9,077,048.72</b>	<b>-1,800,045.06</b>	<b>7,277,003.66</b>
	<b>DR</b>	<b>CR</b>	
1993-94	0.00	-849.73	-849.73
1994-95	320.18	-784.07	-463.89
1995-96	112.78	-5,177.13	-5,064.35
1996-97	1,447.00	-7,634.03	-6,187.03
1997-98	2,492.99	-9,446.07	-6,953.08
1998-99	4,611.93	-9,339.77	-4,727.84
1999-00	7,499.64	-14,679.86	-7,180.22
2000-01	7,744.19	-11,064.73	-3,320.54
2001-02	9,814.01	-21,215.00	-11,400.99
2002-03	16,831.71	-25,918.80	-9,087.09
2003-04	34,034.01	-29,452.39	4,581.62
2004-05	50,271.27	-40,915.87	9,355.40
2005-06	79,412.79	-41,043.65	38,369.14
2006-07	122,293.51	-33,410.35	88,883.16
2007-08	152,089.06	-43,185.37	108,903.69
2008-09	269,251.55	-102,316.74	166,934.81
2009-10	383,882.20	-229,645.68	154,236.52
2010-11	521,184.99	-152,172.24	369,012.75
2011-12	609,531.62	-102,198.05	507,333.57
2012-13	708,852.61	-106,480.34	602,372.27
2013-14	1,007,406.87	-171,468.32	835,938.55
2014-15	1,321,405.48	-153,979.09	1,167,426.39
2015-16	2,170,875.53	-258,061.52	1,912,814.01
	<b>7,481,365.92</b>	<b>-1,570,438.80</b>	<b>5,910,927.12</b>
<b>Reduction in Arrears</b>	<b>1,595,682.80</b>	<b>-229,606.26</b>	<b>1,366,076.54</b>

## Appendix C - Council Tax Aged Debt Analysis

Council Tax Aged Debt analysis 1st Nov 2016		
	accounts	£ value
14 Day letter	838	£550,533.95
Adjourned Liability Order	2	£5,008.58
Potential Special Arrangement	0	£0.00
Arrest Warrant - Bail	70	£37,885.21
Charging Order	192	£205,933.57
Attachment of Benefits	648	£238,296.86
Attachment of Earnings	938	£556,283.74
Attachment of Benefits - UC	8	£2,063.70
Attachment of Members Allowances		
Bailiff Return	546	£336,901.22
Bailiff Return Spa		
Bankruptcy		
Committal - Suspended Sentence	2	£756.59
Committal		
Committal Summons	2	£442.50
Datload 14 Day		
Datload Bailiff		
Datload AOB		
Datload SPA		
Enforcement Hold	156	£147,220.42
FIT Referral		
Liability Order Granted		
Mutiple Liability Order	9	£4,978.40
No Enforcement Stage		
Pending Attachment of Benefits	717	£354,691.50
Pending Attachment of Earnings	434	£339,634.44
PLR Workflow		
Pre Committal Letter	3,482	£2,129,136.02
Small Balance Letter	300	£64,444.90
Special Arrangement	1,751	£921,603.27
Special Arrangement Reminder	360	£204,561.37
Tracing Agent	20	£16,195.68
With Bailiff	4,308	£2,575,756.46
Write Off	32	£15,133.74
Write Off Pending	2,820	£969,227.04
<b>Totals</b>	<b>17,635</b>	<b>£9,676,689.16</b>

## Appendix D – Business Rates Arrears Analysis

<b>NNDR ARREARS ANALYSIS AS AT 1st Nov 2016</b>			
<b>As at rollover 1 Apr 2016</b>	<b>TOTALS</b>	<b>DR</b>	<b>CR</b>
		<b>3,570,950.95</b>	<b>-1,351,678.55</b>
			<b>2,219,272.40</b>
		<b>DR</b>	<b>CR</b>
1990-91		0.00	0.00
1991-92		0.00	0.00
1992-93		0.00	0.00
1993-94		0.00	0.00
1994-95		0.00	0.00
1995-96		0.00	0.00
1996-97		0.00	0.00
1997-98		1,137.41	0.00
1998-99		6.20	0.00
1999-00		0.00	0.00
2000-01		0.00	-32.27
2001-02		0.00	-6,148.27
2002-03		0.00	-10,798.51
2003-04		0.00	-9,994.26
2004-05		1,484.11	-11,444.81
2005-06		36,237.10	-8,827.57
2006-07		96,970.40	-17,577.47
2007-08		86,197.71	-17,900.44
2008-09		168,814.29	-71,730.46
2009-10		191,899.01	-239,604.60
2010-11		192,676.09	-70,262.47
2011-12		213,210.06	-29,826.43
2012-13		269,697.06	-20,968.28
2013-14		350,983.95	-77,387.65
2014-15		429,191.47	-61,482.44
2015-16		1,197,493.24	-252,020.52
		<b>3,235,998.10</b>	<b>-906,006.45</b>
			<b>2,329,991.65</b>
<b>Reduction in Arrears</b>		<b>334,952.85</b>	<b>-445,672.10</b>
			<b>-110,719.25</b>

## Appendix E – Business Rates Aged Debt Analysis

NDR Aged Debt Analysis 1st Nov 16		
	accounts	£ value
7 Day Letter	51	256,273.23
Bailiff Return	220	574,140.00
Insolvency proceeding		
Bankruptcy		
Committal Summons	3	2,326.75
Enforcement Hold	18	92,977.36
Liquidation		
Multiple Liability Order	1	5,000.00
No Enforcement Stage	2	0.00
Pre Committal Letter	230	539,756.15
Small Balance Letter	28	1,514.66
Spa Reminder	20	53,166.96
Special Arrangement	69	282,514.14
Tracing Agent	4	17,639.55
warrant no bail	1	0.00
Warrant with bail	1	988.00
With Bailiff	247	774,731.79
Write Off	168	453,575.27
<b>Totals</b>	<b>1,063</b>	<b>3,054,603.86</b>

## Appendix F – Collection Rate Analysis

	Council Tax	Business Rates
2013-14 collection rate	98.1%	98.3%
2014-15 collection rate	98.3%	98.7%
2015-16 collection rate	<b>98.4%</b>	<b>99.1%</b>
2015-16 position (out of 326 Authorities)*	joint 78th	joint 50th
2015-16 national average	97.1	98.2%
2015-16 unitary average	96.9	98.0%
2015-16 unitary position (out of 56 unitary authorities)	joint 7th	joint 5th
2015-16 West Midlands position (out of 30 authorities)*	joint 8th	2nd

\* includes unitaries, mets and districts





<u>Committee and Date</u>	<u>Item</u>
Audit Committee 24 November 2016	
Cabinet 30 November 2016	
Council 15 December 2016	
	<u>Public</u>

## TREASURY STRATEGY 2016/17 – MID YEAR REVIEW

**Responsible Officer** James Walton  
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Tel: (01743) 258915

### 1. Summary

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

- An economic update for the first six months of 2016/17
- A review of the Treasury Strategy 2016/17 and Annual Investment Strategy
- A review of the Council's investment portfolio for 2016/17
- A review of the Council's borrowing strategy for 2016/17
- A review of any debt rescheduling undertaken
- A review of compliance with Treasury and Prudential limits for 2016/17

1.2 The key points to note are:-

- The internal treasury team achieved a return of 0.60% on the Council's cash balances outperforming the benchmark by 0.32%. This amounts to additional income of £294,880 for the first six months of the year which is included within the Council's projected outturn position.
- In the first six months all treasury management activities have been in accordance with the approved limits and prudential indicators set out in the Council's Treasury Strategy.

### 2. Recommendations

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

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

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

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

### 4. Financial Implications

- 4.1 The Council makes assumptions about the levels of borrowing and investment income over the financial year. Reduced borrowing as a result of capital receipt generation or delays in delivery of the capital programme will both have a positive impact of the council's cash position. Similarly, higher than benchmarked returns on available cash will also help the Council's financial position. For monitoring purposes, assumptions are made early in the year about borrowing and returns based on the strategies agreed by Council in the preceding February. Performance outside of these assumptions results in increased or reduced income for the Council.
- 4.2 The six monthly performance is above benchmark and has delivered additional income of £294,880 which will be reflected in the Period 6 Revenue Monitor.
- 4.3 The Council currently has £175m held in investments as detailed in Appendix A and borrowing of £326m at fixed interest rates.

### 5. Background

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

### 6. Economic update

- 6.1 **Global Economy** – The US economy had a patchy 2015 with sharp swings in the growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 disappointed at 0.8% (annualised) while quarter 2 improved slightly to 1.4%. However, forward indicators are pointing towards a pickup in growth in the rest of 2016. The US Federal Reserve embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016.

Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December this year.

- 6.2 Japan continues to have weak economic growth and is making little progress on fundamental reform of the economy while Chinese economic growth has been weakening and medium term risks have been increasing.
- 6.3 In the Eurozone, the European Central Bank (ECB) commenced in March 2015 its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected Eurozone countries at a rate of €60bn per month. This was intended to run initially to September 2016 but was extended to March 2017. Along with other measures this has struggled to make a significant impact in boosting economic growth and in helping inflation to rise from around zero towards the target of 2%. Gross Domestic Product (GDP) growth rose by 0.6% in quarter 1 2016 but slowed to 0.3% in quarter 2. This has added to comments from many forecasters that central banks around the world are running out of ammunition to stimulate economic growth and to boost inflation. They stress that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand in their economies and economic growth.
- 6.4 UK Economy – UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it still remained one of the leading rates of any major advanced economy. Growth improved in quarter 4 of 2015 from 0.4% to 0.7% but fell back to 0.4% in quarter 1 of 2016 before bouncing back again to 0.7% in quarter 2. During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme. The referendum vote for Brexit in June this year delivered an immediate shock fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, subsequent surveys have shown a sharp recovery in confidence and business surveys, though it is generally expected that although the economy will now avoid flat lining, growth will be weak through the second half of 2016 and in 2017.
- 6.5 The Bank of England meeting in August addressed this expected slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. The Inflation Report included an unchanged forecast for growth for 2016 of 2.0% but cut the forecast for 2017 from 2.3% to just 0.8%. The Governor of the Bank of England had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor Phillip Hammond announced after the referendum result, that the target of achieving a budget surplus in 2020 will be eased.
- 6.6 The Inflation Report also included a sharp rise in the forecast for inflation to around 2.4% in 2018 and 2019. Consumer Price Index (CPI) inflation has started rising during 2016 as the falls in the price of oil and food twelve months ago fall out of the calculation during the year and, in addition, the post referendum 10% fall in the value of sterling is likely to result in a 3% increase in CPI over a time period of 3-4 years. However, the MPC is expected to look through a one off upward blip from this devaluation of sterling in order to support economic growth, especially if pay

increases continue to remain subdued and therefore pose little danger of stoking core inflationary price pressures within the UK economy.

## 7 Economic Forecast

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

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Bank rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%	0.50%
5yr PWLB rate	1.00%	1.00%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.20%	1.30%
10yr PWLB rate	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%
25yr PWLB rate	2.30%	2.30%	2.40%	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%	2.60%
50yr PWLB rate	2.10%	2.10%	2.20%	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%	2.30%	2.40%

7.2 The Bank of England's Monetary Policy Committee (MPC) agreed to reduce the Bank Rate from 0.50% to 0.25% in August 2016. The MPC gave forward guidance that it expected the Bank Rate to be cut further before the end of the year and therefore Capita believes the rate will be reduced to 0.10% in December 2016. The Bank Rate is expected to remain at this historically low level until June 2018 when it is expected to rise to 0.25% before eventually rising to 0.50% in June 2019.

7.3 Long term PWLB rates are expected to rise slightly to 2.20% in June 2017 before gently increasing over time to reach 2.40% by June 2019.

7.4 An eventual world economic recovery may see investors switching from the safe haven of bonds to equities. However, there have exceptional levels of volatility in financial markets which have caused significant swings in PWLB rates.

7.5 The overall balance of risks to economic recovery in the UK remains to the downside. Downside risks to current forecasts for UK gilt yields and PWLB rates include monetary policy action reaching its limit of effectiveness and failing to stimulate sustainable growth, combat the threat of deflation and reduce high levels of debt in some major developed economies, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure, weak capitalisation of some European banks, a resurgence of the Eurozone sovereign debt crisis, geopolitical risks in Europe, the Middle East and Asia, and weak growth or recession in the UK's main trading partners, the EU and US.

7.6 The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, particularly longer term PWLB rates include the pace and timing of increases in the Federal Funds rate, agreed by the US Federal Reserve, causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities, and UK inflation returning to significantly higher levels than in the wider EU and US.

## 8. Treasury Strategy update

8.1 The Treasury Management Strategy (TMS) for 2016/17 was approved by Full Council on 25 February 2016. This Treasury Strategy does not require updating as there are no policy changes or any changes required to the prudential and treasury indicators previously approved.

## 9. Annual Investment Strategy

9.1 The Council's Annual Investment Strategy, which is incorporated in the TMS, outlines the Council's investment priorities as the security and liquidity of its capital. As outlined in paragraph 6 & 7 above there is still considerable uncertainty and volatility in the financial and banking market, both globally and in the UK. It is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.25% Bank Rate. In this context it is considered that the Annual Investment Strategy approved on 25 February 2016 is still fit for purpose in the current economic climate.

9.2 The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term (up to 1 year), and only invest with highly credit rated financial institutions using Capita's suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Capita. The Treasury Team continue to take a prudent approach keeping investments short term and with the most highly credit rated organisations. This approach has been endorsed by our external advisors, Capita Asset Services.

9.3 In the first six months of 2016/17 the internal treasury team outperformed its benchmark by 0.32%. The investment return was 0.60% compared to the benchmark of 0.28%. This amounts to additional income of £294,880 during the first six months which is included within the Council's projected outturn position.

9.4 A full list of investments held as at 30 September 2016, compared to Capita's counterparty list, and changes to Fitch, Moody's and Standard & Poor's credit ratings are shown in **Appendix A**. None of the approved limits within the Annual Investment Strategy were breached during the first six months of 2016/17 and have not been previously breached. Officers continue to monitor the credit ratings of institutions on a daily basis. Delegated authority has been put in place to make any amendments to the approved lending list.

9.5 As illustrated in the economic background section above, investment rates available in the market are at an historical low point. The average level of funds available for investment purposes in the first six months of 2016/17 was £184 million.

9.6 The Council's interest receivable/payable budgets are currently projecting a surplus of £1.448 million as reported in the monthly revenue monitoring reports due to no long term borrowing being undertaken and investment balances being higher than anticipated.

## 10. Borrowing

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

10.2 Officers can confirm that the Prudential Indicators were not breached during the first six months of 2016/17 and have not been previously breached.

10.3 No new external borrowing is currently required for future years, although work to develop a new capital programme and the introduction of an Investment Board is continuing. Outline Business Case applications have been requested for a number of proposed schemes which are still in development and will be presented to the Investment Board for consideration prior to full Business Case submission. Once the programme is finalised it will be presented to Council for consideration and the prudential borrowing implications updated in the Treasury Strategy. The schemes being considered are already within the current authorised borrowing limits in place. As outlined in the table below, the general trend has been a sharp fall in interest rates during the first six months of the year across all maturity bands. The dates of the low points and high points across different maturity bands are shown in the table below.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.81%	0.95%	1.42%	2.08%	1.87%
Date	07/09/2016	10/08/2016	10/08/2016	12/08/2016	30/08/2016
High	1.20%	1.80%	2.51%	3.28%	3.08%
Date	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016
Average	0.99%	1.33%	1.92%	2.69%	2.46%

10.4 During the first six months of the financial year there has been volatility in the financial markets, particularly following the vote in favour of the UK to leave the European Union, and this has had an impact on the PWLB rates. The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. An eventual world recovery may also see investors switching from the safe haven of bonds to equities.

## 11. Debt Rescheduling

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

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

Council, 25 February 2016, Treasury Strategy 2016/17

#### Cabinet Member:

Malcolm Pate, Leader of the Council

#### Local Member

N/A

#### Appendices

A. Investment Report as at 30th September 2016

B. Prudential Limits

C. Prudential Borrowing Schedule



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# Shropshire County Council

## Monthly Investment Analysis Review

September 2016



Monthly Economic Summary

**General Economy**

This month there was still a focus on the UK's decision to leave the European Union. The hard data released however, was more positive than many expected. Nevertheless, the path to Brexit is a long one and while the initial impact may be less than feared, it does not mean that issues will not materialise over the medium term. Furthermore, the active stance taken by the Monetary Policy Committee last month, including cutting interest rates to 0.25%, will also have likely supported the recent rebound in activity.

A boost to exports and more than a 10% fall in the value of the pound helped the PMI manufacturing activity survey recover from initial Brexit impacts and rise to a 10 month high. In August activity in the sector jumped to 53.3, from 48.2 in July. Export orders flowed at their fastest rate for two years whilst factories increased output by the highest amount since January. Construction activity also recovered in August, with the PMI headline reading rising to 49.2 from 45.9 in July, suggesting the economy is stabilising post the referendum vote. However, activity in the sector still remains slightly below 50, the level that divides "expansion" from "contraction". Economists now fear the construction industry will face further issues in the face of strong inflation pressures with raw material prices rising by their fastest pace in five years. Completing the set, service sector activity had the biggest one month gain in the PMI survey's history as it soared to 52.9 in August from 47.4 in July. This boosted the composite PMI activity reading to a five month high of 53.2. If the uplift in sentiment transfers to "hard" economic output data then it would suggest that an imminent recession will be avoided and puts the possibility of a second rate cut before the end of the year more in the balance.

The Bank of England met in September and voted unanimously to keep interest rates at a record low of 0.25% whilst also leaving the bond buying schemes unchanged. Furthermore, they improved their Q3 growth forecast, predicting that growth will be closer to 0.3% as opposed the 0.1% they originally forecast. Nevertheless, the Bank said they are still likely to cut interest rates again this year with a further cut of 0.1basis points expected when they next meet in November.

British inflation held firm remaining at an annual rate of 0.6% in August, slightly below the 0.7% forecast. Clothing and hotels had lower prices, counteracting the price rise in fuel prices, food and airfares. In terms of growth, the service sector exceeded initial estimates in Q2 and this resulted in final UK Q2 GDP growth being revised to 0.7% from 0.6%.

In the three months to August employment rose by 174,000 showing there has not yet been any post Brexit shedding. Unemployment is still expected to rise, however, as companies wait for greater clarity on the UK's exit deal from the European Union. Growth in workers' wages slowed in August, signalling a tough period ahead as British households are likely to face higher inflation as a result of the weaker pound.

UK Public Sector Net Borrowing for August registered a deficit of £10.55bn, but lower than the £11.47bn figure recorded for the same period last year. However, it failed to meet the forecast of just £10bn. The Office for National Statistics stated there was little impact from the Brexit vote as Income and Corporation Tax receipts rose strongly.

Retail sales calmed in August, falling -0.2% after strong growth in July of 1.9%. Despite the slight fall there is still a pattern of strong growth in the sector on an annual basis as sales volumes are up 6.2% compared with last year and higher than the forecast of 5.4%. John Lewis has mentioned they have noticed little impact of the Brexit vote, but they suggested that the full impact has not yet become clear.

Adding to the positive tone to data releases was figures for UK's trade balance in July. The deficit in the UK's goods balance improved to -£11.764bn in July from a revised -£12.920 in June. Conversely, the services balance fell slightly to £7.262bn in July from £7.347bn in June.

Q2 GDP growth was also published for the Eurozone this month. GDP was up 0.3% in the euro area and by 0.4% in the EU28, with annual growth rates of 1.6% and 1.8% respectively. Exports were a leading factor in this growth, increasing by 1.1% in both areas. At the individual level, Germany grew at 1.7% and France at 1.4% but Romania (5.9%) and Slovakia (3.7%) published the highest growth rates. With regards employment across the region, the unemployment rate remained at its lowest level since July 2011 at 10.1%, down from 10.7% in August a year ago. The EU 28 also remained stable at 8.6%, down from 9.3% in August 2015. The lowest unemployment rates were recorded in the Czech Republic (3.9%) and Germany (4.2%), whilst Spain remained as one of the highest, at 19.5%.

Across the Atlantic, non-farm payrolls improved by 151,000 in August, with the unemployment rate holding steady at 4.9%. This was less than the expected rise of 180,000 and a slowdown from the previous two months which had a combined rise of 546,000. Average hourly earnings only increased by a 0.1% and Americans worked fewer hours last month with average weekly hours dipping to 34.3. These figures have reignited the debate as to whether another interest rate hike before the end of the year will benefit the US economy. The final Q2 estimate for US GDP was upwardly revised this month, increasing from initial estimates of 1.1% to a 1.4% annualised growth rate. This rise was due to business' pumping more money into research and development and exports growing strongly.

### Housing

Halifax house prices fell a further 0.2% in August, after falling 1.1% in July. The second consecutive month of falling house prices has caused the annual growth rate to decline to 6.9%, its lowest level in more than a year. This slowdown is supported by the British Bankers Association survey. According to the survey the number of mortgages approved fell to 36,997 in August, its lowest point since January 2015 and 21% lower than this time last year. Nationwide House prices reflect this slowdown has continued into September. While prices rose by 0.3% on the month, this was below that seen in August (0.6%) and pulled the annual rate down to 5.3% from 5.6% previously.

### Forecast

Neither Capita Asset Services (CAS) nor Capital Economics altered their forecasts this month. It is mutually anticipated that another rate cut will occur in the last quarter of this year with CAS forecasting a potential hike occurring in the second quarter of 2018.

Bank Rate	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
Capita Asset Services	0.10%	0.10%	0.10%	0.10%	0.10%
Capital Economics	0.10%	0.10%	0.10%	0.10%	0.10%

# Shropshire County Council

## Current Investment List

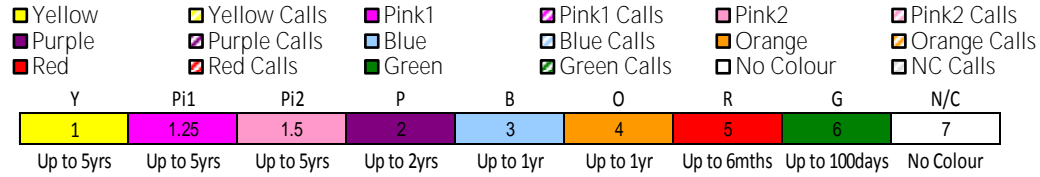
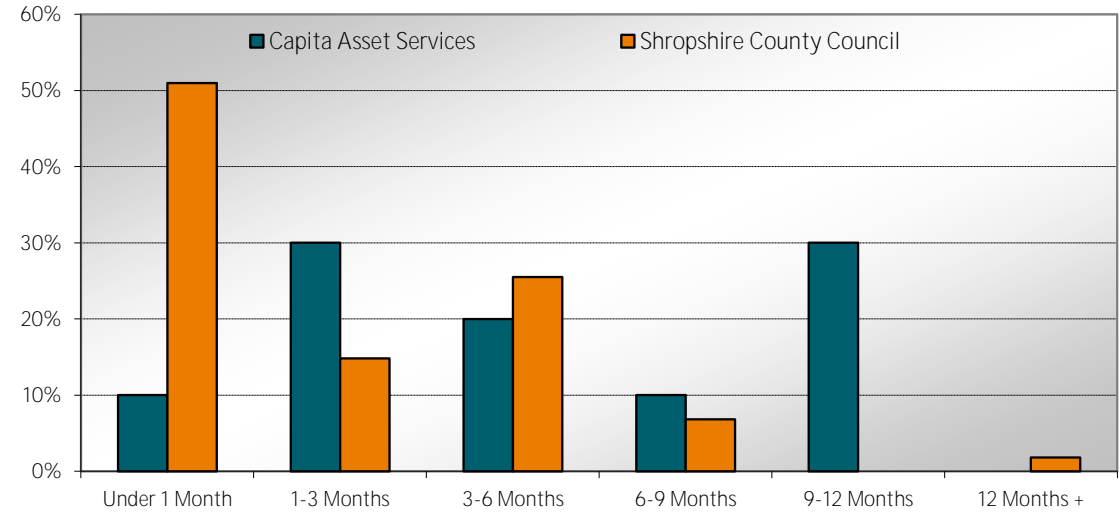
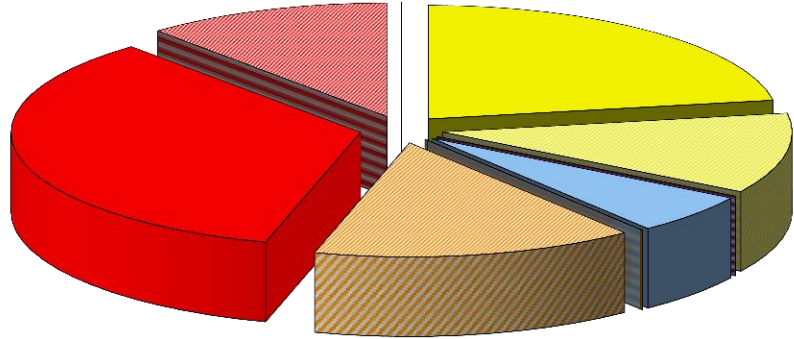
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
HSBC Bank Plc	20,000,000	0.80%		Call	AA-	0.000%
Svenska Handelsbanken AB	6,120,000	0.20%		Call	AA-	0.000%
MMF Standard Life	10,000,000	0.45%		MMF	AAA	0.000%
MMF Insight	10,000,000	0.40%		MMF	AAA	0.000%
Telford & Wrekin Council	3,000,000	0.50%	23/06/2016	03/10/2016	AA	0.000%
Lloyds Bank Plc	1,520,000	0.65%	04/07/2016	04/10/2016	A	0.001%
Lloyds Bank Plc	5,000,000	0.65%	05/07/2016	05/10/2016	A	0.001%
Lloyds Bank Plc	4,320,000	0.65%	07/07/2016	07/10/2016	A	0.001%
Lloyds Bank Plc	3,600,000	0.65%	08/07/2016	07/10/2016	A	0.001%
Nationwide Building Society	2,100,000	0.71%	12/04/2016	12/10/2016	A	0.002%
Birmingham City Council	10,000,000	0.60%	13/04/2016	13/10/2016	AA	0.000%
Lloyds Bank Plc	5,000,000	0.65%	14/07/2016	14/10/2016	A	0.003%
Barclays Bank Plc	1,750,000	0.42%	15/07/2016	17/10/2016	A-	0.003%
Suffolk County Council	2,000,000	0.20%	15/09/2016	17/10/2016	AA	0.000%
West Berkshire Council	2,000,000	0.34%	21/07/2016	20/10/2016	AA	0.000%
Suffolk County Council	3,000,000	0.25%	22/09/2016	21/10/2016	AA	0.000%
Barclays Bank Plc	5,000,000	0.32%		Call35	A-	0.006%
London Borough of Barking & Dagenham	3,000,000	0.22%	09/09/2016	09/11/2016	AA	0.001%
Lloyds Bank Plc	1,400,000	0.50%	11/08/2016	11/11/2016	A	0.008%
Barclays Bank Plc	3,250,000	0.27%	07/09/2016	07/12/2016	A-	0.012%
Barclays Bank Plc	5,000,000	0.27%	15/09/2016	15/12/2016	A-	0.014%
Lloyds Bank Plc	2,420,000	0.50%	16/09/2016	16/12/2016	A	0.014%
Nationwide Building Society	3,000,000	0.66%	20/06/2016	20/12/2016	A	0.015%
Lloyds Bank Plc	900,000	0.80%	21/06/2016	21/12/2016	A	0.015%
Nationwide Building Society	2,000,000	0.66%	22/06/2016	22/12/2016	A	0.015%

## Shropshire County Council

### Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Santander UK Plc	15,000,000	0.90%		Call95	A	0.017%
Leeds Building Society	2,000,000	0.44%	11/07/2016	11/01/2017	A-	0.019%
Highland Council	3,000,000	0.29%	16/09/2016	16/01/2017	AA	0.002%
Nationwide Building Society	2,900,000	0.40%	15/08/2016	15/02/2017	A	0.025%
Coventry Building Society	5,000,000	0.35%	16/08/2016	16/02/2017	A	0.026%
Lancashire County Council	10,000,000	0.60%	27/05/2016	27/02/2017	AA	0.003%
Leeds Building Society	1,000,000	0.39%	30/09/2016	30/03/2017	A-	0.033%
Lloyds Bank Plc	2,580,000	0.65%	30/09/2016	30/03/2017	A	0.033%
Lloyds Bank Plc	3,260,000	0.65%	30/09/2016	30/03/2017	A	0.033%
Leeds Building Society	2,000,000	0.34%	14/09/2016	14/05/2017	A-	0.041%
National Westminster Bank Plc	10,000,000	0.75%	15/06/2016	14/06/2017	BBB+	0.105%
Leeds City Council	3,200,000	0.22%	30/08/2016	31/10/2017	AA	0.008%
<b>Total Investments</b>	<b>£175,320,000</b>	<b>0.56%</b>				<b>0.013%</b>

Portfolio Composition by Capita Asset Services' Suggested Lending Criteria



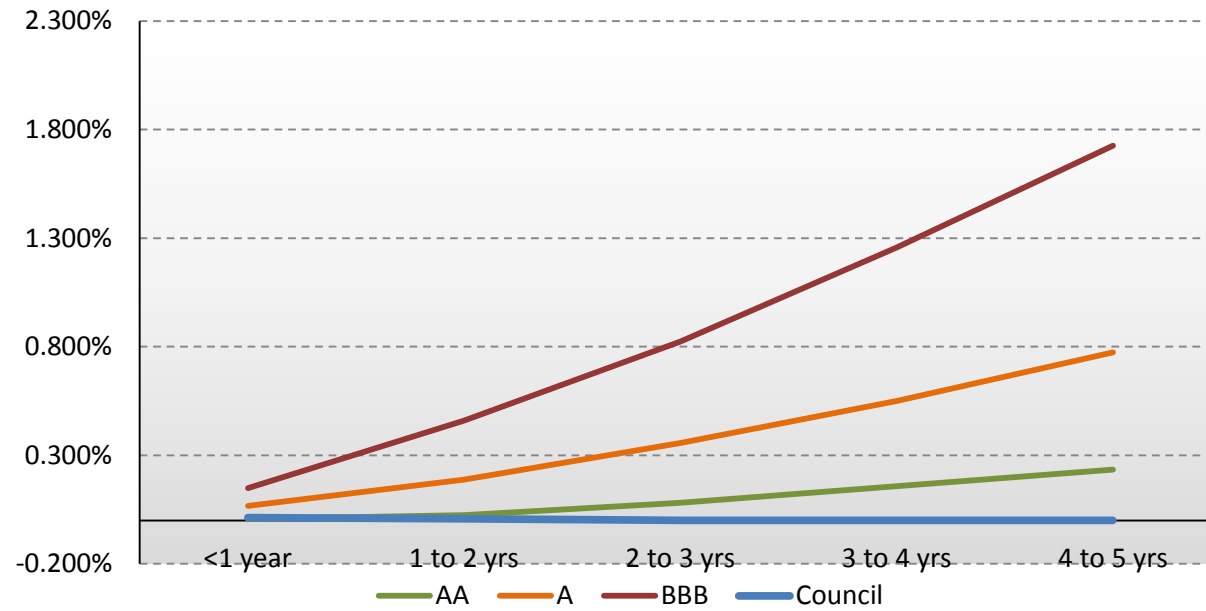
Portfolios weighted average risk number = **3.39**

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

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/ECFs	
									WAM	WAM at Execution
Yellow	33.77%	£59,200,000	33.78%	£20,000,000	11.41%	0.44%	59	121	89	182
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	5.70%	£10,000,000	0.00%	£0	0.00%	0.75%	257	364	257	364
Orange	14.90%	£26,120,000	100.00%	£26,120,000	14.90%	0.66%	0	0	0	0
Red	45.63%	£80,000,000	25.00%	£20,000,000	11.41%	0.58%	77	121	76	134
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
<b>Total</b>	<b>100.00%</b>	<b>£175,320,000</b>	<b>37.71%</b>	<b>£66,120,000</b>	<b>37.71%</b>	<b>0.56%</b>	<b>70</b>	<b>117</b>	<b>97</b>	<b>173</b>

Investment Risk and Rating Exposure

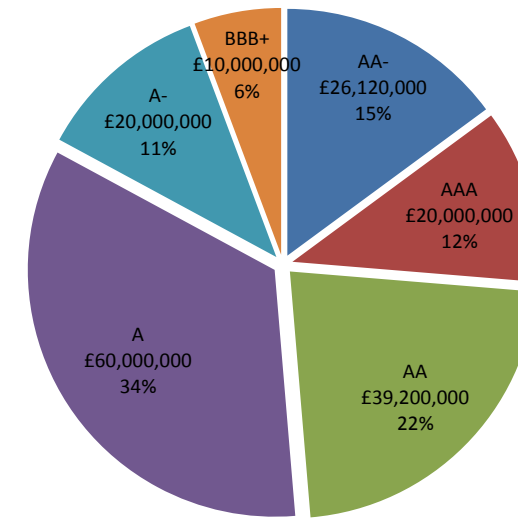
Investment Risk Vs. Rating Categories



Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.007%	0.024%	0.081%	0.158%	0.234%
A	0.067%	0.189%	0.356%	0.551%	0.775%
BBB	0.150%	0.460%	0.824%	1.257%	1.726%
Council	0.013%	0.008%	0.000%	0.000%	0.000%

Rating Exposure



**Historic Risk of Default**

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

**Chart Relative Risk**

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

**Rating Exposures**

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

## Shropshire County Council

### Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
07/09/2016	1472	Newcastle Building Society	U.K.	Affirmed and withdrew the ratings of Newcastle Building Society. Long Term Rating affirmed at 'BB+', 'Stable Outlook', Rating Withdrawn. Short Term Rating affirmed at 'B', Rating Withdrawn.



## Shropshire County Council

### Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
16/09/2016	1473	Norddeutsche Landesbank Girozentrale	Germany	Long Term Rating downgraded to 'A3' from 'A2', removed from 'Negative Watch' and placed on 'Negative Outlook'. Short Term Rating downgraded to 'P-2' from 'P-1', removed from 'Negative Watch'.

## Shropshire County Council

### Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
19/09/216	1474	Finland Sovereign Rating	Finland	Affirmed at 'AA+', Outlook changed to 'Stable' from 'Negative'.

## Appendix B

### Prudential Indicators – Quarter 2 2016/17

Prudential Indicator	2016/17 Indicator £m	Quarter 1 – Actual £m	Quarter 2 – Actual £m	Quarter 3 – Actual £m	Quarter 4 – Actual £m
Non HRA Capital Financing Requirement (CFR)	246	253	253		
HRA CFR	85	85	85		
Gross borrowing	324	329	326		
Investments	140	173	175		
Net borrowing	184	156	151		
Authorised limit for external debt	449	329	326		
Operational boundary for external debt	402	329	326		
Limit of fixed interest rates (borrowing)	449	329	326		
HRA debt Limit	96	85	85		
Limit of variable interest rates (borrowing)	225	0	0		
Principal sums invested > 364 days	40	0	0		
Maturity structure of borrowing limits	%	%	%		
Under 12 months	15	2	3		
12 months to 2 years	15	2	2		
2 years to 5 years	45	4	6		
5 years to 10 years	75	6	2		
10 years to 20 years	100	31	32		
20 years to 30 years	100	21	21		
30 years to 40 years	100	16	16		
40 years to 50 years	100	10	10		
50 years and above	100	8	8		

\* Based on period 6 Capital Monitoring report

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**Capital Financing 2016/17 - Period 6**

Prudential Borrowing Approvals	Date Approved	Amount Approved	Applied (Spent) 2006/07	Applied (Spent) 2007/08	Applied Outturn 08/09 2008/09	Applied Outturn 09/10 2009/10	Applied Outturn 10/11 2010/11	Applied Outturn 11/12 2011/12	Applied Outturn 12/13 2012/13	Applied Outturn 13/14 2013/14	Applied Outturn 14/15 2014/15	Applied Outturn 15/16 2015/16	Budgeted Period 6 16/17 2016/17	First year MRP Charged	Asset Life	Final year MRP Charged	
		£	£	£	£	£	£	£	£	£	£	£	£	£			
Monkmoor Campus	24/02/2006	3,580,000															
Capital Receipts Shortfall -Cashflow	24/02/2006	5,000,000															
Applied:																	
Monkmoor Campus			3,000,000		0												2007/08 25 2031/32
William Brooks					0		3,580,000										2011/12 25 2035/36
Tem Valley					2,000,000												2010/11 35 2044/45
		<b>8,580,000</b>	<b>3,000,000</b>	<b>0</b>	<b>2,000,000</b>	<b>0</b>	<b>3,580,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>				
Highways	24/02/2006	2,000,000	2,000,000														2007/08 20 2026/27
Accommodation Changes	24/02/2006	650,000	410,200	39,800													2007/08 6 2012/13
Accommodation Changes - Saving	31/03/2007	(200,000)															
		<b>450,000</b>	<b>410,200</b>	<b>39,800</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>				
The Ptarmigan Building	05/11/2009	3,744,000				3,744,000											2010/11 25 2034/35
The Mount McKinley Building	05/11/2009	2,782,000				2,782,000											2011/12 25 2035/36
The Mount McKinley Building	05/11/2009	0															2011/12 5 2015/16
Capital Strategy Schemes - Potential Capital Receipts shortfall - Desktop Virtualisation	25/02/2010	187,600				187,600					0						2010/11 25 5 2014/15
Carbon Efficiency Schemes/Self Financing	25/02/2010	1,512,442					115,656	1,312,810	83,976								2011/12 5 2017/18
Transformation schemes		92,635						92,635									2012/13 3 2014/15
Renewables - Biomass - Self Financing	14/09/2011	92,996						82,408	98,258	(87,670)							2014/15 25 2038/39
Solar PV Council Buildings - Self Financing	11/05/2011	56,342						1,283,959	124,584	(1,352,202)							2013/14 25 2038/39
Depot Redevelopment - Self Financing	23/02/2012	0															2014/15 10 2023/24
Oswestry Leisure Centre Equipment - Self Financing	04/04/2012	124,521						124,521									2012/13 5 2016/17
Leisure Services - Self Financing	01/08/2012	711,197							711,197								2013/14 5 2016/17
Mardol House Acquisition	26/02/2015	4,160,000									4,160,000						2015/16 25 2039/40
Mardol House Adaptation and Refit	26/02/2015	3,340,000									167,641	3,172,358.86					2016/17 25 2041/41
Previous NSDC Borrowing		955,595			821,138	134,457											2009/10 5/25
		<b>28,789,327</b>	<b>5,410,200</b>	<b>39,800</b>	<b>2,821,138</b>	<b>6,848,057</b>	<b>3,695,656</b>	<b>2,896,333</b>	<b>1,018,015.37</b>	<b>(1,439,872)</b>	<b>4,327,641</b>	<b>3,172,359</b>	<b>0</b>				
								0	0	0	0	0	0				

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Committee and Date

Audit Committee  
24 November 2016  
9:30 am

Item

Public

## **ANNUAL REVIEW OF COUNTER FRAUD, BRIBERY AND ANTI-CORRUPTION ACTIVITIES, INCLUDING AN UPDATE ON THE NATIONAL FRAUD INITIATIVE**

**Responsible Officer** Ceri Pilawski  
e-mail: [ceri.pilawski@shropshire.gov.uk](mailto:ceri.pilawski@shropshire.gov.uk)

Telephone: 01743 257739

### **1. Summary**

This report outlines the measures undertaken in the last year to evaluate the potential for the occurrence of fraud, and how the Council manages these risks with the aim of prevention, detection and subsequent reporting of fraud, bribery and corruption. The Counter Fraud, Bribery and Anti-Corruption Strategy is currently being reviewed in line with best practice and will be the subject of a later report to Committee. In the meantime, the strategy 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, thus demonstrating the continuing and important role the strategy plays in the corporate governance and internal control framework.

### **2. Recommendations**

Members are asked to consider, and endorse with appropriate comment, the measures undertaken and detailed in this report.

## **REPORT**

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

- 3.1 The adoption and promotion of an effective Counter Fraud, Bribery and Anti-Corruption approach helps the Council encourage the detection of fraud and irregularities proactively, and manage them appropriately.
- 3.2 In aligning the Council's Counter Fraud, Bribery and Anti-Corruption Strategy with CIPFA's Code of practice on managing the risks of fraud and corruption, the Council continues to apply best practice.
- 3.3 Internal Audit, working to the Public Sector Internal Audit Standards (PSIAS), has a responsibility to evaluate the potential for the occurrence of fraud and any subsequent management response. This report sets out some of the practices employed to manage these risks including involvement with the National Fraud Initiative.
- 3.4 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.

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

All revisions can be met from within existing budgets.

#### **5. Background**

- 5.1 The Council sets itself high standards for both members and officers in the operation and administration of the Council's affairs and has always dealt with any allegations or suspicions of fraud, bribery and corruption promptly. It has in place policies, procedures and initiatives to prevent, detect and report on fraud, bribery and corruption, including a Speaking up about Wrongdoing policy supported by an overarching Counter Fraud, Bribery and Anti-Corruption Strategy.
- 5.2 The Counter Fraud, Bribery and Anti-Corruption Strategy is contained in part five of the Constitution Last reviewed and updated in November 2015, the strategy is now the subject of an ongoing review and, as such, will be reported to a future meeting of this Committee.

#### **6. Issues**

##### **National Picture**

- 6.1 The Annual Fraud Indicator 2013 (AFI) still provides the most recent government recognised figures regarding fraud. Estimates show that fraud costs the UK economy as a whole £52bn per year, with losses against the public sector estimated at £20.6bn, £2.1bn at local government level. Several areas particularly susceptible to fraud were identified within the £2.1bn. These were; housing tenancy, procurement, payroll and recruitment, council tax, blue badge scheme, grants, pensions, and housing benefits. As a result of the establishment of the Single Fraud Investigation Service (SFIS), the Department of Work and pensions (DWP) has taken over responsibility for investigating housing benefit fraud and tax credit fraud. Previously, local authorities and Her Majesty's Revenue and Customs (HMRC) were responsible for these investigations.



Authorities still retain responsibility for fraud prevention and the investigation of all other fraud risks.

6.2 The CIPFA Fraud and Corruption Tracker (CFaCT) is an annual survey of the fraud and corruption detected in local authorities across the UK. It is similar to the former Annual Fraud and Corruption Survey delivered by the Audit Commission and includes questions commissioned by the Fighting Fraud and Corruption Locally Board and the Home Office. The intention is to provide a more complete picture of local authorities' vigilance in respect of fraud. It examines:

- Levels of fraud and corruption detected each financial year;
- Number of investigations undertaken;
- Types of fraud encountered;
- Emerging trends.

It is an up-to-date overview of all fraud, bribery and corruption activity across the UK public sector.

6.3 The Council participated in CFaCT, the key results from which were:

- The largest area of growth in fraud investigation across the public sector is in procurement.
- Business rates continue to be an area of concern with right to buy becoming an emerging risk, particularly in London.
- 10% of organisations which responded have no dedicated counter fraud service.
- Respondents reported the number of non-benefit investigators has increased by nearly 50% since the 2014/15 report. Organisations with a limited counter fraud capability may not have completed the survey.
- What is perceived as a high risk area for fraud varies across the country and by organisation. Local authority respondents noted their largest fraud risk areas as:
  - council tax and
  - housing procurement.
- CIPFA estimates that over £271m worth of fraud has been detected or prevented within the public sector in 2015/16. This represented 77,000 cases at an average value of £3,500 per case.
- 56% of respondents had access to a financial investigation resource which allowed them to recover money from convicted fraudsters. Respondents recovered £18.4m through proceeds of crime investigations.
- The highest number of investigations covered council tax fraud (61%) with an estimated value loss of £22.4m. The highest value gained from investigations was in the area of housing fraud and totalled £148.4m.
- Respondents told CIPFA that their biggest issues in countering fraud were
  - Not having the capacity to identify fraud risk and investigate allegations;
  - Not having effective fraud risk assessment and management; and
  - Barriers to data sharing.

6.4 The Fighting Fraud and Corruption Locally Strategy (FFCL) 2016–2019 is England's counter fraud and corruption strategy for local government. It has been developed by local authorities and counter fraud experts. It is the definitive guide for council leaders, chief executives, finance directors, and all those with

governance responsibilities. The strategy includes practical steps for fighting fraud, shares best practice and brings clarity to the changing anti-fraud and corruption landscape. The production and implementation of the strategy is overseen by the Fighting Fraud and Corruption Locally board, which includes representation from key stakeholders.

- 6.5 The Fighting Fraud and Corruption Locally Companion 2016–2019 is aimed at those in local authorities who undertake work in the counter fraud area. It contains information on the research for the FFCL Strategy on main risks and the counter fraud landscape. A number of themes emerged in the research and have been outlined in this document. The FFCL Companion also contains good practice and a checklist for local authorities to use to help ensure they have the right processes and resources in place. Internal Audit will review the Council's approach against this checklist to identify any required improvements.

### **CIPFA's Counter Fraud Assessment Tool**

- 6.6 Members may recall that CIPFA developed and shared a counter fraud assessment tool. The tool is designed to help councils assess their counter fraud arrangements against the standards set out in CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption, as published and reported to Audit Committee in November 2014. The tool is used as a basis for ongoing improvement and development planning, it also provides a basis for assurance on the adequacy and effectiveness of the Council's counter fraud arrangements.
- 6.7 The assessment tool contains 68 performance statements which can be used to measure effectiveness against the five key principles of managing the risks of fraud and corruption, which are to:
- Acknowledge responsibility;
  - Identify risks;
  - Develop strategy;
  - Provide resources and
  - Take action.

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

- 6.8 The assessment has been refreshed in the current year. Shropshire's compliance with CIPFA's Code of Practice on managing the risks of fraud and corruption can be summarised as follows:

#### **Acknowledge responsibility**

The Council has reached a good level of performance. The leadership team is acknowledging the risks and demonstrating positive leadership to help build an anti-fraud culture and proactively manage risk. There are some areas where more could be done on a regular basis to ensure the focus is maintained and to publicly demonstrate the Council's anti-fraud commitment.

#### **Identify risks**

The Council is meeting the standard set out in the Code of Practice. It has comprehensive arrangements for fraud risk identification and assessment and is working to actively manage those risks.

### **Develop strategy**

The Council is meeting the standard set out in the code of practice. It has in place a strategy to address its fraud and corruption risks and has defined responsibilities for implementation and oversight.

### **Provide resources**

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

### **Take action**

The Council is meeting the standard set out in the code and is actively implementing the actions identified in its counter fraud strategy and responding effectively to the risks emerging. It reviews its performance and has arrangements in place to provide assurance and accountability.

### **In summary**

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

6.9 Following review last year of CIPFA's Code of Practice on managing the risk of fraud and corruption, the following improvements are being considered for the Council's Counter Fraud, Bribery and Anti-Corruption Strategy and will be reported to a future meeting of this Committee:

- A revised statement from the leadership team at the front of the strategy recognising the specific threats of fraud and corruption faced by the Council;
- The Council's overall approach to recovery of losses resulting from fraud;
- Reformatting of the strategy to make it easier to read;
- An associated action plan, which will allow for smarter performance monitoring of improvements;

### **National Fraud Initiative (NFI)**

6.10 The National Fraud Initiative (NFI), run by the Cabinet Office, is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. The Council continues to participate in this exercise, Results of the 2016/17 data matching exercise are due out at the end of January 2017, the outcomes of any resulting investigations will be reported to a future committee meeting.

- 6.11 In early November, the Cabinet office reported that the NFI has identified and prevented fraud, overpayments and errors amounting to £198m in England from April 2014 to March 2016. The highest values uncovered were:
- £85 million of pension fraud and overpayments;
  - £37 million of fraudulent or wrongly received, council tax single person discount (SPD) payments; and
  - £39 million of welfare benefit fraud and overpayments.
- 6.12 The exercise is reported as benefitting public sector organisations that participate by providing paybacks that include maximising the identification of fraudulent individuals, safeguarding taxpayer's money and protecting vital public services. A full copy of the report is available on the NFI's website. Specific benefits for the Council were reported to your meeting in November 2015 following which there has been minimal change to report.

### **Transparency requirements**

- 6.13 Legislation on transparency also applies to anti-fraud activities. The Local Government Transparency Code sets out the minimum data that local authorities should be publishing, the frequency with which it should be published and how it should be published. The Council has complied with these requirements, the results of which can be found on the web site at:
- <https://www.shropshire.gov.uk/open-data/fraud-data/>

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

- 6.14 The Council's Regulation of Investigatory Powers Policy ('the Policy') that sets out the Council's position in respect of the use of surveillance techniques was updated with effect from 1 October 2015. There have been no further changes to the policy.

### **Other activities**

- 6.15 Following the restructuring in Internal Audit, the service has continued to invest in training to ensure that sufficient officers remain up to date and capable of undertaking investigations in a professional manner as the need arises. Two officers have completed CIPFA's Accredited Counter Fraud Technician Course. In total over a third of the Audit team will have qualifications and/or considerable experience in conducting investigations.
- 6.16 In terms of *potential* for fraud, the counter fraud risk assessment has been refreshed and one high risk area and a number of medium risk areas have been identified. These include:

#### **High**

- Housing benefits

#### **Medium**

- Fraudulent travel, expense, overtime and timesheets
- Pension continues after death
- Creation of a ghost employee/pensioner
- Employee commits benefit fraud
- False invoicing

- Theft of cash
- Council tax discounts
- NDR reliefs
- Disabled parking blue badges
- Direct payments / personal budgets

6.17 There are a number of steps in place, planned or underway to help to explore, identify and mitigate these fraud risks:

- Housing benefit investigations are referred to the Department of Work and Pensions Single Fraud Investigation Service for action. A Housing Benefits audit is planned in 2016/17 and Internal Audit, in conjunction with Human Resources, continue to risk assess any employees that are suspected of benefit fraud to consider if internal investigations are required or Council assets within the employee's control may be at risk.
- Specific Internal audit reviews of overtime claims and a verification exercise of employees to establishment lists are planned to improve controls in these areas and challenge any potential fraud risks.
- The 2016/17 NFI exercise includes data matching for payroll, pensions, creditors, housing benefit, council tax, personal budgets, blue badge parking permits which will identify any control issues and potential frauds.

6.18 The current year audit plan includes a number of internal audit reviews that have been conducted, or are planned, to help ensure appropriate controls are in place, and are operational, to counter the fraud risks identified from the risk assessment:

- Payroll
- Housing benefits
- Personal budgets and direct payments
- Purchasing and contract arrangements
- Cash is reviewed as part of establishment audit reviews
- Sales ledger
- Income collection
- Council tax, single persons discount

In addition, every investigation, where weaknesses have been identified in internal controls, results in a report which lists areas to be improved to help reduce a repeat of any inappropriate activity.

6.19 In summary, the Audit Committee are asked to take assurances as to the level of counter fraud activity currently undertaken with the present resources.

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

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

The Bribery Act 2010  
NFA Fighting Fraud Together, The strategic plan to reduce fraud  
Fighting Fraud Locally: The Local Government Fraud Strategy  
Enterprise and Regulatory Reform Act 2013  
Protecting the English Public Purse (PEPP 2015) report  
Report to Council on 24 September 2015 entitled 'Regulation of Investigatory Powers Policy'  
Regulation of Investigatory Powers Policy (Version4 09/2015) adopted with effect from 1 October 2015

**Cabinet Member (Portfolio Holder)** Malcolm Pate (Leader of the Council) and Tim Barker (Chairman of Audit Committee)

**Local Member** n/a

Appendices: Not applicable



Committee and Date

Item

Audit Committee

24 November 2016

9:30am

Public

## **ANNUAL REVIEW OF AUDIT COMMITTEE TERMS OF REFERENCE**

**Responsible Officer** James Walton

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

Tel: 01743 255011

### **1. Summary**

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

### **2. Recommendations**

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

## **REPORT**

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

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

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

### **4. Financial Implications**

There are no financial implications.

## 5. Background

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



5.7 Following the training session received by Members in October 2016, areas raised for specific consideration and potential inclusion in the Terms of Reference included:

- Ensuring that partnership working and alternative delivery models are reviewed by the Committee.

Do Members want anything specific in section 40, the work plan, or are they satisfied this will be covered under sections 8 to 16, core functions of the Committee and included in the detailed work plan considered at the February meeting?

- Consideration of independent members on the Audit Committee.

Would Members like to consider this further?

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

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

**Cabinet Member (Portfolio Holder)** Malcolm Pate (Leader of the Council) and Tim Barker (Chairman of Audit Committee)

**Local Member** N/A

**Appendices** Audit Committee Terms of Reference

**AUDIT COMMITTEE TERMS OF REFERENCE**

**Membership**

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

**Meetings**

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

## **CORE FUNCTIONS**

### **Governance risk and control**

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

### **Internal Audit**

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

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

### **External Audit**

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

### **Financial reporting**

33. 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.
34. To consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.

### **Treasury Management**

35. 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.
36. 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<sup>1</sup>.
37. To review the treasury risk profile and adequacy of treasury risk management procedures and assurances on treasury management

### **Accountability Arrangements**

38. 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.
39. To report to Council where the Audit Committee have added value, improved or promoted the control environment and performance in relation to the Terms

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<sup>1</sup> Clause 3 Treasury Management Code of Practice

of Reference and the effectiveness of the Committee in meeting its purpose and functions.

### **Work plan**

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

- p) The annual review and re-affirmation of the authority's Counter Fraud, Bribery and Anti-Corruption Strategy to ensure on-going training and awareness of all staff regarding Counter Fraud and Anti-Corruption measures.
- q) Any issues within the remit of the Audit Committee referred to it by the Head of the Paid Service, the Section 151 Officer, Monitoring Officer or any Council body for determination.
- r) Treasury Strategy Reports including the Annual Investment Strategy and Minimum Revenue Provision Policy before submission to Full Council.
- s) The mid-year Treasury Strategy Report and Annual Treasury Report before submission to Full Council.

### **Powers of the Audit Committee**

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

### **Audit Committee Competency Framework**

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

- c) Financial management and accounting including accounting concepts and standards.
- d) Risk management.
- e) Audit.
- f) Counter fraud.
- g) Treasury management.

And that the Committee should receive appropriate levels of training.

Reviewed and updated **November 2016**.





<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
24 November 2016	
9:30 am	<u>Public</u>

## AUDIT COMMITTEE SELF-ASSESSMENT OF GOOD PRACTICE

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

### 1. Summary

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

### 2. Recommendations

Members are asked to:

- A. Consider and comment as appropriate on the attached self-assessment of good practice, agree or otherwise and identify any amendments required.
- B. Identify any further work, actions or training required as a result of the completion of the self-assessment of good practice (with particular attention to proposals highlighted in paragraph 5.6).

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

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

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

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

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

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

#### **5. Background**

- 5.1 The Chartered Institute of Public Finance and Accountancy, CIPFA, have produced guidance on the function and operation of audit committees; 'Audit Committees in Local Authorities and Police, 2013 edition'. The guidance represents CIPFA's view of best practice for Audit Committees in local authorities throughout the UK.
- 5.2 In the guidance, CIPFA provide a suggested self-assessment against recommended practice. Authorities are encouraged to use the checklist to determine if they are meeting recommended practice and as an indicator of the Committee's effectiveness; following which any changes or improvements identified to enhance the Committee's performance should be managed.
- 5.3 The Section 151 Officer and the Head of Audit have completed an initial review of the self-assessment, based on information from previous assessments and with knowledge of the Committee's compliance with recommended practices, for members to consider, discuss and amend as appropriate. Members did this at Audit Committee meetings in 2014 and 2015 and during training sessions in 2014. Annual refreshers are undertaken with Member involvement and reported to this Committee. In preparation for 2016/17, the self-assessment has been updated and circulated to members for consideration prior to this meeting, attached as **Appendix A**.
- 5.4 In 2014, Members completed the following activities to gain a better picture of the Committee's understanding of its effectiveness as part of the review process:
- A self-assessment of individual training requirements.
  - A self-assessment of the effectiveness of the audit committee.

Learning from these self-assessments is still valid, and the data extracted continues to inform training sessions and identify areas for continued improvement. These are balanced alongside ongoing requests from

committee members in response to current topics. Training sessions provided in February, May and October 2016 have included:

- Treasury Management.
- Public sector procurement of external audit.
- Review of the ICT operational risk register to gain an increased understanding of their internal control environment.
- Accounts overview training, looking at both the process and which figures to review.
- Assurance Framework – how it all maps together and Internal Audit's and Risk Management's Role.
- Assurance framework for the Corporate Plan.
- Committee's self-assessment of its effectiveness.

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

- 5.5 Following the current review of the self-assessment, no areas of partial compliance were identified.

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

As noted above, in October 2016, Members received a training session which explored their approach to seeking assurances on the control, governance and risk environment and if there were any changes to their approach that could improve the Committee's effectiveness. The proposed actions from which are explored here for Members to consider. Full details are set out in **Appendix 3**, alongside the evidence details that support each self-assessment control:

1. *Members to review the work and training plans in February to consider the areas for inclusion that they require assurances from, where Internal Audit cannot provide such assurance, February 2017 (5).*
2. *Members to consider having a pre meeting, on the morning of the meeting perhaps, in advance of the formal meeting to agree questions and approach to be followed during the meeting, February 2017 (8).*
3. *Skills self-assessment for members, May 2017(12).*
4. *The new Chair appointed in May to consider shadowing an established Audit Committee Chair for another organisation to improve their understanding of the role and refine their approach, May 2017(13).*
5. *Audit Committee to identify key areas on which to seek further assurances from managers in respect of the control environment to help facilitate an improvement (e.g. IT and schools/ academisation environment, February 2017 (19).*

6. *Reports on strategic risks provide a level of detail to enable members a greater understanding of the controls in place and targeted actions to reduce the risk further if required, February 2017 (19).*

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

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

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

**Cabinet Member (Portfolio Holder)**

Malcolm Pate (Leader of the Council) and Tim Barker (Chairman of Audit Committee)

**Local Member** n/a

**Appendices**

**A** Self-assessment of good practice November 2016

**B** Analysis of training requirements and the effectiveness of the Audit Committee based on the 2014 self-assessments

**C** Self-assessment of good practice November 2016 showing evidence

Appendix A: Self-assessment of Good Practice November 2016

Good practice questions		Yes	Partly	No
<b>Audit Committee purpose and governance</b>				
1	Does the authority have a dedicated audit committee?	✓		
2	Does the audit committee report directly to full council? (Applicable to local government only.)	✓		
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	✓		
4	Is the role and purpose of the audit committee understood and accepted across the authority?	✓		
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	✓		
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?	✓		
<b>Functions of the committee</b>				
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?			
	<ul style="list-style-type: none"> <li>• Good governance</li> </ul>	✓		
	<ul style="list-style-type: none"> <li>• Assurance framework</li> </ul>	✓		
	<ul style="list-style-type: none"> <li>• Internal audit</li> </ul>	✓		

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

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

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

### Training requirements

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

H	High
M	Medium
L	Low

#### CORE SKILLS

#### Evidence of training

H	Organisational knowledge	2014
H	Audit Committee role and functions	2016, 2014
H	Governance	2016, 2015, 2014
H	Internal Audit	2016, 2015, 2014
H	Financial management and accounting	2016, 2015
H	External Audit	2016
H	Risk Management	2016, 2014
H	Counter-fraud	2015
H	Values of good governance	2016, 2015, 2014
H	Treasury management	2016
H	Strategic thinking and understanding of materiality	
H	Questioning and constructive challenge	2014
H	Focus on improvement	
H	Able to balance practicality against theory	
H	Clear communication skills and focus on the needs of users	



**SPECIALIST SKILLS**

M	Accountancy	2016, 2015
M	Internal Audit	2016, 2015, 2014
M	Risk Management	2016, 2015, 2014
L	Governance and Legal	2016, 2015
M	Service knowledge relevant to the functions of the organisation	2014
M	Programme and project management	2015, 2014
M	IT system and IT governance	2016, 2015, 2014

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

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

**Appendix C: Self-assessment of Good Practice showing evidence**

	<b>Good practice questions</b>	<b>Yes/ No/ Partly</b>	<b>Evidence</b>
	<b>Audit Committee purpose and governance</b>		
1	Does the authority have a dedicated audit committee?	Yes	Constitution/ actual meetings, details on internet.
2	Does the audit committee report directly to full council? (Applicable to local government only.)	Yes	ToR <sup>1</sup> paragraph (para) 38/39, reviewed, revised and reapproved at November Audit Committees.
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	Yes	ToR from para 8 reviewed, revised and reapproved at November Audit Committees.
4	Is this role and purpose of the audit committee understood and accepted across the authority?	Yes	Officers and members are aware of this – there can be some confusion over the scrutiny/ Audit Committee role at times, this is worked on by key members and officers at every opportunity. Officers are invited to Audit Committee to discuss major risks and control issues, examples can be provided from various agendas. Discussions have taken place between the Chairman, CEO, senior officers and Portfolio Holders as required.

<sup>1</sup> Terms of reference

	<b>Good practice questions</b>	Yes/ No/ Partly	<b>Evidence</b>
			Member training is sometimes extended to a wider member audience The annual report from Committee to Council informs all members of the Committee's activities.
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	Yes	ToR para 8-16. ToR Para 40, j. The Committee's work plan identifies areas of governance that it provides support on, this can be seen in Committee agendas at February meetings. The Annual assurance report to Council presented to the June Committee also demonstrates this.  <i>Proposed Action: Members to review the work and training plans in February to consider the areas for inclusion that they require assurances from, where Internal Audit cannot provide such assurance.</i>
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?	Yes	No complaints from Council. Annual report to Council appears on June Audit Committee agenda allows members to comment and challenge the Committee's work. Evidence that the Committee is reviewing issues aligned to the Strategic Risks of the Council (IT, Commissioning, etc.).
	<b>Functions of the committee</b>		
7	Do the committee's terms of reference explicitly address all the core areas	Yes	

	<b>Good practice questions</b>	<b>Yes/ No/ Partly</b>	<b>Evidence</b>
	identified in CIPFAs Position Statement?		
	<ul style="list-style-type: none"> <li>• Good governance</li> </ul>		ToR para 8+
	<ul style="list-style-type: none"> <li>• Assurance framework</li> </ul>		ToR para 8+
	<ul style="list-style-type: none"> <li>• Internal audit (IA)</li> </ul>		ToR para 17+
	<ul style="list-style-type: none"> <li>• External audit</li> </ul>		ToR para 28+
	<ul style="list-style-type: none"> <li>• Financial reporting</li> </ul>		ToR para 33+
	<ul style="list-style-type: none"> <li>• Risk management</li> </ul>		ToR para 11+
	<ul style="list-style-type: none"> <li>• Value for money or best value</li> </ul>		ToR para 10+
	<ul style="list-style-type: none"> <li>• Counter-fraud and corruption</li> </ul>		ToR para 15+
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?	Yes	Evaluation is through the: <ul style="list-style-type: none"> <li>• Self-assessment of compliance with this best practice document, reported to November.</li> <li>• Annual report to Committee is written to map back to the terms of reference.</li> <li>• Annual work plan, reported to February Committee, which maps back to the ToR.</li> </ul>

	Good practice questions	Yes/ No/ Partly	Evidence
			<ul style="list-style-type: none"> <li>Agendas, minutes and reports of Committee support that all core areas are being reviewed.</li> </ul> <p><i>At a recent training session the committee noted that there may a benefit in Members having a pre meeting to consider questions in advance of the formal meeting to ensure that all aspects are fully considered and coordinated.</i></p> <p><b><i>Proposed Action: Members to consider having a pre meeting, on the morning of the meeting perhaps, in advance of the formal meeting to agree questions and approach to be followed during the meeting.</i></b></p>
9	Has the audit committee considered the wider area identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?	Yes	<p>Wider areas are:</p> <ul style="list-style-type: none"> <li>Matters at the request of Statutory Officers or other committees – if these are brought to the Committee they would be considered in line with the ToR, para 5.</li> <li>Ethical Values – The Committee does not have responsibility for reviewing ethical standards. A separate Standards Committee which has this responsibility is held as and when required.</li> <li>Treasury Management – The Committee covers this responsibility as evidenced by its ToR para 35+.</li> </ul>

	<b>Good practice questions</b>	Yes/ No/ Partly	<b>Evidence</b>
10	Where coverage of core areas has been found to be limited, are plans in place to address this?	Yes	No limitations have been found, evidence is demonstrated openly on the Internet in the: <ul style="list-style-type: none"> <li>• Work plan</li> <li>• Regular Committee reports</li> <li>• ToR</li> <li>• Annual report to Council</li> <li>• Lack of negative feedback from Council and statutory officers</li> </ul>
11	Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?	Yes	ToR, especially para 41, sets out decision making powers. Review of work plans, agendas, reports and minutes demonstrate this, all are available on the Internet.
	<b>Membership and support</b>		
12	Has an effective audit committee structure and composition of the committee been selected? This should include:	Yes	
	<ul style="list-style-type: none"> <li>• Separation from the executive</li> </ul>		ToR, para 1 Where it has been recognised that Members have conflicting responsibilities, they have resigned from the Committee.

	Good practice questions	Yes/ No/ Partly	Evidence
	<ul style="list-style-type: none"> <li>An appropriate mix of knowledge and skills among the membership</li> </ul>		<p>ToR, para 42+</p> <p>Demonstrated by self-assessments completed by Members on the 5<sup>th</sup> June and 2<sup>nd</sup> October 2014 which helped to inform the training plans covered in publically available reports on the Committee's work plan (February) and the annual report to Council (June).</p> <p>Members have wide experience and continuity of knowledge, some of which sit on Audit Committee's for other public sector organisations, they also have private business knowledge, financial, governance and between them the full set of core skills required for their roles.</p> <p>Where members feel further knowledge or training is required they have the opportunity to and do raise this, demonstrated through work, training plans and assessments. Following the elections it is likely that membership of the Committee will change and a further review of skills will be undertaken.</p> <p><b><i>Proposed Action: Skills self-assessment for members, May 2017.</i></b></p>
	<ul style="list-style-type: none"> <li>A size of committee that is not unwieldy</li> </ul>		ToR, para 1
	<ul style="list-style-type: none"> <li>Where independent members are used, that they have been</li> </ul>	Yes	<p>There are currently no independent members on the Committee.</p> <p>Appointment would follow good recruitment processes including evaluation of the skills sets required, advertising,</p>

	Good practice questions	Yes/ No/ Partly	Evidence
	appointed using an appropriate process.		clear job specifications and descriptions, selection and awarding processes.
13	Does the chair of the committee have appropriate knowledge and skills?	Yes	<p>Chair has been in place for the current year. Evidenced by attendance at Committee and demonstrated by his management of the meetings and challenge at these and resulting recommendations, available on public web sites.</p> <p>The Chair also works closely with the S151 Officer and Head of Audit to retain current knowledge and management of risks as they develop.</p> <p><b><i>Proposed Action: The new Chair appointed in May to consider shadowing an established Audit Committee Chair for another organisation to improve their understanding of the role and refine their approach.</i></b></p>
14	Are arrangements in place to support the committee with briefings and training?	Yes	<p>Regular training sessions are agreed with the Chair and wider members of the Committee.</p> <p>Demonstrated by:</p> <ul style="list-style-type: none"> <li>• Completion of the skills assessment (agreed to be refreshed every two years, last completed 2014, to be rerun following elections, early 2017).</li> <li>• Committee work plan (February Committee agenda)</li> </ul>



	Good practice questions	Yes/ No/ Partly	Evidence
			<ul style="list-style-type: none"> <li>• Evidence of training including agendas, supporting training documents etc. available on request.</li> <li>• CIPFA's Better Governance Framework provides members with up to date briefing papers at least twice a year and all members can access the web site which provides weekly updates. Specialist training sessions are also accessible through this subscription.</li> <li>• External auditors provide training sessions available to members – demonstrated in their updates to the Committee.</li> </ul>
15	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?	Yes	<p>Demonstrated by self-assessments completed by Members on the 5<sup>th</sup> June and 2<sup>nd</sup> October 2014 which helped to inform the training plans covered in publically available reports on the Committee's work plan (February), the Effectiveness of the Audit Committee(November) and the annual report to Council (June).</p> <p>Training continues to be an ongoing process and plans are outlined alongside the Committee's work plan for this.</p>
16	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	Yes	<p>Demonstrated by regular attendance at all Committees by these key stakeholders and the professional manner in which the meetings are managed.</p> <p>Interviews with all parties would help to support this conclusion.</p>

	<b>Good practice questions</b>	Yes/ No/ Partly	<b>Evidence</b>
17	Is adequate secretariat and administrative support to the committee provided?	Yes	Regular qualified and experienced secretarial support is provided to all Committee meetings.
	<b>Effectiveness of the committee</b>		The Committee evaluated its effectiveness by working through and completing a self-assessment of its effectiveness as part of the wider evaluation of its skills and training requirements. Results appear in the footnote below. A training session in October 2016 revisited the effectiveness of the Audit Committee and learning has been fed into the responses from the earlier self-assessment.
18	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	Yes	Committee has received feedback from the incoming Chair and External Audit which is fed into the effectiveness evaluation below.
19	Has the committee evaluated whether and how it is adding value to the organisation?	Yes	Demonstrated by: <ul style="list-style-type: none"> <li>• <b>Promoting the principles of good governance and their application to decision making; advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively:</b> Robust review of the Annual Governance Statement (AGS), reported to June Committee. Follow up of AGS action plan, November Committee. Training on the assurance framework, October 2016. Receipt of reports on the effectiveness of assurance providers (QAIP Quality Improvement Assessment Process, internal</li> </ul>

	Good practice questions	Yes/ No/ Partly	Evidence
			<p>assessment received, external due November 2016, Risk management report, February 2016). Supporting reviews of and receiving reports on governance arrangements (reported to Council following June Committee)</p> <ul style="list-style-type: none"> <li> <b>Contributing to the development of an effective control environment:</b> Encouraging the ownership of the internal control framework by inviting officers to the Committee (Various Committee agendas/ reports/ minutes); raising significant concerns over controls with appropriate managers (IT, housing benefit overpayments, sales ledger performance- various reports through 2015/16 and 2016/17). Receipt of and discussion of Internal Audit findings.                 </li> </ul> <p><i>The external auditor, having viewed the audit committee for a year, has also highlighted that there is possibly a greater role for the Committee in ensuring that there is an improvement in control. This follows the issue of a number of reports highlighting potential weaknesses by Internal Audit and the on-going discussions around the management of IT.</i></p> <p><b>Proposed action: Audit Committee to identify key areas on which to seek further assurances from managers in</b></p>

	Good practice questions	Yes/ No/ Partly	Evidence
			<p><i>respect of the control environment to help facilitate an improvement (e.g. IT and schools/ academisation environment).</i></p> <ul style="list-style-type: none"> <li>• <b>Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks:</b> Receiving reports on the risk management arrangements and the resulting strategic risks. Monitoring the implementation of recommendations where there are strategic risk concerns and holding owners to account for strategic risks. (E.g. AGS, IT, sales ledger).</li> </ul> <p><i>The incoming Audit Committee Chair has requested greater transparency for the Committee in ensuring that risk management processes are operating effectively.</i></p> <p><i>Proposed action: Reports on strategic risks provide a level of detail to enable members a greater understanding of the controls in place and targeted actions to reduce the risk further if required.</i></p> <ul style="list-style-type: none"> <li>• <b>Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence:</b> Reviewing the Audit Charter and</li> </ul>

	Good practice questions	Yes/ No/ Partly	Evidence
			<p>functional reporting arrangements – September Committee and reporting demonstrated by all agendas. Assessment of effectiveness of IA arrangements (June 2016 internal and external assessment planned November 2016).</p> <ul style="list-style-type: none"> <li>• <b><i>Aiding the achievement of the authority’s goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements:</i></b> Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place, reports on IT, commissioning, programme management, delivery of AGS actions and major contracts demonstrated on 2015 and 2016 agendas.</li> <li>• <b><i>Supporting the development of robust arrangements for ensuring value for money:</i></b> Considering how performance in value for money is evaluated as part of the AGS, review of the AGS, delivery of key major projects and programme assurance arrangements (IT, commissioning, contract management) and External Audit reports on VFM on various agendas.</li> </ul>

	Good practice questions	Yes/ No/ Partly	Evidence
			<ul style="list-style-type: none"> <li>• <b>Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks:</b> Reviewing fraud risks and the effectiveness of the council to address them, arrangements reviewed against CIPFA’s Counter fraud model, reported November 2015 and again in 2016, alongside other counter fraud measures. Regular reports on improved management controls following investigations and targeted reviews.</li> <li>• <b>Promoting effective public reporting to the authority’s stakeholders and local community and measures to improve transparency and accountability:</b> Improving how the authority discharges its responsibilities for public reporting; for example; better targeting at the audience, plain English, examples of this are the Committee’s reviews and comments on the Statement of Accounts and other Council policies (Whistleblowing, Counter Fraud, Bribery and Anti-Corruption, etc.) Evidenced by reports in June, September and November. Transparency is demonstrated by the high number of reports provided on the public agenda.</li> </ul>

	<b>Good practice questions</b>	<b>Yes/ No/ Partly</b>	<b>Evidence</b>
20	Does the committee have an action plan to improve any areas of weakness?	Yes	Planned training sessions are in place and topics identified to be included as demonstrated in work plan (February) and effectiveness of the Audit Committee (November) public reports. Committee have also agreed to run self-assessments against the skills matrices and effectiveness of the Committee on a biennial basis. These will next be completed following the elections in May.

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

M<sup>2</sup> Promoting the principles of good governance and their application to decision making.

M Contributing to the development of an effective control environment.

M Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.

M Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.

M Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence.

L Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements.

M Supporting the development of robust arrangements for ensuring value for money.

M Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risk.

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

<sup>2</sup> M = scored medium effectiveness L = Low effectiveness, no areas scored high

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# Agenda Item 12



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
24 November 2016	
09:30am	<u>Public</u>

## INTERNAL AUDIT PERFORMANCE AND REVISED ANNUAL AUDIT PLAN 2016/17

**Responsible Officer** Ceri Pilawski  
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Telephone: 01743 257739

### 1. Summary

This report provides members with an update of work undertaken by Internal Audit in the two and a half months since the last report in September 2016 summarising progress against the Internal Audit Plan. Fifty three percent of the revised plan has been completed (**see Appendix A, Table 1**), marginally lower than previous delivery records, but the team is still on target to achieve 90% delivery by the year end.

One good and 12 reasonable assurances, eight limited and three unsatisfactory assurance opinions have been issued. The 24 final reports contained 247 recommendations, one of which was fundamental.

This report proposes minor revisions taking the overall audit plan from 1,761 days, as reported in September 2016, to 1,785 days. Changes to the planned activity reflect adjustments in both risks and resources. 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 inevitable, and continues to be reflected in a reduction in the level of assurance in the internal control environment. Of concern at this stage of the audit plan delivery, is the increased number of audit reviews attracting unsatisfactory assurances compared to previous years. Limited assurances are also being seen across all service areas. It is important therefore that this situation is kept under review and managed appropriately.

Internal Audit continues to add value to the Council in the delivery of bespoke pieces of work including sharing best practice and providing advice on system developments.

### 2. Recommendations

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

- a) The performance to date against the 2016/17 Audit Plan set out in this report.

- b) The adjustments required to the 2016/17 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, governance, risk 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 15th September 2016 Audit Committee with the caveat that further adjustments may be necessary. This report provides an update on progress made against the plan up to 30<sup>th</sup> October 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 2016/17

- 5.5 Revisions to the February 2016 plan provide for a total of 1,785 days following slight changes reflecting adjustments in risks and resources.
- 5.6 In total, 24 final reports have been issued in the period from 14<sup>th</sup> August 2016 to 30<sup>th</sup> October 2016. These are broken down by service area in **Appendix A, Table 2**.
- 5.7 One good and 12 reasonable assurances were made in the period accounting for 54% of the opinions delivered. This represents an increase in the higher levels of assurance compared to the previous year outturn of 50%. A corresponding decrease in limited (8) and unsatisfactory (3) opinions make up the remaining 46% of opinions issued in the period.
- 5.8 During this period, Commissioning, IT and financial processes in Adult Services continue to show lower assurance levels, the impact of which will be considered as part of Head of Audit's overall year-end opinion. The overall direction of travel throughout the Council is explored in more detail in section 5.17.
- 5.9 Twenty 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 a school fund 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 247 recommendations have been made in the 24 final audit reports issued to date; these are broken down by audit area and appear in **Appendix A, Table 6**.

5.12 One fundamental recommendation has been identified:

**Hardware Replacement Programme**

Management should define a hardware replacement strategy aligned to the overall IT Strategy which takes a long term view of hardware procurement, hardware replacement costs, licence fees and support staffing demands.

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 fundamental, significant and requires attention recommendations are followed up after six months by seeking an update from management. Cases where fundamental recommendations are not implemented in a timely manner are escalated to directors and Audit Committee.

5.14 No recommendations have been rejected by management.

5.15 Performance to date is marginally lower than previous delivery records at 53% (58% 2015/16). The team is still currently targeting delivery of a minimum of 90% of the annual plan by year end. A small number of additional resources have been bought in which accounts for the slight increase in days to 1,785 days. In addition, recruitment processes have begun for a trainee auditor. It is hoped to coordinate the recruitment to this post with the return from maternity leave of a Principal Auditor to help provide suitable management support.

5.16 The following demonstrates areas where Audit have added value with unplanned, project or advisory work, not included in the original plan located at Appendix A, Table 1.

- Advice and recommendations have been made regarding a breach of regulations in relation to the use of radio licences. The control improvements are currently being addressed by the service area.
- Advice and guidance was provided on the key controls to be considered when implementing an online invoice processing module within an existing cloud based application.

**Direction of travel**

5.17 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)

<b>Assurances</b>	<b>Good</b>	<b>Reasonable</b>	<b>Limited</b>	<b>Unsatisfactory</b>	<b>Total</b>
<b>2016/17 to date</b>	<b>6%</b>	<b>42%</b>	<b>31%</b>	<b>21%</b>	<b>100%</b>
<b>2015/16</b>	<b>14%</b>	<b>35%</b>	<b>42%</b>	<b>9%</b>	<b>100%</b>
<b>2014/15</b>	<b>17%</b>	<b>47%</b>	<b>28%</b>	<b>8%</b>	<b>100%</b>

<b>2013/14</b>	<b>30%</b>	<b>45%</b>	<b>15%</b>	<b>10%</b>	<b>100%</b>
<b>2012/13</b>	<b>31%</b>	<b>56%</b>	<b>12%</b>	<b>1%</b>	<b>100%</b>

Comparison of recommendation by categorisation

<b>Categorisation</b>	<b>Best practice</b>	<b>Requires attention</b>	<b>Significant</b>	<b>Fundamental</b>	<b>Total</b>
<b>2016/17 to date</b>	<b>4%</b>	<b>47%</b>	<b>49%</b>	<b>0%</b>	<b>100%</b>
<b>2015/16</b>	<b>4%</b>	<b>54%</b>	<b>42%</b>	<b>0%</b>	<b>100%</b>
<b>2014/15</b>	<b>6%</b>	<b>53%</b>	<b>40%</b>	<b>1%</b>	<b>100%</b>
<b>2013/14</b>	<b>15%</b>	<b>57%</b>	<b>27%</b>	<b>1%</b>	<b>100%</b>
<b>2012/13</b>	<b>23%</b>	<b>57%</b>	<b>20%</b>	<b>0%</b>	<b>100%</b>

- 5.18 The number of lower level assurances, 52% at this point in the year are roughly comparable with the outturn for 2015/16 of 51%. Representing a significant decrease in assurance from 2012/13 and 2013/14 results and a continuing decrease compared to 2014/15. However, the level of unsatisfactory assurances at the lower level are significantly higher at 21% in the current year to date, compared to 9% in 2015/16, reflecting the increase in the percentage of significant recommendations being raised from 42% in 2015/16 to 49% in the year to date.
- 5.19 **Appendix A, Table 3**, 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 IT systems, financial administration in Adult Services and Schools. This needs to be considered in the context of reduced Internal Audit resources that are increasingly focused on the higher level risk areas in terms of delivering the Council's business objectives.

### Performance measures

- 5.20 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.

<p><b>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</b></p> <p>Draft Internal Audit Risk Based Plan 2016/17 - Audit Committee 18 February 2016                  Internal Audit Performance and Revised Annual Audit Plan 2016/17, 15 September 2016                  Public Sector Internal Audit Standards (PSIAS)                  Audit Management system                  Accounts and Audit Regulations 2015</p>
<p><b>Cabinet Member (Portfolio Holder)</b>                  Malcom Pate, Leader of the Council and Tim Barker, Chairman of Audit Committee</p>
<p><b>Local Member:</b> All</p>
<p><b>Appendices</b></p> <p><b>Appendix A</b>                  Table 1: Summary of actual audit days delivered against plan 1<sup>st</sup> April 2016 to the 30<sup>th</sup> October 2016</p>

Table 2: Final audit report assurance opinions issued in the period 14th August 2016 to 30th October 2016

Table 3: Unsatisfactory and limited assurance opinions in the period 14th August 2016 to the 30<sup>th</sup> October 2016

Table 4: Audit assurance opinions

Table 5: Audit recommendation categories

Table 6: Audit recommendations made in the period 14th August 2016 to the 30<sup>th</sup> October 2016

**Appendix B** - Audit plan by service 1<sup>st</sup> April 2016 to 30<sup>th</sup> October 2016

## APPENDIX A

**Table 1: Summary of actual audit days delivered and revisions to the audit plan in the period 1<sup>st</sup> April to 30<sup>h</sup> October 2016**

	Original Plan	August Revision	November Revision	Revised Plan Days	30 October Actual	% of Plan Achieved
Chief Executive	444	3	13	460	193.2	42%
Adult Services	140	19	13	172	102.0	59%
Commissioning	102	2	4	108	78.0	72%
Children's Services	232	-26	-2	204	135.9	67%
Public Health	67	13	-6	74	42.3	57%
<b>S151 Planned Audit</b>	<b>985</b>	<b>11</b>	<b>22</b>	<b>1,018</b>	<b>551.4</b>	<b>54%</b>
Contingencies and other chargeable work	532	-12	-4	516	289.0	56%
<b>Total S151 Audit</b>	<b>1,517</b>	<b>-1</b>	<b>18</b>	<b>1,534</b>	<b>840.4</b>	<b>55%</b>
External Clients	200	45	6	251	113.7	45%
<b>Total</b>	<b>1,717</b>	<b>44</b>	<b>24</b>	<b>1,785</b>	<b>954.1</b>	<b>53%</b>

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

**Table 2: Final audit report assurance opinions issued in the period from 14<sup>th</sup> August 2016 to 30<sup>th</sup> October 2016.**

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Chief Executive	0	4	4	1	9
Adult Services	0	3	3	1	7
Commissioning	0	2	1	0	3
Children's Services: Schools	0	1	0	1	2
Children's Services: Other	1	1	0	0	2
Public Health	0	1	0	0	1
<b>Resources and Support</b>					
Commercial Services	0	0	0	0	0
Customer Involvement	0	0	0	0	0
Finance, Governance and Assurance	0	0	0	0	0
Human Resources	0	0	0	0	0
Legal, Strategy and Democratic	0	0	0	0	0
<b>Total for the period</b>					
➤ <b>Numbers</b>	<b>1</b>	<b>12</b>	<b>8</b>	<b>3</b>	<b>24</b>
➤ <b>Percentage</b>	<b>4%</b>	<b>50%</b>	<b>33%</b>	<b>13%</b>	<b>100%</b>
<b>% for 2015/16</b>	<b>14%</b>	<b>35%</b>	<b>42%</b>	<b>9%</b>	<b>100%</b>
<b>% for 2014/15</b>	<b>17%</b>	<b>47%</b>	<b>28%</b>	<b>8%</b>	<b>100%</b>
<b>% for 2013/14</b>	<b>30%</b>	<b>45%</b>	<b>15%</b>	<b>10%</b>	<b>100%</b>

**Table 3: Unsatisfactory and limited assurance opinions issued in the period from 14<sup>th</sup> August 2016 to 30<sup>th</sup> October 2016 listed by service area**

**Unsatisfactory assurance**

**Chief Executive**

Hardware Replacement Programme

**Adult Services**

Appointeeships/Court of Protection and Deputyships

**Children's Services: Schools**

Criffins CE (Controlled) Primary School

**Limited assurance**

**Chief Executive**

Social Media

Remote Support

Business Continuity and Disaster Recovery

Physical and Environmental Controls

**Adult Services**

Maesbury Metals Trading Account

Individual Service Funds

Personal Budgets 2016/17

**Commissioning**

Galaxy – Libraries System

**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**

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



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

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

**Table 6: Audit recommendations made in the period from the 14<sup>th</sup> August 2016 to 30<sup>th</sup> October 2016**

Service area	Number of recommendations made				
	Best practice	Requires attention	Significant	Fundamental	Total
Chief Executive	0	22	23	1	46
Adult Services	1	34	35	0	70
Commissioning	3	6	29	0	38
Children’s Services: Schools	9	27	42	0	78
Children’s Services: Other	0	5	3	0	8
Public Health	0	1	1	0	2
<b>Resources and Support</b>					
Commercial Services	0	0	0	0	0
Customer Involvement	0	0	0	0	0
Finance, Governance and Assurance	0	0	0	0	0
Human Resources	0	0	5	0	5
Legal, Strategy and Democratic	0	0	0	0	0
<b>Total for the period</b>					
➤ <b>Numbers</b>	<b>13</b>	<b>95</b>	<b>138</b>	<b>1</b>	<b>247</b>
➤ <b>Percentage</b>	<b>5%</b>	<b>39%</b>	<b>56%</b>	<b>0%</b>	<b>100%</b>
<b>% for 2015/16</b>	<b>4%</b>	<b>54%</b>	<b>42%</b>	<b>0%</b>	<b>100%</b>
<b>% for 2014/15</b>	<b>6%</b>	<b>53%</b>	<b>40%</b>	<b>1%</b>	<b>100%</b>
<b>% for 2013/14</b>	<b>15%</b>	<b>57%</b>	<b>27%</b>	<b>1%</b>	<b>100%</b>

**AUDIT PLAN BY SERVICE –PERFORMANCE REPORT FROM 1<sup>st</sup> APRIL TO 30<sup>th</sup> OCTOBER 2016**

	Original Plan Days	August Revision	November Revision	Revised Plan Days	30 Oct 2016 Actuals	% of Revised Plan Achieved
<b>CHIEF EXECUTIVE</b>						
<b>Governance</b>	<b>38</b>	<b>-8</b>	<b>0</b>	<b>30</b>	<b>10.6</b>	<b>35%</b>
<b>IT</b>	<b>176</b>	<b>6</b>	<b>5</b>	<b>187</b>	<b>77.2</b>	<b>41%</b>
<b>Finance Governance &amp; Assurance</b>						
Finance Transactions	39	9	0	48	11.0	23%
Finance and S151 Officer	60	-3	0	57	35.1	62%
Financial Management	18	0	0	18	10.2	57%
Benefits	34	0	0	34	0.4	1%
Risk Management and Business Continuity	13	0	0	13	6.8	52%
Treasury	2	0	0	2	0.0	0%
	<b>166</b>	<b>6</b>	<b>0</b>	<b>172</b>	<b>63.5</b>	<b>37%</b>
<b>Human Resources</b>	<b>43</b>	<b>3</b>	<b>7</b>	<b>53</b>	<b>24.0</b>	<b>45%</b>
<b>Legal, Democratic &amp; Strategic Planning</b>						
Elections	8	0	1	9	8.8	98%
Legal Services	13	-4	0	9	9.1	101%
	<b>21</b>	<b>-4</b>	<b>1</b>	<b>18</b>	<b>17.9</b>	<b>99%</b>
<b>CHIEF EXECUTIVE</b>	<b>444</b>	<b>3</b>	<b>13</b>	<b>460</b>	<b>193.2</b>	<b>42%</b>
<b>ADULT SERVICES</b>						
<b>Social Care Operations</b>						
Long Term Support	79	6	5	90	66.0	73%
Provider Services - Establishments	20	1	0	21	0.0	0%
Provider Services - Comforts Funds	6	4	1	11	8.3	75%
Provider Services - Trading						
Accounts	10	5	5	20	15.5	78%
Housing Services	20	-5	1	16	5.6	35%
	<b>135</b>	<b>11</b>	<b>12</b>	<b>158</b>	<b>95.4</b>	<b>60%</b>
<b>Social Care Efficiency and Improvement</b>						
Development Support	5	8	1	14	6.6	47%
<b>ADULT SERVICES</b>	<b>140</b>	<b>19</b>	<b>13</b>	<b>172</b>	<b>102.0</b>	<b>59%</b>

**COMMISSIONING**

Library Services	5	3	0	8	8.8	110%
Waste & Bereavement	14	-4	2	12	11.0	92%
Highways	20	8	6	34	24.8	73%
Business & Enterprise	5	0	-5	0	0.2	0%
Development Management	14	0	1	15	14.2	95%
Community Safety	15	-5	0	10	0.1	1%
Environmental Protection and Prevention	4	0	0	4	0.0	0%
Procurement and Contract Management	25	0	0	25	18.9	76%
<b>COMMISSIONING</b>	<b>102</b>	<b>2</b>	<b>4</b>	<b>108</b>	<b>78.0</b>	<b>72%</b>

**CHILDREN'S SERVICES**
**Safeguarding**

Safeguarding	20	0	-11	9	3.6	40%
Children's Placement and Joint Adoption	38	-2	1	37	14.5	39%
	<b>58</b>	<b>-2</b>	<b>-10</b>	<b>46</b>	<b>18.1</b>	<b>39%</b>

**Learning and Skills**

Business Support	2	0	-2	0	0.0	0%
Education Improvements	14	3	0	17	7.9	46%
Primary/Special Schools	128	-31	9	106	75.6	71%
Secondary Schools	20	4	2	26	25.9	100%
	<b>164</b>	<b>-24</b>	<b>9</b>	<b>149</b>	<b>109.4</b>	<b>73%</b>

**Learning Employment and Training**

	<b>10</b>	<b>0</b>	<b>-1</b>	<b>9</b>	<b>8.4</b>	<b>93%</b>
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**CHILDREN'S SERVICES**

	<b>232</b>	<b>-26</b>	<b>-2</b>	<b>204</b>	<b>135.9</b>	<b>67%</b>
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**PUBLIC HEALTH**

Public Health	22	13	1	36	23.2	64%
Customer Services	5	0	1	6	6.3	105%
Shire Services	17	0	-1	16	12.0	75%
Property Services	23	0	-7	16	0.8	5%
<b>PUBLIC HEALTH</b>	<b>67</b>	<b>13</b>	<b>-6</b>	<b>74</b>	<b>42.3</b>	<b>57%</b>

**Total Shropshire Council Planned Work**

	<b>985</b>	<b>11</b>	<b>22</b>	<b>1,018</b>	<b>551.4</b>	<b>54%</b>
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**CONTINGENCIES**

Advisory Contingency	40	0	-8	32	11.7	37%
Fraud Contingency	200	-20	-20	160	70.9	44%
Unplanned Audit Contingency	45	0	0	45	38.9	87%
Other non audit Chargeable Work	247	8	24	279	167.4	60%

<b>CONTINGENCIES</b>	<b>532</b>	<b>-12</b>	<b>-4</b>	<b>516</b>	<b>289.0</b>	<b>56%</b>
<b>Total for Shropshire</b>	<b>1,517</b>	<b>-1</b>	<b>18</b>	<b>1,534</b>	<b>840.4</b>	<b>55%</b>
<b>EXTERNAL CLIENTS</b>	<b>200</b>	<b>45</b>	<b>6</b>	<b>251</b>	<b>113.7</b>	<b>45%</b>
<b>Total Chargeable</b>	<b>1,717</b>	<b>44</b>	<b>24</b>	<b>1,785</b>	<b>954.1</b>	<b>53%</b>

# The Annual Audit Letter for Shropshire Council

Year ended 31 March 2016

October 2016

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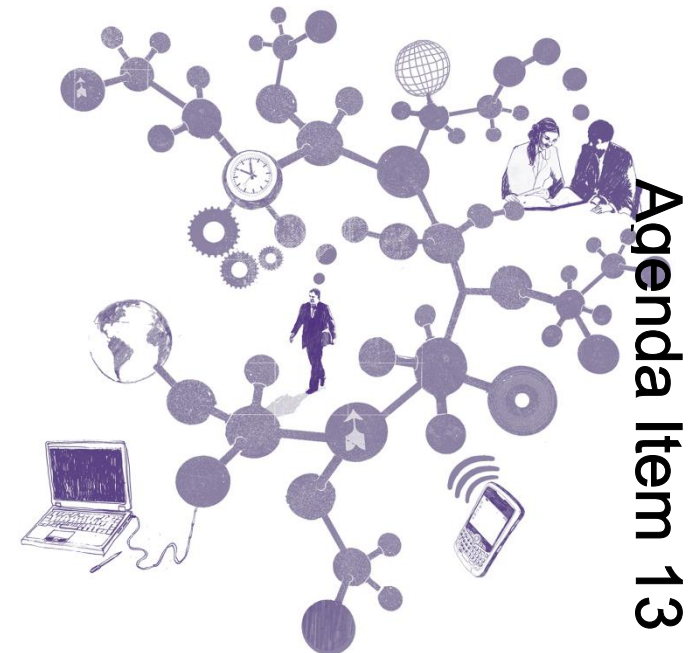
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Agenda Item 13

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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Shropshire Council (the Council for the year ended 31 March 2016).

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 15 September 2016.

## **Our responsibilities**

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

## **Our work**

### **Financial statements opinion**

We gave an unqualified opinion on the Council's financial statements on 29 September 2016.

### **Value for money conclusion**

We were satisfied that the Council had put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 29 September 2016.

### **Use of additional powers and duties**

We are required under the Act to give electors the opportunity to raise questions about the Council's accounts and we consider and decide upon objections received in relation to the accounts.

We have received one objection from a local elector which is still in the process of being resolved. The nature of this objection did not prevent the issuing of the opinion, but did result in the certificate being withheld. The certificate will be issued once the objection is fully resolved.

### **Whole of government accounts**

We completed work on the Council's consolidation return following guidance issued by the NAO and issued an unqualified report on 21 October 2016.

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### **Certificate**

We are currently unable to certify that we have completed the audit of the accounts of Shropshire Council as we have not yet completed work in respect of an objections received.

### **Certification of grants**

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

### **Other work completed**

We have provided bespoke training for Audit Committee members as part of our on-going support to the Council.

**Grant Thornton UK LLP**  
**October 2016**



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# Looking forward

## The changing landscape

The local government sector continues to face a period of unprecedented change. Shropshire Council has demonstrated that it recognises the scale of these changes and the level of further financial savings required to deliver a balanced budget over the medium term. The current environment and the uncertainty around Government agendas making long term planning difficult. To respond to this challenge the Council will need to further develop its long term vision. Ideally, there should be an understanding of what public services in Shropshire will look like in ten years' time, to provide a guide for the Council's Corporate Plan and other strategies.

The Final Local Government Finance Settlement provided details for the financial years 2016/17 to 2019/20. The Council Business Plan and Financial Strategy identifies a funding gap of c£66 million over the 3 years 2016/17 to 2018/19 and sets out the Council's approach to redesigning services and delivering the required savings

There is a significant risk that the financial challenge will impact on service delivery, both statutory and non-statutory in future years. It is still unclear as to the extent of this impact as more work is needed to move from savings proposals to actual changes in service delivery.

Shropshire Council is aware of this challenge and has already delivered a number of high impact changes such as the triage service in Adult Social Care. Other schemes are being implemented such as Help2Change. The Council has already identified and approved savings of approximately £116 million following growth in demographic costs and reductions in central government funding over the Comprehensive Spending Review (CSR 2010) period 2011/12 to 2014/15.

A key financial risk for the Council will be delivering services in relation to Adult Social Care. The Council has made good progress in transforming Adult Social Care. Continued action is needed to integrate services with the health sector to ensure services are maintained at a cost affordable to both the Council and its partner

The Council is continuing to explore different approaches to achieve efficiencies or generate income to offset these funding reductions. There is now a greater focus on income generation, and identifying services which are commercially trading. If the work is to be successful the Council will need to support the Head of Business Enterprise and Commercial Services in maintaining a strategic and forward looking outlook and maximise new opportunities as they arise.

The Council has started to think in a more entrepreneurial way. There are pockets of commercial aspiration throughout the Council but this will need to be embedded across the Council. The Council also needs to harness its business acumen to match its commercial aspiration. Following the closure of ip&e Ltd, the Council is considering the lessons learned and working hard to achieve its ambition to become self-funding and sustainable. The Council will need to balance its opportunities against the risks involved.

The Authority is also positioning itself well within the devolution agenda. Relationships are being developed with other rural unitary Authorities, as well as the West Midlands against the backdrop of the Combined Authority. Senior Leaders are supporting and leading change which should enable the Authority to respond well to future developments. The Council needs to ensure that it keeps its focus further ahead to ensure that it is well placed to maximise collaboration opportunities to sustain the services that residents of Shropshire will want and need going forward.

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# Audit of the accounts

## Our audit approach

### Materiality

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £10,409,000, which is 1.75% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as senior officer remuneration, auditors' remuneration and related party transactions.

We set a lower threshold of £520,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

### Pension Fund

For the audit of the Shropshire County Pension Fund accounts, we determined materiality to be £15,139,000, which is 1% of the Fund's net assets. We used this benchmark, as in our view, users of the Pension Fund accounts are most interested in the value of assets available to fund pension benefits.

We set a lower level of specific materiality for certain areas such as management expenses and related party transactions. We set a threshold of £100,000 above which we reported errors to the Pensions Committee.

### The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the accounts – Council

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p><b>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</b></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"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Shropshire Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p><b>Our audit work has not identified any issues in respect of revenue recognition.</b></p>
<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> <li>• We have reviewed the journal control environment and not identified any significant control weaknesses.</li> <li>• We have tested key journal entries and not found any items which impacted on our opinion.</li> <li>• We have reviewed the accounting estimates, judgements and decisions made by management</li> <li>• We have reviewed any unusual, significant transactions and not identified anything which would impact on our opinion.</li> </ul> <p><b>Our audit work has not identified any evidence of management over-ride of controls.</b></p>
<p><b>Valuation of property, plant and equipment</b></p> <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>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• Reviewed management's processes and assumptions for the calculation of the estimate.</li> <li>• Reviewed the competence, expertise and objectivity of any management experts used.</li> <li>• Reviewed the instructions issued to valuation experts and the scope of their work.</li> <li>• Discussed with the valuer the basis on which the valuation is carried out and challenge of the key assumptions.</li> <li>• Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding.</li> <li>• Tested revaluations made during the year to ensure they are input correctly into the Council's asset register.</li> <li>• Evaluated 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.</li> </ul> <p><b>Our audit procedures have not identified any issues with respect to the valuation of PPE.</b></p>

# Audit of the accounts – Pension Fund

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the audit of the pension fund.

Risks identified in our audit plan	How we responded to the risk
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>The 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 County Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Shropshire Council as the administering authority, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p><b>Our audit work has not identified any material issues in respect of revenue recognition.</b></p>
<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have undertaken the following work in relation to this risk</p> <ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management,</li> <li>• testing of journal entries, and</li> <li>• review of unusual significant transactions.</li> </ul> <p><b>Our audit work has not identified any evidence of management over-ride of controls.</b></p>
<p><b>Level 3 Investments – Valuation is incorrect</b></p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• gained an understanding of the transactions via discussions with the pension fund team and reviewed supporting documentation.</li> <li>• carried out walkthrough tests of the controls identified in the cycle.</li> <li>• tested a sample of Level 3 investments by obtaining and reviewed the audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31 March 2016 with reference to known movements in the intervening period.</li> <li>• reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments.</li> </ul> <p><b>Our audit work has not identified any significant issues in relation to the risk identified.</b></p>

# Audit of the accounts

## Audit opinion

We gave an unqualified opinion on the Council's accounts on 29 September 2016, in advance of the 30 September 2016 national deadline.

We reported in our Audit Findings Report that:

- We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.
- We did not identify any adjustments affecting the group and Council's reported net expenditure or surplus.
- There was one material change to the CIES where an adjustment of £8.4 million was required to both income and expenditure to align the CIES disclosures with the trial balance. This has no overall impact on the total income or expenditure.
- We did identify a relatively small number of disclosure and presentation errors, and requested some adjustments to improve the presentation of the financial statements.

The draft financial statements for the year ended 31 March 2016 recorded net expenditure of £225.582 million (Net cost of services). The total comprehensive income and expenditure position for the year was a surplus of £27.513 million against an original gross budget of £594.843 million. The level of general balance stands at £18.370 million which is above the anticipated level included within the Financial Strategy, although below the risk based target for 2015/16 which stands at £23.374 million.

The opinion deadline moves to 31 July from 2017/18 placing greater pressure on the audit process. Significant work is required by the Council to bring work forward at both the interim onsite visits and the final accounts visit to ensure that appropriate evidence and assurance can be provided to facilitate this shorter timescale. We will work with the finance team to deliver this.

## Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on 15 September 2016.

There was one material change to the CIES where an adjustment of £8.4 million was required to both income and expenditure to align the CIES disclosures with the trial balance. This has no overall impact on the net income or expenditure. We also identified a relatively small number of disclosure errors, and requested some adjustments to improve the presentation of the financial statements.

## Pension fund accounts

We also reported the key issues from our audit of accounts of the Pension Fund hosted by the Council to the Council's Audit Committee on 21 September 2016.

We did not identify any significant adjustments affecting the Fund's reported financial position. We agreed with officers some minor adjustments to improve the presentation of the financial statements.

## Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

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# Audit of the accounts

## **Whole of Government Accounts (WGA)**

We carried out work on the Council's consolidation schedule in line with instructions provided by the NAO . We issued an unqualified report on 21 October 2016.

## **Other statutory duties**

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have received one objection from a local elector which is still in the process of being resolved. The nature of this objection did not prevent the issuing of the opinion, but did result in the certificate being withheld. The certificate will be issued once the objection is fully resolved.

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# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the 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.*

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work. The key risks we identified and the work we performed are set out on pages 11 to 14 overleaf.

As part of our Audit Findings report agreed with the Council in September 2016, we agreed recommendations to address our findings.

- Continue to develop financial plans which support the strategic direction of departments with growth potential, ensuring that they are risk assessed and have appropriate sensitivity analysis.
- Ensure that Audit and Scrutiny functions are providing appropriate assurance and challenge to support strong governance during a period of considerable change.
- Ensure that the Council's Corporate Plan reflects the changing landscape within Adult Social Care and the developing interfaces between the Council, health and voluntary sectors.

Another key risk for the Council is ICT arrangements, specifically relating to disaster recovery. The Council has plans in place which are reported to Audit Committee and Cabinet. We did not raise a recommendation as we consider that this issue has sufficient focus now, but outcomes need to be evidenced to confirm that these actions have the appropriate impact.

The ICT Digital Transformation Programme has been agreed by the Council and now needs to be delivered. There is a focus on better integration between systems, allowing greater flexibility for data sharing across the Council and data interrogation. The Council is currently defining what business solutions they need. A challenge for the Council will be the transition from old IT systems and hardware to new as the project is expected to take 2 years. There is a requirement to keep existing systems and hardware operational until the new are fully procured and implemented.

The ICT Digital Transformation Programme is key to delivering services in a more responsive and flexible way going forward. The Council has not progressed the action plans previously put in place and this has resulted in ICT being reported as a significant risk for the past 3 years.

## Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

## 1. Medium term financial resilience / strategic development

Significant risk	Findings and conclusions
<p>The Council has historically managed its finances well, achieving financial targets and is on course to deliver its 2015/16 budget. Nevertheless the scale of funding cuts and the pace of change for Local Government will effect future financial plans, particularly following announcements from the Comprehensive Spending Review, Autumn Statement 2015 and then more recently the provisional Local Government Finance Settlement 2016/17 published in December 2015.</p> <p>The Council has identified that it needs to regularly monitor and review delivery against the Council's Business Plan and Financial Strategy and adjust plans as required at Director and Cabinet levels to achieve a balanced budget. This will include ensuring that supporting strategies, such as ICT and Workforce development align closely.</p>	<p>The Council has significant financial challenges, requiring the delivery of £23.1 million savings in 2016/17. As at Quarter 1, £18.8 million is Green rated, £3 million is Amber rated and £1.3 million is Red rated. Further work is required to ensure that the savings proposals are fully deliverable. The RAG ratings are clearly linked to services, so Members can understand the impact of the savings and which teams are leading these. This has also resulted in some statutory officers using their powers to formally report concerns around delivery of their services. Additional service pressures with a net value of £1.6 million are also being highlighted. Overall, the Council is confident that it will meet its 2016/17 budget.</p> <p>Looking ahead, the Council is reporting funding gaps of £13.691 million (2017/18), £20.211 million (2018/19) and £28.661 million (2019/20). The two year financial strategy, using reserves and one-off funding, allows sensible and calculated decisions to re-shape the Council in a measured way, investing where necessary e.g. ICT and commercial activities. There is also the option to borrow to invest if the opportunity is sound and delivers a high level of financial return. Some services are being allowed to grow rather than shrink where employees can prove that strengthening the service allows for greater resilience and the opportunity to bring in income from other external contracts. Examples of this include HR, People2People, Outdoor Partnerships and Inspire2Learn. The majority of the new 2017/18 saving relates to this new enterprising approach. While further work is needed the Council has adequate plans in place to ensure it is financially resilient in 2017/18.</p> <p>Adult Social Care is acknowledged to be the department with the greatest financial pressures, but is currently projecting to break even in 2016/17. Children's services is another department where there are considerable financial pressures. Whilst a small over-spend is anticipated, they have invested in additional capacity following a Peer Review through the LGA in June 2015 to enable better safeguarding as well as providing support for growing the required skills and talents from the team for succession planning where there are national shortages.</p> <p>The Council's General Fund reserves have been reviewed and challenged by a Task &amp; Finish Group. Earmarked reserves have been reviewed by Senior Officers within the Council. This initially released £6.7 million but also identified further reserves which could be released if capital receipts were generated. Members agreed that the use of the one-off ability to use capital receipts to fund revenue would be utilised ahead of borrowing. This was assessed and challenged by the Performance Management Scrutiny Committee. Aligned to this, there is a stream of work to identify where the capital programme can be reduced. All assets are being reviewed to identify where they can be sold or kept to generate further income.</p> <p>There are no long term solutions at present and the Council still has many risks and uncertainties within its current plans. However, if Members make appropriate and calculated decisions now, they can ensure that the Council is well placed to take further opportunities as they arise. The Council needs to ensure that it remains open to new ideas and has an agile mind-set embedded within its culture.</p> <p>The recent change in Leader has provided the opportunity to refresh the Corporate Plan and overall vision for the Council. This is still developing and progress is being reported to Cabinet. Previous ambitions were to be a wholly commissioning Council. Whilst this is still considered appropriate for some services, there is a greater appetite to deliver services in house where a trading profit can be identified to support and benefit the residents of Shropshire. The Chief Executive is focusing on the key strategic issues, e.g. Sustainability and Transformation Plan (STP), Combined Authority, future service delivery, commercialisation, economic growth and financial stability. These are clearly strategic priorities for the Council and are supported by the various strands of work evidenced under each Director.</p> <p><b>Recommendation: Continue to develop financial plans which support the strategic direction of departments with growth potential, ensuring that they are risk assessed and have appropriate sensitivity analysis.</b></p> <p><b><i>On this basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</i></b></p>



## 2. Governance

Significant risk	Findings and conclusions
<p>The Council's governance structure is embedding following a further period of change. The pace of change has been driven by the timetable of reduced Government funding, changes with ip&amp;e, the focus on becoming a commissioning council, and the recent change in the Council leader.</p>	<p>The 2015/16 Annual Governance Statement identified significant risks. The Council needs to ensure that it is delivering change in these areas, not just investing. Clear action plans and Officers being held to account will be a key priority for the Council over the coming months.</p> <p>Following the change in Leader, the Council has maintained its 'Strong Leader' governance structure for decision making. Our review identified that there were clear decision making, information flows and challenge processes where appropriate. Our work identified that the change in Leadership at the Council has resulted in much clearer roles for Senior Officers, particularly the statutory officers. It was also identified that The Senior Team consider that the whole of Cabinet was now more cohesive and making decisions collectively, rather than just portfolio holders and that there was a greater transparency around decision making. As the Council is traditionally Conservative, challenge from opposition can be low and review of scrutiny minutes did not evidence significant challenge. The Council is considering how this can be strengthened.</p> <p>Officers have a clear role to make recommendations and deliver on Cabinet decisions. Some Members are taking time to adjust to what they perceive to be a reduction in their control, but Officers are working hard to demonstrate that clearer separations provide a more appropriate governance model. There has also been changes to some Portfolio Holders which means that Officers and Portfolio Holders are having to develop working relationships quickly and ensure that the focus is appropriate, supporting the overall service delivery.</p> <p>The Council is also making some significant decisions to delegate responsibility for service delivery to Town and Parish Councils. Town and Parish Councils can have more understanding of the bespoke requirements of a local area and ensure that services are appropriately tailored. Where there are clear economies of scale from running services centrally, e.g. library administration, it makes sense for the Council to maintain these and let the Town and Parish Councils deliver these services.</p> <p>Where services are being reduced or shifted to another provider, the Council needs to ensure that it is legally possible to delegate the associated responsibilities and that appropriate contractual and governance arrangements in place to mitigate risks to the Council. These arrangements are still being developed.</p> <p>The Council is now focused on being more commercial and is reporting to Audit Committee around the controls and risks in place as they develop these arrangements. This is an appropriate control mechanism at this stage. There are plans to develop the governance around commercial activities and establish reporting lines and control mechanisms to ensure that the overall strategic direction is monitored and understood by the Council for any separate vehicles. There should also be a consideration of group activities and how these are reported and monitored within the Council.</p> <p>The Audit Committee has had a recent change in Chair and as a result of this is reviewing its coverage. There is a desire to increase its role in risk management to ensure that assurance is gained in the areas of risk and any lack of action against recommendations can be seen within the context of the overall business. The Council has been slow to progress actions in relation to ICT and the Audit Committee are looking to use their position to drive progress forward.</p> <p>The Council has a solid procurement department which supports service departments effectively. They are experienced with traditional procurement but have limited experience of commercial arrangements and innovative procurement. There are initial conversations happening around public to private sector partnerships, but this is currently new territory for the Council.</p> <p><b>Recommendation: Ensure that Audit and Scrutiny functions are providing appropriate assurance and challenge to support strong governance during a period of considerable change.</b></p> <p><b><i>On this basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</i></b></p>

### 3. Service delivery

Significant risk	Findings and conclusions
<p>The Council had started to roll out a service redesign methodology throughout its services, particularly in areas of high spend such as Adult Social Care. This methodology will be a key mechanism in co-ordinating change projects and developing a 'commissioning solution'. There needs to be consideration of where the current strategy lies and where the focus for resource deployment sits.</p>	<p>The Business Design Team continue to support service redesign. Having delivered high impact changes in previous years, for example in the triage service in Adult Social Care, there is a shift towards supporting the Council to improve key services where there is either a national skill shortage, a bottleneck for customers or an area with a high customer profile. Current support is being provided to Help2Change where ground level parts of the service are being redesigned. This does not produce large scale financial savings, but is crucial to the service being as efficient as possible with current resources. This allows staff to maximise the delivery of existing services whilst the Council takes stock of its strategic direction and ensure that any changes made deliver the greatest impact.</p> <p>Changes introduced in Adult Social Care in 2014/15 for new referrals to the Council from a home setting are now embedded and financial savings and quality improvements are being seen. There is now a focus on redesigning services which support referrals to the Council from an acute setting. Reducing delayed discharges, but also ensuring that the support provided to patients being discharged from acute wards will ensure efficiency in the use of resources and also bridge the gap for patients moving between Health and Social Care which has traditionally been a difficult 'hand-over'. Enhancing the experience of the customer is the key focus.</p> <p>Overall service redesign is currently being taken forward at a strategic level, supported by projects such as the Sustainability and Transformation Plan (STP) and One Public Estate.</p> <p>Long term decision making will be influenced by the May 2017 elections and proposals put forward to the electorate will guide the Council's future plans. These proposals and the decisions which are made post May 2017 will need to be outcome based, and potentially challenge current service delivery. There is an acceptance at a senior level that the Council may not need to deliver services in the same way to achieve the same outcomes.</p> <p>The Business Design Team has identified many other opportunities for service redesign which have, to date, not yet been explored. The Council will need to give some thought as to what it wants to deliver, commission, start or stop delivering before it starts to redesign services. This will be an iterative process to ensure that any future redesign starts with identifying what services are required by the 'customer'.</p> <p>Previous redesign was driven by the need to reduce costs. There needs to be a balance between finance and what services are required going forward to deliver the desired outcomes, supported by an understanding of how the Council can work with other bodies to deliver services. This 'bigger picture' view is vital to shaping services of the future.</p> <p><b><i>On this basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</i></b></p>

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## 4. Adult Social Care

Significant risk	Findings and conclusions
<p>The Council is working in a challenged health and social care economy. The Sustainability and Transformation Plan for the area shows a significant deficit going forward. In particular, both Shropshire CCG and Shrewsbury and Telford Hospitals NHS Trust incurred significant deficits in 2015/16 and are projecting deficits in 2016/17. The recent Strategic Outline Business Case for healthcare was rejected by Shropshire CCG governing body.</p> <p>Adult Social Care services in Shropshire has been subject to West Midlands peer reviews. While the transformation is positive there was a £4.8 million overspend in Adult Social Care in 2015/16. The Council is undertaking financial and demand modelling based on national models to determine the number of residents and users who fund their own care.</p> <p>The Council is seeking to deliver wide ranging changes and greater integration to ensure the financial sustainability of adult health and social care services.</p>	<p>Overall performance for Shropshire's Adult Social Care remains good, confirmed by reports from the Care Quality Commission (CQC). The Council has identified that Health and Social Care can support and even drive economic regeneration and so is a key function for the Council going forward.</p> <p>Adult Social Care is the department with the greatest financial pressures and this is recognised throughout the Council. This department had its base budget reset in April 2016 and is currently projecting to break even by the end of the financial year. There has been a significant project to validate the growth in Adult Social Care pressures which has resulted in the Council having a deeper understanding of the pressures going forward and how this impacts on the longer term financial strategy. As a result of this project, growth estimates have been reduced. However, there is considerable pressure still within the system and the level of uncertainty means that this remains a significant risk for the Council going forward.</p> <p>Significant work has been undertaken around service redesign, demand modelling and reviewing the customer flow. The Council has also reviewed its methodology for dealing with cases. This has focused on the new cases coming to the Council. The LGA has undertaken a review of Adult Social Care spend and this supports the Council's financial projections.</p> <p>Shropshire's reorganised Adult Social Care system, with its "community-led" social work, greater involvement of the voluntary sector and a drive towards the community supporting itself rather than relying on traditional services, is considered to be innovative nationally. The council is looking at how the lessons learned can be shared with other areas and is coordinating three pilot sites, in Calderdale, Wakefield and Denbighshire, to test out aspects of this model of social care. The aim is to put the customer at the heart of any service being delivered.</p> <p>Shropshire Council is the sole shareholder for People2People, an independent community interest company that delivers community social work across the county. The company is not yet considered "commercially mature" enough to go to an open market tender, so this vehicle ensures that the venture can establish itself without exposing the Council to undue risk, develop more strands of service delivery, more opportunities to trade, develop as an organisation and drive sustainability.</p> <p>Relationships with Adult Social Care partners in Shropshire is strong. Shropshire Partners in Care (SPIC) is a key forum and provides a single conversation to ensure that there is adequate capacity within Shropshire at the right price. Rural issues continue to provide a challenge. The Council has continued to work with the CCGs to develop a single point of purchase for care which provides stability for the market and maintains prices at appropriate levels.</p> <p>The greatest opportunity for the Council is to improve the interaction with health provision to drive service improvement and reduce costs. However, this will be difficult as the local provider trust is in significant deficit and one of the local CCGs is in special measures. The Council is actively involved in the Sustainability and Transformation Plan for the area and will need to closely monitor the joint planning and funding arrangements to ensure that there is no adverse impact on social care.</p> <p>Housing and Public Health are now part of Adult Social Care to join up the experience of the customer and provide a more rounded service. The Council is aiming to link registered social housing and public health to geographic areas. The aim is to bring these streams together in a programme management way to consider the overall decisions that impact on the immediate demand for a service and those which have a longer term view.</p> <p><b>Recommendation: Ensure that the Council's Corporate Plan reflects the changing landscape within Adult Social Care and the developing interfaces between the Council, health and voluntary sectors.</b></p> <p><b><i>On this basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</i></b></p>

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# Working with the Council

## Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit – we delivered the accounts audit before the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team supports you as you provide information and evidence to enable us to gain assurance.

Improved financial processes – during the year we reviewed your financial systems and processes including employee remuneration, non-pay expenditure and property plant and equipment. We have worked with you to streamline your financial statements template and had regular two-way discussions on technical issues to ensure that we deliver a no surprises audit.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness. We highlighted the need for greater forward planning and more developed financial plans. We also commented on the ICT disaster recovery weaknesses you are addressing.

Sharing our insight – we provided regular Audit Committee updates covering best practice. Areas we covered included Making devolution work: a practical guide for local leaders, Growing healthy communities: The health and well-being index, Knowing the Ropes – Audit Committee; Effectiveness Review, Reforging local government: summary findings of financial health checks and governance reviews and Innovation in public financial management.

We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

Thought leadership – We have shared with you our publications; Better Together: building a successful joint venture company and Joining up the dots, not picking up the pieces: Partnership working in mental health. We will continue to support you as you consider greater use of alternative delivery models for your services.

Providing training – we provided your members with training on financial governance and the effective audit committee.

We have helped shape the Council's thinking on various aspects of work included outsourcing, income generation and commercial development. We have worked closely with your Head of Business Enterprise and Commercial Services to understand your vision for developing your commercial expertise. The Council also had an attendee at our Joint Venture Seminar.

We have recently invited your Head of Business Enterprise and Commercial Services to deliver an element of our Financial Capacity Building Programme which will not only help other Councils start on their commercial journey, but also provide excellent networking opportunities and potential consultancy.

Providing information – We provided you with a demonstration of CFO insights, our online analysis tool providing you with access to insight on the financial performance, socio-economy context and service outcomes of councils across the country.

# Working with the Council

## Working with you in 2016/17 – Highways Network Asset

The Code of Practice on Local Authority Accounting (the Code) requires authorities to account for Highways Network Asset (HNA) at depreciated replacement cost (DRC) from 1 April 2016. The Code sets out the key principles but also requires compliance with the requirements of the recently published Code of Practice on the Highways Network Asset (the HNA Code), which defines the assets or components that will comprise the HNA. This includes roads, footways, structures such as bridges, street lighting, street furniture and associated land. These assets should always have been recognised within Infrastructure Assets.

The Code includes transitional arrangements for the change in asset classification and the basis of measurement from depreciated historic cost (DHC) to DRC under which these assets will be separated from other infrastructure assets, which will continue to be measured at DHC.

This is expected to have a significant impact on the Council's 2016/17 accounts, both in values and levels of disclosure, and may require considerable work to establish the opening inventory and condition of the HNA as at 1 April 2016.

Under the current basis of accounting, values will only have been recorded against individual assets or components acquired after the inception of capital accounting for infrastructure assets by local authorities. Authorities may therefore have to develop new accounting records to support the change in classification and valuation of the HNA.

The nature of these changes means that Finance officers will need to work closely with colleagues in the highways department and potentially also to engage other specialists to support this work.

Some of the calculations are likely to be complex and will involve the use of external models, a combination of national and locally generated rates and a number of significant estimates and assumptions.

We have been working with the Council on the accounting, financial reporting and audit assurance implications arising from these changes. We have issued two Client Briefings which we have shared with your finance team. We will issue further briefings during the coming year to update the Council on key developments and emerging issues.

This significant accounting development is likely to be a significant risk for our 2016/17 audit, so we have already had some preliminary discussions with the Council to assess the progress it is making in this respect. Our discussions with Council Officers to date has highlighted the following:

- The Council has an implementation plan which is in accordance with LAAP Bulletin 100 "Project Plan for Implementation of the Measurement Requirements for Transport Infrastructure Assets by 2016/17"
- The Council is monitoring progress against plan
- Efforts have been made to obtain all data to support the financial calculations and the finance team has engaged widely outside the finance department
- Engagement with the audit team on this matter has been good and discussions have taken place at regular intervals.

We will continue to liaise closely with the finance team during 2016/17 on this important accounting development, with timely feedback on any emerging issues.

The audit risks associated with this new development and the work we plan to carry out to address them will be reflected in our 2016/17 audit plan.

# Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and have highlighted that there will be a fee for work on the objection, although the fee for this will not be known until the work is finalised. We will report the updated position to the Audit Committee once we have agreed this with the Head of Governance, Finance and Assurance.

## Fees

	Proposed fee £	Final fee £
Council audit	133,845	133,845
Grant certification	13,945	13,945
Work to respond to a elector's objection	TBC	TBC
<b>Total audit fees (excluding VAT)</b>	<b>147,790</b>	<b>147,790</b>

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

## 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'.

## Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016

## Fees for other services

Service	Fees £
<b>Audit related services:</b>	
• Audit of West Mercia Energy (fee being split equally between Shropshire, Herefordshire and Worcestershire)	9,824
• Audit of ip&e Ltd	13,750
• Tax work for ip&e Ltd	3,250
• Grant Work Outside of PSAA regime	TBC
<b>Non-audit services</b>	<b>TBC</b>

## Independence and ethics

We confirm that there are no significant facts or matters that impact 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.

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



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# Audit Committee Update for Shropshire Council

## Progress Report and Update Year ended 31 March 2017

November 2016

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# Introduction

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

Members of the Audit Committee can find further useful material on our website [www.grantthornton.co.uk](http://www.grantthornton.co.uk), where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

- Better Together: Building a successful joint venture company; <http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/>
- CFO Insights - Local government budget 2016-2017 review; <http://www.grantthornton.co.uk/en/insights/cfo-insights-budget-2016-17-insights-review/>

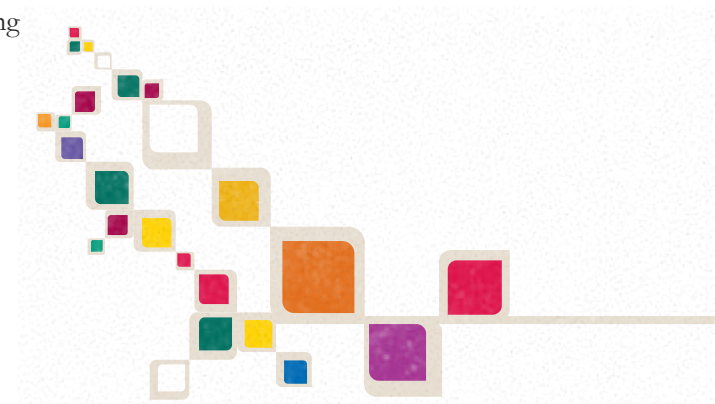
If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

## Members and officers may also be interested in our recent webinars:

**Alternative delivery models:** Interview with Helen Randall of Trowers and Hamlins, discussing LATCs and JVs in local government. <http://www.grantthornton.co.uk/en/insights/qa-on-local-authority-alternative-delivery-models/>

**Cyber security in the public sector:** Our short video outlines questions for public sector organisations to ask in defending against cyber crime <http://www.grantthornton.co.uk/en/insights/cyber-security-in-the-public-sector/>

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.



# Progress to date



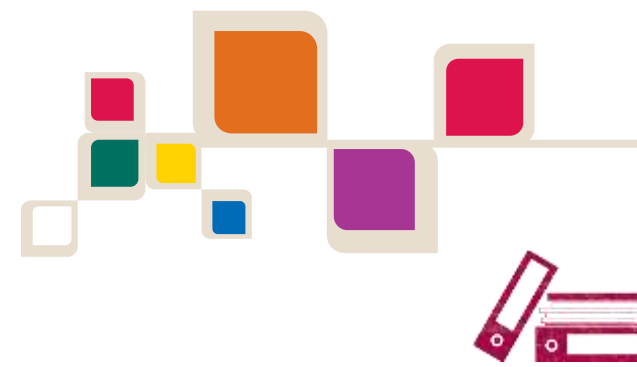
## Progress against plan

On track



## Opinion and VfM conclusion

Plan to give before deadline of 30 September 2017



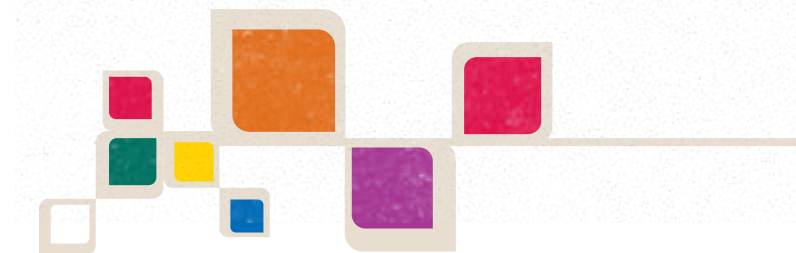
## Outputs delivered

Fee letter, Progress Reports, and interim audit delivered to plan

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2016/17 work	Planned Date	Complete?	Comments
<p><b>Fee Letter</b></p> <p>We are required to issue a 'Planned fee letter' for 2016/17 to the Council by the end of April 2016.</p>	April 2016	Yes	The 2016/17 fee letter was issued in April 2016
<p><b>Accounts Audit Plan</b></p> <p>We are required to issue a detailed accounts audit plan covering the audit for the Council setting out our proposed approach in order to give an opinion on the financial statements, including the group consolidations in 2016/17.</p>	February 2017	In progress	<p>We continue to assess the risks facing you 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 once issued we will discuss this with the appropriate Senior Officers and agree with the Head of Finance, Governance and Assurance.</p>
<p><b>Interim accounts audit</b></p> <p>Our interim fieldwork visits covers work on the Council's arrangements, including:</p> <ul style="list-style-type: none"> <li>• updating our review of the control environments</li> <li>• updating our understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• proposed Value for Money conclusion work.</li> </ul>	January – April 2017	Not started	<p>We will:</p> <ul style="list-style-type: none"> <li>• engage with the finance team to further streamline and improve the audit approach for 2016/17 where possible.</li> <li>• discuss emerging technical issues early.</li> <li>• Follow up progress on recommendations made in 2015/16.</li> <li>• undertake as much early testing as possible.</li> </ul> <p>We continue to work closely with Internal Audit in relation to risk, work on the financial statements and fraud.</p>

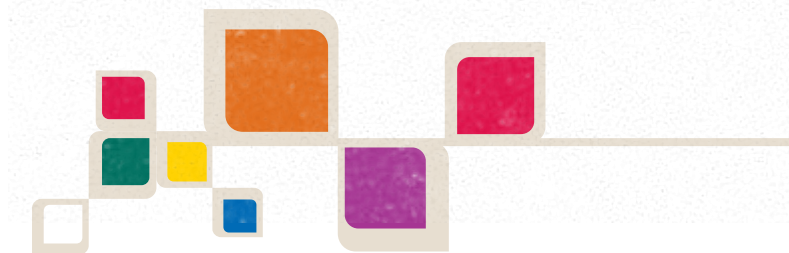
# Progress to date



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2016/17 work	Planned Date	Complete?	Comments
<p><b>Final accounts audit</b></p> <p>Covering the Council's group financial statements, we will:</p> <ul style="list-style-type: none"> <li>• audit the 2016/17 financial statements</li> <li>• proposed opinion on the 2016/17 financial statements</li> </ul>	<p>June – September 2017</p>	<p>Not started</p>	
<p><b>Value for Money (VfM) conclusion</b></p> <p>The scope of our work to inform the 2016/17 VfM Conclusion requires conclusions on whether:</p> <p><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>This change of guidance was issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> <li>• Informed decision making</li> <li>• Sustainable resource deployment</li> <li>• Working with partners and other third parties</li> </ul>	<p>February – August 2017</p>	<p>Not started</p>	
<p><b>Annual Audit Letter</b></p> <p>We will summarise all the work completed as part of our 2016/17 audit within one letter which will be issued after the opinion.</p>	<p>October 2017</p>	<p>Not started</p>	

# Progress to date



2016/17 work	Planned Date	Complete?	Comments
<b>Grant work (PSAA regime)</b>			
We plan to certify the Housing Benefits Subsidy Claim 2016/17 (BEN01)	February – November 2017	Not started	
<b>Engagement with you since the last Audit Committee meeting</b>			
	On-going	On-going	<ul style="list-style-type: none"> <li>• Training provided for Members of the Audit Committee.</li> <li>• Update with the Chief Executive and Head of Finance, Governance and Assurance on your business.</li> <li>• Update with the Head of Internal Audit to ensure we are aware of progress on key issues.</li> <li>• Circulation of our latest collateral to Senior officers.</li> </ul>

# Grant Thornton Publications

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# Advancing closure: the benefits to local authorities

With new regulation bringing forward the required publishing date for accounts local authorities must consider the areas needed to accelerate financial reporting.

In February 2015, regulations were laid before parliament confirming proposals to bring forward the date by which local authority accounts must be published in England.

From 2017-18, authorities will need to publish their audited financial statements by 31 July, with Wales seeking to follow a similar approach over the next few years.

Many local government bodies are already experiencing the benefits of advancing their financial reporting processes and preparing their accounts early, including:

- raising the profile of the finance function within the organisation and transforming its role from a back office function to a key enabler of change and improvement across the organisation;
- high quality financial statements as a result of improved quality assurance arrangements;
- greater certainty over in-year monitoring arrangements and financial outturn position for the year, supporting members to make more informed financial decisions for the future;
- improved financial controls and accounting systems, resulting from more efficient and refined financial processes; and
- allowing finance officers more time to focus on forward looking medium term financial planning and transformational projects, to address future financial challenges.
- While there is no standard set of actions to achieve faster close there are a number of consistent key factors across the organisations successfully delivering accelerated closedown of their accounts, which our report explores in further details:
- Enabling sustainable change requires committed leadership underpinned by a culture for success
- Efficient and effective systems and processes are essential
- Auditors and other external parties need to be on board and kept informed throughout

Grant Thornton reports



<http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/>

# The Vibrant Economy Index

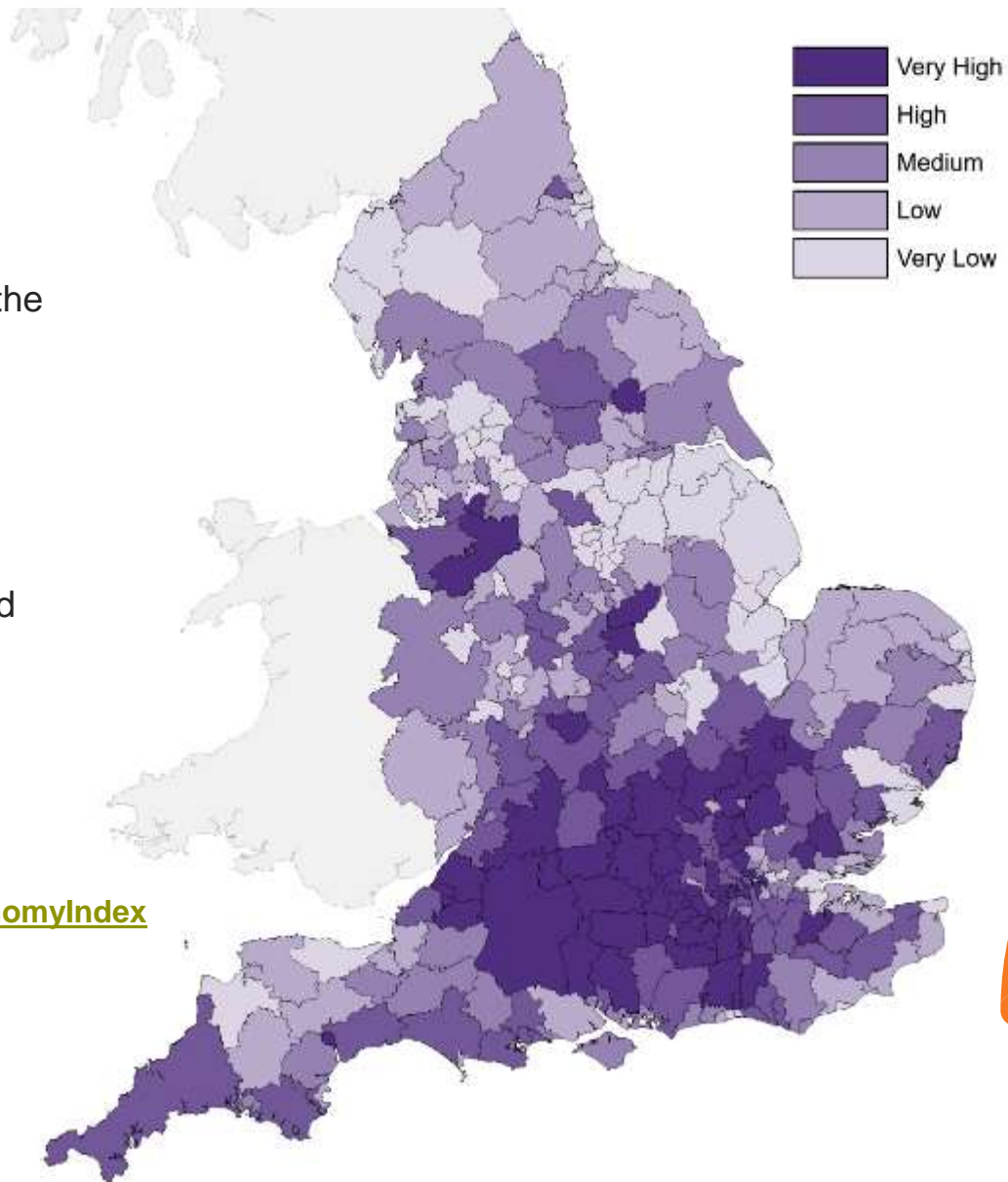
## The Vibrant Economy Index Map

Our Vibrant Economy Index ranks the 324 English local authority areas according to their ability for businesses, communities and individuals to thrive.

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It considers typical prosperity indicators alongside: dynamism and opportunity; inclusion and equality; health, wellbeing and happiness; resilience and sustainability; and community, trust and belonging.

[www.grantthornton.co.uk/VibrantEconomyIndex](http://www.grantthornton.co.uk/VibrantEconomyIndex)







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the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority.

- 3.2 Section 12 makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.
- 3.3 Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been applied in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.
- 3.4 The Secretary of State has enabled PSAA Ltd to be an appointing person for local auditors under a national scheme.
- 3.5 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.

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

- 4.1 Existing external fee levels are likely to increase when the current contracts end in 2018. The Council's annual external audit fees for the 2015/16 audit were £133,845.
- 4.2 Opting-in to a national Sector Led Body (SLB) provides maximum opportunity to limit the extent of any increases by entering in to a large scale collective procurement arrangement and would remove the costs of establishing an auditor panel. There will not be a fee to join the sector led arrangements. The audit fees that opted-in bodies will be charged by the sector led body will cover the costs of appointing auditors. The LGA believes that audit fees achieved through block contracts will be lower than the costs that individual authorities would be able to negotiate. In addition, by using the SLB, councils will avoid having to undertake their own procurement and the legal requirement to set up a panel of independent members.
- 4.3 PSAA Ltd commit to ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising their own costs. Any surplus funds will be returned to scheme members under the articles of association and memorandum of understanding with the Department for Communities and Local Government and the LGA.
- 4.4 PSAA Ltd expect annual operating costs to be lower than current costs because they expect to employ a smaller team to manage the scheme. They are intending to fund an element of the costs of establishing the scheme, including the costs of procuring audit contracts, from local government's share of their current deferred income. This is considered appropriate because the new scheme will be available to all relevant principal local government bodies.
- 4.5 Contracts are likely to be awarded at the end of June 2017 and, at this point, the overall cost and therefore the level of fees required will be clear. They will consult on the

proposed scale of fees in autumn 2017 and publish the fees applicable for 2018/19 in March 2018.

## 5. Background

- 5.1 The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015 the Secretary of State Communities and Local Government (CLG) determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.
- 5.2 The Council's current external auditor is Grant Thornton, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission, the contract is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the LGA with delegated authority from the Secretary of State CLG. Over recent years the Council has benefited from reduction in fees in the order of 50% compared with historic levels. This has been the result of a combination of factors including new contracts negotiated nationally with accountancy firms and savings from closure of the Audit Commission.
- 5.3 When the current transitional arrangements come to an end on 31 March 2018 the Council will be able to move to local appointment of the auditor. There are a number of routes by which this can be achieved, each with varying risks and opportunities. Audit Committee members considered the possibilities in June 2016 and recommended to, and were supported by, Council in July 2016 when they agreed to show initial interest to opt-in to a sector led body (SLB) if established. PSAA Ltd has now been appointed by the Secretary of State under the Act to be that SLB with ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.

## 6 Information on the national scheme

- 6.1 The Council have until December 2017 to make an auditor appointment. PSAA Ltd have written to the Council confirming that the Secretary of State has awarded them the role of appointing local auditors under a national scheme.
- 6.2 PSAA Ltd have set out their proposed scheme, further details of which can be found at: <http://www.psaa.co.uk/supporting-the-transition/appointing-person/>. As part of the scheme, and under their timetable for appointing auditors, they are now formally inviting the Council to decide if it wants to join the national scheme. PSAA Ltd need to receive formal acceptance by 9 March 2017 and the decision to accept the invitation and to opt-in needs to be made by full Council.
- 6.3 The scheme is intended to save time and resources for local government bodies and, through collective procurement, secure the best prices without compromising on audit quality.
- 6.4 Given their current role PSAA Ltd feel they have a unique experience and understanding of auditor procurement and the local public market. Using the scheme will avoid the need for the Council to:
- establish an audit panel with independent members;
  - manage its own auditor procurement and cover its costs;

- monitor the independence of its appointed auditor for the duration of the appointment;
- deal with the replacement of any auditor and
- manage the contract with the auditor.

6.5 The scheme will endeavour to appoint the same auditors to other opted-in bodies that are involved in formal collaboration with the Council or joint working initiatives, if it is considered that a common auditor will enhance efficiency and value for money. PSAA Ltd will also try to be flexible about changing the Council's auditor during the five-year appointing period if there is good reason, for example where new joint working arrangements are put in place.

6.6 PSAA Ltd are looking to secure a high level of acceptance to the opt-in invitation to provide the best opportunity for the company to achieve the most competitive prices from audit firms. The LGA has previously sought expressions of interest in the appointing person arrangements, and received positive responses from over 270 relevant authorities, of which Shropshire Council was one. They hope to achieve participation from the majority of eligible authorities.

### **High quality audits**

6.7 The Local Audit and Accountability Act 2014 provides that firms must be registered as local public auditors with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of registered firms' work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC), under arrangements set out in the Act.

6.8 PSAA Ltd will:

- only contract with audit firms that have a proven track record in undertaking public audit work;
- include obligations in relation to maintaining and continuously improving quality in the Council's contract terms and in the quality criteria of the tender evaluation;
- ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any quality concerns are detected at an early stage; and
- take a close interest in any feedback and in the rigour and effectiveness of firms' own quality assurance arrangements.

6.9 They will also liaise with the National Audit Office to help ensure that guidance to auditors is updated as necessary.

### **Procurement strategy**

6.10 In developing their procurement strategy for the contracts with audit firms, PSAA Ltd will have input from their established advisory panel. The panel will assist the company in developing arrangements for the national scheme, provide feedback on proposals as they develop, and help maintain effective channels of communication. PSAA Ltd are keen to understand the Council's preferences and priorities, to ensure they develop a strategy that reflects needs within the constraints set out in legislation and in professional requirements.

6.11 In order to secure the best prices PSAA Ltd are minded to let audit contracts:

- for five years;

- in two large contract areas nationally, with three or four contract lots per area, depending on the number of bodies that opt-in; and
- to a number of firms in each contract area to help them manage independence issues.

6.12 The value of each contract will depend on the prices bid, with the firms offering the best value being awarded larger amounts of work. By having contracts with a number of firms, PSAA Ltd will be able to manage issues of independence and avoid dominance of the market by one or two firms. Limiting the national volume of work available to any one firm will encourage competition and ensure the plurality of provision.

### **Auditor appointments and independence**

6.13 Auditors must be independent of the bodies they audit, to enable them to carry out their work with objectivity and credibility, and in a way that commands public confidence.

6.14 PSAA Ltd plan to take great care to ensure that every auditor appointment passes this test. They will also monitor significant proposals for auditors to carry out consultancy or other non-audit work, to protect the independence of auditor appointments.

6.15 They will consult the Council on the appointment of its auditor, most likely from September 2017. To make the most effective allocation of appointments, it will help them to tell them about:

- any potential constraints on the appointment of the auditor because of a lack of independence, for example as a result of consultancy work awarded to a particular firm;
- any joint working or collaboration arrangements that should influence the appointment; and
- other local factors that are relevant to making the appointment.

6.16 The PSAA Ltd will ask for this information if the Council choose to opt-in.

6.17 Auditor appointments for the audit of the accounts of the 2018/19 financial year must be made by 31 December 2017.

### **Opting in**

6.18 The closing date for opting in is 9 March 2017. PSAA Ltd have allowed more than the minimum eight week notice period, because the formal approval process for most eligible bodies, except police and crime commissioners, requires a decision made by the members of an authority meeting as a whole, i.e. Full Council.

6.19 PSAA Ltd will confirm receipt of all opt-in notices, and will publish a list of authorities on their website. On receipt of an opt-in notice they will write to request information on any joint working arrangements relevant to the auditor appointment, and any potential independence matters that would prevent them appointing a particular firm.

6.20 If it is decided not to accept the invitation to opt-in by the closing date, a late request can be submitted *after* 1 April 2018. If the Council choose to do this, the first accounts which could be audited by a PSAA appointed auditor would be the 2019/20 accounts. PSAA Ltd are required to consider such requests, and agree to them unless there are reasonable grounds for their refusal.

### **Timetable**

6.21 The timetable for the new arrangements is:

Invitation to opt-in issued	27 October 2016
Closing date for receipt of notices to opt-in	9 March 2017
Contract notice published	20 February 2017
Award audit contracts	By end of June 2017
Consult on and make auditor appointments	By end of December 2017
Consult on and publish scale fees	By end of March 2018

6.22 The Council has been asked by the LGA to opt-in to the national scheme for auditor appointments. Audit Committee are requested to endorse this approach to Council.

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

Local Audit and Accountability Act 2014  
 CIPFA's Auditor Panels  
 Audit Committee, June 2016: Audit appointments 201718  
 Council, July 2016: Changes to Arrangements for Appointment of External Auditors

**Cabinet Member (Portfolio Holder)** Malcolm Pate (Leader of the Council) and Tim Barker (Chairman of Audit Committee)

**Local Member** n/a

**Appendices**  
 None



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of the Local Government Act 1972.

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