

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

Date: Tuesday, 14 February
2017

My Ref:

Your Ref:

Committee:
Audit Committee

Date: Wednesday, 22 February 2017
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

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 24 November 2016 (Pages 1 - 10)

The Minutes of the meeting held on the 24 November 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: Strategic Risks Update (Pages 11 - 14)

The report of the Risk and Insurance Manager is attached, marked 5.

Contact Angela Beechey (01743) 252073

6 Internal Audit Report of the Review of Risk Management Audit 2016/17 (Pages 15 - 18)

The report of the Principal Auditor is attached, marked 6.

Contact: Peter Chadderton (01743) 257737

7 Draft Audit Committee Annual Work Plan and Future Training Requirements (Pages 19 - 46)

The report of the Head of Audit is attached marked 7.

Contact: Ceri Pilawski (01743) 257739

8 Annual Review of Counter Fraud, Bribery and Anti Corruption Strategy (Pages 47 - 72)

The report of the Head of Audit is attached marked 8.

Contact: Ceri Pilawski (01743) 257739

9 Management Report: Treasury Strategy 2016/17 (Pages 73 - 118)

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

Contact: James Walton (01743) 255011

10 Changes to Approvals Process for Statement of Accounts (Pages 119 - 122)

The report of the Head of Finance, Governance and Assurance (Section 151 Officer) is attached, marked 10.

Contact: James Walton (01743) 255011

11 Internal Audit Performance Report and Revised Annual Audit Plan 2016/17 (Pages 123 - 136)

The report of the Head of Audit is attached marked 11.

Contact: Ceri Pilawski (01743) 257739

12 Internal Audit Quality Assurance Improvement Programme (Pages 137 - 160)

The report of the Head of Audit is attached marked 12.

Contact: Ceri Pilawski (01743) 257739

13 Draft Internal Audit Risk Based Plan 2017/18 (Pages 161 - 174)

The report of the Head of Audit is attached marked 13.

Contact: Ceri Pilawski (01743) 257739

14 External Audit: Certification summary report (Pages 175 - 182)

The report of the Engagement Lead is attached, marked 14.

Contact: Mark Stocks (0121) 232 5356

15 External Audit: Audit Plan (Pages 183 - 202)

The report of the Engagement Lead is attached, marked 15.

Contact: Mark Stocks (0121) 232 5356

16 External Audit: Informing the risk assessment (Pages 203 - 222)

The report of the Engagement Lead is attached, marked 16.

Contact: Mark Stocks (0121) 232 5356

17 External Audit: Audit Committee Update (Pages 223 - 244)

The report of the Engagement Lead is attached, marked 17.

Contact: Mark Stocks (0121) 232 5356

18 Date and Time of Next Meeting

The next meeting of the Audit Committee will be held on the 29 June 2017 at 9.30 am in the Shrewsbury Room.

19 Exclusion of Press and Public

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

20 Exempt minutes of the previous meeting held on the 24 November 2016
(Pages 245 - 246)

The exempt minutes of the meeting held on the 24 November 2016 are attached for confirmation, marked 20.

Contact Michelle Dulson (01743) 257719

21 Internal Audit: Fraud, Investigations and RIPA Update (Exempted by Categories 2, 3 and 7) (Pages 247 - 250)

The report of the Principal Auditor is attached, marked 21.

Contact: Peter Chadderton (01743) 257737



Committee and Date

Audit Committee

22 February 2017

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 24 NOVEMBER 2016 9.30 AM - 12.15 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 David Turner

Also Present

Councillor Brian Williams

50 Apologies for Absence / Notification of Substitutes

50.1 No apologies were received.

51 Disclosable Pecuniary Interests

51.1 The Chairman reminded Members that they must not participate in the discussion or voting on any matter in which they have a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate.

52 Minutes of the previous meeting held on the 15 September 2016

52.1 RESOLVED:

That the Minutes of the meeting held on 15 September 2016 be approved and signed by the Chairman as a correct record.

53 Public Questions

53.1 No public questions had been received.

54 Management Report: AGS Action Plan Update

54.1 The Committee received the report of the Chief Executive Officer – copy attached to the signed Minutes - which provided Members with an interim progress update against each of the activities identified in the Annual Governance Statement Action Plan.

54.2 The Chief Executive drew attention to the ongoing Adult Social Care costs together with the £3m debt owed by the CCG to Shropshire Council. He confirmed that £1.8m of the debt had been secured with a further payment of £0.5m having been secured the previous week. The Chief Executive reported that following advice from a barrister, it had been agreed in principle that if the CCG and the Council could not agree, the Council's evidence was robust enough to go to binding arbitration to resolve the matter. The Section 151 Officer explained that payment of the outstanding amount had a nil impact on the income and expenditure account as the income had already been assumed and the debt was held on the balance sheet. If the balance had to be written off, however, then this may need to be charged to the service and this could result in lower than anticipated income in the current year projections.

54.3 In relation to Governance issues, the Chief Executive reported that these issues were still being worked through. There was also a question of whether the joint commissioning had the correct delegated powers in place. Concern was raised about the overspend on discharge from hospital, caused by an August spike, and whether there would be any money for the pressures of winter. The Director of Adult Services explained that it was felt the solution was pre/post admission in the community as there was no money to buy beds due to reduced funding elsewhere.

54.4 In response to a query the Chief Executive informed the Committee that a new Head of Economic Growth had been appointed who would own the new Strategy. The Council was currently working with consultants who were at the forefront of economic development and the advantages brought about by devolution. It was felt that the Council needed to focus on the more strategic economic market e.g. niche industries and higher level employment in order to increase wage levels and Business Rates etc. Real opportunities existed for the Council as part of the West Midlands Combined Authority.

54.5 The Chief Executive briefly touched on the draft Corporate Plan which had been through Scrutiny and Council. The Plan had been improved to include Climate Change, Environmental issues and Economic Growth but was still a working draft.

54.6 RESOLVED:

That the activities delivered to date against the approved Annual Governance Action Plan be noted.

55 Management Report: Assurances on Social Care Commissioning

55.1 The Committee received the report of the Chief Executive Officer – copy attached to the signed Minutes – which set out the range of processes and activities which were applied through Social Services Commissioning (Adults and Children's) to ensure that the services which had been procured were delivering the volume, cost and quality set out in their contracts. It also gave assurance on the robustness of the commissioning of Adult and Children Social Care Services, and highlighted the potential to continuously improve how commissioning and contract management was carried out by the Council.

55.2 The Director of Adult Services drew attention to the three lines of defence. The first line of defence related to the operational management of risks which was felt to be

paramount. In response to a query about whether there was a clear view on how to make the service fit for purpose, the Director of Adult Services explained that as the landscape changed over time, how the Council worked in partnership with other organisations across the Health and Social Care economy needed to change.

55.3 Turning to the second line of defence, this related to a number of internal governance activities. In relation to a query, the Director of Adult Services explained that the market was not currently able to meet demand. The approach may therefore need to be revised in order to stimulate the market. The third line of defence was the independent assurance function including Internal and External Audit, Ofsted and the CQC. Concern was raised that the increasing costs of Adult Social Care was leading to a lack of Health and Social Care providers.

55.4 RESOLVED:

That the contents of the report be noted.

56 Management Report: Council Tax and Non-Domestic Rates Performance Monitoring Report

56.1 The Committee received the report of the Revenues and Benefits Service Manager – copy attached to the signed Minutes – which provided Members with performance monitoring information on the collection of Council Tax and Non Domestic Rates (Business Rates) income for the year to 31 March 2016, and progress on the year to 31 March 2017.

56.2 The Revenues and Benefits Service Manager informed the Committee that the Council collected over £245m in Council Tax and Business Rates. He confirmed that the change in regulations to allow council tax payers to request payment over 12 months rather than 10 months did have an impact on collection rates.

56.3 The Revenues and Benefits Service Manager reported that the final collection rate for council tax for 2015-16 was 98.4% which compared favourably to the previous year's collection rate of 98.3%. In cash terms this was an increase of more than £3m. The average national collection rate for the collection of Council Tax was 97.1%, the average for Unitary Authorities was 96.9%. In the year to 7 November 2016, 73.3% of council tax had been collected compared to 73.7% for the equivalent period last year. The total arrears for council tax as at 31 March 2016 stood at £9m but as at 1 November 2016 this had reduced by £1.5m to £7.5m.

56.4 In respect of Business Rates (NNDR), the Revenues and Benefits Service Manager stated that the final collection rate for 2015/16 was 99.1% which again compared favourably with the previous year's collection rate of 98.7%. In cash terms this was an increase of more than £1m. The average national collection rate for Business Rates was 98.2% and for Unitary Authorities was 98%. In the year to 7 November 2016, 73.4% of business rates debt had been collected compared to 75.5% for the equivalent period last year. The total arrears for Business Rates as at 31 March 2016 stood at £3.5m and as at 1 June 2016 this had reduced by £300k to £3.2m.

56.5 In response to a query, the Revenues and Benefits Service Manager explained that the expected recovery rates always assumed that not all Council Tax or Business Rates would be collected however he was comfortable that the rate was set at an

adequate level. In response to queries about committal hearings, the Revenues and Benefits Service Manager confirmed that they would be looking to recommend committal hearings in the New Year which would be useful publicity.

56.6 RESOLVED:

That the contents of the report be noted.

57 Management Report: Treasury Strategy Mid-Year Report 2016/17

57.1 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 of the Council for the first six months of the financial year.

57.2 The Section 151 Officer reported that the internal treasury team had outperformed its benchmark by 0.32% and that all treasury management activities had been in accordance with the approved limits and prudential indicators set out in the Council's Treasury Strategy. The Council currently had £175m held in investments and borrowing of £326m at fixed interest rates.

57.3 The Section 151 Officer drew attention to the Council's investment profile and explained that the bank rate had fallen to 0.25% however it was still not worth repaying any debt due to the expensive penalties that would be imposed for early redemption.

57.4 The Section 151 Officer then turned to the Council's Annual Investment Strategy which outlined the Council's investment priorities as the security and liquidity of its capital. Appendix A set out the Council's current investments, he confirmed that all investment institutions were double A rated or above.

57.5 It was suggested that as the Internal Treasury Team consistently outperformed its benchmark, whether the actual return achieved should be used rather than the current benchmark.

57.6 RESOLVED:

A. That the position as set out in the report be noted.

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

58 Annual Review of Counter Fraud, Bribery and Anti-Corruption activities, including an update on the National Fraud Initiative

58.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which outlined the measures undertaken in the last year to evaluate the potential for the occurrence of fraud, and how the Council managed these risks with the aim of prevention, detection and subsequent reporting of fraud, bribery and corruption.

58.2 The Head of Audit informed the Committee that the Council had taken part in the CIPFA Fraud and Corruption Tracker (CFaCT) annual survey examining the levels of fraud detected in local authorities across the UK, the results of which were set out in paragraph 6.3 of the report.

58.3 The Head of Audit reported that the Council's Counter Fraud, Bribery and Anti-Corruption strategy was due to be updated in February 2017 and would be reported to a future meeting of the Audit Committee.

58.4 The Head of Audit explained that the results from the National Fraud Initiative data matching exercise for 2016/17 were due to be published at the end of January 2017 and the outcomes of any resulting investigations would be reported to a future meeting. Benefits to the Council of this exercise were reported to the Audit Committee in November 2015, following which there had been very little change.

58.5 In response to a query, the Head of Audit confirmed that although there were some areas where more could be done on a regular basis, enough work was still being undertaken to mitigate the risk adequately. She assured the Committee that the level of fraud was not considered to be high.

58.6 RESOLVED:

That the measures undertaken and detailed in the report be noted.

59 Annual Review of Audit Committee Terms of Reference

59.1 The Committee received the report of the S151 Officer – copy attached to the signed Minutes – which set out minor changes being proposed to the Audit Committee Terms of Reference shown in bold and underlined in Appendix A of the report. He drew attention to paragraph 5.7 which set out those areas raised by Members for potential inclusion in the Terms of Reference.

59.2 Concern was raised whether there were sufficient resources within Internal Audit to include the review of partnership working and alternative delivery models and if these were covered adequately in the Audit Committee's Terms of Reference and Work Plan. The Head of Audit felt that this area was covered under the Core Functions section of the Terms of Reference. She explained that the Terms of Reference needed to remain flexible, respond to changing themes and allow the Committee to look at things from different angles. The Work Plan was therefore key, and specific reports could be requested as required in addition to those already planned for.

59.3 A brief discussion ensued in relation to the inclusion of independent members on the Audit Committee and whether they would bring any value to the Committee. It was suggested that provision be made to have an independent member but that the post be held vacant until someone with the right skills set was found. It was noted that training would need to be considered for any new Councillors appointed to the Audit Committee following the election in May 2017 so that may be a good time for an independent member to receive training also.

59.4 It was agreed for the Terms of Reference to be amended to allow provision for an independent member, if elected members felt they would benefit from their

experience, to be selected by the Monitoring Officer in consultation with the Audit Committee and relevant Officers.

59.5 RESOLVED:

That the Audit Committee Terms of Reference be endorsed, subject to the amendment set out at paragraph 59.4 above.

60 Annual Audit Committee Self-Assessment

60.1 The Committee received the report of the S151 Officer – copy attached to the signed Minutes – which requested Members to review and comment on the self-assessment of good practice questionnaire which allowed them to assess the effectiveness of the Audit Committee and to identify whether there were any further improvements that could be made which would improve the Committee's overall effectiveness.

60.2 The Section 151 Officer took Members through the changes, set out in Appendix 3, including consideration of whether to have a pre-meeting prior to the formal meeting. It was agreed that if the Committee felt it needed guidance before the meeting this would be raised with the Chairman and relevant officers, depending on the issue. The Section 151 Officer reminded Members that they could get together outside of the meeting, if necessary.

60.3 The Section 151 Officer drew attention to Appendix B which set out the core skills identified by the Audit Committee in its 2014 self-assessment.

60.4 RESOLVED:

A. That the self-assessment questionnaire be approved.

B. That the proposals highlighted in paragraph 5.5 be approved.

61 Internal Audit Performance Report and Revised Annual Audit Plan 2016/17

61.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which provided Members with an update of the 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.

61.2 The Head of Audit informed the meeting that 53% of the revised plan had been completed which was in line with the target to achieve 90% by year end. She reported that one good and 12 reasonable assurance opinions had been issued together with eight limited and three unsatisfactory assurance opinions. She went on to say that twenty four final reports had been issued which contained 274 recommendations, one of which was fundamental. The Head of Audit explained that the fundamental recommendation was around the lack of a Hardware Replacement Strategy.

61.3 The Head of Audit drew attention to the Direction of Travel set out at Paragraph 5.17 of the report which showed that the unsatisfactory assurance levels had increased

from 9% in 2015/16 to 21% in 2016/17 year to date. The unsatisfactory assurance opinions were listed by service area in Table 3 of the report.

61.4 In response to a query the Section 151 Officer explained that when considering the acceptable level of assurances being given by Internal Audit, it was a question of whether the Council was reaching the point whereby it needed to change its approach. As resources were increasingly being focused on higher level areas of risk, one would expect that more issues would arise. However it was important to keep an eye on the whole assurance framework.

61.5 RESOLVED:

- a) That performance to date against the 2016/17 Audit Plan as set out in the report be noted;
- b) That the adjustments required to the 2016/17 plan to take account of changing priorities, as set out in Appendix B of the report, be endorsed.

62 External Audit: Annual Audit Letter 2015/16 Shropshire Council

62.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – which summarised the key findings arising from the work carried out for the year ended 31 March 2016.

62.2 The Executive Officer introduced the report and drew attention to the Value for Money findings for 2015/16. He explained that the biggest risk for Shropshire Council's financial position was Adult Social Care costs which would be taken into account going forward.

62.3 The Executive Officer reported that the change required to how the Highways Network Asset was accounted for had been deferred to 2017/18. The final fees were set out on page 122 but the Executive Officer highlighted that there would be a fee for work on the elector's objection which was still unresolved.

62.4 RESOLVED:

That the contents of the report be noted.

63 External Audit: Audit Committee update

63.1 The Committee received the report of the External Auditor - copy attached to the signed Minutes - which provided Members with a report on progress. The Executive Officer reported that the Planned Fee Letter for 2016/17 had been issued in April 2016 and that the Audit Manager would be producing an Audit Plan in February 2017. In relation to the Audit Findings report, the Executive Officer explained that management responses were awaited from the Council. The Section 151 Officer confirmed that the responses had been done and would be signed off later that day.

63.2 The Executive Officer drew attention to the changing requirements for 2017/18 when Local Authorities were required to bring forward the date by which their accounts must be published from 30 September to 31 July. This requirement had been discussed with the Council but no decision had been made whether to use 2016/17

to test an earlier closedown. The Section 151 officer explained that initial discussions had taken place within the Council and a lot of processes had already been brought forward. He confirmed that it was hoped to make a realistic plan going forward for an earlier close down.

63.3 RESOLVED:

That the contents of the report be noted.

64 Changes to arrangements for appointment of External Auditors

64.1 The Committee received the report of the Section 151 Officer – copy attached to the signed Minutes – which sought a formal decision from Council to ‘opt-in’ to the Public Sector Audit Appointments Ltd (PSAA) national auditor appointment arrangements.

64.2 RESOLVED:

That Members affirm and recommend to Council their preferred option, as agreed at their meeting on 23 June 2016, to opt-in to national auditor appointment arrangements with PSAA Ltd, the Local Government Association National Sector Led Body.

65 Date and Time of Next Meeting

65.1 Members were reminded that the next meeting of the Audit Committee would be held on 22 February 2017 at 9.30am.

66 Exclusion of Press and Public

66.1 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.

67 Exempt Minutes of the previous meeting held on 15 September 2016

67.1 RESOLVED:

That the exempt minutes of the meeting held on 15 September 2016 be approved and signed by the Chairman as a correct record.

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

68.1 The Committee received the exempt report of the Principal Auditor – copy attached to the exempt signed Minutes – which provided a brief update on current fraud and special investigations undertaken by Internal Audit and the impact these have on the internal control environment, together with an update on current Regulation of Investigatory Powers Act (RIPA) activity.

68.2 RESOLVED

That the contents of the report be noted.

Signed (Chairman)

Date:

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<u>Committee and Date</u>	<u>Item</u>	<u>Paper</u>
Audit Committee – 22nd February 2017		

STRATEGIC RISK INTERIM REPORT FEBRUARY 2017

Responsible Officer Angela Beechey

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

Tel: (01743)
252073

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252858

1. Summary

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

2. Recommendations

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

REPORT

3. Strategic Risk Exposure

- 3.1 The management of strategic risk is a key process which underpins the successful achievement of our priorities and outcomes. As the Council evolves risk management must also develop to ensure that the management of risk remains robust and is a tool which offers real benefits to the Council as a whole.
- 3.2 In accordance with previous years, the recent review of strategic risks in January 2017 has linked all strategic risks to the appropriate Annual Governance Statement Action Plan point.
- 3.3 The strategic risk review is achieved through face to face meetings with key officers, the risk owners, Directors, Chief Executive and Portfolio Holder. As far as possible, these meetings take place over a one week period resulting in an up to date and timely report detailing current risk exposures, changes that have occurred, reasons for changes to exposure and the identification of emerging risks.
- 3.4 There are currently 14 strategic risks as opposed to 16 previously reported in the September 2016 full Annual Strategic Risk Report. The reduction has arisen from the removal of one risk and the amalgamation of two other risks.
- 3.5 The risk in relation to union challenge has been removed following the appointment of new regional and local officers and the Employee Joint Consultative Committee (EJCC) working well, it was felt that this was no longer a strategic risk and should be removed from the strategic risk register. This will, however continue to be monitored at an operational risk level.

3.6 After detailed discussions with James Walton, the risk “A funding methodology that disadvantages Shropshire results in certain inability to meet our statutory duties” was amalgamated into the “Future Funding Levels” risk. It was felt that the majority of the risk mitigations were the same and it would be a more effective way of managing this risk.

3.7 There have been changes to risk ownership since the last report in September 2016 to Audit Committee. There were three strategic risks under the ownership of the Chief Executive that all Directors fed in to; Reputation, Statutory Duties and Strategic Vision & Direction. However, it was felt it would be more appropriate for these to be managed by specific Directors, with input from other officers where appropriate. This would enable Clive as the Chief Executive to concentrate on a full overview of all risks during the bi-monthly review rather than undertaking the updates himself at that time. The changes made were as follows:-

- Reputation – Michele Leith
- Strategic Vision & Direction – George Candler
- Statutory Duties – James Walton (subsequently amalgamated as detailed in 3.6 above)
- ICT related risks – Michele Leith

3.8 The list below is the current strategic risks and status:-

Risk	Risk Owner	L	I	Status
Sustainable Budget	James Walton	5	5	25
Staffing	Michele Leith	5	4	20
Work Related Stress	Michele Leith	5	4	20
Safeguarding Vulnerable Children	Karen Bradshaw	4	4	16
Commissioning Council	George Candler	4	4	16
Safeguarding Adults	Andy Begley	4	4	16
Future Funding Levels	James Walton	3	5	15
Contract Management	George Candler	3	4	12
Reputation.	Michele Leith	3	4	12
Governance	Claire Porter	3	4	12
Strategic Vision and Strategy	George Candler	3	4	12
Health & Social Care	Andy Begley	3	4	12
ICT Digital Transformation	Michele Leith	2	5	10
ICT Provision	Michele Leith	3	3	9

High Risks
Medium Risks

3.9 There have been some changes since the last report in September 2016:

- Staffing – the impact has reduced to a 4 but the likelihood has increased to a 5. This is due to an acknowledgement that the risk is actually occurring however the impact score has reduced due to the mitigation in place to reduce the impact.
- Safeguarding Adults – likelihood has increased to a 4 due to the impact of DoLs and risk status has increased from a medium to a high risk.
- Future Funding Levels – following the amalgamation of the two risks as detailed in 3.6 above a review of the risk score was undertaken and a

likelihood of 3 was allocated resulting in the status of the risk increasing from a medium to a high risk.

- Contract Management – this has a reduced likelihood from 4 to a 3 resulting in the status changing from a high to a medium risk. This is as a result of improved contract management and exception reporting to the newly formed Commissioning, Assurance and Performance Board.
- ICT provision – reduced scoring from an impact of 4 to a 3 however status remains as a medium risk. Impact reduced due to better integration between the transformation programme and operation department. New processes also implemented for internal control.

3.10 Consideration is also given to the risks associated with the Council’s key projects. Each project has its own risk register and this is managed by either a member of the risk team on major projects, or a member of the project team. An overview of these risk registers by the Risk Management Team allows identification of any risks which are occurring across several projects and should be identified as a strategic risk.

3.11 As part of the strategic risk review consideration is given to assurances from the first, second and third line of defence which incorporates assurances from managers, finance, legal, performance, risk, internal audit and external opinions. These assurances are then reviewed and discussed by Directors and informal Cabinet and Directors Group.

3.12 If Audit Committee members require more detail regarding any specific strategic risk they can review the Risk Profile document and call the relevant directors and heads of service to a meeting to discuss further.

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

Annual Governance Statement

Opportunity Risk Management Strategy

Cabinet Member

Michael Wood, Portfolio Holder Resources & Support

Local Member

N/A

Appendices

N/A

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<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
22 nd February 2017	
9:30 am	<u>Public</u>

INTERNAL AUDIT RISK MANAGEMENT REPORT 2016/17

Responsible Officer Peter Chadderton

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

Tel: 07990 086399

1. Summary

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

2. Recommendations

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

REPORT

3. Risk Assessment and Opportunities Appraisal

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

4. Financial Implications

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

5. Background

- 5.1 As part of the Public Sector Internal Audit Standards (PSIAS 2120), Internal Audit is required to evaluate the effectiveness, and contribute to the improvement, of the risk management process. Information gathered during the course of audit reviews provides an understanding of the Council's risk management processes and their effectiveness. Internal Audit evaluates the Council's risks relating to governance, operations and information systems. It does this in respect of:
- the achievement of the strategic objectives,
 - reliability and integrity of financial and operational information,
 - efficiency and effectiveness of operations and programmes,
 - safeguarding of assets and,
 - compliance with laws, regulations, policies, procedures and contracts.
- 5.2 To support the PSIAS, the Audit Committee's Terms of Reference include a requirement to review annually the adequacy of the Council's Risk Management arrangements. The last such review was undertaken in February 2016.

Internal Audit Risk Management Report – Executive Summary

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

Control Objective: Conclusion and Summary of Findings

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

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

	AUDIT OBJECTIVE	CONCLUSION AND SUMMARY OF FINDINGS
2.	Risk mitigation activities are designed to reduce, or otherwise manage, risk at levels determined to be acceptable to management and the Cabinet.	This control objective is achieved. Risks are considered by management and controls are in place for all risks. Strategic risks are reported bi-monthly to the Senior Management Team and to informal Cabinet. Operational Risks are reported to Heads of Service and Directors on a quarterly basis with an overarching report provided to the Senior Management Team. The reporting arrangements are in line with the Operational Risk Management Strategy. The Risk Management Team are involved in new projects and transformation work to ensure emerging risks are identified at the earliest opportunity.
3.	On-going monitoring activities are conducted to periodically reassess risk and the effectiveness of controls to manage risk.	This control objective is achieved. Appropriate processes to ensure compliance with the requirements of the 2015 Insurance Act in respect of the Council's duty of fair presentation of risk have been put in place. The operational risk review confirmed that quarterly reviews were in place in line with the Operational Risk Management Strategy.
4.	The Cabinet and management receive periodic reports of the results of the risk management process.	This control objective is achieved. Reports in respect of strategic risks are considered bi-monthly by informal Cabinet and the Senior Management Team.

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

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

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<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
22 February 2017	
9:30 am	<u>Public</u>

REVIEW OF THE AUDIT COMMITTEE'S ANNUAL WORK PLAN AND FUTURE LEARNING AND DEVELOPMENT REQUIREMENTS 2017/18

Responsible Officer Ceri Pilawski

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Tel: 01743 257739

1. Summary

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

2. Recommendations

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

- a) The Audit Committee work plan for 2017/18, **Appendix A**;
- b) A learning and development plan for Members of the committee taking in to account information in **Appendices A and B**.

REPORT

3. Risk Assessment and Opportunities Appraisal

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

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

4. Financial Implications

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

5 Background

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

Work Plan

- 5.2 The Work Plan in **Appendix A** continues to be presented in a format which demonstrates how reports to Audit Committee contribute to the delivery of the Committee's Terms of Reference and what assurances they provide.
- 5.3 In addition, any proposals for changes for which member approval is sought are highlighted in bold and underlined in **Appendix A**. In considering the amendments the following information may be useful:
- a) Accounting policies. The annual statement of accounts should be reviewed to determine whether appropriate accounting policies have been followed and whether any concerns arising from financial statements, or from audits, need to be brought to the attention of the Council. There is no need for a separate report on this since the approval of the Council's statement of accounts will incorporate such details.
 - b) A certification plan is no longer submitted by the External Auditor. Housing benefit certification is the only work in this area and is now reported with the main audit plan.
 - c) The External Auditor's Value Statement is now included in the Annual Audit Letter.

Learning and Development

- 5.4 CIPFA identify a key characteristic of an effective Audit Committee as having a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. There is a range of knowledge and experience that audit committee members can bring to the committee which will enable it to perform effectively. No one committee member is expected to be an expert in all areas. There are however some core areas of knowledge which committee members need to acquire in addition to the need for regular briefings and training.
- 5.5 Members need to consider annually their learning and development plan to support them in delivery of their roles. So far in 2016/17 Members have received two half day sessions covering a number of topics in detail. These included:
- A presentation and a question and answer session led by Fiona Daley, Head of Implementation from the Local Government Association, on public sector procurement of external audit.
 - A 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 the specific figures to review.
 - A look at the Assurance Framework and how it all maps together incorporating Internal Audit's role; Risk Management's role and links to the Corporate Plan.
 - Audit Committee's self-assessment of its own effectiveness against best practice.
- 5.6 It is proposed that training is again provided in three half day sessions over the next twelve months in May, October and January with dates to be agreed with the Chairman.
- 5.7 **Appendix B** identifies training topics for Audit Committee Members to consider. Training topics are identified as core areas of knowledge that all Audit Committee Members should seek to acquire plus specialisms that can add value to the committee. Members may also want to hear from key officers of the Council where new or changing activities are emerging and can request this as part of their training.
- 5.8 Whilst members are asked to endorse the initial sessions for learning and development, this will not prevent any additional items being added during the year or changes being made if these are felt to be of value. It may be following the May elections that core areas of knowledge are considered initially for any training sessions, covering specialist areas over time.

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

Previous training session records

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

Audit Committee, 22 February 2017: Review of the Audit Committee's Work Plan and Future Learning and Development Requirements

Accounts and Audit Regulations 2015

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

Local Member n/a

Appendices

Appendix A – Audit Committee Work Plan 2017/18 and Summary

Appendix B – Audit Committee Members development topics

Appendix A: Audit Committee Work Plan – 2017/18

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
Core business 29 June 2017		
1. Internal Audit: Annual Report	<p>Head of Audit’s overall opinion on the Council’s internal control environment</p> <p>Performance against the revised internal audit plan</p> <p>Provides a review of the effectiveness of the systems of internal control</p>	<p>To consider the Head of Audit’s annual report, specifically:</p> <p>a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of Internal Audit.</p> <p>b) The opinion on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the Annual Governance Statement.</p>
2. Section 151 Officer: Approval of the Council's Statement of Accounts	<p>Ensure that the narrative report to the accounts help the public understand the authority's financial management of public funds.</p> <p>Consider the outcome of the External Audit and the appropriateness of management responses.</p>	<p>To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need</p>

Appendix A: Audit Committee Work Plan – 2017/18

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	Seek assurance that the Council has appropriate accounting policies in place to ensure that items are treated correctly in the accounts.	to be brought to the attention of the Council.
3. Section 151 Officer: Review of the Council's Annual Governance Statement	<p>Confirm that the final Annual Governance Statement accurately reflects the Committees understanding of how the Council is run.</p> <p>Gain assurance that management have progressed the agreed actions associated with the significant issues / key risks identified in the Annual Governance Statement</p>	<p>To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.</p> <p>To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.</p>
4. Section 151 Officer: Review of Code of Corporate Governance	That the Council has very strong compliance with the Code of Corporate Governance which is part of the overall internal control framework and contributes to the Council's strong governance arrangements.	To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
5. Section 151 Officer: Annual review of the effectiveness of the system of internal audit and quality assurance and	That Internal Audit complies with the Public Sector Internal Audit Standards and is effective in doing so.	To consider reports from the Head of Audit on Internal Audit's performance during the year, These will include

Appendix A: Audit Committee Work Plan – 2017/18

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
improvement programme (QAIP)	That there is an improvement programme in place to ensure that any identified gaps are addressed.	reports on: <ul style="list-style-type: none"> • the results of the Quality Assurance and Improvement Programme; and • on instances where the Internal Audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance should be included in the Annual Governance Statement. 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.
6. Internal audit: Annual assurance report of Audit Committee to Council	Provide assurance that the Committee has adequately discharged its terms of reference and has positively contributed to how well the Council is run. Provides Council with an independent assurance report that the Council has in place adequate and effective risk management and internal control systems that can be relied upon and which	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.

Appendix A: Audit Committee Work Plan – 2017/18

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	<p>contribute to the high corporate governance standards that this Council expects and has consistently maintained.</p>	<p>To report to Council where the Audit Committee have added value, improved or promoted the control environment and performance in relation to the Terms of Reference and the effectiveness of the Committee in meeting its purpose and functions.</p>
<p>7. Section 151 Officer: Revenue Outturn report</p>	<p>Provides the financial outturn of the Council's budget for the year and therefore considers the effect that any over/underspend has on the Council's balances.</p> <p>Provides details of the potential risks affecting the balances and financial health of the Council.</p>	<p>To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.</p> <p>To consider the Council's arrangements for securing value for money and review assurances and assessments on the effectiveness of these arrangements.</p>
<p>8. Section 151 Officer: Capital Outturn report</p>	<p>Provides the financial outturn of the Council's capital budget for the year and therefore considers the impact that slippage within the programme will have on the financing of the capital programme in the future, including any</p>	<p>As above</p>

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Appendix A: Audit Committee Work Plan – 2017/18

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	future revenue implications.	
9. Head of Human Resources: Annual Whistleblowing report	Assurance that as part of the Counter Fraud, Bribery and Anti-Corruption Strategy the Whistleblowing policy contributes to our zero tolerance of fraud, bribery and corruption.	To review the assessment of fraud risks and potential harm to the Council from fraud, bribery and corruption.
10. External Audit: Certification Plan	Seek assurances that claims and returns will be independently reviewed to ensure that there are no significant errors that would result in loss of funding for the Council.	To consider the External Auditor's annual letter, relevant reports, and the report to those charged with governance.
11. External Audit: Fee Letter	To provide a clear indication as to the external Auditor's fees for the year.	To consider the External Auditor's annual letter, relevant reports, and the report to those charged with governance.
12. External Audit: Audit Committee update	<p>Seek assurance over progress and delivery of the external audit plan and that any risks to successful production of the financial statements and audit are being managed.</p> <p>The paper also includes:</p> <ul style="list-style-type: none"> • a summary of emerging national issues and developments that may be relevant to the Council; and • a number of challenge questions in respect of 	<p>To consider specific reports as agreed with the External Auditor and other inspection agencies.</p> <p>To comment on the scope and depth of external audit work and to ensure it gives value for money.</p>

Appendix A: Audit Committee Work Plan – 2017/18

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	these emerging issues which the Committee may wish to consider.	
13. Internal Audit: Fraud, investigations and RIPA update.	Provide assurances and an update on current fraud and investigations undertaken by Internal Audit and the impact these have on the internal control environment together with an update on current Regulation of Investigatory Powers Act (RIPA) activity.	To review the assessment of fraud risks and potential harm to the Council from fraud, bribery and corruption. To monitor the counter-fraud, bribery and corruption strategy, actions and resources.
Other assurance		
4. Revenues and Benefits Service Manager: Council tax and NNDR performance monitoring report	Provides assurances through performance monitoring information on the collection of this income. <u>Monitoring this high risk impact area, provides assurances that actions are completed and risk-related issues are addressed in a timely manner. The Committee is not responsible for the regular performance monitoring of this activity.</u>	To monitor progress in addressing risk-related issues reported to the committee and seeking assurances that action is taken by management in risk related issues identified by auditors and inspectors. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
15. External Audit: Pension Fund Audit Plan (information).		To consider specific reports as agreed with the External Auditor and other inspection agencies.

Appendix A: Audit Committee Work Plan – 2017/18

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
Core business: 7 September 2017		
16. Risk and Insurance Manager: Risk and Insurance Annual report	<p>To understand the current strategic risk exposure together with recent modifications and planned changes to strategic risk management within the authority.</p> <p>Gain assurance that the Council is effectively managing its key risks – has good risk management systems / processes in place that enable decision makers to understand the level of risk being taken and the Council is prepared to accept.</p>	To monitor the effective development and operation of risk management in the Council.
17. Risk and Insurance Manager: Strategic Risks update	<p>Assurances that the management of strategic risks, a key process that underpins the successful achievement of the Council's priorities and outcomes, is robust. Strategic risks are a key aspect of the Annual Governance Statement.</p> <p>Provide information to confirm to the Audit Committee that they are receiving assurances on the key risk areas within the Council and how these are being managed through the internal controls and governance processes.</p>	To monitor the effective development and operation of risk management in the Council.
18. Section 151 Officer: Audited Annual	Ensure that the narrative report to the accounts	To review the annual statement of

Appendix A: Audit Committee Work Plan – 2017/18

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
Statement of Accounts	<p>help the public understand the authority's financial management of public funds.</p> <p>Consider the outcome of the External Audit and the appropriateness of management responses.</p> <p>Seek assurance that the Council has appropriate accounting policies in place to ensure that items are treated correctly in the accounts.</p>	<p>accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.</p>
<p>9. Section 151 Officer; Annual Treasury report</p>	<p>Provide assurance on the treasury activities for Shropshire Council, including the investment performance of the internal Treasury team.</p>	<p>To receive regular reports on activities, issues and trends to support the Committee's understanding of treasury management activities. The Committee is not responsible for the regular monitoring of treasury management activity.</p> <p>To review the treasury risk profile and adequacy of treasury risk management procedures and assurances on treasury management.</p>
<p>20. Internal Audit: Performance report and revised Annual Audit Plan</p>	<p>Understand the level of assurances being given as a result of audit work and their impact on the Council's governance, risk and control environment.</p>	<p>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</p>

Appendix A: Audit Committee Work Plan – 2017/18

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
<p>Page 31</p>	<p>Ensure management action is taken to improve controls / manage risks identified.</p> <p>Encouraging ownership of the internal control framework by appropriate managers</p> <p>Confirm appropriate progress being made on the delivery of the audit plan and performance targets.</p> <p>Understand any resourcing issues as a result of changes to the plan.</p>	<p>include updates on the work of Internal Audit including key findings, issues of concern and action in hand as a result of Internal Audit work.</p> <p>To consider summaries of specific internal audit reports as requested.</p> <p>To receive reports outlining the action taken where the 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.</p> <p>To approve significant interim changes to the risk based internal audit plan and resource requirements.</p>
<p>21. External Audit: Audit Findings report Shropshire Council</p>	<p>Seek assurance over the adequacy of the External Audit opinion on the financial statements and the Council's value for money arrangements.</p> <p>Ensure any issues / risks identified are being effectively managed.</p>	<p>To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.</p>

Appendix A: Audit Committee Work Plan – 2017/18

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
22. External Audit: Audit Committee update	<p>Seek assurance over progress and delivery of the external audit plan and that any risks to successful production of the financial statements and audit are being managed.</p> <p>The paper also includes:</p> <ul style="list-style-type: none"> •a summary of emerging national issues and developments that may be relevant to the Council; and •a number of challenge questions in respect of these emerging issues which the Committee may wish to consider. 	<p>To consider specific reports as agreed with the External Auditor and other inspection agencies.</p> <p>To comment on the scope and depth of external audit work and to ensure it gives value for money.</p>
23. Internal Audit: Fraud, special investigations and RIPA update.	<p>Provide assurances and an update on current fraud and special investigations undertaken by Internal Audit and the impact these have on the internal control environment together with an update on current Regulation of Investigatory Powers Act (RIPA) activity.</p>	<p>To review the assessment of fraud risks and potential harm to the Council from fraud, bribery and corruption.</p> <p>To monitor the counter-fraud, bribery and corruption strategy, actions and resources.</p>
Other assurance		
24. Director of Place and Enterprise: Programme controls and risks	<p>Provide management assurance on the robustness of the governance arrangements for all commissioning activity arising from the Council's business plan and financial strategy.</p>	<p>To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.</p> <p>To consider the Council's arrangements for securing value for money and review</p>

Appendix A: Audit Committee Work Plan – 2017/18

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
		assurances and assessments on the effectiveness of these arrangements.
25. IT Manager: IT update	<p>Provide management assurance on the direction of travel and robustness of the internal control arrangements for IT activity and systems arising from the Council's identification of key strategic risks and associated governance issues.</p> <p>To include assurances on the delivery of disaster recovery testing.</p>	To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
26. Revenues and Benefits Service Manager: Housing benefit overpayment performance monitoring report	<p>Seek assurances on the recovery of Housing Benefit overpayments and receive performance monitoring information on the collection of this income for the year.</p> <p><u>Monitoring this high risk impact area, provides assurances that actions are completed and risk-related issues are addressed in a timely manner. The Committee is not responsible for the regular performance monitoring of this activity.</u></p>	<p>To monitor progress in addressing risk-related issues reported to the committee and seeking assurances that action is taken by management in risk related issues identified by auditors and inspectors.</p> <p>To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.</p>
27. External Audit: Audit Findings report Shropshire County Pension Fund (information)	Seek assurance over the adequacy of the External Audit opinion on the financial statements and the Council's value for money arrangements.	To consider the external auditor's report to those charged with governance on issues arising from the audit of the

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Appendix A: Audit Committee Work Plan – 2017/18

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	Ensure any issues / risks identified are being effectively managed.	accounts.
Core business: 30 November 2017		
28. Internal Audit: National Fraud Initiative update	Provides an update and assurances on the outcomes of the National Fraud Initiative.	To monitor the counter-fraud, bribery and corruption strategy, actions and resources.
29. Internal Audit: Annual review of Audit Committee Terms of Reference	Ensures the Audit Committees continues to benefit the Council by continuing to provide an effective service assessed against current best practice.	To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.
30. Internal Audit: Annual review of Internal Audit Charter	Assurance that effective corporate governance arrangements are maintained in the Council part of which is evidenced by a current Internal Audit Charter.	To approve the Internal Audit Charter.
31. Internal Audit: Annual review of Counter Fraud, Bribery and Anti-Corruption Strategy	<p>Confirm that the Council's counter fraud activity is targeted and effective.</p> <p>Ensure that appropriate progress is being made on the delivery of the Counter Fraud plan.</p>	To monitor the counter-fraud, bribery and corruption strategy, actions and resources.

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Appendix A: Audit Committee Work Plan – 2017/18

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
<p>Page 35</p>	<p>Ensure that lessons have been learnt – understand fraud risks facing the Council and actions being taken to reduce the risk</p> <p>Provides confirmation that the Counter Fraud, Bribery and Anti-Corruption Strategy has been reviewed in line with best practice and continues to underpin the Council's commitment to prevent all forms of fraud, bribery and corruption whether it be attempted on, or from within, the Council, thus demonstrating the strategy's continuing and important role in the corporate governance and internal control framework.</p>	
<p>32. Internal Audit: Performance report and revised Annual Audit Plan</p>	<p>Understand the level of assurances being given as a result of audit work and their impact on the Council's governance, risk and control environment.</p> <p>Ensure management action is taken to improve controls / manage risks identified.</p> <p>Encouraging ownership of the internal control framework by appropriate managers</p> <p>Confirm appropriate progress being made on the delivery of the audit plan and performance</p>	<p>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 updates on the work of Internal Audit including key findings, issues of concern and action in hand as a result of Internal Audit work.</p> <p>To consider summaries of specific internal audit reports as requested.</p>

Appendix A: Audit Committee Work Plan – 2017/18

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	<p>targets.</p> <p>Understand any resourcing issues as a result of changes to the plan.</p>	<p>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.</p> <p>To approve significant interim changes to the risk based internal audit plan and resource requirements.</p>
<p>33. Section 151 Officer: Treasury Strategy Mid-Year report</p>	<p>Provide assurance on the treasury activities for Shropshire Council, including the investment performance of the internal Treasury team.</p>	<p>To receive regular reports on activities, issues and trends to support the Committee's understanding of treasury management activities. The Committee is not responsible for the regular monitoring of treasury management activity.</p> <p>To review the treasury risk profile and adequacy of treasury risk management procedures and assurances on treasury management.</p>
<p>34. Section 151 Officer: Annual Audit Committee self-assessment</p>	<p>Confirmation that the Audit Committee is working effectively and where any further improvements</p>	<p>To review the Council's corporate governances arrangements against the</p>

Appendix A: Audit Committee Work Plan – 2017/18

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	are identified to improve its overall effectiveness, there are plans to implement these.	good governance framework and consider annual governance reports and assurances.
35. External Audit: Annual Audit Letter	Provides assurances on the key findings arising from the work that External Audit have carried out at the Council.	To consider the External Auditor's annual letter, relevant reports, and the report to those charged with governance.
36. External Audit: Value Statement	Seek assurance from External Auditor on all relevant reports	To consider the External Auditor's annual letter, relevant reports, and the report to those charged with governance.
37. External Audit: Audit Committee update	<p>Seek assurance over progress and delivery of the external audit plan and that any risks to successful production of the financial statements and audit are being managed.</p> <p>The paper also includes:</p> <ul style="list-style-type: none"> • a summary of emerging national issues and developments that may be relevant to the Council; and • a number of challenge questions in respect of these emerging issues which the Committee may wish to consider. 	<p>To consider specific reports as agreed with the External Auditor and other inspection agencies.</p> <p>To comment on the scope and depth of external audit work and to ensure it gives value for money.</p>

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Appendix A: Audit Committee Work Plan – 2017/18

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
38. Internal Audit: Fraud, special investigations and RIPA update	Provide assurances and an update on current fraud and special investigations undertaken by Internal Audit and the impact these have on the internal control environment together with an update on current Regulation of Investigatory Powers Act (RIPA) activity.	To review the assessment of fraud risks and potential harm to the Council from fraud, bribery and corruption. To monitor the counter-fraud, bribery and corruption strategy, actions and resources.
Other assurance		
39. Revenues and Benefits Service Manager: Council tax and NNDR Performance Monitoring report	Provides assurances through performance monitoring information on the collection of this income. <u>Monitoring this high risk impact area, provides assurances that actions are completed and risk-related issues are addressed in a timely manner. The Committee is not responsible for the regular performance monitoring of this activity.</u>	To monitor progress in addressing risk-related issues reported to the committee and seeking assurances that action is taken by management in risk related issues identified by auditors and inspectors. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
Core business: 1 March 2018		
40. Risk and Insurance Manager: Strategic Risks update	Assurances that the management of strategic risks which is a key process that underpins the successful achievement of the Council's priorities and outcomes is robust. Strategic risks are a key aspect of the Annual Governance Statement.	To monitor the effective development and operation of risk management in the Council.

Appendix A: Audit Committee Work Plan – 2017/18

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	Provide information to confirm to the Audit Committee that they are receiving assurances on the key risk areas within the Council and how these are being managed through the internal controls and governance processes.	
41. Section 151 Officer: Treasury Strategy	Provides assurances that the Council's Treasury Management practice complies with CIPFA's Code of Practice on Treasury Management, the Council's Treasury Policy Statement, Treasury Management Practices and the Prudential Code for Capital Finance and together with the rigorous internal controls will enable the Council to manage the risk associated with Treasury Management activities and reduce any potential for financial loss.	To consider the robustness of the authority's treasury management strategy, policies and procedures before their submission to Cabinet and Full Council, ensuring that controls are satisfactory.
42. Internal Audit: Report of the audit review of Risk Management	Provides independent assurance on the overall control environment for the Risk Management system that the Council is effectively managing its key risks – has good risk management systems / processes in place that enable decision makers to understand the level of risk being taken and the Council is prepared to accept.	To monitor the effective development and operation of risk management in the Council.
43. Internal Audit: Performance report and	Understand the level of assurances being given	To consider reports from the Head of

Appendix A: Audit Committee Work Plan – 2017/18

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
<p>revised Annual Audit Plan</p>	<p>as a result of audit work and their impact on the Council's governance, risk and control environment.</p> <p>Ensure management action is taken to improve controls / manage risks identified.</p> <p>Encouraging ownership of the internal control framework by appropriate managers</p> <p>Confirm appropriate progress being made on the delivery of the audit plan and performance targets.</p> <p>Understand any resourcing issues as a result of changes to the plan.</p>	<p>Audit on Internal Audit's performance during the year, including the performance of external providers of Internal Audit Services. These will include updates on the work of Internal Audit including key findings, issues of concern and action in hand as a result of Internal Audit work.</p> <p>To consider summaries of specific internal audit reports as requested.</p> <p>To receive reports outlining the action taken where the 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.</p> <p>To approve significant interim changes to the risk based internal audit plan and resource requirements.</p>
<p>44. Internal Audit: Draft Annual Internal Audit risk based plan</p>	<p>That the Internal Audit Plan focuses on the key risks facing the Council and is adequate to support the Head of Audit opinion.</p>	<p>To approve, but not direct, the risk-based internal audit plan, including internal audit resource requirements, the</p>

Appendix A: Audit Committee Work Plan – 2017/18

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 41</p>	<p>Confirm that the plan achieves a balance between setting out the planned work for the year and retaining flexibility to changing risks and priorities during the year.</p> <p>Ensure that the Internal Audit Resource has sufficiently capacity and capability to deliver the plan.</p> <p>Seek an understanding of what assurances Internal Audit will be providing the Committee to help it discharge its terms of reference.</p> <p>Gain assurance that the Council has effective arrangements in place to fight fraud locally and that counter fraud resources are targeted to the Council's key fraud risks.</p>	<p>approach to using other sources of assurance and any work required to place reliance upon those other sources.</p> <p>To make appropriate enquiries of both management and the Head of Audit to determine if there are any inappropriate scope or resource limitations.</p>
<p>45. Internal Audit: Draft Audit Committee annual work plan and future training requirements</p>	<p>Assurance that the agreed plan of work for the year ahead will deliver against the terms of reference of the Audit Committee and that Members will receive appropriate learning and development in order to deliver their responsibilities effectively.</p>	<p>To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.</p>
<p>46. Internal Audit: Fraud, special investigations</p>	<p>Provide assurances and an update on current</p>	<p>To review the assessment of fraud risks</p>

Appendix A: Audit Committee Work Plan – 2017/18

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
and RIPA update	fraud and special investigations undertaken by Internal Audit and the impact these have on the internal control environment together with an update on current Regulation of Investigatory Powers Act (RIPA) activity.	and potential harm to the Council from fraud, bribery and corruption. To monitor the counter-fraud, bribery and corruption strategy, actions and resources.
47. External Audit: Annual Plan	Evidence that the External Auditor understands the Council's business, risk, challenges and opportunities it is facing. Explanation of its audit approach and the scope of its plans.	To comment on the scope and depth of external audit work and to ensure it gives value for money.
48. External Audit: Certification Summary report	Seek assurances that claims and returns have been managed appropriately and that there are no significant errors that would result in loss of funding.	To consider the External Auditor's annual letter, relevant reports, and the report to those charged with governance.
49. External Audit: Informing the risk assessment	As part of External Audit's risk assessment procedures they obtain an understanding of management processes and the Audit Committee's oversight of the following areas: <ul style="list-style-type: none"> • Fraud • Laws and regulations • Going concern • Related party transactions • Accounting estimates This report includes a series of questions on each of these areas and the response we have	To comment on the scope and depth of external audit work and to ensure it gives value for money.

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Appendix A: Audit Committee Work Plan – 2017/18

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	<p>received from the Council's management for Audit Committee to consider whether the responses are consistent with the its understanding and whether there are any further comments it wishes to make.</p>	
<p>50. External Audit: Audit Committee update</p>	<p>Seek assurance over progress and delivery of the external audit plan and that any risks to successful production of the financial statements and audit are being managed.</p> <p>The paper also includes:</p> <ul style="list-style-type: none"> •a summary of emerging national issues and developments that may be relevant to the Council; and •a number of challenge questions in respect of these emerging issues which the Committee may wish to consider. 	<p>To consider specific reports as agreed with the External Auditor and other inspection agencies.</p> <p>To comment on the scope and depth of external audit work and to ensure it gives value for money.</p>

Audit Committee Work Plan 2017/18 Summary

Audit Committee Work Plan 2017/18	29 June 2017	7 Sept 2017	30 Nov 2017	1 Mar 2018	Report originator
Internal Audit Annual Report	✓				Internal Audit
Approval of the Council's Statement of Accounts	✓				Section 151 Officer
Review of Accounting Policies	✗				Section 151-Officer
Review of the Council's Annual Governance Statement	✓				Section 151 Officer
Review of Code of Corporate Governance	✓				Section 151 Officer
Annual review of the effectiveness of the system of Internal Audit and Quality Assurance and Improvement Programme (QAIP)	✓				Section 151 Officer
Annual Assurance Report of Audit Committee to Council	✓				Internal Audit
Revenue Outturn Report	✓				Section 151 Officer
Capital Outturn Report	✓				Section 151 Officer
Annual Whistleblowing report	✓				Head of Human Resources
Certification Plan	✗				External Audit
Audit Fee Letter 2015/16	✓				External Audit
Audit Committee Update	✓	✓	✓	✓	External Audit
Fraud, special investigations and RIPA Updates (part 2)	✓	✓	✓	✓	Internal Audit
Council Tax and NNDR Performance Monitoring Report	✓		✓		Revenues and Benefits Service Manager
Pension Fund Audit Plan (information)	✓				External Audit
Risk and Insurance Annual Report		✓			Risk and Insurance Manager
Strategic Risks update		✓		✓	Risk and Insurance Manager
Audited Annual Statement of Accounts		✓			Section 151 Officer
Annual Treasury Report		✓			Section 151 Officer
Performance Report and revised Annual Audit Plan		✓	✓	✓	Internal Audit

Audit Committee Work Plan 2017/18	29 June 2017	7 Sept 2017	30 Nov 2017	1 Mar 2018	Report originator
Findings Report Shropshire Council		✓			External Audit
Programme controls and risks		✓			Director of Place and Enterprise
IT Update		✓			IT Manager
Housing Benefit Overpayment Performance Monitoring Report		✓			Revenues and Benefits Service Manager
Findings Report Shropshire County Pension Fund (Information)		✓			External Audit
National Fraud Initiative Update			✓		Internal Audit
Annual review of Audit Committee Terms of Reference			✓		Internal Audit
Annual review of Internal Audit Charter			✓		Internal Audit
Annual review of Counter Fraud, Bribery and Anti-Corruption Strategy			✓		Internal Audit
Treasury Strategy Mid-Year Report			✓		Section 151 Officer
Annual Audit Committee Self-Assessment			✓		Section 151 Officer
Annual Audit Letter			✓		External Audit
Value Statement			✗		External Audit
Treasury Strategy				✓	Section 151 Officer
Report of the Audit Review of Risk Management				✓	Internal Audit
Draft Annual Internal Audit Risk Based Plan				✓	Internal Audit
Draft Audit Committee annual work plan and future training requirements				✓	Internal Audit
Audit Plan				✓	External Audit
Certification Summary Report				✓	External Audit
Informing the risk assessment				✓	External Audit

Appendix B

Audit Committee Members development topics

Core areas of knowledge

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

Specialist knowledge that adds value to the Audit Committee

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

Core skills

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



Committee and Date

Audit Committee
22nd February 2017
9:30 am

Item

Public

ANNUAL REVIEW OF COUNTER FRAUD, BRIBERY AND ANTI-CORRUPTION STRATEGY

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

Telephone: 01743 257739

1. Summary

This report provides members with an update following the latest review of the Counter Fraud, Bribery and Anti-Corruption Strategy. In line with best practice, 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 it plays in the corporate governance and internal control framework. It also sets out an action plan for adoption to ensure continuous improvement.

2. Recommendations

Members are asked to consider, and endorse with appropriate comment the Counter Fraud, Bribery and Anti-Corruption Strategy.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The adoption and promotion of an effective Counter Fraud, Bribery and Anti-Corruption Strategy 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 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. It was last reviewed and updated in November 2015. The revisions were discussed at Audit Committee.

6. Counter Fraud, Bribery and Anti-Corruption Strategy

- 6.1 CIPFA's Code of practice on managing the risks of fraud and corruption states that an organisation needs a counter fraud strategy which sets out its approach to managing risks and defining responsibilities for action.
- 6.2 Shropshire's strategy clearly identifies the Council's commitment to an effective Counter Fraud, Bribery and Anti-Corruption approach as part of its overall Corporate Governance arrangements. The strategy will enable the Council to:
- Acknowledge and understand fraud risks;
 - Prevent and detect more fraud; and
 - Pursue and punish fraud and recover losses.
- 6.3 The strategy reflects best practice from CIPFA's Code of practice on managing the risks of fraud and corruption, CIPFA's Red Book, the National Fraud Authority (NFA) Fighting Fraud Strategies and guidance from organisations such as ALARM (the National Forum for Public Sector Risk Management) and the IIA (Institute of Internal Auditors).
- 6.4 It is recognised that to reduce losses to fraud, bribery and corruption to an absolute minimum, a strategic approach with a clear remit covering all areas of fraud, bribery and corruption that may affect the Council is required. There needs to be a clear understanding of the importance of the links between policy work (to develop a counter fraud, bribery and anti-corruption culture, create a strong deterrent effect and prevent fraud, bribery and corruption by designing robust

policies and systems) and operational work (to detect and investigate fraud, bribery and corruption and seek to apply sanctions and recover losses where they are found).

- 6.5 The temptation may be to ‘pick and choose’ actions. However, the full range of integrated action must be taken forward with the Council’s focus clearly on outcomes (i.e. reduced losses) and not just activity (i.e. the number of investigations, prosecutions, etc.).
- 6.6 The strategy has been reviewed to ensure that it continues to emphasise the Council’s remit to reduce losses to fraud, bribery and corruption to an absolute minimum. It:
- Demonstrates links between ‘policy’ work and ‘operational’ work.
 - Shows agreement by both the political and executive authority for the Council’s approach.
 - Acknowledges fraud and identifies accurately the risk.
 - Creates and maintains a strong structure to pursue its remit including:
 - Having the necessary authority and support;
 - Providing for specialist training and accreditation;
 - Completing appropriate propriety checks;
 - Developing effective relationships with other organisations.
 - Enables actions to tackle the problem by:
 - Integrating different actions;
 - Building a strong counter fraud and anti-corruption culture;
 - Having clear actions to deter any problem;
 - Taking action to prevent fraud and corruption;
 - Early detection of any issues;
 - Investigating appropriately in accordance with clear guidance;
 - Having clear and consistent sanctions where fraud or corruption is proven;
 - Having clear policies on redressing losses.
 - Focuses on outcomes and not merely activity.

National Picture

- 6.7 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.
- 6.8 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 as part of making sure they

have the right processes and resources in place. The Council’s Counter Fraud, Bribery and Anti-Corruption Strategy has been updated using this checklist and actions identified for improvements.

6.9 Following review against CIPFA’s Code of Practice on managing the risk of fraud and corruption, and the FFCL companion, the following improvements have been made to the Council’s Counter Fraud, Bribery and Anti-Corruption Strategy appearing in **Appendix A** of this report:

- A revised statement from the leadership team appears at the front of the strategy recognising the specific threats of fraud and corruption faced by the Council;
- An action plan aligned to the strategy, which will allow for performance monitoring of improvements, is included in this report;
- The Council’s overall approach to recovery of losses resulting from fraud is set out in Appendix 4 of the strategy; and,
- Overall the structure of the strategy has been redesigned to improve the clarity of its message.

These improvements build on the principles already adopted and in place.

Action Plan

6.10 This Action Plan sets out the developments the Council proposes over the medium term future to further improve its resilience to fraud and corruption.

Action	Implementation Date
To proactively use the results of previous fraud risk assessments and publically available information from recognised organisations i.e. CIPFA, Grant Thornton, to direct counter fraud resources in the annual Internal Audit Plan.	Spring 2017
To refresh the Council’s suite of anti-fraud policies, strategies and procedures and to ensure that they continue to be relevant to national guidance.	Annually in November
To remind all staff and members of their role in sustaining a strong counter fraud, bribery and anti- corruption culture and the appropriate reporting channels where any fraud is suspected.	Annually in November
To undertake an annual Fraud Risk Assessment covering the Council’s main areas of exposure to fraud and to use the results to influence the Council’s approach moving forward.	Annually in October
To update the Council’s e-learning module on Fraud Awareness and to promote its uptake by all employees.	July 2017
To be an active participant in the National Fraud Initiative (NFI) and to investigate robustly suspected cases of fraud identified through NFI and report outcomes to Audit Committee.	Biannually in November

Action	Implementation Date
To refresh the Fraud Awareness pages on the web site and to engage with managers through targeted communications to emphasise their obligations to operate effective systems of internal control which are designed to reduce the risk to the Council of fraud, error or inadvertent loss.	Annually in November
To assess the Council's response to fraud against the Fighting Fraud and Corruption Locally companion checklist	February 2017 Completed.

- 6.11 Members are asked to consider and comment endorse with appropriate comment the Counter Fraud, Bribery and Anti-Corruption Strategy attached as **Appendix A**.

<p>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</p> <p>CIPFA: Code of practice on managing the risks of fraud and corruption, October 2014 The Bribery Act 2010 Fighting Fraud Locally: The Local Government Fraud Strategy</p>
<p>Cabinet Member (Portfolio Holder) Malcolm Pate (Leader of the Council) and Tim Barker (Chairman of Audit Committee)</p>
<p>Local Member n/a</p>
<p>Appendix A: Shropshire Council Counter Fraud, Bribery and Anti-Corruption Strategy</p>

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Counter Fraud, Bribery and Anti-Corruption Strategy

POLICY STATEMENT AND STRATEGY

Document Details:

Owner/Lead Officer: Head of Finance, Governance and Assurance

Date: January 2017

Review Arrangements: Next Review Date - November 2017

Counter Fraud, Bribery and Anti-Corruption Policy Statement

This Statement sets out Shropshire Council's (the Council's) policy in relation to fraud, bribery and corruption. It has the full support of both the Council's senior management and elected members.

The Council takes its responsibilities to protect the public purse very seriously and is fully committed to the highest ethical standards, in order to ensure the proper use and protection of public funds and assets, aligned to Nolan's seven principles of public life (**see Appendix 2**). To achieve the objectives set out within the Council's Corporate Plan, the Council needs to maximise the financial resources available to it. In order to do this, the Council has an ongoing commitment to continue to improve its resilience to fraud, bribery and corruption and other forms of financial irregularity.

The Council advocates **strict adherence** to its anti-fraud, bribery and corruption framework and associated policies. Whilst individual circumstances of each case will be carefully considered, in the majority of cases there will be a **zero tolerance** approach to fraud, bribery and corruption in all of its forms. The Council will not tolerate fraud, bribery or corruption by its members, employees, suppliers, contractors, partners, service users or the general public and will take all necessary steps to investigate all allegations of fraud, bribery or corruption and pursue sanctions available in each case, including removal from office, disciplinary action, dismissal, civil action for recovery and/or referral to the Police and/or other agencies. The required ethical standards are included in the Members' Code of Conduct and Employees' Code of Conduct, both documents forming part of the overall Constitution of the County Council.

The Council fully recognises its responsibility for spending public money and holding public assets. The prevention, and if necessary the investigation, of fraud and corruption is therefore seen as an important aspect of its duties which it is committed to undertake. The procedures and also the culture of the Council are recognised as important in ensuring a high standard of public life.

The Council's general belief and expectation is that those associated with it (employees, members, school governors, service users, contractors and voluntary bodies) will act with honesty and integrity. In particular members and employees are expected to lead by example and will be accountable for their actions.

The Council will take steps to help ensure high standards of ethical behaviour are adopted in partnerships of which the Council is a member. This will be done through applying appropriate elements of this Strategy to all partnership working, where it is relevant to do so. With regard to partnership working, responsibility for codes of conduct and policies of this nature generally lies with the relevant individual organisation in the partnership. Where appropriate, the Council will draw the attention of the partner organisation to its concerns.

This Policy Statement is underpinned by a Counter Fraud, Bribery and Anti-Corruption Strategy. The Strategy sets out what actions the Council proposes to take over the medium-term future to continue to develop its resilience to fraud and corruption. It sets out the key responsibilities with regard to fraud prevention, what to do if fraud is suspected and the action that will be taken by management.

Counter Fraud, Bribery and Anti-Corruption Strategy

1. Introduction

Shropshire Council (the Council) advocates **strict adherence** to its counter-fraud framework and associated policies. In the majority of cases this would be a **zero tolerance** approach to all forms of fraud, bribery, corruption and theft, arising both from within the Council and externally. The Council recognises that fraud and other forms of financial irregularity can:

- Undermine the standards of public service that the Council seeks to achieve;
- Reduce the level of resources and services available for the residents of Shropshire; and
- Have major consequences which reduce public confidence in the Council.

This Strategy defines both the proactive and reactive components of a good practice response to fraud risk management. It sets out the key responsibilities within the Council with regard to fraud prevention, what to do if fraud is suspected and the action that will be taken by management. The Strategy provides overarching governance to the Council's suite of counter fraud policies and procedures which include:

- The Council's Constitution, incorporating the members' code of conduct, employees' code of conduct, contract procedure rules, financial procedure rules.
- Speaking up about wrongdoing policy.
- Gifts and hospitality policy.
- Registration and disclosure of pecuniary interests and conflicts of interest policy.
- Anti-Money laundering policy.
- Acceptable use of electronic services information security policy.
- Contract terms and conditions and standard instructions for tenderers.
- Hours of work and how to record them policy.

This Strategy adheres to the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Managing the Risk of Fraud and Corruption 2014 (the Code). The Code requires leaders of public sector organisations to have a responsibility to embed effective standards for countering fraud and corruption in their organisations in order to support good governance and demonstrate effective financial stewardship and strong public financial management. This Council has resolved to adopt the principles of the Code and report annually on conformance with it.

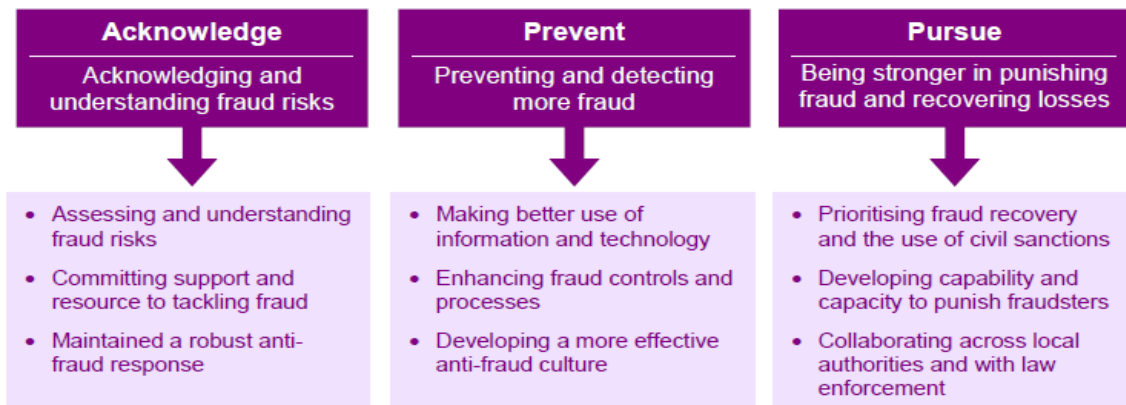
The five key elements of the CIPFA Code are to:

Acknowledge the responsibility of the governing body – in the Council's case elected members and the senior managers – for countering fraud, bribery and corruption	ACKNOWLEDGE
Identify the fraud, bribery and corruption risks	
Develop an appropriate counter-fraud, bribery and anti-corruption strategy	PREVENT
Provide resources to implement the strategy	

Take action in response to fraud, bribery and corruption

PURSUE

The five elements link to three key themes: **Acknowledge**, **Prevent** and **Pursue**, contained within the Local Government Fraud Strategy: Fighting Fraud Locally.



2. Definitions

What is Fraud?

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

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

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

Put simply, fraud is an act of deception intended for personal gain or to cause a loss to another party.

What is Bribery?

Bribery is an inducement or reward offered, promised or provided to gain personal, commercial, regulatory or contractual advantage. There are four key offences under the Bribery Act 2010:

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

Shropshire Council is classed as a "commercial organisation" under the Act. There is also a corporate offence under the Act for a failure by a commercial organisation to prevent bribery

that is intended to obtain or retain business, or an advantage in the conduct of business, for the organisation.

What is Corruption?

Corruption is the deliberate misuse of a position for direct or indirect personal gain. The Council defines the term "corruption" as: *"The offering, giving, soliciting or accepting of any inducement or reward which would influence the actions taken by the body, its members or employees."*

The Bribery Act 2010 makes it possible for individuals to be convicted where they are deemed to have given their consent or tacit approval in giving or receiving a bribe. The Act also created the Corporate Offence of "Failing to prevent bribery on behalf of a commercial organisation" (corporate liability).

To protect itself against the corporate offence, the Act requires an organisation to have "adequate procedures in place to prevent bribery". This Strategy, the Council's codes of conduct and the Speaking about wrong doing policy, along with the education of staff (e.g. through induction, e-learning etc.) are designed to meet the requirement.

What is Theft?

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

3. Scope

The Council will not tolerate fraud, bribery, corruption or other forms of financial irregularity by anyone. Consequently, this Strategy applies to a wide range of persons, including:

- All Council employees (including volunteers, temporary staff and agency staff);
- Elected members;
- Staff and Committee members of Council funded voluntary organisations;
- Council partners;
- Maintained schools;
- Council suppliers, contractors and consultants (whether engaged directly or indirectly through partnership working);
- Service users; and
- Members of the general public.

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

4. Strategy Aims and Objectives

The aims and objectives of this strategy are to:

- Protect the Council's valuable resources by ensuring they are not lost through fraud but are used to provide quality services to Shropshire residents and visitors;

- Create and promote a robust ‘anti-fraud’ culture across the organisation which highlights the Council’s zero tolerance of fraud, bribery, corruption and theft;
- Have in place effective Counter Fraud systems and procedures which:
 - Ensure that the resources dedicated to combatting fraud are sufficient and those involved are appropriately skilled;
 - Proactively deter, prevent and detect fraud, bribery, corruption and theft;
 - Investigate suspected or detected fraud, bribery, corruption and theft;
 - Enable the Council to apply appropriate sanctions and recover all losses; and
 - Provide recommendations to inform policy, system, risk management and control improvements, thereby reducing the Council’s exposure to fraudulent activity.
- Create an environment that enables the reporting of any genuine suspicions of fraudulent activity. However, the Council will not tolerate malicious or vexatious allegations or those motivated by personal gain and, if proven, disciplinary or legal action may be taken;
- Ensure the rights of people raising legitimate concerns are properly protected;
- Work with partners and other investigative bodies to strengthen and continuously improve the Council’s resiliency to fraud and corruption.

5. What is the Council’s Approach to Countering Fraud?

Managing the Risk of Fraud and Corruption

Whilst all stakeholders have a part to play in reducing the risk of fraud, **see Appendix 3**, members and senior management are ideally positioned to influence the ethical tone of the organisation and play a crucial role in fostering a culture of high ethical standards and integrity. Members and employees at all levels are expected to lead by example in ensuring adherence to established rules and procedures and to ensure that all procedures and practices are legally sound and honest.

As with any risk faced by the Council, it is the responsibility of managers to ensure that fraud risk is adequately considered within their individual service areas and in support of achieving strategic priorities, business plans, projects and programmes objectives and outcomes. Senior managers’ Annual Governance Statements will include reference to measures taken to counter fraud, bribery and corruption in their areas.

Members also have an important role to play and open and honest dialogue between members and employees is encouraged.

Adequate supervision, recruitment and selection, scrutiny and healthy scepticism must not be seen as distrust but simply as good management practice shaping attitudes and creating an environment opposed to fraudulent activity.

Good corporate governance procedures are a strong safeguard against fraud and corruption. The Audit Committee is a key member forum for ensuring sufficient weight is given to counter fraud, bribery and anti-corruption activity and is positioned to review assurances from managers, members, risk and other business data (“second line of defence”).

The Council’s Internal Audit Service undertakes risk-based assurance work each year centred on a management approved Internal Audit Plan.

6. Fighting Fraud Locally: Acknowledge – Prevent – Pursue

The Council seeks to fulfil its responsibility to reduce fraud and protect its resources by means of a strategic approach consistent with that outlined in both CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption and in the Local Government Fraud Strategy – Fighting Fraud Locally, and its three key themes of Acknowledge / Prevent / Pursue: -

ACKNOWLEDGE	Committing Support	The Council's commitment to tackling fraud threat is clear. We have strong whistleblowing procedures and support those who come forward to report suspected fraud. All reports will be treated seriously and acted upon. Staff awareness of fraud risks is maintained through e-learning and other training. Our suite of counter fraud strategies, policies and procedures is widely published and kept under regular review.
	Assessing Risks	We will continuously assess those areas most vulnerable to the risk of fraud as part of our risk management arrangements. These risk assessments will inform our internal controls and counter fraud priorities. Elected members and senior managers have an important role to play in scrutinising risk management procedures and risk registers. Also, the Internal Audit Service will carry out assurance work in areas of higher risk to assist management in preventing fraudulent activity.
	Robust Response	We will strengthen measures to prevent fraud. Internal Audit will work with management and our internal partners such as Human Resources, Finance, Legal and policy makers to ensure new and existing systems and policy initiatives are adequately fraud proofed.

PREVENT	Better Use of Information Technology	We will make use of data and analytical software to prevent and detect fraudulent activity. We will look for opportunities to share data and fraud intelligence to increase our capability to uncover potential and actual fraud. We will also use computer assisted audit techniques, search engines and data matching facilities at a local level to investigate suspected frauds. Any such exchange or use of information will be undertaken in accordance with the principles contained in the Data Protection Act 1998. We will play an active part in the National Fraud Initiative (NFI) data matching exercise.
	Fraud Controls and Processes	We will educate managers with regard to their responsibilities for operating effective internal controls within their service areas. We will promote strong management and good governance that provides scrutiny and independent challenge to risks and management controls. Routine Audit reviews will seek to highlight vulnerabilities in the control environment and make recommendations for improvement.
	Anti-Fraud Culture	We will promote and develop a strong counter fraud culture, raise awareness, provide a fraud e-learning tool and provide information on all aspects of our counter fraud work. In addition personal development plans provide employees with specific skills that further support the counter fraud, bribery and anti-corruption culture, i.e. updated financial training, information security training, etc.

PURSUE	Fraud Recovery	A crucial element of our response to tackling fraud is recovering any monies lost through fraud. This is an important part of our strategy and will be rigorously pursued, where possible. See Appendix 4 for the loss recovery approach.
	Punishing Fraudsters	We will apply realistic and effective sanctions for individuals or organisations where an investigation reveals fraudulent activity. This may include legal action, criminal and/or disciplinary action.
	Enforcement	We will investigate instances of suspected fraud detected through the planned proactive work; cases of suspected fraud referred from internal or external stakeholders, or received via the whistleblowing procedure. We will work with internal, external partners and organisations, including law enforcement agencies.

7. Responsibilities

Specific responsibilities for all stakeholders involved in this strategy are set out in **Appendix 3**.

8. Reporting, Advice, Support

The Council's approach to potential fraud can be demonstrated in its Fraud Response Plan / Flowchart – see **Appendix 1**.

It is often the alertness of members, employees and the public that facilitates detection.

If anyone believes that someone is committing a fraud or suspects bribery or corrupt practices, these concerns should be raised in the first instance directly with line management. If necessary a route, other than a normal line manager, may be used to raise such concerns. Examples of such routes are:

- **Head of Paid Service, directors, heads of service or senior managers.**
- **Internal Audit's Standards Hotline on 01743 252627.**
- **National Benefit Fraud Hotline 0800 854 440 – or 0800 678 3722 for Welsh speakers.**

Where managers are made aware of suspected fraud by employees, they have responsibilities for passing on those concerns to the Section 151 Officer. Managers should react urgently to evidence of potential fraud or corruption. Headteachers of maintained schools should also notify their Chair of Governors. Notifications must be treated with the utmost confidentiality. Any person that is implicated in the alleged offence **should not** be included in the notification procedure.

Reporting is essential to the Counter-Fraud, Bribery and Anti-Corruption Strategy and:

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

The Council's Whistle Blowing Policy (Speaking Up about Wrong Doing) is intended to encourage and enable employees and/or partners to raise serious concerns. In respect of benefit fraud, the public and employees are encouraged to report it through the dedicated phone and email address available on the Council's web pages.

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

9. Investigations

Investigations - To avoid potentially contaminating the evidence, managers should not investigate concerns themselves without having sought relevant authority to do so and instead should immediately report all suspicions of fraud or corruption, as detailed above.

In more complex cases, investigations will be carried out by Internal Audit. Otherwise, Audit will give guidance to service managers on how to carry out investigations.

The Council's employees will work with other public sector bodies including; the Department of Work and Pensions (DWP), the Police, Inland Revenue, Customs and Excise and the Immigration Service for the purposes of preventing, detecting and investigating crime.

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

Criminal Offences - The Monitoring Officer will provide guidance as to whether a criminal offence has occurred. In such cases the Council will seek a prosecution unless the decision is taken, following advice from the Monitoring Officer, that it would be inappropriate to do so.

Disciplinary Action - The Director (after taking relevant HR advice) will decide whether disciplinary action should be taken against an employee

Elected Members - The Chief Executive and the Monitoring Officer, will advise on action in relation to members.

Compensation - Where a case has been proved, the relevant Director and Head of Finance, Governance and Assurance (Section 151 Officer), with advice from the Monitoring Officer, will agree whether and how much to pursue as compensation. The Director will also inform the Insurance service where it is believed an insurance claim can be made.

Recording – The Head of Audit (HoA) will maintain a fraud database where summary details of financial irregularities will be recorded.

Reporting - The Head of Audit's routine progress reports to the Audit Committee will include summary details on investigations into suspected fraud, bribery or corruption once the outcomes are finalised, especially with any cases that are subject to Police investigation. In addition, the HoA also reports annually on fraud and corruption activity through:

- The National Fraud Initiative and
- The Local Government Transparency Code

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

10. Strategy Review

The Section 151 Officer and the Audit Committee will ensure the continuous review and amendment of this Strategy, and the Action Plan contained within it, to ensure that it remains compliant with good practice, national and public sector standards and continues to meet the needs of Shropshire Council.

APPENDIX 1



FRAUD RESPONSE PLAN

INTRODUCTION

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

WHAT YOU SHOULD DO IF YOU SUSPECT FRAUD

9. Immediately report your suspicions to:
 - Your immediate Supervisor or Line Manager (or more senior management depending on the seriousness and sensitivity of the issues involved and who is thought to be involved in the wrongdoing).
 - The Head of Audit, Ceri Pilawski on 01743 257739 or the Section 151 Officer, James Walton on 01743 255011.
 - The Whistleblowing Hotline on 01743 252627 or email audit@shropshire.gov.uk.

- Audit Services, Shropshire Council, Shirehall, Abbey Foregate, Shrewsbury SY2 6ND, 01743 257737.
- If the fraud is in relation to Benefits details for reporting appear on the Council's web site:
<https://www.shropshire.gov.uk/benefits/report-benefit-fraud/>.

TOP TIPS

10.

DON'T

Delay: report the matter quickly.

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

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

Undertake any investigations yourself: you may spoil the evidence and prevent a criminal prosecution.

DO

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

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

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

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

SAFEGUARDS

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

INVESTIGATION

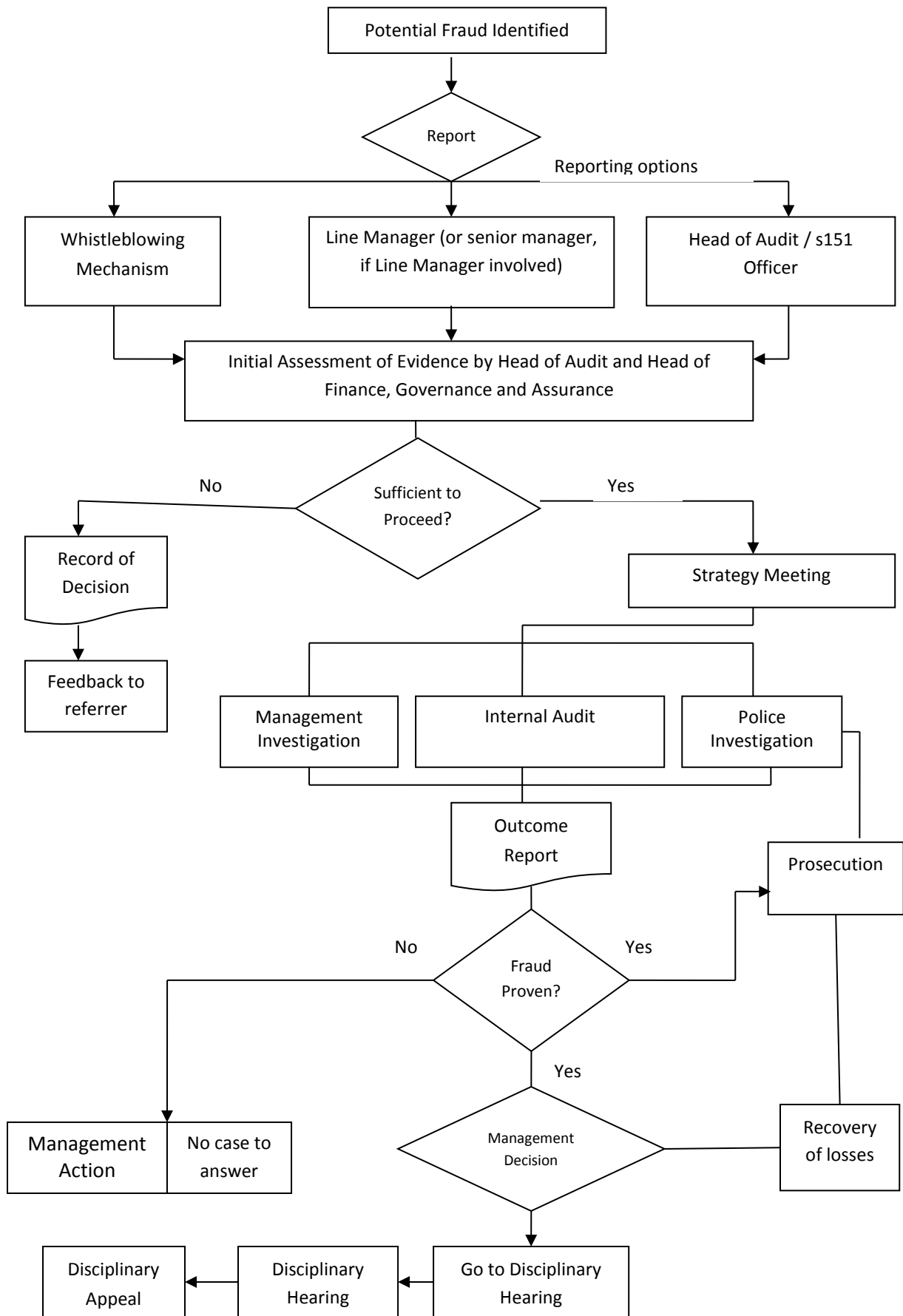
15. All suspected fraud must be referred to the Head of Audit.

16. The Head of Audit will assess the initial information and decide how to proceed. This may include a strategy meeting with the relevant manager where appropriate.
17. Following best practice, Audit will investigate most cases of suspected fraud – management may investigate low level fraud involving an employee after consultation with Audit.

POTENTIAL OUTCOMES

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

Appendix 1 - The Council's typical fraud response plan



APPENDIX 2

NOLAN COMMITTEE REPORT – THE SEVEN PRINCIPLES OF PUBLIC LIFE

Selflessness

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

Integrity

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

Objectivity

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

Accountability

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

Openness

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

Honesty

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

Leadership

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

SPECIFIC RESPONSIBILITIES

APPENDIX 3

Stakeholder	Specific Responsibilities
Head of Paid Service (CEO)	Ultimately accountable for the effectiveness of the Council's arrangements for countering fraud, bribery and corruption.
Monitoring Officer (Head of Legal and Democratic Services)	To advise members and employees on ethical issues, standards and powers to ensure that the Council operates within the law and statutory codes of practice.
Section 151 Officer (Head of Finance, Governance and Assurance)	To make proper arrangements for the Council's financial affairs and to ensure the Council has an adequately resourced and effective Internal Audit.
Audit Committee	To monitor the effectiveness of the Council's Counter fraud, bribery and anti-corruption strategy and arrangements. To monitor the Council's Whistleblowing policy.
Members	To support and promote the development of a strong counter fraud, bribery and anti-corruption culture.
External Audit	Statutory duty to ensure that the Council has in place adequate arrangements for the prevention and detection of fraud, bribery corruption and theft.
Internal Audit	Responsible for developing and implementing the Counter fraud, bribery and anti-corruption strategy and investigating any issues reported under this policy and the Speaking up about wrongdoing (whistleblowing) policy. To ensure that all suspected or reported irregularities are dealt with promptly and in accordance with this policy and that action is identified to improve controls and reduce the risk of recurrence.
Managers	To promote employee awareness and ensure that all suspected or reported irregularities are referred immediately to Internal Audit. To ensure that there are mechanisms in place within their service areas to assess the risk of fraud, bribery, corruption and theft and to reduce these risks by implementing robust internal controls.
Employees	To comply with Council policies and procedures, to be aware of the possibility of fraud, bribery, corruption and theft, and to report any genuine concerns to the appropriate management, the Head of the Paid Service, the Section 151 Officer, the Monitoring Officer, or Internal Audit.
Public, Partners, Suppliers, Contractors and Consultants	To maintain strong counter fraud, bribery and anti-corruption principles and be aware of the possibility of fraud, bribery and corruption against the Council and report any genuine concerns or suspicions through the identified channels. Public agencies may include the: <ul style="list-style-type: none"> • Police. • External Audit. • Local, regional and national auditor networks. • National Anti-Fraud Network. • CIPFA. • Department of Work and Pensions. • Other local authorities. • Public health.

Appendix 4

Shropshire Council – Loss Recovery Approach

Fraud covers a wide range of criminal activity which, as far as the Council is concerned, can be characterised broadly as the dishonest appropriation of the Council's resources (whether financial or otherwise).

Because the Council's resources are finite and because the Council has a responsibility to safeguard public monies, fraudulent activities should be regarded with the utmost seriousness.

For the purposes of this Loss Recovery Strategy, there are two overarching considerations which inform the Council's approach to tackling any detected fraud:-

- The first consideration is the need to preserve public funds which, in appropriate circumstances, may involve the Council taking active steps to recover any misappropriated assets or obtain equivalent compensation; and
- The second is the need to ensure due process of law which, in appropriate circumstances, may require the Council to co-operate with law enforcement authorities which may investigate any alleged offences and, if appropriate, prosecute the alleged perpetrator(s).

Although the Council recognises the importance both of preserving public funds and of ensuring due process of law, these considerations may lead the Council to respond to fraud in different ways.

For the purposes of this policy, it is recognised that although it is desirable that fraudulent activity be prosecuted, that course of action may leave the Council worse off financially than if the Council had pursued its own civil remedies.

Financial Considerations in relation to reporting fraud to law enforcement authorities

Criminal prosecutions do not tend to result in high levels of recovery of assets for the Council. This can be attributed to a number of factors:-

- (1) The focus of criminal proceedings is not exclusively upon compensating the victim.
- (2) In proceedings brought by the Crown Prosecution Service, the Council has limited control over the question of whether the Court makes any compensation orders¹.
- (3) There are statutory limits² to the amount of compensation that the Magistrates Courts can order.
- (4) Those convicted of criminal offences may lose their liberty and or their livelihood and thereby are unable to compensate the Council.
- (5) Unlike Civil Courts the Criminal Courts must take account of a defendant's ability to pay before imposing financial penalties.
- (6) Proceeds of Crime Act 2002 proceedings are complex and are restricted to matters dealt with in the Crown Court.

¹ Sections 130 - 133 Powers of Criminal Courts (Sentencing) Act 2000

² Section 40 (1) Magistrates' Courts Act 1980

Civil proceedings may, in appropriate circumstances, offer an increased prospect of achieving a financial recovery but this is highly dependent upon a number of factors including the availability of evidence proving the fraud as well as the ability of the Defendant to meet any judgment.

It is important to treat the civil and criminal avenues as being distinct.

Adopted Strategy

1. In the event that a fraud or financial irregularity is suspected, the Council will determine on a case by case basis, after seeking the advice of the Monitoring Officer or their delegated representative, what further action (if any) will be taken to recover its losses from individual(s) or organisations responsible.
2. At the earliest available opportunity the Council will consider whether it is appropriate to pursue civil remedies or refer the matter to law enforcement agencies for investigation and/or prosecution.
3. Before reaching any decision on how to proceed, the Council will seek to avoid any activities which may unnecessarily alert the perpetrator, encourage them to dispose of evidence or otherwise hamper a criminal investigation. This may on occasions not be practicable.
4. In making its decision on whether to pursue civil remedies or report fraudulent activity to law enforcement agencies, the Council will consider the circumstances of the case as well as relevant public interest factors which, without limitation, may include the following:-

Factors which tend to favour a criminal prosecution	Factors which tend to favour Civil Recovery
There is believed to be little prospect of recovery through civil means.	The defendant is known to have assets available for execution or the defendant is working and it is considered that there is a good prospect of recovery.
There is a high level of culpability or wrongdoing	There is lower level of culpability or dishonesty.
Evidence gathered points to their having been a high level of planning of the fraudulent / criminal activity.	The fraud was opportunistic.
It has come to light during the investigation that the defendant is known to have previous convictions for this kind of activity.	The incident is believed to be a one off
The defendant denies any responsibility and is unwilling to co-operate with the Council.	The defendant has acknowledged their wrongdoing and is prepared to co-operate with the Council.
It is likely that the police and CPS are likely to be willing to investigate / prosecute.	Whether it is believed that the Police / CPS are unlikely to investigate.

It should be borne in mind that the above factors are only potential indicators and any decision whether to instigate criminal or civil proceedings can never be an exact science but will be taken in conjunction with legal advice and after careful consideration of the facts.

5. When the Council can demonstrate that it has suffered financial loss and, where it is practical, priority should be given to civil recovery. The Council should give consideration of reporting the allegations to relevant law enforcement agencies.
6. Whilst primarily consideration will be given to pursuing criminal action or civil remedy, there are alternative avenues of loss recovery open to the Council including:
 - Pension Forfeiture - where an employee is a member of the Shropshire County Council Pension Scheme and is convicted of fraud, the Council may be able to recover the loss from the capital value of the individual's accrued benefits in the Scheme;
 - Bankruptcy, e.g. if it is believed an individual has a poor history of paying;
 - If an individual remains an employee of the Council consideration whether any assessed losses may be recovered from future salary payments;
 - Recovery of losses through the Council's fidelity guarantee insurance cover.
7. Whilst the Council's Insurance Service will give advice where it is believed an insurance claim can be made under the Council's fidelity guarantee insurance, the Council's preferred approach, however, is to seek recovery of losses from the perpetrator and fidelity guarantee insurance will generally be a method of last resort.
8. In more serious cases, the Crown Court has powers of asset recovery under the Proceeds of Crime Act 2002.
9. The Crown Court, when it considers making a confiscation order against a defendant, must determine whether the defendant has a 'criminal lifestyle'. If so, the court must determine whether the defendant benefited from his 'general criminal conduct'.

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<u>Committee and Date</u>	<u>Item</u>
Cabinet 8 February 2017	
Audit Committee 22 February 2017	
Council 23 February 2017	
	Public

TREASURY STRATEGY 2017/18

Responsible Officer James Walton
e-mail: james.walton@shropshire.gov.uk

Tel: (01743) 258915

1. Summary

1.1 The report proposes the Treasury Strategy for 2017/18 and recommends Prudential Indicators for 2017/18 to 2019/20. The report is technical in nature but the key points to note are:-

- Borrowing is largely driven by the Capital Programme Strategy. From 2011/12 the Council's borrowing requirement has been significantly reduced due to the Government changing the way in which it funds the Council's capital expenditure and providing capital grants rather than supported borrowing approval with on-going revenue support grant to meet the financing costs of the borrowing. Currently the only borrowing requirement identified within the Capital Programme 2017/18 to 2019/20 is self-financing prudential borrowing of £300,000.
- The Council is developing both a Capital Investment Strategy and business cases for a number of proposed large schemes, however, at this stage they have not been finalised. As a result these schemes cannot be included as part of the calculations within the Treasury Strategy and any updates required as a result of future decisions will be reported accordingly.
- The Council's lending continues to be restricted to highly credit rated Banks, three Building Societies, Money Market Funds, Nationalised and Part Nationalised Institutions which meet Capita's creditworthiness policy, other Local Authorities and the UK Government.
- The internal Treasury Team will continue to look for opportunities to make savings by actively managing the cash and debt portfolio in accordance with the Treasury Strategy.
- The bank rate was reduced to 0.25% in August 2016 and is expected to remain at this historically low level until June 2019 when it is forecast to rise to 0.50%. Every 0.25% increase in the bank rate equates to around £400,000 of additional interest receivable per annum on the Council's current average investment balances.

- Long term borrowing rates are expected to be higher than investment rates during 2017/18 therefore long term borrowing may be postponed in order to maximise savings in the short term. Currently the only borrowing requirement identified within the Capital Programme 2017/18 to 2019/20 is self-financing prudential borrowing of £300,000. Any changes to this requirement as a result of future decisions will be reported accordingly.
- The Council has agreed to offer to lend funds to Shropshire Housing Ltd (which incorporates both South Shropshire Housing Association and the Meres & Mosses Housing Association) and Severnside Housing at an agreed rate. In the current climate Housing Associations can find it difficult to obtain funding for new affordable housing. It has been agreed to offer to lend up to £10 million to each of these Housing Associations in order to support the building of affordable housing and shared office accommodation in Shropshire. For security purposes, each loan will be secured against existing assets held by or owned by the Housing Association. To date £9,770,000 has been drawn down by Shropshire Housing Ltd and £10,000,000 by Severnside Housing.

2. Recommendations

2.1. Recommendations to Cabinet

Cabinet recommend that Council:-

- a) Approve, with any comments, the Treasury Strategy for 2017/18.
- b) Approve, with any comments, the Prudential Indicators, set out in Appendix 1, in accordance with the Local Government Act 2003.
- c) Approve, with any comments, the Investment Strategy, set out in Appendix 2 in accordance with the CLG Guidance on Local Government Investments.
- d) Approve, with any comments, the Minimum Revenue Provision (MRP) Policy Statement, set out in Appendix 3.
- e) Authorise the Section 151 Officer to exercise the borrowing powers contained in Section 3 of the Local Government Act 2003 and to manage the Council's debt portfolio in accordance with the Treasury Strategy.
- f) Authorise the Section 151 Officer to use other Foreign Banks which meet Capita's creditworthiness policy as required.

2.2. Recommendations to Audit Committee

- g) Audit Committee are asked to consider and endorse, with appropriate comment, the Treasury Strategy 2017/18.

2.3. Recommendations to the Council

- h) Approve, with any comments, the Treasury Strategy for 2017/18.

- i) Approve, with any comments, the Prudential Indicators, set out in Appendix 1, in accordance with the Local Government Act 2003.
- j) Approve, with any comments, the Investment Strategy, set out in Appendix 2 in accordance with the CLG Guidance on Local Government Investments.
- k) Approve, with any comments, the Minimum Revenue Provision (MRP) Policy Statement, set out in Appendix 3.
- l) Authorise the Section 151 Officer to exercise the borrowing powers contained in Section 3 of the Local Government Act 2003 and to manage the Council's debt portfolio in accordance with the Treasury Strategy.
- m) Authorise the Section 151 Officer to use other Foreign Banks which meet Capita's creditworthiness policy as required.

REPORT

3. Risk Assessment and Opportunities Appraisal

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

4. Financial Implications

- 4.1 The financial implications arising from the Treasury Strategy are detailed in this report. The Council makes assumptions about the levels of borrowing and investment income over the financial year. Reduced borrowing as a result of capital receipt generation or delays in delivery of the capital programme will both have a positive impact of the council's cash position. Similarly, higher than benchmarked returns on available cash will also help the Council's financial position. For monitoring purposes, assumptions are made early in the year about borrowing and returns based on the strategies agreed by Council in the preceding February. Performance outside of these assumptions results in increased or reduced income for the Council.
- 4.2 The Council currently has £181 million held in investments and borrowing of £324 million at fixed interest rates.

5. Background

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

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

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

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

6. Treasury Strategy 2017/18

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

- 6.2. As the Council is responsible for housing, Prudential Indicators relating to Capital Expenditure, financing costs and the Capital Financing Requirement will be split between the Housing Revenue Account (HRA) and the General Fund. The impact of any new capital investment decisions on housing rents will also need to be considered.
- 6.3. The Act also requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
- 6.4. The proposed Strategy for 2017/18 in respect of the following aspects of the treasury management function is based upon the S151 Officer's view on interest rates, supplemented with leading market forecasts provided by the Council's Treasury Advisor, Capita Asset Services.
- 6.5. The proposed strategy will focus on the following areas of treasury activity:-
- Treasury limits in force which will limit the treasury risk and activities of the Council.
 - The determination of Prudential and Treasury Indicators.
 - The current treasury position.
 - Prospects for interest rates.
 - Capital borrowing strategy.
 - Policy on borrowing in advance of need.
 - Debt rescheduling.
 - Investment strategy.
 - Capital plans.
 - Creditworthiness policy.
 - Policy on use of external service providers.
 - The MRP strategy.
 - Leasing.
- 6.6. It is a statutory requirement under section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This therefore means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:-
- increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
 - any increase in running costs from new capital projects

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

7. Treasury Limits for 2017/18 to 2019/20

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

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

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

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

8. Prudential & Treasury Indicators for 2017/18 to 2019/20

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

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

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

Prudential Indicator No. 1 & 2	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	%	%	%	%
Non HRA ratio of financing costs (gross of investment income) to net revenue stream	8.8	9.3	8.9	8.6
Non HRA ratio of financing costs (net of investment income) to net revenue stream	8.5	9.0	8.6	8.3
HRA Ratio of financing costs to HRA net revenue stream	41.9	39.3	39.9	40.5

8.4. The 2017/18 to 2019/20 Capital Budget includes £300,000 self-financing prudential borrowing.

8.5. **Prudential Indicator 3** - In accordance with Prudential Guidelines the costs of all prudential borrowing are included in prudential indicators, even though they will be funded from existing revenue budgets. The HRA budgetary requirements for the authority have also been calculated by taking the difference between the existing capital programme and any changes proposed in the new capital programme. It is

anticipated that there will be no unsupported borrowing relating to the HRA therefore the addition or reduction to average weekly housing rents for 2017/18 to 2019/20 is zero. The figures quoted include Prudential Borrowing already utilised and profiled totalling £29.1 million from 2006/07 to 2017/18.

Prudential Indicator No. 3	2017/18	2018/19	2019/20
Estimates of impact of Capital Investment decisions in the present capital programme	£ p	£ p	£ p
Cost of capital investment decisions funded from re-direction of existing resources (Band D, per annum)	20.00	19.62	19.62
Cost of capital investment decisions funded from increase in council tax (Band D, per annum)	0	0	0
Cost of capital investment decisions funded from increase in average housing rent per week	0	0	0
Total	20.00	19.62	19.62

- 8.6. **Prudential Indicator 5, 8, 9** - A key indicator of prudence is that net external borrowing should not, except in the short term, exceed the capital financing requirement (CFR). The capital financing requirement is the maximum we would expect to borrow based on the current capital programme. Compliance with the indicator will mean that this limit has not been breached. From 2013/14 onwards the key indicator of prudence has been revised and stipulates that gross borrowing, except in the short term, should not exceed the CFR. Gross borrowing includes debt administered on behalf of the Borough of Telford and Wrekin, Magistrates Courts and Probation Service. It also includes the debt transferred from Oswestry Borough Council and North Shropshire District Council on the 1st April 2009. In accordance with the Code the HRA Capital Financing requirement has been calculated separately and has been updated due to the HRA reform which is took place on the 28 March 2012.

Prudential Indicator No. 5 * No. 8 & 9^	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Net Borrowing & Capital Financing Requirement:	£ m	£ m	£ m	£ m	£ m
Non HRA Capital Financing Requirement^	243	261	254	247	241
HRA Capital Financing Requirement^	85	85	85	85	85
Total CFR	328	346	339	332	326
Gross Borrowing including HRA*	329	324	318	312	308
Investments*	134	160	160	160	160
Net Borrowing*	195	164	158	152	148

Prudential Indicator 6 & 7 - The estimated capital expenditure has been split between Non HRA and HRA and represents commitments from previous years to complete ongoing schemes, the expenditure arising from the proposed new schemes within the capital programme for 2017/18, and the estimated expenditure for 2018/19 and 2019/20. This indicator also includes details on the financing of capital expenditure.

8.8. Prudential Indicator No. 6 & 7	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	£ m	£ m	£ m	£ m	£ m
Non HRA Capital expenditure	39.5	47.5	60.4	25.8	2.3
HRA Capital expenditure	4.9	6.4	5.6	0.0	0.0
Total Capital expenditure	44.4	53.9	66.0	25.8	2.3
Financing of capital expenditure					
Capital receipts	1.1	2.3	20.5	0.9	0.7
Capital grants	34.0	34.8	39.3	24.9	1.6
Other Contributions	0.6	0.8	0.4	0.0	0.0
Major Repairs Allowance	3.3	4.4	4.8	0.0	0.0
Revenue	2.2	11.6	0.7	0.0	0.0
Net financing need for the year	3.2	0.0	0.3	0.0	0.0

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

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

Prudential Indicator No. 10	2017/18	2018/19	2019/20
External Debt	£ m	£ m	£ m
Authorised Limit for External Debt:			
Borrowing	463	455	458
Other long term liabilities	102	107	104
Total	565	562	562

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

Prudential Indicator	2016/17	2017/18	2018/19	2019/20
	£ m	£ m	£ m	£ m
HRA Debt Limit	96	96	96	96

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

Prudential Indicator No. 11	2017/18	2018/19	2019/20
External Debt	£ m	£ m	£ m

8.11 Operational Boundary:			
Borrowing	400	409	402
Other long term liabilities	102	107	104
Total	502	516	506

Prudential Indicator 12 - The estimated external debt is based on the capital programme for 2016/17.

Prudential Indicator No. 12	31/03/16 Actual	31/03/17 Estimate
Actual External Debt	£ m	£ m
Borrowing	329	324
Other long term liabilities	97	102
Total	426	426

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

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

Prudential Indicator No. 14*	2017/18	2018/19	2019/20
Internal Indicator No. 1 **			
No. 15 ^			
Internal Indicator No. 2 ^^			
Borrowing Limits			
	£ m	£ m	£ m
Upper Limit for Fixed Interest Rate Exposure *	463	455	458
Upper Limit for Variable Interest Rate Exposure ^	232	228	229
Lower Limit for Fixed Interest Rate Exposure **	231	227	229
Lower Limit on Variable Interest Rate Exposure ^^	0	0	0

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

Upper limit for fixed rate exposure

Calculation:

A maximum of 100% of the Authorised Limit (£463m in 2017/18) exposed to fixed rates is consistent with the Authority's objective to have a long term stable debt portfolio.

Upper limit for variable rate exposure

Calculation:

For efficient management of the debt portfolio it is considered prudent by Capita to permit up to 50% (£232m in 2017/18) of the Authorised Limit to be borrowed at variable interest rates.

Lower limit for fixed rate exposure

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

Lower limit for variable rate exposure

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

Prudential Indicator No. 14* Internal Indicator No. 3 ** No. 15 ^ Internal Indicator No. 4 ^^	2017/18	2018/19	2019/20
Investment Limits			
	£ m	£ m	£ m
Upper Limit for Fixed Interest Rate Exposure *	220	220	220
Upper Limit for Variable Interest Rate Exposure ^	220	220	220
Lower Limit for Fixed Interest Rate Exposure **	0	0	0
Lower Limit on Variable Interest Rate Exposure ^^	0	0	0

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

Upper limit for fixed rate exposure

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

Upper limit for variable rate exposure

Calculation: For the purposes of efficient portfolio management in response to interest rate conditions a maximum potential exposure to variable rates of £220m in 2017/18 is recommended.

Lower limit for fixed rate exposure

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

Lower limit for variable rate exposure

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

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

Prudential Indicator No. 16	Upper Limit	Lower Limit
Maturity Structure of Fixed Rate Borrowing 2017/18*	%	%
Under 12 months	15	0
12 months & within 24 months	15	0
24 months & within 5 years	45	0
5 years to 10 years	75	0
10 years to 20 years	100	0
20 years to 30 years	100	0
30 years to 40 years	100	0
40 years to 50 years	100	0
50 years and above	100	0

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

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

Prudential Indicator No. 17	2017/18	2018/19	2019/20
Investment Limits			
	£m	£m	£m
Upper Limit for Total Principal Sums Invested for over 364 days:			
Externally Managed (if appointed)	30	30	30
Internally Managed	40	40	40

Rationale: The limit for the external cash fund manager has been set at £30 million in the event that an external manager is appointed. The limit for the internal treasury team has been set in order for the authority to potentially take advantage of more stable returns going forward. This excludes the lending to date to local housing associations.

9. Current Treasury Position

9.1. The Council's treasury position at 31 December 2016 is set out below:-

Outstanding debt for capital purposes	Actual
	£m
Long-term fixed rate PWLB	274.8
Long term fixed rate – Market	49.2
Total	324.0
Investments	£m
Internally managed - long term (1 Year)	17.0
- short term cash flow	164.0
Total	181.0

10. Prospects for Interest Rates

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

Capita's interest rate forecast as at January 2017

	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

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

- remain at its current level of 0.25% until June 2019 when it is expected to rise to 0.50%.
- reach 0.75% by December 2019.

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

Short-term interest rates (investments)

10.2. Taking all the evidence together, it is felt that the bank rate will remain at its current low level of 0.25% until June 2019 when it is expected to rise to 0.50%. The Bank rate is then expected to rise to 0.75% by December 2019. As the threat of potential risks from a number of sources still remains, including the uncertainty over the final terms of Brexit, caution must be exercised in respect of all interest rate forecasts at the current time. Capita's Bank Rate forecasts will be liable to further amendment depending on how economic data transpires over 2017.

Long-term interest rates (borrowing)

10.3. The 50 year PWLB rate is expected to rise slightly to reach 2.8% by the end of December 2017. It is then anticipated to rise gradually to reach 3.2% by the end of March 2020. There is scope for it to move around the central forecast by + or - 0.25%. The 25 year PWLB rate is also expected to rise slightly to reach 3.0% by the end of December 2017 and 3.4% by the end of March 2020. The 10 year PWLB rate is expected to remain at the current rate of 2.3% until June 2018 when it is expected to rise to 2.4%. Again further rises are expected in 2018/19 & 2019/20. The 5 year PWLB rate is also expected to rise from 1.6% to 1.7% by the end of March 2018 and to 2.0% by the end of December 2019. The PWLB rates and forecasts shown above take into account the 0.2% certainty rate reduction effective as of the 1 November 2012.

11. Capital Borrowing Strategy

11.1. The only external borrowing requirement for 2017/18 to 2019/20 within the Capital Programme is £300,000 self-financing prudential borrowing. The Council will adopt a pragmatic approach to changing circumstances when considering new borrowing if required in the future. Consideration will be given to the following:-

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

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

12. External versus internal borrowing

12.1. The Prudential Code requires the Council to explain its policy on gross and net debt. The Council currently has gross debt of £324 million and net debt (after deducting cash balances) of £143 million. The next financial year is expected to see the Bank Rate remain at its current historically low level of 0.25%. As borrowing rates are expected to be higher than investment rates this would indicate that value could best be obtained by avoiding new external borrowing and using internal cash balances to finance new capital expenditure. This is referred to as internal borrowing and would maximise short term savings.

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

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

12.4. Against this background caution will be adopted with the 2017/18 treasury operations. The Section 151 Officer will monitor the interest rate market and adopt

a pragmatic approach to changing circumstances, reporting any decisions to Members at the next available opportunity.

13. Policy on borrowing in advance of need

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

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

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

14. Debt Rescheduling

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

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

15. Investment Strategy

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

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

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

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

16. Minimum Revenue Provision (MRP) Statement

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

17. Leasing

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

18. Lending to Housing Associations

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

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

18.3. Officers have sought advice from Wragge & Co who have confirmed that the Council has the power to lend funds to Housing Associations under the Housing Act 1996 and have drawn up the legal documentation relating to the loan

agreement. To date £9,770,000 has been drawn down by Shropshire Housing Ltd and £10,000,000 by Severnside Housing.

Treasury Management Practices

Treasury Strategy 2016/17 (Council 25 February 2016)

Treasury Strategy 2016/17 Mid-Year Review (Council 15 December 2016)

Financial Strategy Report 2017/18 to 2019/20 (Cabinet 8 February 2017)

Cabinet Member : Malcolm Pate, Leader of the Council

Local Member

N/A

Appendices:

- 1 – Prudential Indicators
- 2 – Council’s Annual Investment Strategy
- 3 – Minimum Revenue Provision Policy Statement

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Prudential Indicators

Prudential Indicator	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	%	%	%	%
Non HRA ratio of financing costs to net revenue stream	8.8	9.3	8.9	8.6
HRA ratio of financing costs to HRA net revenue stream	41.9	39.3	39.9	40.5

Prudential Indicator	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	%	%	%	%
Non HRA ratio of financing costs (net of investment income) to net revenue stream	8.5	9.0	8.6	8.3

Prudential Indicator	2017/18	2018/19	2019/20
Estimates of impact of Capital Investment decisions in the present capital programme	£ p	£ p	£ p
Cost of capital investment decisions funded from re-direction of existing resources (Band D, per annum)	20.00	19.62	19.62
Cost of capital investment decisions funded from increase in council tax (Band D, per annum)	0	0	0
Cost of capital investment decisions funded from an increase in average housing rents per week	0	0	0
Total	20.00	19.62	19.62

Prudential Indicator	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Net Borrowing & Capital Financing Requirement:	£ m	£ m	£ m	£ m
Non HRA Capital Financing Requirement	261	254	247	241
HRA Capital Financing Requirement	85	85	85	85
Total CFR	346	339	332	326
Gross Borrowing (including HRA)	324	318	312	308
Investments	160	160	160	160
Net Borrowing	164	158	152	148

Prudential Indicator	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	£ m	£ m	£ m	£ m	£ m
Non HRA Capital expenditure	39.5	47.5	60.4	25.8	2.3
HRA Capital expenditure	4.9	6.4	5.6	0.0	0.0
Total Capital expenditure	44.4	53.9	66.0	25.8	2.3
Financing of capital expenditure					
Capital receipts	1.1	2.3	20.5	0.9	0.7
Capital grants	34.0	34.8	39.3	24.9	1.6
Other Contributions	0.6	0.8	0.4	0.0	0.0
Major Repairs Allowance	3.3	4.4	4.8	0.0	0.0
Revenue	2.2	11.6	0.7	0.0	0.0
Net financing need for the year	3.2	0.0	0.3	0.0	0.0

Prudential Indicator	2017/18	2018/19	2019/20
External Debt	£ m	£ m	£ m
Authorised Limit for External Debt:			
Borrowing	463	455	458
Other long term liabilities (PFI)	102	107	104
Total	565	562	562

Prudential Indicator	2016/17	2017/18	2018/19	2019/20
	£ m	£ m	£ m	£ m
HRA Debt Limit	96	96	96	96

Prudential Indicator	2017/18	2018/19	2019/20
External Debt	£ m	£ m	£ m
Operational Boundary:			
Borrowing	400	409	402
Other long term liabilities (PFI)	102	107	104
Total	502	516	506

Prudential Indicator	2015/16 Actual	2016/17 Estimate
External Debt	£ m	£ m
Borrowing	329	324
Other long term liabilities (PFI)	97	102
Total	426	426

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

Prudential Indicator	2017/18	2018/19	2019/20
Borrowing Limits	£ m	£ m	£ m
Upper Limit for Fixed Interest Rate Exposure	463	455	458
Upper Limit for Variable Interest Rate Exposure	232	228	229
Lower Limit for Fixed Interest Rate Exposure	231	227	229
Lower Limit on Variable Interest Rate Exposure	0	0	0

Prudential Indicator	2017/18	2018/19	2019/20
Investment Limits	£ m	£ m	£ m
Upper Limit for Fixed Interest Rate Exposure	220	220	220
Upper Limit for Variable Interest Rate Exposure	220	220	220
Lower Limit for Fixed Interest Rate Exposure	0	0	0
Lower Limit on Variable Interest Rate Exposure	0	0	0

Prudential Indicator	Upper Limit	Lower Limit
Maturity Structure of Fixed Rate Borrowing During 2017/18 **	%	%
Under 12 months	15	0
12 months & within 24 months	15	0
24 months & within 5 years	45	0
5 years & within 10 years	75	0
10 years & within 20 years	100	0
20 years & within 30 years	100	0
30 years & within 40 years	100	0
40 years & within 50 years	100	0
50 years and above	100	0

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

Prudential Indicator	2017/18	2018/19	2019/20
Investment Limits	£m	£m	£m
Upper Limit for Total Principal Sums Invested for over 364 days:			
Externally Managed (if appointed)	30	30	30
Internally Managed	40	40	40

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The Council's Annual Investment Strategy

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

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

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

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

Creditworthiness Policy

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

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

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

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

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

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

Monitoring of Credit Ratings

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

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

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

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

Country Limits

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

Security of Capital

The Council's current policy is to not place investments with any Foreign banks. The only exception to this is a call account set up with the Swedish bank, Handelsbanken, but this is a highly credit rated institution and the sovereign rating of Sweden is AAA as stated above. Funds are also repayable immediately if required. Following approval of the S151 Officer, lending to AAA rated Money Market Funds has also recommenced. Lending to other Foreign banks which comply with Capita's creditworthiness policy may be considered again but only with the express approval of the S151 Officer.

In addition, in order not to solely rely on an institution's credit ratings there have also been a number of other developments which require separate consideration and approval for use:

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

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

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

CLG Investment Guidance

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

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

(i) Specified Investments

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

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

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

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

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

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

(ii) Non Specified Investments

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

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

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

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

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

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

Temporary Investment Strategy

The next financial year is expected to see investment rates remain at the historically low level of 0.25%, until June 2019 when it is forecast to rise to 0.50%. This view is based on the latest forecasts obtained by the Authority’s treasury advisor, Capita Asset Services.

If an external fund manager is appointed in 2017/18 they would also have to adhere to the authorised specified and non-specified investments on the attached table. They would also have to comply with the Council’s Annual Investment Strategy and their agreement must stipulate guidelines and other limits in order to contain and control risk.

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

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

The present strategy is to diversify investments so as to spread risk over a range of investment types and periods and provide the opportunity to enhance returns. Due to the current lending restrictions in place diversification has been somewhat reduced due to the reduction in the number of institutions which we can lend to, however, by taking this course of action the credit risk has been reduced. The current portfolio is set out in paragraph 9.1 of the Treasury Strategy 2017/18 report. Performance of the in-house operation will continue to be monitored on a quarterly basis by your officers in conjunction with the treasury advisor.

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

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

Policy on the use of external service providers

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

Scheme of Delegation

Full Council

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

Cabinet

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

Audit Committee

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

Role of the Section 151 Officer

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

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

Pension Fund Cash

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

LOCAL GOVERNMENT INVESTMENTS (England)

SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated.

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

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

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

Monitoring of credit ratings:

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

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

LOCAL GOVERNMENT INVESTMENT (England)

NON-SPECIFIED INVESTMENTS

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

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

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

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

The Council's Annual Minimum Revenue Provision Statement

Statutory Requirements

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

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

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

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

Policy for calculation of Prudent Provision

The options for the calculation of a Prudent Provision are detailed in appendix 3A to this report. Authorities must always have regard for the guidance and the decision on what is prudent is for the authority to conclude, taking into account detailed local circumstances, including specific project timetables and revenue-earning profiles.

Following a review of the MRP policy from 2016/17 the prudent provision for Supported Borrowing has been calculated on the basis of the expected useful life of the asset on a straight line (equal instalments) basis.

Option 3 (a), asset life method (Unsupported Borrowing)– equal instalment method will continue to be used for unsupported borrowing and specific treatment for PFI Assets and assets held under Finance Leases and long term capital loans.

Supported Borrowing

Up to 2015/16 the regulatory method (Option1) has been used to calculate MRP for debt which is supported by the Government through the RSG system. Following a review of the MRP policy, it was considered that this method of calculation is not the most prudent basis of calculation for the Council. On the basis that it is not in line with the remaining asset life of the assets linked to the borrowing and also not in line with the repayment profile of the Councils existing external debt, resulting in the Council

becoming increasingly over borrowed. This position has arisen due to a change in Government policy, replacing supported borrowing approvals with grant funding, together with the Council currently not proposing to undertake any Prudential (unsupported) borrowing.

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

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

Unsupported Borrowing – Asset Life method

For new borrowing under the Prudential system for which no Government support is being given and is therefore self-financed (unsupported borrowing) the MRP has been calculated in accordance with Option 3 Asset Life Method. Option 3 is to make provision over the estimated life of the asset for which the borrowing is undertaken.

Freehold land cannot properly have a life attributed to it, so for the purposes of Option 3 it should be treated as equal to a maximum of 50 years. But if there is a structure on the land which the authority considers to have a life longer than 50 years, that same life estimate may be used for the land.

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

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

As with option one, provision for debt under Option 3 will normally commence in the financial year following the one in which the expenditure is incurred. But the guidance highlights an important exception to the rule. In the case of a new asset, MRP would not have to be charged until the asset came into service and would begin in the financial year following the one in which the asset became operational. This “MRP holiday” would be perhaps two or three years in the case of major projects, or possibly longer for some complex infrastructure schemes, and could make them more affordable.

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

PFI Assets and assets held under Finance Leases

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

Long Term Capital Loans

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

Housing Revenue Account MRP

As at 31/03/16 the HRA CFR is £84.6m, this includes the £83.35m transferred to the Council as part of housing self-financing. In managing the HRA debt and considering the HRA business plan there is no mandatory requirement to make provision in the HRA for annual MRP payments. However, the Council will make annual voluntary provision for debt repayment in the HRA based on affordable levels in the HRA against the need for investment and delivering services in the HRA. The annual level of provision will be determined annually as part of the closure of the HRA.

2017/18 Annual MRP Statement

Appendix 3B provides the MRP statement for the 2017/18 financial year.

Capital Receipts set aside

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

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

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

As the full level of capital receipts set aside were not required to finance capital expenditure between 2009/10 and 2015/16, a balance was retained as set aside as at the end of each financial year to enable a further MRP savings in the following financial years. In the 2017/18 MRP Statement it has been assumed all the capital receipts retained as set aside as at 31 March 2016 to reduce the CFR will be offset by an increase in the CFR in 2016/17 from capital expenditure incurred in 2016/17. In the event that the level of capital expenditure in 2016/17 to be financed from the capital receipts set aside is below the level of capital receipts set aside, it is proposed to retain the balance in capital receipts as set aside in order to achieve a further MRP saving in 2017/18. This will be reported for approval as part of the Capital Outturn report 2016/17.

Appendix 3A: Options for Prudent Provision

Option 1: Regulatory Method (Supported borrowing)

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

Option 2: CFR Method (Supported borrowing)

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

Option 3: Asset Life Method (Unsupported borrowing)

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

(a) Equal instalment method

MRP is the amount given by the following formula:

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

Where:

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

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

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

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

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

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

(b) Annuity method

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

Option 4: Depreciation Method (Unsupported borrowing)

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

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

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

Appendix 3B: Minimum Revenue Provision Statement 2017/18

£

Supported Borrowing – Asset Life (45 years)

General Fund

Closing CFR 2015/16	209,409,640
Proposed use of capital receipts voluntarily set aside to be applied in 2016/17	16,989,451
	<hr/>
	226,399,091

Less LGR (98) Debt	(185,268)
	<hr/>
	226,213,823

Less MRP 2016/17	(4,683,977)
	<hr/>
CFR for Supported Borrowing MRP Calculation	221,529,846

Add back LGR (98) Debt	185,268
	<hr/>
Closing CFR 31/03/17 – Supported Borrowing (GF)	221,715,114

Housing Revenue Account

Closing CFR 2015/16	84,594,619
Less MRP 2016/17 (none budgeted as per HRA MRP policy)	(0)
	<hr/>
	84,594,619

Closing CFR 31/03/16 – Supported Borrowing (GF&HRA)	306,309,733
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Unsupported Supported Borrowing – Asset Life (based on individual assets)

Unsupported Borrowing brought forward	21,430,245
Add profiled prudential borrowing 2016/17	0
Less MRP – 2016/17	(1,442,267)
	<hr/>
Closing CFR 31/03/16 – Unsupported Supported Borrowing	19,987,978

Closing CFR (GF&HRA) 31/03/17 – Borrowing Requirement	326,297,711
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Additional items included:

Village Hall Loans	304,043
Housing Association Loans	19,008,568
	<hr/>
	345,610,322

Summary MRP

MRP 2017/18 at 45 year life from 2017/18	5,034,769
LGR (98) Debt MRP	33,076
Prudential Borrowing MRP	1,155,740
	<hr/>
Total MRP 2017/18	6,223,585

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

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<u>Committee and date</u>	<u>Item</u>
Audit Committee	
22 nd February 2017	<u>Public</u>

CHANGES TO APPROVAL PROCESS FOR STATEMENT OF ACCOUNTS

Responsible Officer Cheryl Sedgley

Email: cheryl.sedgley@shropshire.gov.uk Tel: 01743 258937 Fax: 01743 255011

1. Summary

- 1.1 This report outlines the necessary amendments required to the timescales and process for the production and approval of the Statement of Accounts in 2017/18 to take account of the faster closedown agenda introduced in the Accounts and Audit Regulations 2015.

2. Recommendations

- 2.1 The Committee are asked to consider and endorse, with appropriate comment, the amendments proposed to the process for reviewing and approving the Statement of Accounts from 2017/18 onwards.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The Audit Committee has a core function to review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit. The involvement of Audit Committee in the statement of accounts review process provides assurance of the integrity of the financial reporting and annual governance of the Council
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.

4. Financial Implications

- 4.1 There are no direct financial implications from making the necessary amendments required under the Accounts and Audit Regulations 2015.

5. Background

- 5.1 The Accounts and Audit Regulations 2015 introduced specific changes for all local authorities in their deadlines for producing, reporting and approving the statement of accounts to be introduced for the 2017/18 financial year. As a result of these changes all local authorities are now required to approve and publish the draft statement of accounts by 31st May, and publish and approve the audited statement of accounts by 31st July. This brings forward the timetable for finalising the accounts by 2 months as shown in the table below:

	Current Timetable	New Timetable
S151 officer approves and published draft Statement of Accounts	30 th June	31 st May
External Audit	July – September	June – July
Audited Statement of Accounts approved and published	30 th September	31 st July

- 5.2 The Finance team have been making necessary adjustments to prepare for this earlier closedown and in 2015/16 had a first dry run of the earlier process, and plan for a second dry run for the 2016/17 accounts.

6. Changes Required to Committee Involvement

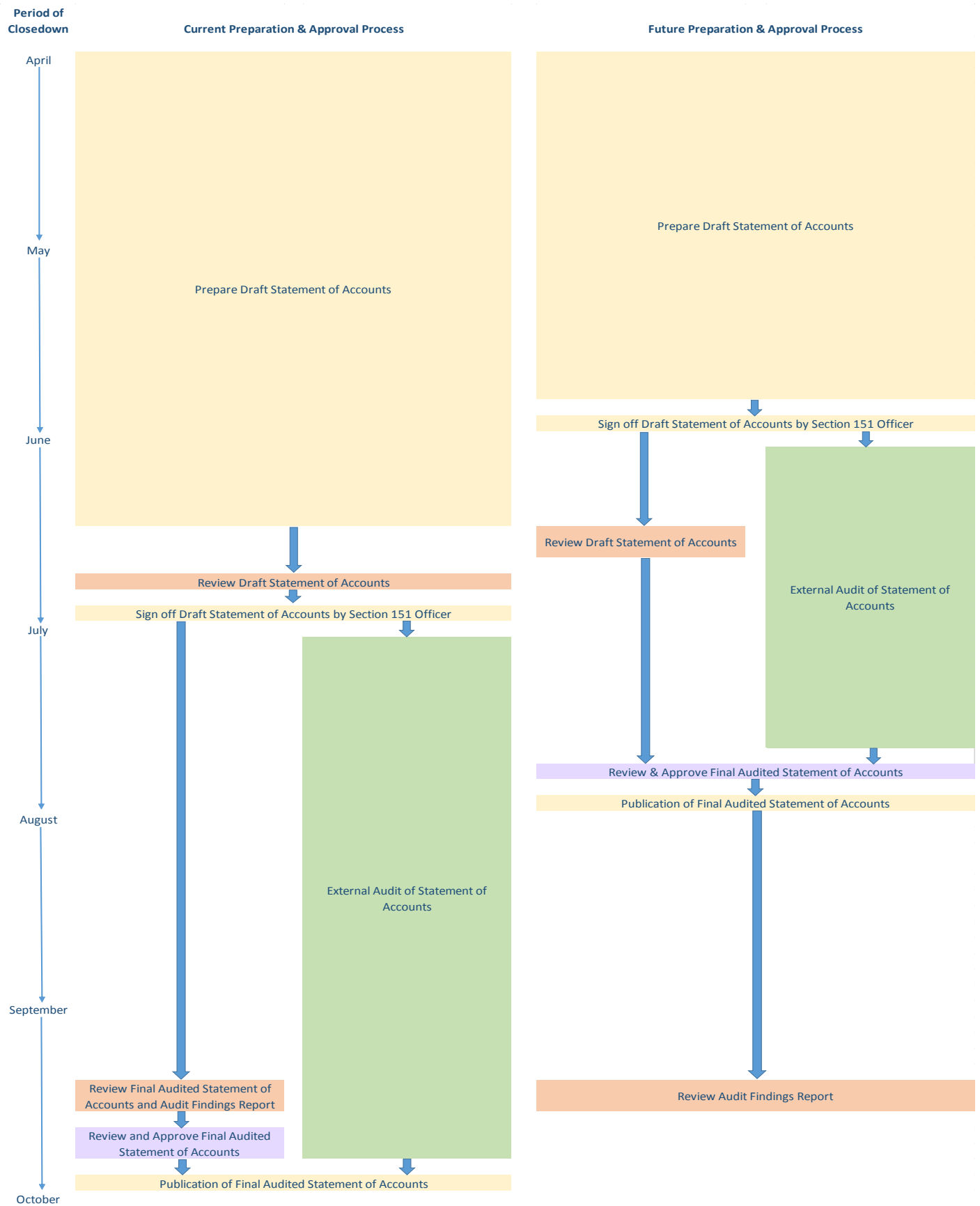
- 6.1 One of the core functions of an Audit Committee is to “review the financial statements, external auditor’s opinion and reports to members, and monitor management action in response to the issues raised by external audit”. This has been achieved in previous years by reporting the draft Statement of Accounts to Audit Committee prior to approval by the Section 151 Officer in order that members can review the accounts, challenge significant movements in the accounts and request further amendments or disclosures to be considered. This review has proved to be a valuable process over the years and demonstrates the important role that Audit Committee provide when discharging this core function.
- 6.2 Due to the tighter timescales required to produce the Statement of Accounts in future, it is proposed that there is a change to the timing of when Audit Committee receive the draft Statement of Accounts, however it is still considered important that Audit Committee play a pivotal role in reviewing the draft statement of accounts. Therefore, it is now proposed that the draft accounts will be prepared and approved by the Section 151 Officer by 31st May, and at this point circulated to the Audit Committee members. A meeting will then be schedule for June, as per the previous calendar of meetings, for members to review in detail the Statement of Accounts and understand key

movements as in previous years. Any changes highlighted as necessary as part of this review can then be fed into the final statement of accounts alongside any audit changes identified.

- 6.3 The Accounts and Audit Regulations 2015 require the statement of accounts to be considered and approved by a resolution of the relevant committee or full council meeting. For Shropshire Council, the Full Council take on this responsibility and formally approve the audited accounts in the September Council meeting.
- 6.4 For 2017/18 onwards this approval process by Council will need to be brought forward to July to enable the audited statements to be published by the 31st July.
- 6.5 In light of bringing this approval meeting forward, it is no longer viable for Audit Committee to receive and consider the audited statement of accounts prior to the Council meeting. Instead, it is proposed that the Audit Committee receive only the external audit findings report in the September Audit Committee to consider in detail the findings of the audit and the management responses made. This will ensure that the Audit Committee is still fulfilling its core objectives as well as allowing the Council to meet the shorter deadlines required from the Accounts and Audit Regulations 2015.
- 6.6 A full flowchart is documented at Appendix 1 that shows the current production and approval processes adopted and those proposed for 2017/18 and future years.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)
Cabinet Member (Portfolio Holder) Mike Owen (Portfolio Holder for Resources, Finance and Support) and Brian Williams (Chairman of Audit Committee)
Local Member
Appendices Appendix 1 - Flowchart of Current and Future Preparation & Approval Process of Statement of Accounts

Flowchart of Current and Future Preparation & Approval Process of Statement of Accounts



Key:

- Process by Officers
- Review by Audit Committee
- Review by Council
- External Audit



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
22 February 2017	
09:30am	<u>Public</u>

INTERNAL AUDIT PERFORMANCE AND REVISED ANNUAL AUDIT PLAN 2016/17

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

Telephone: 01743 257739

1. Summary

This report provides members with an update of work undertaken by Internal Audit in the three months since the last report in November 2016 summarising progress against the Internal Audit Plan. Eighty one percent of the revised plan has been completed (**see Appendix A, Table 1**), marginally higher than previous delivery records. The team is on target to achieve 90% delivery by the year end.

Two good, sixteen reasonable, seven limited and four unsatisfactory assurance opinions have been issued. The 29 final reports contained 368 recommendations, three of which were fundamental.

This report proposes minor revisions taking the overall audit plan from 1,790 days, as reported in November 2016, to 1,795 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. 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 24th November 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 27th January 2017 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 1,795 days following slight changes reflecting adjustments in risks and resources.
- 5.6 In total, 29 final reports have been issued in the period from 31st October 2016 to 27th January 2017. These are broken down by service area in **Appendix A, Table 2**.
- 5.7 Two good and 16 reasonable assurances were made in the period accounting for 62% of the opinions delivered. This represents an increase in the higher levels of assurance for this period compared to the previous year outturn of 49%. This is offset by a corresponding decrease in limited (7) assurances however unsatisfactory (4) opinions have increased by 5% on the overall year end position for 2015/16.
- 5.8 During this period, IT, financial processes in Adult Services and establishments (schools and leisure centres) 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 Eight 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 two 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 368 recommendations have been made in the 29 final audit reports issued in the three month period; these are broken down by audit area and appear in **Appendix A, Table 6**.
- 5.12 Three fundamental recommendations have been identified:

St Giles CE Primary School

In line with school's financial procedures, expenditure over £10,000 should be subject to formal tender. In addition and as agreed in the Spring Term 2016 meeting, single items of expenditure over £10,000 should be approved by the Governing Body. Evidence of this should be clearly noted in the Governing Body minutes. The school should ensure that Contract Rules are adhered to with any future contracts.

Thomas Adams School

The school should ensure that Contract Rules are adhered to in any future contracts which the school enters into.

Highley Primary School

Contracts should be let in accordance with Financial Rules. The cost of the contract over its whole term including any additional payments should be calculated when determining if verbal quotes, written quotes or a tender process is required.

- 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 higher than previous delivery records at 81% (79% 2015/16). The team is still currently targeting delivery of a minimum of 90% of the annual plan by year end. Minor changes between chargeable and non-chargeable work accounts for the slight increase in days to 1,795 days. In addition, recruitment processes have begun for an auditor and a trainee auditor. It is hoped to coordinate recruitment to the trainee 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.
- DFT Funding: Audit have undertaken the role of critical friend in reviewing the Highways Management responses to the Department of Transport Funding Criteria, to ensure that the Council's application for level three funding is evidence based and robust in the event of external scrutiny.
 - Financial Evaluations: Audit have continued to conduct financial assessments on contractors for major contracts including the Highways Maintenance Term Service Contract and phase 2 of the Connecting Shropshire Broadband project in addition to ongoing smaller projects from other service areas. To ensure the stability of potential suppliers.

- Audit have reviewed the insurance policies of a sample of major contractors and the processes for ensuring that they are up to date and monitored, to ensure risks are managed appropriately.
- One off exit reviews have taken place on services that are being transferred to alternative management models to ensure that all assets are accounted for properly.
- Following an Auditors discussions with officers on the monitoring of measurement processes as part of an approved contract, they were prompted to check the contract which confirmed that the supplier had failed to independently inspect measurement processes. Under the contract the Council will now receive a rebate in the region of £10,000 to £20,000 and the contractor is happy as they had not picked up this failure on their part and it has allowed them to revisit their processes.

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)

Assurances	Good	Reasonable	Limited	Unsatisfactory	Total
2016/17 to date	6%	47%	28%	19%	100%
2015/16	14%	35%	42%	9%	100%
2014/15	17%	47%	28%	8%	100%
2013/14	30%	45%	15%	10%	100%
2012/13	31%	56%	12%	1%	100%

Comparison of recommendation by categorisation

Categorisation	Best practice	Requires attention	Significant	Fundamental	Total
2016/17 to date	4%	50%	46%	0%	100%
2015/16	4%	54%	42%	0%	100%
2014/15	6%	53%	40%	1%	100%
2013/14	15%	57%	27%	1%	100%
2012/13	23%	57%	20%	0%	100%

5.18 The number of lower level assurances, 47% 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 19% 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 46% 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>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</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, 24 November 2016 Public Sector Internal Audit Standards (PSIAS) Audit Management system Accounts and Audit Regulations 2015</p>
<p>Cabinet Member (Portfolio Holder) Malcom Pate, Leader of the Council and Tim Barker, Chairman of Audit Committee</p>
<p>Local Member: All</p>
<p>Appendices</p> <p>Appendix A</p> <p>Table 1: Summary of actual audit days delivered against plan 1st April 2016 to the 27th January 2017 Table 2: Final audit report assurance opinions issued in the period 31st October 2016 to the 27th January 2017 Table 3: Unsatisfactory and limited assurance opinions in the period 31st October 2016 to the 27th January 2017 Table 4: Audit assurance opinions Table 5: Audit recommendation categories Table 6: Audit recommendations made in the period 31st October 2016 to the 27th January 2017</p> <p>Appendix B - Audit plan by service 1st April 2016 to 27th January 2017</p>

APPENDIX A

Table 1: Summary of actual audit days delivered and revisions to the audit plan in the period 1st April 2016 to 27th January 2017

	Original Plan	Aug Revision	Nov Revision	Feb Revision	Revised Plan Days	27 January Actual	% of Plan Achieved
Chief Executive	444	3	13	5	465	359.2	77%
Adult Services	140	19	13	-6	166	139.9	84%
Commissioning	102	2	4	25	133	101.2	76%
Children's Services	232	-26	-2	8	212	173.4	82%
Public Health	67	13	-6	2	76	61.1	80%
S151 Planned Audit	985	11	22	34	1,052	834.8	79%
Contingencies and other chargeable work	532	-12	1	-31	490	430.8	88%
Total S151 Audit	1517	-1	23	3	1542	1265.6	82%
External Clients	200	45	6	2	253	188.6	75%
Total	1717	44	29	5	1795	1454.2	81%

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 31st October 2016 to 27th January 2017.

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Chief Executive	0	3	3	0	6
Adult Services	0	0	3	1	4
Commissioning	0	4	0	1	5
Children's Services: Schools	0	2	1	2	5
Children's Services: Other	0	2	0	0	2
Public Health	0	2	0	0	2
Resources and Support					
Commercial Services	0	0	0	0	0
Customer Involvement	0	0	0	0	0
Finance, Governance and Assurance	2	2	0	0	4
Human Resources	0	0	0	0	0
Legal, Strategy and Democratic	0	1	0	0	1
Total for the period					
➤ Numbers	2	16	7	4	29
➤ Percentage	7%	55%	24%	14%	100%
% for 2015/16	14%	35%	42%	9%	100%
% for 2014/15	17%	47%	28%	8%	100%

% for 2013/14	30%	45%	15%	10%	100%
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Table 3: Unsatisfactory and limited assurance opinions issued in the period from 31st October 2016 to 27th January 2017 listed by service area

UNSATISFACTORY ASSURANCE

Adult Services: Oak Farm, Ditton Priors Trading Account

1. Income is identified and recorded in a permanent record¹.
2. Expenditure is appropriate and recorded in a permanent record.
3. Stocks held are appropriate, controlled and can be accounted for.

Commissioning: Much Wenlock Leisure Centre

1. Budget income is identified, collected and banked in accordance with procedures.
2. Purchases are appropriate, authorised, recorded correctly and comply with Financial Regulations and Contract Procedure Rules.
3. The imprest account is operated in accordance with imprest procedures and all monies can be accounted for
4. Payment is made to bona fide employees only for the work performed through the Payroll system.
5. Regular budget monitoring is performed and any significant variations are investigated.
6. Relevant staff have Disclosure and Barring Service (DBS) clearance.
7. Electronically held data is secure and can be restored in the event of IT failure.

Children's Services: Schools

St Giles CE Primary School

1. Governors and staff clearly understand their respective roles and responsibilities.
2. Budget income is identified, collected and banked in accordance with procedures.
3. Purchases are appropriate, authorised, recorded correctly and comply with Financial Regulations and Contract Procedure Rules.
4. The school fund is operated in accordance with the school fund notes of guidance.
5. Electronically held data is secure and can be restored in the event of IT failure.
6. Only pupils entitled to a free school meal receive them. Adult free meals are authorised.

Highley Primary School

1. Governors and staff clearly understand their respective roles and responsibilities.
2. Budget income is identified, collected and banked in accordance with procedures.
3. Purchases are appropriate, authorised, recorded correctly and comply with Financial Regulations and Contract Procedure Rules.
4. The imprest account is operated in accordance with Imprest Procedures and all monies can be accounted for.
5. Payment is made to bona fide employees only for the work performed through the Payroll system.
6. The school fund is operated in accordance with the school fund notes of guidance.
7. Electronically held data is secure and can be restored in the event of IT failure.

¹ Listed are the management controls that were reviewed and found not to be in place and/or operating satisfactorily and therefore positive assurance could not be provided for them.

LIMITED ASSURANCE

Chief Executive:

SCCM (System Centre Configuration Manager)

1. The System complies with all external legislation and policies.
2. The application is secure.
3. Clear procedures are in place for the authorisation of changes and system changes are applied by appropriately qualified staff.

Telephones – Usage and Income

1. Appropriate internal policies have been formally documented in relation to fixed and mobile communications.
2. Appropriate management arrangements are in place to recharge budget managers for usage of fixed line and mobile telephony. Managers are provided with timely reports of usage to support this process.
3. Formal contract monitoring and billing analysis is undertaken on a regular basis.

Tranman Version 8.1.8.4

1. Management/Audit trails are in place.
2. The system complies with all external legislation and policies.
3. The application is secure.
4. Users have received the required training.
5. Data is accurately input and the authenticity of the data is verified.
6. There are continuity processes are in place to ensure system availability.
7. Changes to the system are managed effectively, recording and documentation is retained for key changes made to the system.

Adult Services

Adult Placements

1. There are suitable arrangements in place to verify that payments to providers of adult placements are valid and accurate.
2. The contract is monitored by Shropshire Council in accordance with contract requirements.
3. Contract performance management related risks on the risk register are being effectively identified and managed.

Adult Social Care – Financial Assessments

1. Written procedures and policies are in place in relation to financial assessments.
2. Financial assessments are completed in a timely manner and decisions notified to applicants.
3. A process exists to ensure that clients are regularly reviewed and that a change in circumstances prompts a reassessment.
4. There are processes in place to prevent, detect and investigate fraud.
5. Relevant staff have been appropriately vetted via the Disclosure and Barring Service (DBS).
6. Electronically held data is secure and can be restored in the event of IT failure.

Oak Farm, Ditton Priors Comforts Fund

1. Income is identified and recorded in a permanent record.
2. Petty cash transactions are recorded in a permanent record.

Children’s Services: Schools: Thomas Adams School

1. Budget income is identified, collected and banked in accordance with procedures.
2. Purchases are appropriate, authorised, recorded correctly and comply with Financial Regulations and Contract Procedure Rules.
3. The imprest account is operated in accordance with Imprest Procedures and all monies can be accounted for.

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

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

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

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

Table 6: Audit recommendations made in the period from the 31st October 2016 to 27th January 2017

Service area	Number of recommendations made				
	Best practice	Requires attention	Significant	Fundamental	Total
Chief Executive	2	12	19	0	33
Adult Services	1	29	28	0	58
Commissioning	0	24	20	0	44
Children's Services: Schools	7	88	64	3	162
Children's Services: Other	0	12	3	0	15
Public Health	0	14	0	0	14
Resources and Support					
Commercial Services	0	2	4	0	6
Customer Involvement	0	0	0	0	0
Finance, Governance and Assurance	0	17	4	0	21
Human Resources	0	0	0	0	0
Legal, Strategy and Democratic	1	7	7	0	15
Total for the period					
➤ Numbers	11	205	149	3	368
➤ Percentage	3%	56%	40%	1%	100%
% for 2015/16	4%	54%	42%	0%	100%
% for 2014/15	6%	53%	40%	1%	100%
% for 2013/14	15%	57%	27%	1%	100%

AUDIT PLAN BY SERVICE –PERFORMANCE REPORT FROM 1st APRIL TO 27TH JANUARY 2017

	Original Plan Days	Aug Revision	Nov Revision	Feb Revision	Revised Plan Days	27 Jan 2017 Actuals	% of Revised Plan Achieved
CHIEF EXECUTIVE							
Governance	38	-8	0	0	30	12.4	41%
IT	176	6	5	-13	174	134.9	78%
Finance Governance & Assurance							
Finance Transactions	39	9	0	9	57	42.8	75%
Finance and S151 Officer	60	-3	0	0	57	47.8	84%
Financial Management	18	0	0	1	19	10.9	57%
Benefits	34	0	0	4	38	38.1	100%
Risk Management and Business Continuity	13	0	0	-2	11	9.9	90%
Treasury	2	0	0	0	2	0.3	17%
	166	6	0	12	184	149.8	81%
Human Resources	43	3	7	5	58	43.1	74%
Legal, Democratic & Strategic Planning							
Elections	8	0	1	1	10	10.0	100%
Legal Services	13	-4	0	0	9	9.1	102%
	21	-4	1	1	19	19.2	101%
CHIEF EXECUTIVE	444	3	13	5	465	359.2	77%
ADULT SERVICES							
Social Care Operations							
Long Term Support	79	6	5	7	97	79.2	82%
Provider Services - Establishments	20	1	0	-7	14	10.7	76%
Provider Services - Comforts Funds	6	4	1	-3	8	8.6	108%
Provider Services - Trading Accounts	10	5	5	-4	16	15.8	98%
Housing Services	20	-5	1	-10	6	5.6	93%
Short Term Support	0	0	0	5	5	0.0	0%

	135	11	12	-12	146	119.8	82%
Social Care Efficiency and Improvement							
Development Support	5	8	1	6	20	20.0	100%
ADULT SERVICES	140	19	13	-6	166	139.9	84%
COMMISSIONING							
Library Services	5	3	0	1	9	8.8	98%
Waste & Bereavement	14	-4	2	2	14	13.8	99%
Highways	20	8	6	3	37	35.3	95%
Public Transport	0	0	0	8	8	0	0%
Business & Enterprise Development	5	0	-5	0	0	0.2	0%
Management	14	0	1	1	16	16.1	101%
Theatre Severn and OMH	0	0	0	8	8	0	0%
Community Safety	15	-5	0	0	10	0.7	7%
Environmental Protection and Prevention	4	0	0	0	4	0.0	0%
Procurement and Contract Management	25	0	0	2	27	26.4	98%
COMMISSIONING	102	2	4	25	133	101.2	76%
CHILDREN'S SERVICES							
Safeguarding							
Safeguarding	20	0	-11	0	9	6.0	66%
Children's Placement and Joint Adoption	38	-2	1	4	41	32.5	79%
	58	-2	-10	4	50	38.4	77%
Learning and Skills							
Business Support	2	0	-2	0	0	0.0	0%
Education Improvements	14	3	0	2	19	9.3	49%
Primary/Special Schools	128	-31	9	2	108	90.9	84%
Secondary Schools	20	4	2	0	26	26.0	100%
	164	-24	9	4	153	126.2	82%
Learning Employment and Training	10	0	-1	0	9	8.7	97%
CHILDREN'S SERVICES	232	-26	-2	8	212	173.4	82%

PUBLIC HEALTH							
Public Health	22	13	1	0	36	33.6	93%
Customer Services	5	0	1	0	6	6.3	105%
Shire Services	17	0	-1	2	18	18.3	102%
Property Services	23	0	-7	0	16	3.0	19%
PUBLIC HEALTH	67	13	-6	2	76	61.1	80%
Total Shropshire Council Planned Work							
	985	11	22	34	1,052	834.8	79%
CONTINGENCIES							
Advisory Contingency	40	0	-8	-13	19	16.65	88%
Fraud Contingency	200	-20	-20	-17	143	122.64	86%
Unplanned Audit Contingency	45	0	5	5	55	54.48	99%
Other non-audit Chargeable Work	247	8	24	-6	273	237.06	87%
CONTINGENCIES	532	-12	1	-31	490	430.8	88%
Total for Shropshire	1,517	-1	23	3	1,542	1,265.6	82%
EXTERNAL CLIENTS	200	45	6	2	253	188.6	75%
Total Chargeable	1,717	44	29	5	1,795	1,454.2	81%



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
22 February 2017	
9:30 am	<u>Public</u>

INTERNAL AUDIT QUALITY ASSURANCE IMPROVEMENT PROGRAMME – EXTERNAL ASSESSMENT

Responsible Officer Ceri Pilawski

e-mail: ceri.pilawski@shropshire.gov.uk Telephone: 01743 257739

1. Summary

Shropshire Council Internal Audit Service complies with the Public Sector Internal Audit Standards (PSIAS). As part of this process the service must develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity.

This programme is designed to enable an evaluation of the service's conformance with the definition of internal auditing, the standards and whether auditors apply the code of ethics (PSIAS). The programme assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. This quality assurance and improvement programme includes both internal and external assessments. An external assessment has to be conducted every five years and 2016 was the first opportunity for such an assessment at Shropshire. This report provides members with an update following the external assessment conducted by the Chartered Institute of Public Finance and Accountancy (CIPFA) in November 2016.

CIPFA concluded from the evidence reviewed as part of the external quality assessment: 'no areas of non-compliance with the standards have been identified that would affect the overall scope or operation of the internal audit activity, nor any significant areas of partial non-compliance. ***On this basis, it is our opinion that Shropshire Council Audit Services generally conforms to the requirements of the Public Sector Internal Audit Standards. It is also our opinion that they generally conform to the requirements of the Local Government Application Note***'.

An action plan has been agreed to further improve the controls already in place and this is contained in **Appendix A**, page 14, along with the full report from CIPFA.

2. It is recommended that:

The Committee consider and endorse, with appropriate comment, the information set out in this report.

REPORT

3. Risk assessment and opportunities appraisal

- 3.1 It is a requirement of the PSIAS to have an external assessment, the results of which can be used to demonstrate the Service's quality to both its main customer, Shropshire Council, and other clients.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2015. There are no direct environmental, equalities or climate change consequences of this proposal.

4. Financial implications

The review cost £6,325 plus officer time spent in preparation and support of the process. This was met from within existing budgets.

5. Background

- 5.1 An external assessment of the Audit's team's compliance with the PSIAS must be completed every five years by a qualified, independent assessor or assessment team. Members will recall, as reported at their September meeting, that following a tender process with other councils co-ordinated by Staffordshire County Council, the contract to conduct the assessment was awarded to CIPFA. CIPFA set the internal audit standard within local government and have a deep knowledge of the impact of the PSIAS on the wider public sector. They are therefore well placed to conduct such a review. CIPFA also have responsibility for setting accounting standards for a significant part of the economy and can therefore use this experience to provide pertinent feedback. CIPFA is independent of the Council. Ray Gard, FCCA, CFIIA, CPFA, DMS, conducted the review on behalf of CIPFA.
- 5.3 The review was carried out between the 21st and 25th of November 2016 through a process of interviews with employees of Shropshire Council's Audit Services (SCAS), key officers and members within the Council, and the main external clients, plus a document review. With regard to the latter, Internal Audit made a comprehensive range of documents available for examination during the review. This included their own robust self-assessment and quality assurance and improvement plan (QAIP); the audit manual and guidance for employees; individual audit reports; and a range of reports and communications that demonstrate the flow of information between Internal Audit and the audit committees of the Council and their main clients.
- 5.4 From the evidence reviewed, CIPFA found no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity, nor any significant areas of partial non-compliance. On this basis, CIPFA concluded: ***that Shropshire Council Audit Services generally conforms to the requirements of the Public Sector Internal Audit Standards. It is also our opinion that they generally conform to the requirements of the Local Government Application Note.***

- 5.5 Two areas of partial compliance were identified under standard 1000, Purpose authority and responsibility and 1100, Independence and objectivity. The agreed action plan at Appendix 1 of **Appendix A** sets out some recommendations (R) to address these issues and improve conformity with the standards. Both require slight adjustments to the Audit Charter and year-end report to achieve this. In addition, CIPFA made some suggestions (S), in areas where there are opportunities for improvement and development to enhance operations and learn from current best practice. These have been included in the action plan at Appendix 1 to their report. These suggestions are in addition to best practice improvements already identified in Internal Audit's improvement plan and reported to your June 2016 Committee.
- 5.6 The Head of Audit has committed to implementing the recommendations and suggestions within agreed timescales as reported in **Appendix A**

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

Public Sector Internal Audit Standards (PSIAS).
 CIPFA's Local Government Application Note (LGAN)
 Various internal documents supporting self-assessment against the PSIAS.
 Accounts and Audit Regulations 2015

Cabinet Member (Portfolio Holder)

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

Local Member: All

Appendices:

Appendix A: CIPFA's Final Report: External Quality Assessment of Shropshire Council Audit Services against the Public Sector Internal Audit Standards (2016)

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External Quality Assessment of Shropshire Council Audit Services against the Public Sector Internal Audit standards (2016)

Final Report

Lead Associate: Ray Gard, CPFA, FCCA, CFIIA, DMS

Internal QA: Diana Melville FCPFA, Governance Advisor, CIPFA

21st December 2016

Review of Shropshire Council Audit Services (SCAS) - November 2016

Introduction

Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS), which have been in place since 1st April 2013 (revised April 2016). The standards require periodic self-assessments and an assessment by an external person every five years.

Background

Shropshire Council Audit Services (SCAS) are based at Shirehall in Shrewsbury and provide internal audit services to Shropshire Council, Shropshire Fire and Rescue Service, Shropshire Towns and Rural Housing Ltd, West Mercia Energy, Shropshire Pension Fund, and Oswestry Town Council. SCAS has 9.4 full time equivalent staff and access to the Staffordshire framework contract for internal audit, which is used to supplement the in-house resources.

Now that SCAS has been operating under PSIAS for over three years, this was deemed a good time for their first external review and validation of their self-assessment against the standards and the local government application note (LAGN) produced by CIPFA.

Review Process

The review was carried out between the 21st and 25th of November 2016 through a process of interviews with employees of SCAS, key officers and members within the Council, and the main external clients, and document review. With regard to the latter, SCAS provided a comprehensive range of documents that were available for examination during this review. This included SCAS's own robust self-assessment and quality assurance and improvement plan (QAIP); the audit manual and guidance for employees; individual audit reports; and a range of reports and communications that demonstrate the flow of information between SCAS and the audit committees for the Council and their main clients.

Whilst all of the above documents contributed to the review, certain documents are regarded as fundamental to the review process. These documents include:-

- the audit charter and audit committee terms of reference ;
- progress reports to the audit committee for the Council and the main external clients;
- Head of audit's annual report and opinion to the audit committee;
- audit plans and covering report to the audit committee;
- audit manual;
- staff declarations of interest; and
- staff training and development strategy.

Conclusion and Opinion

From the evidence reviewed as part of the external quality assessment, no areas of non-compliance with the standards have been identified that would affect the

overall scope or operation of the internal audit activity, nor any significant areas of partial non-compliance.

On this basis, it is our opinion that Shropshire Council Audit Services generally conforms to the requirements of the Public Sector Internal Audit Standards. It is also our opinion that they generally conform to the requirements of the Local Government Application Note.

Two areas of partial compliance have been identified. The agreed action plan at appendix 1 sets out some practical and pragmatic recommendations (R) to address these issues and improve conformity with the standards.

In addition, SCAS are looking for opportunities to enhance operations and learn from current best practice with public sector internal audit. With this in mind some areas where there are opportunities for improvement and development have also been identified, some of which have already been identified by SCAS and included in their QAIP. These areas have not been included in the action plan as this is unlikely to add any further value to the quality assurance and improvement programme. Some practical and pragmatic suggestions (S) have been made for the other opportunities for improvement and development and these have also been included in the action plan at appendix 1 to this report.

A list of the individuals interviewed during the review is included as appendix 2.

The Head of Audit has been provided with a list of the areas where there is scope to enhance conformity with the standard.

Ray Gard, CPFA, FCCA, FCIIA, DMS

Summary findings and recommendations

Standard	Compliance	Findings	Recommendations and Suggestions	No
Attribute standards				
<p>1000 Purpose, authority and responsibility</p>	<p>Partially Conforms</p>	<p>The purpose, authority, and responsibility of SCAS internal audit activity is formally defined in the internal audit charter, and on the whole is consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards.</p> <p>SCAS do not produce a separate strategic statement on internal audit setting out how the internal audit service will be delivered, but is instead partly covered by the audit charter.</p> <p>However, the audit charter does not provided details on how the internal audit service will be delivered, although this information can be found in the annual audit plan report to the audit committee.</p> <p>Nonetheless, PSIAS expects this information to appear in the audit charter (or a supporting strategic statement). As such, the section on internal audit planning (paragraphs 27 & 28) should be expanded to provide more detail on how the internal audit service will be resourced and delivered, perhaps using some of the detail in paragraph 5.7 in the audit plan report.</p>	<p>Paragraphs 27 & 28 in the audit charter should be expanded to provide more information on how the audit plan will be resourced and delivered.</p> <p>The definition for assurance in Annex A to the audit charter could be enhanced to provide greater clarity to the reader.</p>	<p>R1</p> <p>R2</p>

Standard	Compliance	Findings	Recommendations and Suggestions	No
		<p>PSIAS requires the audit charter to contain definitions for "assurance and consultancy" activities and these can be found in Annex A to the audit charter. The definition for consultancy activity is informative and clear, whereas the definition for assurance is less so and does not actually explain what is meant or covered by the term assurance. There is scope to enhance this section of Annex A to provide greater clarity to the reader, perhaps by following the model used to explain consultancy activity, and by incorporating some of the wording used else where in the audit charter, for example in paragraphs 9 and 12.</p>		
<p>1100 Independence and objectivity</p>	<p>Partially Conforms</p>	<p>Independence and objectivity are well managed by SCAS and this underpins their reputation. All interviewees emphasised the importance of these aspects of audit behaviour. Reporting lines are set out in the audit charter.</p> <p>They are free from interference and this is defined in the audit charter and the terms of reference for the audit committee.</p> <p>Whilst it is apparent from the qualified audit opinions during the past few years that the service has been able to maintain its independency and objectivity, the Head of Audit's annual report and opinion does</p>	<p>The Head of Audit includes a statement confirming that the services has been free from interference throughout the year in her annual report to the audit committee.</p> <p>A section is added to the audit charter stating that to ensure integrity and objectivity are not impaired, auditors will not audit areas of previous responsibility for a period of at least twelve months after the responsibility ended</p> <p>The section on consulting activity</p>	<p>R3</p> <p>R4</p> <p>R5</p>

Standard	Compliance	Findings	Recommendations and Suggestions	No
		<p>not contain a statement confirming this and that the service has been free from interference throughout the year.</p> <p>Whilst SCAS' working practices ensure that auditors do not audit activities that they have previously been responsible for (by using different in-house auditors or buying in resources) the approach that will be taken to avoid any potential conflicts is not set out in the audit charter. There is scope to expand paragraph 17 to cover this point</p> <p>PSIAS requires approval is sought from the audit committee for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement. The section on consulting activity in Annex A to the audit charter does not make reference to seeking approval from the audit committee. Whilst it is acknowledged that audit committees only meet around four times a year and this may not coincide with the urgency requirements of the consulting assignments, the audit charter should nonetheless be enhanced to include a paragraph regarding seeking approval.</p>	<p>in Annex A to the audit charter is strengthened to include seeking approval from the audit committee for additional significant consulting assignments that are not already included in the annual audit plan</p>	
<p>1200 Proficiency and due professional</p>	<p>Generally Conforms</p>	<p>It was clear from the evidence examined, and the quality assurances processes that audit work is carried out with proficiency and due professional care.</p>	<p>No recommendations or suggestions have been made for this standard</p>	

Standard	Compliance	Findings	Recommendations and Suggestions	No
care		<p>Senior staff review and sign off all work at every stage of the audit process.</p> <p>SCAS's employees are well qualified and experienced, with good access to training and development.</p>		
<p>1300 Quality assurance and improvement programme</p>	Generally Conforms	<p>The Head of Audit carries out an annual self-assessment against PSIAS and develops and maintains a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity. The QAIP is reported annually to the audit committee.</p> <p>SCAS' compliance with the PSIAS is included in the annual QAIP report and the audit charter.</p> <p>The format for the external quality assessment (EQA) was agreed with the Director of Finance (S 151 Officer) and the audit committee. Once the EQA is completed, the final report will be shared with the Director of Finance and will form part of the annual QAIP report to the audit committee.</p>	No recommendations or suggestions have been made for this standard	
Performance standards				
<p>2000 Managing the internal audit activity</p>	Generally Conforms	<p>SCAS has a robust risk based planning process in place for all of its clients. Individual client audit plans are based on the risk registers, assurance frameworks, recommendations made from previous audit activity, and discussions with senior</p>	See recommendation R1 above under standard 1000	

Standard	Compliance	Findings	Recommendations and Suggestions	No
		<p>managers</p> <p>The audit committee agrees the audit plan for the Council. The same applies to the external clients where the respective audit committees or management boards agree the audit plan. The audit plan is presented to the committee and accompanied by a comprehensive report that sets out how the plan was produced and will be delivered, and what will not be covered by the audit plan.</p> <p>PSIAS however requires public sector internal audit services to provide an explanation on how the audit service will be delivered in the audit charter, or to provide a strategic statement on internal audit to support the audit charter, neither of which are currently in place at SCAS. This point has been covered under standard 1000 and recommendation R1 above.</p> <p>SCAS use standard documentation and processes for all of their clients, the majority of which are automatically produced by the MK Insight audit application.</p> <p>Audit reports follow a uniform template and the same standard audit opinions and recommendation prioritisations are used for all of SCAS's clients.</p>		

Standard	Compliance	Findings	Recommendations and Suggestions	No
		<p>Reporting protocols are clearly defined for each client. Internal audit activities are reported to management and to each Audit Committee or management board during the year.</p> <p>All audit work is supervised and reviewed by a senior member of SCAS's team and no reports are sent to clients unless a Senior member of SCAS's team has signed them off.</p>		
<p>2100 Nature of work</p>	<p>Generally Conforms</p>	<p>The work carried out by SCAS is designed to enable the Head of Audit to come to an informed opinion on the adequacy of the control, risk, and governance arrangements, and contributes to the organisation's annual governance statement (AGS). This includes annual audits of the corporate governance and risk management processes.</p> <p>SCAS applies a systematic and disciplined approach to their audits, underpinned by robust procedures and methodologies, and performed by experienced and qualified auditors. The Head of Audit does not shy away from delivering unpalatable messages to management and has qualified her annual opinion for a number of consecutive years.</p>	<p>No recommendations or suggestions have been made for this standard</p>	

Standard	Compliance	Findings	Recommendations and Suggestions	No
2200 Engagement planning	Generally Conforms	<p>Comprehensive engagement plans are completed for each audit assignment in the MK Insight audit management application and these conform to PSIAS. The engagement planning process includes a detailed risk assessment for each assignment. The same methodology is applied to the assignments for the external clients and to consulting assignments where these involve more than just providing advice.</p>	<p>No recommendations or suggestions have been made for this standard</p>	
2300 Performing the engagement	Generally Conforms	<p>SCAS have robust processes and procedures in place, underpinned by an audit manual that cover this area in detail. All aspects of the audit processes are subject to management review and sign off within the MK Insight audit management application. Conclusions are based on the findings and supported by relevant evidence.</p>	<p>No recommendations or suggestions have been made for this standard</p>	
2400 Communicating the results	Generally Conforms	<p>Audit reports are on the exceptions basis and follow the standard format set up in MK Insight. They are clear and reflect the work undertaken, and include conclusions, recommendations, an action plan and an opinion on the governance, risk and control arrangements that have been reviewed.</p> <p>All reports are quality checked and signed off by a senior member of the team prior to issue. Reports are disseminated to</p>	<p>It is suggested that a paragraph is included in the standard audit report template regarding the limitations on distribution and the use of the results by external parties.</p> <p>It is suggested that the Head of Audit routinely includes greater detail on the audits with limited and no assurance opinions in the progress reports to the audit</p>	<p>S1</p> <p>S2</p>

Standard	Compliance	Findings	Recommendations and Suggestions	No
		<p>appropriate recipients.</p> <p>Internal audit reports do not however contain a statement regarding the limitations on distribution and the use of the results by external parties. It is suggested that such a statement is added to the standard audit report template</p> <p>Information on individual audits in the progress reports provided to the audit committee is quite limited and mainly focussed on the numbers and categories of recommendations that have been made. The lack of detail, particularly on those audits where a negative assurance opinion has been issued, is likely to be hindering the audit committee's ability to challenge officers effectively.</p> <p>Whilst it is appreciated that the audit committee does not routinely ask for more detailed information, nonetheless it would enhance their role and improve their effectiveness if they were provided with more detail on the audits with limited or no assurance opinions. The amount of information that should be provided is very much a local issue, but as the minimum should at least include a summary of the control, risk and governance issues identified during the audits, the risks and potential consequences of not rectifying the shortcomings, and the</p>	<p>committee.</p>	

Standard	Compliance	Findings	Recommendations and Suggestions	No
		<p>recommendations that have been agreed with management.</p> <p>The audit committee will however ask for more information on very serious matters, such as the ongoing issues with the Council's ICT infrastructure, which have led to the Head of Audit issuing a qualified annual audit opinion for four consecutive years.</p>		
<p>2500 Monitoring progress</p>	<p>Generally Conforms</p>	<p>Follow up processes are in place and effective, although this is continually under development. All recommendations are recorded in the MK Insight audit management application and used to inform future audit plans. Where appropriate revised audit opinions are issued once all of the recommendations have been implemented.</p>	<p>No recommendations or suggestions have been made for this standard</p>	
<p>2600 Communicating the acceptance of risks</p>	<p>Generally Conforms</p>	<p>There are sound processes in place regarding the communication of the acceptance of risks and these generally conform to the requirements of PSIAS. Where a manager accepts a level of risk that is greater than the organisation's risk appetite the Head of Audit raises the matter with senior management and the audit committee and sets out the potential consequences of this course of action.</p>	<p>No recommendations or suggestions have been made for this standard</p>	

Standard	Compliance	Findings	Recommendations and Suggestions	No
Code of Ethics	Generally Conforms	<p>SCAS fully conforms with the integrity, confidentiality, and competency elements of the code of ethics, although staff are not currently required to sign an annual declaration that they have complied with the codes of ethics and the Committee on Standards of Public Life <i>Seven Principles of Public Life</i>.</p> <p>However, SCAS adopts a proactive approach to supporting management by participating in working groups and project boards for transformation programmes, system developments etc, where they provide advice and guidance on controls, risks, and governance matters. They firmly believe this adds value to the organisation and is more cost effective than raising issues once the programme or system has been implemented. The senior managers interviewed during this review supported this view.</p> <p>The Head of Audit is fully aware that there is a risk that SCAS's objectivity may be impaired by adopting this approach. She has put measures in place to protect their objectivity by ensuring different auditors provide assurance to those that provided the advice, or by buying in audit resources from the Staffordshire frame contract to provide the assurance.</p> <p>The Head of Audit has included this issue</p>	<p>It is suggested that the annual declaration of gifts, hospitality and interests forms completed by every member of SCAS' team is expanded to include sections relating to compliance with the relevant codes of ethics or Committee on Standards of Public Life <i>Seven Principles of Public Life</i></p>	S3

Standard	Compliance	Findings	Recommendations and Suggestions	No
		in SCAS QAIP. As such, any further recommendations on this matter are unlikely to add further value to SCAS operations.		
Mission	Generally Conforms	The audit charter includes the mission statement as required by PSIAS	No recommendations or suggestions have been made for this standard	
Core principles of internal audit	Generally Conforms	SCAS conforms to the core principles of internal audit and as such the Head of Audit could include this in her annual report and opinion to the audit committee.	No recommendations or suggestions have been made for this standard	

Appendix 1: action plan

Recommendations

No	Recommendation	Response	Responsible Person	Action date
R1	Paragraphs 27 & 28 in the audit charter should be expanded to provide more information on how the audit plan will be resourced and delivered.	Accept The Charter will include a statement that <i>resources are from a mix of internal employees or contractors dependent on available budgets and resource needs.</i>	Ceri Pilawski	November 2017
R2	The definition for assurance in Annex A to the audit charter could be enhanced to provide greater clarity to the reader	Accept The Charter definition of Assurance will be updated to read: Overall Assurance is provided on the organisation's risk management, governance and internal control processes to confirm that they are operating effectively. <i>Opinions take into account the expectations of senior managers, the board and other stakeholders and are supported by sufficient, reliable, relevant and useful information.</i> Audit assurance opinions for engagements are awarded on completion of audit reviews reflecting the efficiency and effectiveness of the controls in	Ceri Pilawski	November 2017

No	Recommendation	Response	Responsible Person	Action date
		place and <i>consideration of the engagement results and their significance.</i>		
R3	The Head of Audit includes a statement specifically confirming that the service has been free from interference throughout the year in her annual report to the audit committee.	Accept: This will be incorporated in the year-end report	Ceri Pilawski	June 2017
R4	A section is added to the audit charter stating that to ensure integrity and objectivity are not impaired, auditors will not audit areas of previous responsibility for a period of at least twelve months after the responsibility ended	Accept: This will be incorporated in the next planned review of the Audit Charter	Ceri Pilawski	November 2017
R5	The section on consulting activity in Annex A to the audit charter is strengthened to include seeking approval from the audit committee for additional significant consulting assignments that are not already included in the annual audit plan	Accept: The Charter section on consultancy will be updated to read 'Any auditor asked to provide consultancy services or undertake a consultancy-style activity should consult their manager or the Head of Internal Audit before agreeing to provide such services. <i>For any significant additional consulting services not already included in the plan, approval will be sought from the Audit Committee prior to accepting the engagement</i> .' In practice any significant change to the plan would be covered in	Ceri Pilawski	November 2017

No	Recommendation	Response	Responsible Person	Action date
		<p>the quarterly reporting to Audit Committee and so would always be reported.</p> <p>Consultancy work by its very nature at times requires an instant response to an assurance request. To allow for this there are approved contingencies in place in the plan: unplanned, general advice, and counter fraud. In addition, to ensure transparency, codes are set up for jobs that require more time.</p>		

Suggestions

No	Suggestion	Response	Responsible Person	Action date
S1	It is suggested that a paragraph is included in the standard audit report template regarding the limitations on distribution and the use of the results by external parties.	<p>Accept</p> <p>The next review of the standard report template will consider this.</p>	Ceri Pilawski	May 2017
S2	It is suggested that the Head of Audit routinely includes greater detail on the audits with limited and no assurance opinions in the progress reports to the audit committee.	<p>Accept</p> <p>Audit will consider a greater level of detail in an appendix to performance reports.</p>	Ceri Pilawski	February 2017

No	Suggestion	Response	Responsible Person	Action date
S3	It is suggested that the annual declaration of gifts, hospitality and interests forms completed by every member of SCAS' team is expanded to include sections relating to compliance with the relevant codes of ethics or Committee on Standards of Public Life <i>Seven Principles of Public Life</i>	Accept. This will be adopted for 2017/18	Ceri Pilawski	May 2017

Appendix 2: Interviewees

Person	Position	Organisation
Ceri Pilawski	Head of Audit	Shropshire Council Audit Services
Clive Wright	Chief Executive	Shropshire Council
Angela Beachy	Risk and Insurance Manager	Shropshire Council
Justin Bridges	Treasury and Pensions Manager	Shropshire Council
Cheryl Sedgely	Head of Finance (Deputy S151)	Shropshire Council
Rod Thompson	Director of Public Health	Shropshire Council
Chris Mathews	Commissioner for Education Improvement and Efficiency	Shropshire Council
Sarah Wilkins	Service Manager Early Help and commissioning	Shropshire Council
Michele Leith	Head of Human Resources and Development	Shropshire Council
Peter Voogt	Interim Head of ICT	Shropshire Council
George Chandler	Director of Place	Shropshire Council
Tim Smith	Head of Business Enterprise and Commercial Services	Shropshire Council
Chris Edwards	Head of Infrastructure and Communities	Shropshire Council
James Walton	Director of Finance – S151 Officer	Shropshire Council
Claire Porter	Monitoring Officer	Shropshire Council
Barry Hanson	Principal Auditor (IT)	Shropshire Council Audit Services
Joanne Wooley	Auditor (IT)	Shropshire Council Audit Services
Peter Chadderton	Principal Auditor	Shropshire Council Audit Services
Mark Seddon	Auditor	Shropshire Council Audit Services
Emily Swinnerton	Auditor	Shropshire Council Audit Services
Shelley Taylor	Auditor	Shropshire Council Audit Services
Tim Barker	Chair Audit Committee	Shropshire Council
Brian Williams	Past Chair of Audit Committee	Shropshire Council
John Cadwallader	Vice Chair of Audit Committee	Shropshire Council
Chris Mellings	Audit Committee Member	Shropshire Council
David Turner	Audit Committee Member	Shropshire Council
Emily Mayne	External Audit Manager	Grant Thornton
Nigel Evans	Director	West Mercia Energy
Joanne Coadey	Head of Finance	Shropshire Fire and Rescue Service
Steve Ogram	Finance Director	Shropshire Towns and Rural Housing Ltd (ALMO)

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<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
22 February 2017	
9:30 am	<u>Public</u>

DRAFT INTERNAL AUDIT ANNUAL PLAN 2017/18

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

Tel: 01743 257739

1. Summary

This report provides Members with the proposed risk based Internal Audit Plan for 2017/18. The annual plan will provide coverage across all Council services and deliver internal audit services to a range of external clients. It takes account of issues identified by the clients' risk management frameworks, including the risk appetite levels set by management for the different activities or parts of the organisations audited. The proposed plan takes into account the requirement to produce an annual internal audit opinion and assurance framework. Some minor adjustments may be needed before the plan is finalised; if significant, these will be agreed by the Section 151 Officer and reported to the next Audit Committee.

2. Recommendations

The Committee are asked to consider and endorse, with appropriate comment, the approach taken to create the proposed Internal Audit Plan for 2017/18 and approve its adoption.

REPORT

3. Risk Assessment and Opportunities Appraisal

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

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

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

'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.'

4. Financial Implications

- 4.1 Costs associated with the proposed plan will be met from within the approved Internal Audit budget.

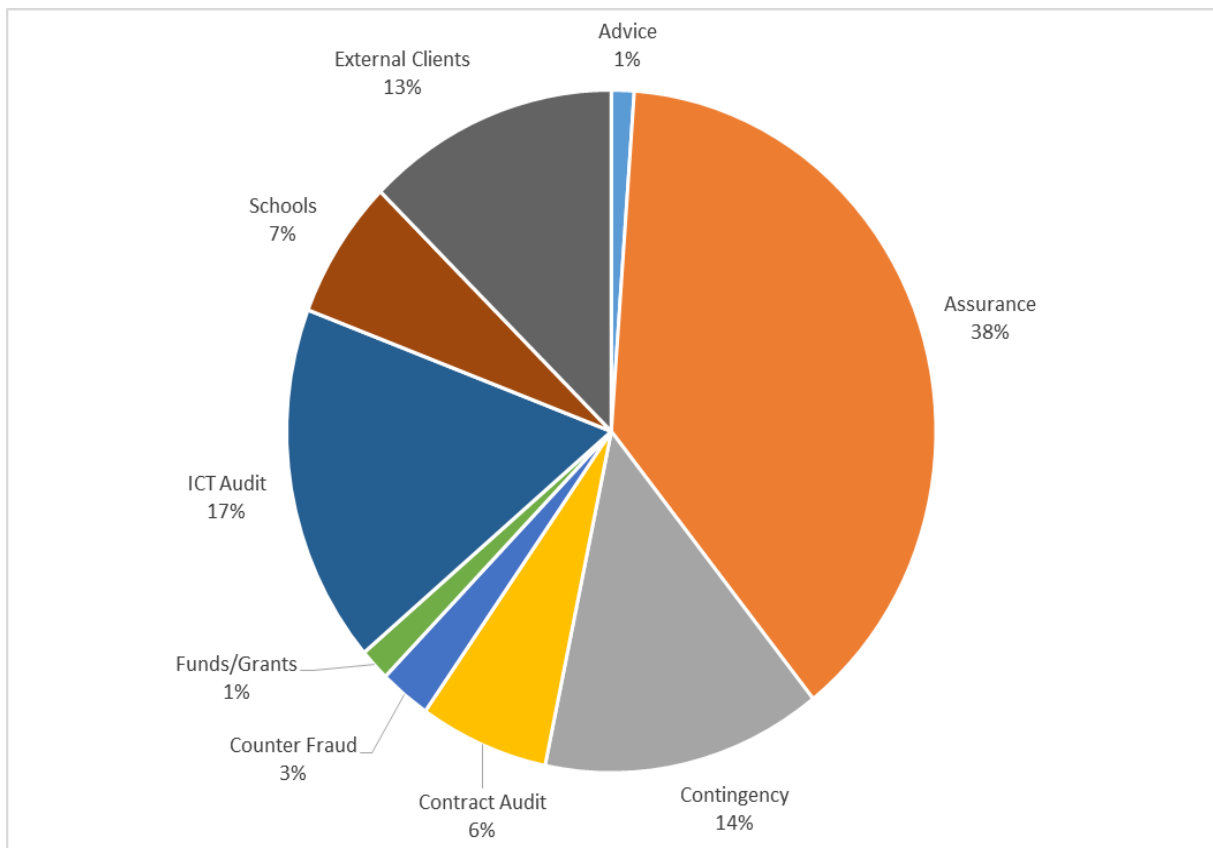
5. Background

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

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

5.4 Top risks facing councils continue to include pressures on finances and resources; technology; third party risk management; fraud and misconduct; crisis risk management; data security; achieving compliance with regulations; and improving data aggregation and reporting. In addition, the Council’s strategic risks around the IT infrastructure; workforce planning, development, retention and managing stress; the clarity of a vision supported by financial sustainability and maintaining public confidence; commissioning, contracting and safeguarding children and adults have all been considered when refining the plan.

5.5 **Appendix A** provides the summarised Internal Audit plan and identifies a planned day requirement of 1,547 days for Shropshire Council audit work and 223 days of work for external clients. These days are broken down by type in the chart below.



Resources

- 5.6 The Internal Audit service has continued to see a rationalisation of resources at a time of significant increase in demand. The Council continues to go through a period of unprecedented change which is impacting on a high number of service areas, processes, risks and therefore controls. Whilst over time the Council will be reducing in size in terms of the services it delivers directly, the interim period continues to see the associated risks, and therefore areas requiring audit review, continue to increase. In addition, as a result of the changing control environment, areas reviewed are attracting lower assurance levels than previously. This has resulted in the need for an increased level of follow up audits, a must do in respect of unsatisfactory audits, with only a proportion of limited assurance audits being revisited within current resources.
- 5.7 The team has 9.7 full time equivalents (one of which is a fixed term contract due to end in August) and has retained a rich mix of skills in finance, information technology, contract management, governance, job evaluation, establishments, systems, counter fraud, investigations and project management (**Appendix B**). There are presently two vacancies being recruited to, an auditor and a trainee shared with Financial Services. Skills continue to be developed across the wider team and, to help supplement the internal resources and respond to demand during this period of change, additional audit time will be purchased from external contractors. Procurement considerations are presently under way to identify the best way of sourcing this work looking forward, given that the Staffordshire framework contract used to date is coming to the end of its term. The plan provides for this mixed provision to continue going forward into 2017/18.
- 5.8 The Audit Plan for 2017/18 based on a risk analysis identified approximately 3,000 days to review all high risk areas. Areas requiring review attracting a lower risk have not been considered in this year's planning process. Resources available after deducting allowances for non-chargeable time (leave, management meetings, administration, etc.); and chargeable time (attendance at corporate meetings, officer and members, responding to legislation, s151 officer work requests, training etc.) amount to 1,770 days of which 223 are to be used on providing services to customers other than Shropshire Council leaving a balance of 1,547 days.
- 5.9 In order to match the review areas to resources, it has been necessary to take out a number of reviews identified as high priority, details of which appear as **Appendix C**. These include a number of schools, some of which have not been independently audited for five years; some IT audit areas; key projects; processes and contracts. Whilst there are contingencies for fraud, unplanned audits and advice, if not required in full this time can be re-allocated and reviews may be able to be brought back into the plan.
- 5.10 In preparing the plan for 2017/18 the key items to note are:
- The plan for the second year does not include time for all fundamental system audit reviews. A decision has been taken to review these on a cyclical basis after considering the risk profile of each area. The exception is the Payroll system which is of a high material value to the Council's operations and, as such, will be reviewed every year.

- A separate risk based analysis of the IT audit areas has been conducted and assessments of applications, projects, developmental changes, new technology and follow ups in areas requiring improvements are planned. IT continues to form a significant part of the internal audit plan reflecting the Council's continuing reliance on technology and digital transformation requirements as services are redesigned.
- The fraud contingency is being maintained at 200 days; with ongoing changes to controls, management structures and job responsibilities, this is not considered to be an area of reducing risk.
- Internal Audit aims to review primary schools at least every five years through either a direct audit, or a self-assessment process. Secondary schools will be audited every four years. It is no longer possible to achieve full audit reviews within the time frame for all primary schools. If prioritised over other business areas, the resources would be disproportional to those used elsewhere given the Council's strategic risks. When looking to prioritise schools in the plan any deficit position, previous assurance ratings (especially unsatisfactory or limited) concerns of the education service, submission and responses to the schools financial value statements and the date of and assurance from the last audit/ self-assessment are all taken into consideration. Using this approach enables Audit Services to prioritise any slippage with a view to managing associated risks.
- In considering how Internal Audit could support schools in improving their control environment, the plan continues to allow a small amount of time for auditors to work with governors, head teachers and administrators in understanding the level of controls required and how they can be improved and implemented, thereby aiming to prevent any control erosion which would lead to increased risks.
- Days are allocated to provide internal audit services to external clients: Shropshire Fire and Rescue, Shropshire Pension Fund, West Mercia Energy, Oswestry Town Council and Honorary and Voluntary funds. In addition, discussions are planned with the Chief Executive, Director of Place and Enterprise and Section 151 Officer to firm up proposals to review any areas of significant risk which are being transferred to other delivery models. Time has been included in the proposed plan to cover known activities that are currently under review.
- Procurement and commissioning continue to be areas of growth and, as such, there are planned initiatives in these areas. Work is planned on financial evaluations of companies tendering for work and reviews of governance processes on the client side. In addition, where services are moving to new delivery models, exit reviews will be conducted to ensure that transfers are conducted appropriately and at minimum risk to the Council. A number of these will be met from the unplanned contingency as the specific business areas and timings become known.
- Discussions with senior managers have identified a number of areas considered low risk, from an internal controls/ materiality perspective, where managers are receiving a mix of assurances from their systems, personnel and/or third parties on which they can place reliance. These areas are identified in **Appendix D** and will not be considered for review by Internal Audit on a rolling risk basis. Members may wish to

ask senior managers to provide assurance directly (first line of assurance) to Committee on these areas if required.

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

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

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

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

Audit universe and resources analysis
 Public Sector Internal Audit Standards
 CIPFA Audit Committees, Practical Guidance for Local Authorities and Police, 2013 edition
 Accounts and Audit Regulations 2015

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

Local Member n/a

Appendices

Appendix A: Summary of Draft Internal Audit Plan by Service
 Appendix B: IA structure
 Appendix C: 2017/18 Audit areas of high priority for which no provision is made in this year's Internal Audit plan
 Appendix D: 2017/18 Deminimus Audit areas where managers will seek and provide any necessary assurance

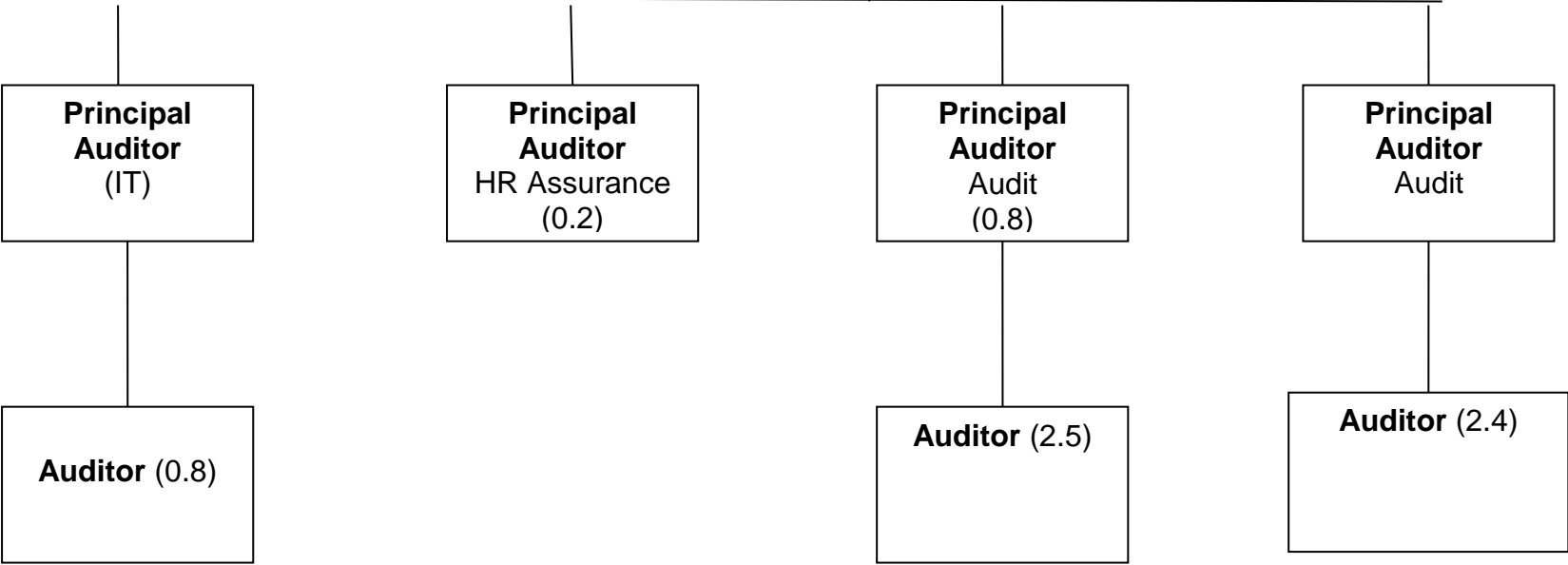
APPENDIX A

2017/18 SUMMARY OF DRAFT INTERNAL AUDIT PLAN BY SERVICE

	Days
CHIEF EXECUTIVE	
Governance	18
ICT	190
Finance Governance and Assurance	204
Human Resources	119
Legal, Democratic and Strategic Planning	21
Total Chief Executive	552
ADULT SERVICES	
Social Care Operations	141
Social Care Efficiency and Improvement	15
Total Adult Services	156
COMMISSIONING	
Infrastructure and Communities	134
Business Enterprise and Commercial Services	30
Economic Growth	53
Places and Enterprise	10
Procurement	30
Total Commissioning	257
CHILDREN'S SERVICES	
Safeguarding	35
Education, Improvement and Efficiency	150
Total Children's Services	185
PUBLIC HEALTH	
Public Health	47
Public Protection	58
Bereavement	5
Total Public Health	110
CONTINGENCIES	
IT Advice Contingency	20
Advisory Contingency	20
Fraud Contingency	200
Unplanned Audit Contingency	47
Other non-audit chargeable work	276
Total Contingencies	563
Total Shropshire Council	1823
External Clients	223
Total Audit Plan	2046

Head of Audit

Structure 2017
9.7 FTE



Bought in IA services

2017/18 Audit areas of high priority for which no provision is made in this year's Internal Audit plan – management assurances may be sought by the Committee

Chief Executive	Director of Place and Enterprise	Director of Children's Services
Ethics Local Joint Committee (LJC) University	Project Management Arrangements STEP Process Asset Management Strategy Estate Management External Catering Contracts Corporate Landlord Property Maintenance Select Lists Property Sales and Acquisitions SLA's & Invoicing Arrangements Smallholdings Estate Arcview GIS Application Funding & Programmes IDOX Planning, Building Control & Gazetteer Management System Investment and Infrastructure - Business Parks Partnerships Section 106 Agreements Community Car Scheme Highways Maintenance - Central Area Highways Maintenance - Northern Area Highways Maintenance - Roads & Bridges Highways Maintenance - Southern Area Highways Other Major Contracts Highways Specialist Contracts Local Transport Plan (LTP) Mouchel Parkman Contract Passenger Transport Procurement Arrangements School Planning & Transport Arrangements Section 38 Road Adoption Shrewsbury Museum Sports Development Street Lighting TOMS-ITU Voluntary Car Scheme Waste - Bulky Waste e-Procurement Procurement Arrangements Procurement Cards Procurement Strategy School Based Procurement Social Enterprises	Adoption Process including allowances Chelmaren Comforts Fund Haven Brook Comfort Fund Residential Care - Out County Placements Respite Care Safeguarding Support Service - Administration & Monitoring Section 11 Agreements Section 17 Payments Children Academy Exit Process Albrighton Primary School Belvidere Primary School Belvidere School - A Technology College Bishops Castle Community College Bishop's Castle Primary School Bomere Heath CE (Controlled) Primary School Bryn Offa CE (Controlled) Primary School Buntingsdale Infant School Castlefields Primary School Cheswardine Primary School Education Welfare Service Greenacres Primary School Hadnall C E (Controlled) Primary School Highley Primary School Hinstock Primary School Hodnet Primary School Hope CE Primary School John Wilkinson Primary School Market Drayton Infant and Nursery School Market Drayton Junior School Meole Brace C E Infant School Monitoring of Schools Deficit/Surplus Budgets Myddle CE Primary School Norton-in-Hales CE (Voluntary Controlled) Primary School Oakmeadow CE Primary and Nursery School Out of County Education / Placements Secondary General Shifnal Primary School SIMS - Schools Use & Control Arrangements Software Licensing - Schools St Andrew's CE Primary School, Shifnal St John the Baptist CE Primary School St John's Catholic Primary School St Laurence CE Primary School, Ludlow St Lawrence CE Primary School, Church Stretton St Mary's Bluecoat C E Primary School
Finance, Governance and Assurance		
AUDIS - Direct Debit Income System Application Bankline Benefit Options Team Business (Business) Continuity and Disaster Recovery - non IT Budget Management and Control - Corporate Civica Icon Income Management Application Comino Document Management System Application Financial Rules Housing Benefits Income Collection Management of Consultants Northgate - Revenues & Benefits Application Online Bankline Recharges - Internal Market Sales Ledger-Periodic Income SAMIS Application		
Human Resources		
Application Development Management Arrangements Bacstel-IP BT Contract Monitoring CALM CASPAR Communications Credit Union Client Customer First Points Customer Service Points Database Access / Admin / Management Design Team e-Forms & search engine Encryption End User Computing - Mgt Arrangements Escrow Arrangements Hardware Inventories Hipath Server Security Home and Flexible Working Arrangements Host Operator Processing System (HOPS) Human Resources / Workforce Planning		

2017/18 Audit areas of high priority for which no provision is made in this year's Internal Audit plan – management assurances may be sought by the Committee

<p>ILLY Substance Misuse Application Incase Fraud Management system Internet Controls Intranet and Website ISO 27001 IT Security Isupport Legacy Operating Systems Mail room Maytas 5 Microsoft Lync Mobile Working HR Policies Networks and Connectivity Oracle Privileged User Security PSN (public sector network) Redundancy Process CR SCCM (System Centre Configuration Manager) System Development Methodology Telecommunications - Call Monitoring Telephones - Usage & Income Tell Us Once Processes UNIX ViceVersa Pro (Backup for Digital Images) Virtual Desktop Voice Over IP Web Self-Serve CRM Application Website Management</p> <p>Legal and Democratic</p> <p>Code of Conduct - Gifts & Hospitality IT Security Management Review Members Allowances Modern.Gov Monitoring Use of Facilities Security Management & Cyber response</p>		<p>St Mary's CE (Aided) Primary School, Bucknell St Peter's CE (Controlled) Primary School Stoke-on-Tern Primary School Surestart The Meadows Primary School, Thomas Adams School Trefonen C E (Controlled) Primary School West Felton C E (Controlled) Primary School Wistanstow C E Primary School Woodlands School Woore Primary School</p>
<p>Director of Adult Services</p> <p>Abbots Wood Comforts Fund Adult Placements Albert Road Day Centre Comforts Fund Aquamira Comforts Fund Avalon Comforts Fund Care Bill / Better Care Fund Counter Fraud Work Housing Tenancy Direct Payments Prepaid Cards Four Rivers Nursing Home Four Rivers Nursing Home Comforts Fund Greenacres Rural Unit Comforts Fund</p>	<p>Director of Public Health</p> <p>Drug and Alcohol Misuse Contract Registrars Booking System Zipporah Application Review of funding/cross over & supporting processes School Nursing Service ShropDoc Services Trading Standards</p>	

2017/18 Audit areas of high priority for which no provision is made in this year's Internal Audit plan – management assurances may be sought by the Committee

<p>Helena Lane / Friars Walk Day Centre Comforts Fund Homepoint Contract Housing Capital Client Housing Client ALMO / STAR Housing Rents Client Side IBS Housing System Application Review Maesbury Metals Comforts Fund Patchworks Comforts Fund Personal Budgets / Care Assessments SEN Hubs e.g. Kettlemere Centre START The Meres Day Centre Comforts Fund Total Mobile (Mobile Solution for Housing Officers) Wayfarers Comforts Fund Youth Activities / Community Hubs and Commissioning</p>		
--	--	--

2017/18 Deminimus Audit areas where managers will seek and provide any necessary assurance

Chief Executive	Director of Adult Services	Director of Children's Services
<p>Finance, Governance and Assurance</p> <p>Inventories Management Localisation of Council Tax Benefits System On-line payments</p> <p>Human Resources</p> <p>ARIS Helpdesk Procedures Insurance of IT Facilities IT Business Support IT Change Management Microsoft Dynamics CRM Application Microwave Link to Jupiter House Quality Control Software Inventories / Licensing Wide area network</p> <p>Legal and Democratic Services</p> <p>Register of Electors</p>	<p>Greenacres Rural Unit Greenacres Rural Unit Trading Account Homepoint IT System Supporting People</p>	<p>Positive Activities Projects - Youth Service Shropshire Youth - Central Administration Social Care & Health Training The Gateway Education & Arts Centre Whitchurch Training Centre School Census Schools Advisory Service - Administration Schoolsnet - IT Application Shrewsbury Training & Development Centre Standards Fund</p>

2017/18 Deminimus Audit areas where managers will seek and provide any necessary assurance

Director of Public Health	Director of Place and Enterprise	Director of Place and Enterprise
<p>Animal Health & Welfare Fair Trading & Education Regulation of Investigatory Powers Act (RIPA) Road Safety Street Scene - Dog Wardens</p>	<p>Performance Plus Online Register Carbon Management Plan Cleaning DSO General Systems Cleaning equipment maintenance Fishing and Sporting Rights Furniture Design Group & County Furniture Group Internal Catering arrangements Pump House Rating Arrangements SMR - Sites & Monuments Record Sustainability AONB (Areas of Outstanding Natural Beauty) - Craven Arms Datawright Planning Development Ecology & Biodiversity Historic Environment & Listed Buildings One App Online Planning Portal Application PLUMS - Planning Policy Control Public access mapping server/e-planning Tree Safety Acton Scott Working Farm Museum Albrighton Library Arts Festivals & Events Bayston Hill Library Bio Digester Bishops Castle Library Bishops Castle Sparc Centre - Joint Use Bridgnorth Library Broseley Library Church Stretton Library Cleobury Mortimer Library Community Transport Initiatives (SCOTI, OCTI etc.) Community Working Countryside Access General Craven Arms Library Culture & Leisure Business Development</p>	<p>Culture & Leisure Grants Culture & Leisure Marketing and Performance Ellesmere Library Flood Risk Management Arrangements Gobowen Library Highley Library Highways Development Control Highways Land Search Land Drainage Library Fines & Charges Library HQ Library Procurement through WM Consortium Library Stock Management & Control Local Bus Network Ludlow Library Ludlow Museum & Resource Centre Market Drayton Library Much Wenlock Library Museum on the Move North Shropshire Countryside Rangers NRSWA - Road Openings & S278 Oswestry Library Parks & Countryside Sites General Passenger Transport Efficiency Operations Pontesbury Library Public Transport - Publicity Records Management Recruitment & Management of Volunteers Rhyn Park School Sports Centre Schools Library service Severn Valley Park Shifnal Library Shropshire Archives Surplus Seats The Lantern Waste - Statistics & Administration Wem Library Whitchurch Library</p>

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**Shropshire Council
Shirehall
Abbey Foregate
Shrewsbury
Shropshire
SY2 6ND**

10th February 2017

Dear James,

Certification work for Shropshire Council for year ended 31 March 2016

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

Arrangements for this certification in 2015/16 were prescribed by the Audit Commission which agreed the scope of the work with the Department for Work and Pensions, and issued auditors with a Certification Instruction (CI) for each specific claim or return. The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) have taken on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015.

In addition to the housing benefit subsidy claim we have certified two other claims and returns for the financial year 2015/16 where we were directly appointed by the Council. Further details of the claims certified are set out in Appendix A.

There were no issues arising from our certification work which we wish to specifically highlight for your attention. We are satisfied that the Council has appropriate arrangements to compile complete, accurate and timely claims/returns for audit certification. We are satisfied that any recommendations raised in previous years have been addressed.

The indicative fee for 2015/16 for the Council is based on the final 2013/14 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Fees for schemes no longer requiring certification under the Audit Commission regime (such as the national non-domestic rates return, teachers pensions return and pooling housing capital receipts return) have been removed. The indicative scale fee set by the Audit Commission for the Council for 2015/16 is £13,945. This is set out in more detail in Appendix B.

In addition, certification of grant claims outside of the audit commission regime, for which assurance is still required has been commissioned directly by the council, The fees charged for the two claims totals £6,975. Fees and the claims certified are set out in more detail in Appendix B.

Yours sincerely

For Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2015/16

Claim or return	Value	Amended?	Amendment (£)	Qualified?	Comments
Housing benefits subsidy claim	£69,170,402	Yes	£4,807	Yes	Qualification Letter appended setting out basis of qualification, see appendix C.
Pooling of Housing Capital Receipts	£1,717,813.73	No	N/A	No	No issues noted
Teachers' Pensions	£13,160,746	No	N/A	No	<p>We identified trivial differences between the total pensionable pay multiplied by the employer's contribution rate and the total employer's contribution.</p> <p>A number of minor amendments were made to the return subsequent to the original document being submitted to us for audit. The Council was not able to provide evidence to support these amendments.</p> <p>The value of these differences and amendments were trivial. We therefore certified this claim.</p>

Appendix B: Fees for 2015/16 certification work

Claim or return	2013/14 fee (£)	2015/16 indicative fee (£)	2015/16 actual fee (£)	Variance (£) (2013/14 to 2014/15)	Explanation for variances
Housing benefits subsidy claim (BEN01)	£18,593	£13,945	£13,945	£(4,648)	25% national saving provided by PSAA
Teacher's Pensions	£4,200	£4,200	£4,200	£nil	
Pooling of housing capital receipts	£807	£2,775	£2,775	£1,968	Part A & B Testing required. Fee in line with previous year with no increase.
Total	£23,600	£20,920	£20,920	£(2,680)	

Appendix C: Housing Benefits Qualification letter

Our Ref: GT/Shropshire/2015-16/BEN01
Your Ref: MPF720A

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

28th November 2016

Dear Sir / Madam

Shropshire Council

**Housing benefit subsidy claim for the year ended 31 March 2016 (Form MPF720A)
Qualification Letter referred to in the Auditor's Certificate dated 28th November
2016**

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

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

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

Yours faithfully

For Grant Thornton UK LLP

Qualification

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

Cell Total: £10,273,434

Cell Total £1,400,132 – sub population (Tax Credits)

Cell Population: 2959 cases

Cell Population: 498 cases – sub population (Tax Credits)

Headline Cell: £10,273,434

An issue was identified and reported in the 2014/15 qualification letter, affecting this cell on the claim. Incorrect tax credit used in the calculation of benefit entitlement. Testing of the initial sample in 15/16 did not identify any errors of this kind.

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

- 1 case where the Council had used the wrong amount of Child tax credit and Working tax credit in assessing claimant entitlement creating an overpayment of £3. This has been included in the extrapolation below. As a result of this error Cell 061 is overstated by £3 and Cell 065 is understated by £36, the headline cell is not affected.
- 1 case where the Council had used the wrong amount of Child tax credit and Working tax credit in assessing claimant entitlement creating an underpayment of £3. As there is no eligibility to subsidy for benefit which has not been paid, the underpayment (or nil impact) identified does not affect and has not, therefore, been classified as errors for subsidy purposes.

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

Sample	Movement / brief note of error:	Original cell total: sub population (Claims with Tax Credit)	Sample error:	Sample value:	Percentage error rate (to two decimal places):	Cell adjustment:	Revised Cell total if Cell adjustment applied
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV times CT]	
Initial sample – 1 case	Incorrect Tax Credits	£1,400,132	(£nil)	£1,009			
Additional sample - 40 cases	Incorrect Tax Credits	£1,400,132	(£3)	£95,975			
Combined sample 41 cases	Combined – Incorrect Tax Credits	£1,400,132	(£3)	£96,984	(0.003%)	(£42)	
Adjustment	Combined sample - Cell 061 is overstated	£1,400,132	(£3)	£96,984	(0.003%)	(£42)	
Total Corresponding adjustment	Total understatement of Cell 065					(£42)	

The percentage error rate in our sample reflects the individual cases selected. Error found was £3. The benefit period of the errors was 2 weeks.

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

Cell 094 Rent Allowances – Total expenditure (Benefit granted)

Cell Total: £58,699,137

Cell Total £11,871,775 – sub population (Earnings)

Cell Population: 16,276 cases

Cell Population: 4,363 cases – sub population (Earnings)

Headline Cell: £58,699,137

An issue was identified and reported in the 2014/15 qualification letter, affecting this cell on the claim. Incorrect earning from employment used in the calculation of benefit entitlement. Testing of the initial sample in 15/16 did not identify any errors of this kind.

Given the nature of the population and the errors found in the prior year, a sample of 40 cases from cell 094 where the assessment of benefit entitlement included earnings from employment was selected for testing from the subpopulation of earnings cases (worth a total of £100,909.46). This additional testing identified:

- 2 cases where the Council had incorrectly input earnings resulting in an underpayment totalling £65. As there is no eligibility to subsidy for benefit which has not been paid, the underpayment (or nil impact) identified does not affect subsidy and has not, therefore, been classified as errors for subsidy purposes.
- 5 cases where the Council had incorrectly input earnings resulting in an overpayment totalling £393. This has been included in the extrapolation below. As a result of this error Cell 102 is overstated by £196, Cell 103 is overstated by £197 and Cell 113 is understated by £393, the headline cell is not affected.

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

Sample	Movement / brief note of error:	Original cell total: sub population (claims with earning)	Sample error:	Sample value:	Percentage error rate (to two decimal places):	Cell adjustment:	Revised Cell total if Cell adjustment applied
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV times CT]	
Initial sample – 6 cases	Incorrect Income Calculation	£11,871,775	(£nil)	£12,251.55			
CAKE sample – 40 cases	Incorrect Income Calculation	£11,871,775	(£393)	£100,909.46			
Combined sample - 46 cases	Combined – Incorrect Income Calculation	£11,871,775	(£393)	£113,161	(0.35%)	(£41,230)	

Sample	Movement / brief note of error:	Original cell total: sub population (claims with earning)	Sample error:	Sample value:	Percentage error rate (to two decimal places):	Cell adjustment:	Revised Cell total if Cell adjustment applied
Adjustment:	Combined sample – Cell 102 is overstated	£11,871,775	(£196)	£113,161	(0.17%)	(£20,562)	
	Combined sample – Cell 103 is overstated	£11,871,775	(£197)	£113,161	(0.18%)	(£20,668)	
Total corresponding adjustment	Total understatement of Cell 113					(£41,230)	

The percentage error rate in our sample reflects the individual cases selected. The value of the errors found ranged from £6 to £135 and the benefit periods from 1 to 5 weeks. Similar errors were reported in my qualification letter in the previous year.

Given the nature of the population and the variation in the error found, it is unlikely that even significant additional work will result in amendments to the claim form that will allow us to conclude that it is fairly stated. Similar findings have been included in our qualification letters for the last 3 years.

Cell 094 Rent Allowances – Total expenditure (Benefit granted)

Cell Total: £58,699,137

Cell Total £2,771,042 – sub population (Occupational Pension)

Cell Population: 16,276 cases

Cell Population: 1,037 cases – sub population (Occupational Pension)

Headline Cell: £58,699,137

An issue was identified and reported in the 2014/15 qualification letter, affecting this cell on the claim. Incorrect occupational pension used in the calculation of benefit entitlement. Testing of the initial sample in 15/16 did not identify any errors of this kind.

In agreement with the Council an additional sample of 40 cell 094 cases was selected for testing (total value £111,897) from the subpopulation of 094 for which claimants were in receipt of occupational pensions. This additional testing identified:

- o
- One cases where the Council had incorrectly input occupational pension of the Claimant resulting in overpayment totalling £1, this has been included in the extrapolation below. As a result of this error cell 102 is overstated by £1 and cell 113 is understated by £1, the headline cell is not affected.
- One case where the Council had incorrectly input occupational pension of the Claimant resulting in underpayment totalling £114. As there is no eligibility to subsidy for benefit which has not been paid, the underpayment (or nil impact) identified does not affect and has not, therefore, been classified as errors for subsidy purposes.

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

Sample	Movement / brief note of error:	Original cell total: sub population (claims with Occupational Pension)	Sample error:	Sample value:	Percentage error rate (to two decimal places):	Cell adjustment:	Revised Cell total if Cell adjustment applied
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV times CT]	
Initial sample – 3 cases	Incorrect Occupational pension cell 094	£2,771,042	(£nil)	£7523.12			
CAKE sample – 40 cases	Incorrect Occupational pension cell 094	£2,771,042	(£1)	£111,897			
Combined sample - 43 cases	Incorrect Occupational pension cell 094	£2,771,042	(£1)	£119,420	(0.001%)	(£23)	
Corresponding adjustment:	Combined sample – Cell 102 is overstated	£2,771,042	(£1)	£119,420	(0.001%)	(£23)	
Total corresponding adjustment	Total understatement of Cell 113					(£23)	

The percentage error rate in our sample reflects the individual cases selected. The value of the error found £103 and the benefit periods for 4 weeks. This is the second year that these errors have been reported within my qualification letter.

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

Observations

We have no observations to report



The Audit Plan for Shropshire Council

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Year ended 31 March 2017

February 2017

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Agenda Item 15

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February 2017

Dear members of the Audit Committee

Audit Plan for Shropshire Council for the year ending 31 March 2017

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

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

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

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

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 planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit. 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.

We look forward to working with you during the course of the audit.

Yours sincerely

Mark Stocks

Engagement Lead

Chartered Accountants

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Understanding your business and key developments

Developments	Key challenges	Financial reporting changes								
<p>Integration with health sector</p> <p>You have worked with your local health and social care partners to develop a Sustainability and Transformation Plan. This five-year plan requires genuine partnership across a number of different organisations that historically have had misaligned funding regimes and a lack of a robust shared strategy.</p> <p>Delivering the STP requires significant commitment from all partners to ensure that they appropriately influence and deliver the direction of the plan. The health economy has a significant deficit and has not made the required progress in delivering service reconfiguration. The Council has its own challenges in funding social care. These challenges are significant and can only be solved by all partners working together.</p> <p>Highways network asset (HNA)</p> <p>In November, 2016 CIPFA/LASAAC announced a deferral of measuring the HNA at Depreciated Replacement Cost for 2016/17. The CIPFA/LASAAC will review this position at its meeting in March 2017 with a view to implementation in 2017/18. It is anticipated that the 2017/18 Code will be on the same basis as planned for 2016/17, i.e. not requiring restatement of preceding year information.</p> <p>Closure of ip&e Ltd</p> <p>2016/17 will see the closure of ip&e Ltd. The Council is now at the final stage of closing down the company and transferring the services back to the Council.</p>	<p>Autumn Statement</p> <p>The Chancellor detailed plans in the Autumn Statement to increase funding for Housing and Infrastructure, and further extend devolved powers to Local Authorities. No plans were announced to increase funding for adult social care. Due to the profile of the local populace this presents a challenge to Shropshire going forward.</p> <p>Financial resilience</p> <p>The growth in Adult Social Care and the costs of other statutory responsibilities are not affordable under the current funding model in place. The Council is therefore using short and medium term plans to attempt to manage this, in advance of the Government Fair Funding Review. There is a significant risk that the Council's financial position will impact on service delivery, both statutory and non-statutory in future years.</p> <p>The Council is proposing to close its forecast budget gap of £40 million to 2018/19 by fully utilising the earmarked reserves. The release of these reserves is conditional upon generating and using capital receipts to replenish these reserves.</p> <p>Key performance indicators</p> <table border="1" data-bbox="700 882 1384 1088"> <thead> <tr> <th>Measure (as at December 2016)</th> <th>Value £'000</th> </tr> </thead> <tbody> <tr> <td>Net controllable budget</td> <td>204,527</td> </tr> <tr> <td>Projected outturn</td> <td>204,283</td> </tr> <tr> <td>Projected underspend</td> <td>(244)</td> </tr> </tbody> </table>	Measure (as at December 2016)	Value £'000	Net controllable budget	204,527	Projected outturn	204,283	Projected underspend	(244)	<p>CIPFA Code of Practice 2016/17 (the Code)</p> <p>Changes to the Code in 2016/17 reflect aims of the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.</p> <p>The changes affect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statements, segmental reporting disclosures and a new Expenditure and Funding Analysis note has been introduced. The Code also requires these amendments to be reflected in the 2015/16 comparatives by way of a prior period adjustment.</p> <p>Earlier closedown</p> <p>The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year.</p> <p>For the 2016/17 financial statements, we are working with the Council's accounts closedown team to achieve a deadline of 31 March 2017 for unaudited accounts, and an audit completion deadline of 31 July 2017, (albeit acknowledging that the accounts themselves will not be approved and signed until the Audit Committee have met in September). This should stand us in good stead to meet next year's deadline of 31 July 2018.</p>
Measure (as at December 2016)	Value £'000									
Net controllable budget	204,527									
Projected outturn	204,283									
Projected underspend	(244)									

Our response

- We will consider your arrangements for managing your financial resources as part of the value for money conclusion audit. We will consider the impact of adult social care costs and the wider health economies finances on the Council.
- We will discuss with you your progress in implementing the HNA requirements and in the closure of ip&e, highlighting any areas of good practice or concern which we have identified.
- We aim to complete all our substantive audit work of your financial statements by 31 July 2017. Please note this will be dependent upon the timely receipt of all required supporting documentation.
- We will consider whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Council. In line with previous years, we have calculated financial statements materiality based on a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £10,409k (being 1.75% of gross revenue expenditure). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £520k.

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

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of senior manager salaries and allowances in the remuneration report.	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20k
Disclosures of transactions with related parties.	Due to public interest in these disclosures and the statutory requirement for them to be made. Related party transactions have to be disclosed if they are material to the Council or the related party.	£20k, although any errors identified by testing will be assessed individually, with due regard being given to the materiality of the other party.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Audit procedures
<p>The revenue cycle includes fraudulent transactions</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 188</p>	<p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Work planned:</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Shropshire Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> ▪ there is little incentive to manipulate revenue recognition ▪ opportunities to manipulate revenue recognition are very limited ▪ The culture and ethical frameworks of local authorities, including Shropshire Council, mean that all forms of fraud are seen as unacceptable <p>Therefore, we do not consider this to be a significant risk for Shropshire Council.</p>
<p>Management over-ride of controls</p>	<p>Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of journal entry process. <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation [Modify for work to be completed] • Review of unusual significant transactions

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

Significant risks identified (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to date and the work we plan to address these risks.

Significant risk	Description	Audit procedures
Valuation of property, plant and equipment	<p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>Work planned:</p> <ul style="list-style-type: none"> ▪ Review of management's processes and assumptions for the calculation of the estimate. • Review of the competence, expertise and objectivity of any management experts used. • Review of the instructions issued to valuation experts and the scope of their work • Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions. • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register • Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.
Valuation of pension fund net liability	<p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>	<p>Work planned:</p> <ul style="list-style-type: none"> • We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out. • We will undertake procedures to confirm the reasonableness of the actuarial assumptions made. • We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.

Significant risks identified (continued)

Significant risk	Description	Audit procedures
<p data-bbox="72 344 445 425">Changes to the presentation of local authority financial statements</p> <p data-bbox="93 521 134 706" style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 190</p>	<p data-bbox="466 344 851 539">CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p data-bbox="466 575 851 768">The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p data-bbox="872 344 1156 368">Work completed to date:</p> <ul data-bbox="872 382 1949 572" style="list-style-type: none"> <li data-bbox="872 382 1949 439">• We have documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements. <li data-bbox="872 446 1949 504">• We have reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure. <li data-bbox="872 511 1949 568">• We have reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS). <p data-bbox="872 586 1135 611">Further work planned:</p> <ul data-bbox="872 625 2005 882" style="list-style-type: none"> <li data-bbox="872 625 2005 682">• We will test the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES. <li data-bbox="872 689 2005 746">• We will test the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger. <li data-bbox="872 753 2005 811">• We will test the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements. <li data-bbox="872 818 2005 875">• We will review the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.

Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Description of risk	Audit procedures
Operating expenses	Year end creditors and accruals are understated or not recorded in the correct period.	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have undertaken walkthrough tests to confirm operation of the controls We have documented the processes and controls in place around accounting for operating expenses <p>Further work planned:</p> <ul style="list-style-type: none"> We will test the control account reconciliations We will search for unrecorded liabilities by testing whether the cut off of post year end payments is appropriate We will verify creditors to supporting documentation and subsequent payments to ensure that creditors are correctly classified and recorded in the correct period
Employee remuneration	Employee remuneration accruals are understated	<p>Work planned:</p> <ul style="list-style-type: none"> We will document the processes and controls in place around accounting for employee remuneration We will undertake walkthrough tests to confirm the operation of the controls We will agree staff costs per the financial statements to the General Ledger and the payroll system We will undertake monthly trend analysis to gain assurance that there have been no significant omissions from staff costs recorded

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"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

Other risks identified (continued)

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

Other material balances and transactions

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

- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Capital expenditure and capital financing note
- Property, plant and equipment
- Investment property
- Leases note
- Financial instruments note
- Debtors
- Cash and cash equivalents
- Creditors
- Useable and unusable reserves
- Officers' remuneration note
- Schools balances and transactions
- Investments (long and short term)
- Borrowings and other liabilities (long and short term)
- New note disclosures
- Related party transactions note
- Housing Revenue Account and associated notes
- Collection Fund and associated notes

Group audit scope and risk assessment

In accordance with ISA (UK and Ireland) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

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

Key changes within the group:

- Services previously provided by ip&e are in the process of being brought back in house by Shropshire Council. We therefore expect there to be significantly less transactions involving this entity than in prior periods.

Audit scope:

Comprehensive – the component is of such significance to the group as a whole that an audit of the components financial statements is required

Targeted – the component is significant to the Group, audit evidence will be obtained by performing targeted audit procedures rather than a full audit

Analytical – the component is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level

Involvement in the work of component auditors

The nature, time and extent of our involvement in the work of component auditors will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of audit documentation and meeting with appropriate members of management.

Value for Money

Background

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

The National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

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

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

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

Value for Money (continued)

Risk assessment

We have carried out an initial risk assessment based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we considered:

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

We have identified significant risks which we are required to communicate to you. These are set out overleaf.

Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter. We will issue a separate report in respect of VfM.

We will include our conclusion in our auditor's report on your financial statements which we will give by 30 September 2017.

Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
<p>Financial resilience over the medium to long term</p> <p>Despite opting to increase Council Tax by the maximum available rate, the Council is required to identify savings to close a funding gap of some £76.5 million by 2019/20. This is in addition to a significant savings program. Achieving the required efficiencies will be extremely challenging.</p> <p>In particular, the growth in Adult Social Care and the costs of other statutory responsibilities are not affordable under the current funding model in place.</p> <p>In the short to medium term, the Council is proposing to close its forecast budget gap of £40 million to 2018/19 by fully utilising the earmarked reserves.</p> <p>There is a significant risk that the Council's financial position will impact on service delivery, both statutory and non-statutory in future years.</p> <p>We also note that the health economy has a significant deficit and has not made significant progress in delivering service reconfiguration.</p>	<p>This links to the Council's arrangements for sustainable resource deployment by planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</p> <p>This links to the Council's arrangements for informed decision making, understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management.</p>	<p>We will review the Council's Medium Term Financial Strategy (MTFS) and monthly financial monitoring reports, assessing the assumptions used.</p> <p>We will consider the robustness of the Council's delivery plans and its reporting arrangements for the MTFS.</p> <p>We will consider the impact of adult social care costs and the wider health economies finances on the Council.</p>
<p>Replacement of IT infrastructure/business continuity</p> <p>Previous reviews, by external audit, internal audit and other stakeholders, have identified a requirement for the Council to design and implement a business continuity and disaster recovery strategy to mitigate the risk of a severe IT failure or damage to systems through a catastrophic event. This should be supported by a program to replace outdated IT infrastructure. Failure to achieve this represents a significant risk to the on-going functioning of the Council.</p>	<p>This links to the Council's arrangements for informed decision making, managing risks effectively and maintaining a sound system of internal control.</p> <p>This links to the Council's arrangements for sustainable resource deployment by managing and utilising assets effectively to support the delivery of strategic priorities.</p>	<p>We will review the risk assurance frameworks established by the Council in respect of IT infrastructure to establish how the Council is identifying, managing and monitoring these risks.</p> <p>We will consider the longer term IT infrastructure plans and how these are linked to supporting the long term vision of the Council in relation to service provision.</p>

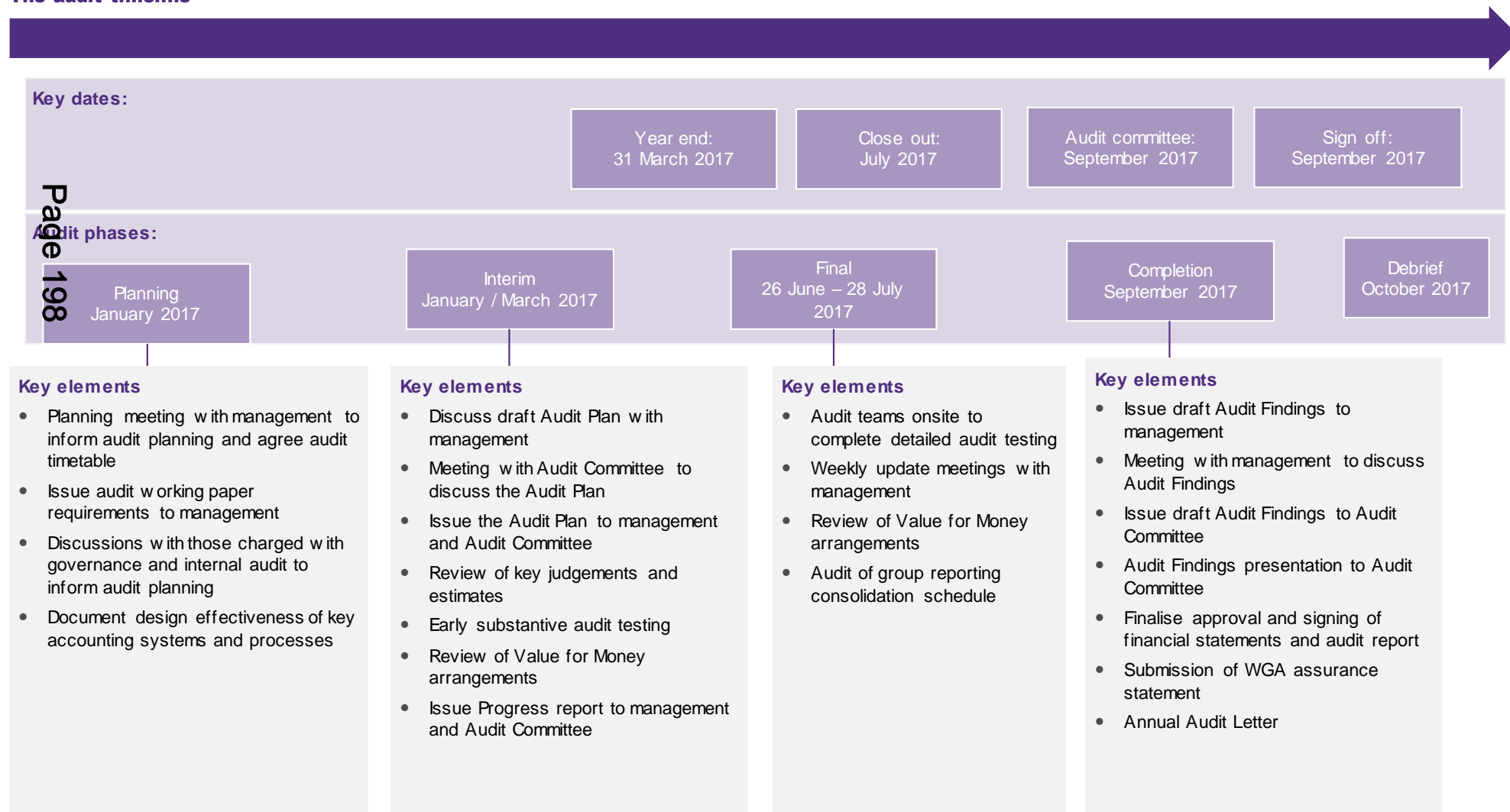
Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

- We will undertake work to satisfy ourselves that the disclosures made in your Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We consider our other duties under the Act and the Code, as and when required, including:
 - We will give electors the opportunity to raise questions about your financial statements and consider and decide upon any objections received in relation to the financial statements;
 - issue of a report in the public interest; and
 - making a written recommendation to the Council, copied to the Secretary of State
- We certify completion of our audit.

The audit cycle

The audit timeline



Audit Fees

Fees

	Proposed fee £
Council audit	133,845
Grant certification	11,505
Work to respond to a elector's objection on 2015/16 financial statements	TBC
Total audit fees (excluding VAT)	147,790

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Grant certification

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

Fees for other services

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

What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team

Independence and non-audit services

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 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.

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to Client Name. The following audit related and non-audit services were identified for the Council for 2016/17:

Fees for other services

Service	Fees £	Planned outputs
Audit related		
Audit of STAR Housing Ltd.	14,785	Opinion to be provided prior to group sign off deadline of 30 September 2017
Audit of ip&e Ltd.	TBC	Opinion to be provided prior to group sign off deadline of 30 September 2017
Tax work for ip&e Ltd.	TBC	Tax support for the submission of ip&e Ltd returns
Audit of West Mercia Energy (fee being equally split between Shropshire, Herefordshire, Telford & Wrekin and Worcestershire)	TBC	Opinion to be provided prior to group sign off deadline of 30 September 2017
Grant work outside the PSAA regime – to be confirmed	TBC	Reports to be issued as required

The amounts detailed are fees agreed to-date for audit related and non-audit services (to be) undertaken by Grant Thornton UK LLP (and Grant Thornton International Limited network member Firms) in the current financial year. Full details of all fees charged for audit and non-audit services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

The above services are consistent with the Council's policy on the allotment of non-audit work to your auditors.

Communication of audit matters with those charged with governance

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

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

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

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

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

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

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

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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

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



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Informing the audit risk assessment for Shropshire Council

Year ended 31 March 2017

February 2017

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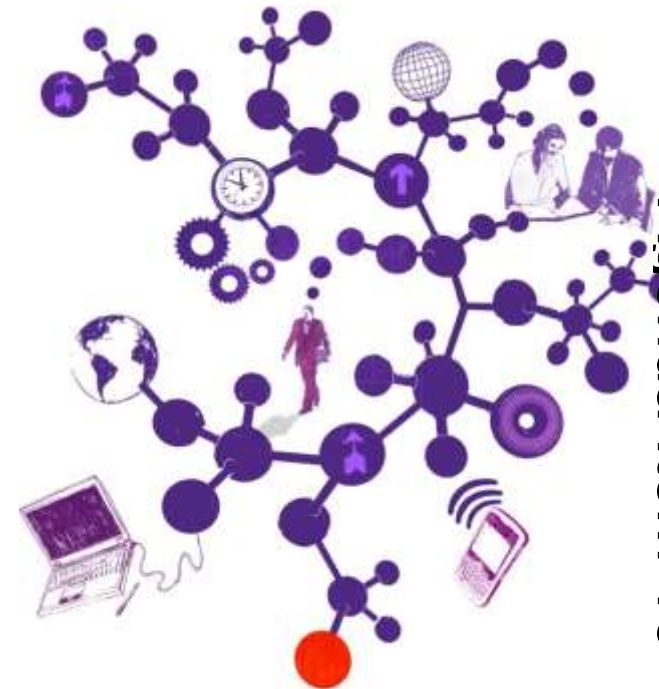
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Agenda Item 16

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

Purpose

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

Background

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

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

Communication

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

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

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

Fraud

Issue

Matters in relation to fraud

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

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

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

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

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

Fraud risk assessment

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

Fraud risk assessment

Question	Management response
Are there any areas where there is a potential for misreporting override of controls or inappropriate influence over the financial reporting process?	No, as detailed above, there are compensatory controls in place to flag any overrides of controls.
How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud? What arrangements are in place to report fraud issues and risks to the Audit Committee?	The Internal Audit Risk Based Plan is approved by Audit Committee before commencement each year. Internal Audit complete a robust review of internal controls on a risk basis and reports regularly to Audit Committee. Audit Committee are informed of the audit opinions and seek management reassurance on the improvement of controls where the consequences are considered high risk. At each meeting, Audit Committee members receive an update on instances of actual, suspected or alleged fraud investigations that have occurred since the last meeting and their outcomes.
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	The Council shares the whistleblowing policy with the public and all contractors. The terms and conditions within Council contracts also include ethical considerations for contractors and suppliers. The vision and values for the Council identify the need for staff to act with integrity in all the undertakings we make and this is tested and reviewed via team meetings and engagement surveys undertaken across the whole organisation.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	Staff are encouraged to report their concerns about fraud as set out in the Speaking up about wrongdoing (whistleblowing) policy and the Council's Counter Fraud, Bribery and Anti-Corruption Strategy.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	None identified.
Are you aware of any instances of actual, suspected or alleged, fraud within the Council as a whole since 1 April 2016?	All investigations of fraud are reported to the Audit Committee with internal audit present to consider the implications of the fraud.

Laws and regulations

Issue

Matters in relation to laws and regulations

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

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

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

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

Impact of laws and regulations

Question	Management response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	Each year the Council's corporate governance arrangements and risk management arrangements are reviewed and reported upon by Internal Audit and Risk Management teams. The Council has a robust corporate governance and risk management process in place.
How does management gain assurance that all relevant laws and regulations have been complied with?	<p>The Council has a Monitoring Officer and Section 151 Officer who provide assurance that all relevant laws and regulations have been complied with. Also all Cabinet reports now have a standard section detailing any legislative issues.</p> <p>Any non compliance is reported to management via Internal Audit reports and appropriate plans are put in place to remedy such issues.</p>
How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	All reports on the Council's corporate governance arrangements are presented to Audit Committee to provide assurance that the appropriate arrangements are in place and that they are working well.
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2016, or earlier with an on-going impact on the 2016/17 financial statements?	The Section 151 Officer is not aware of any instances of non-compliance with relevant laws and regulations in 2016/17.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	Risk management, insurance and legal work together to identify and evaluate any potential litigation or claims against the Council. Any potential liabilities are highlighted each year in the Council's Statement of Accounts.
Is there any actual or potential litigation or claims that would affect the financial statements?	The Section 151 Officer is not aware of any actual or potential litigation or claims that would affect the financial statements.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No such reports have been received.

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Going concern

Issue

Matters in relation to going concern

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

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

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

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

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

Page 21

Going concern considerations

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

Going concern considerations

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

Related parties

Issue

Matters in relation to related parties

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

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

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

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

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

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

Related party considerations

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

Estimates

Issue

Matters in relation to Accounting Estimates

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

We need to obtain an understanding of:

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

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

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

Estimate considerations

Estimate	Method	Controls used to identify estimates	Use of an expert	Underlying assumptions - Assessment of degree of uncertainty - Consideration of alternative estimates	Change in accounting method in year?
<p>Property plant & equipment valuations</p> <p style="text-align: center; font-weight: bold;">Page 217</p>	<p>Full valuation involving an inspection is carried out every 5 years. An impairment and valuation review is carried out as a desk exercise for properties not valued in the year.</p> <p>Other assets are valued on the basis of depreciated replacement cost for specialised properties where there is no market-based evidence of fair value. Depreciated historic cost is used for vehicles, plant and equipment. Historic cost is used for infrastructure, community assets and assets under construction.</p>	<p>Capital Accountant notifies the valuer of the program of rolling valuations or of any conditions that warrant an interim re-valuation.</p>	<p>Use Property Services (RICS valuer) for buildings valuations.</p>	<p>Valuations are made in-line with RICS guidance – reliance on expert. Assumptions are set out in valuer's report.</p>	<p>No</p>
<p>Depreciation & Amortisation</p>	<p>Depreciation is provided for all fixed assets with a finite useful life on a straight-line basis</p>	<p>Consistent application of depreciation method across all assets</p>	<p>No</p>	<p>The asset is not depreciated until it is available for use and each significant part of property, plant and equipment is depreciated separately. Asset lives are determined at acquisition/revaluation. Depreciation is calculated on a straight line basis. The asset lives are recorded in the asset register.</p>	<p>No</p>

Estimate considerations

Estimate	Method	Controls used to identify estimates	Use of an expert	Underlying assumptions - Assessment of degree of uncertainty - Consideration of alternative estimates	Change in accounting method in year?
Estimated remaining useful lives of PPE Page 218	The following useful lives have been used in the calculation of depreciation: <ul style="list-style-type: none"> • Council Dwelling – Major Repairs Allowance has been used as an estimate of depreciation. • Other Land and Buildings – average 10 to 60 years range. • Vehicles, Plant, Furniture & Equipment – average 5 years. • Infrastructure – average 40 years 	Specific asset lives applied to buildings. Consistent asset lives applied to each asset category.	Use Property Services (RICS valuer) for buildings valuations. Other assets considered by Property Services Manager and capital accountant	The length of the life is determined at the point of acquisition or revaluation. Major components are depreciated separately.	No

Estimate considerations

Estimate	Method	Controls used to identify estimates	Use of an expert	Underlying assumptions - Assessment of degree of uncertainty - Consideration of alternative estimates	Change in accounting method in year?
<p>Impairments</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 219</p>	<p>Assets are assessed at the year-end for any indication that an asset may be impaired. An impairment and valuation review is carried out as a desk exercise for properties not valued in the year. The impairment of Housing Revenue Account assets is subject to an annual review of value in line with the requirements of the CLG; this is based on the previous December's house price statistics published by ONS. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall</p>	<p>Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.</p> <p>This assessment is made by the internal valuer for land and buildings and by Property Services Manager and capital accountant (and other relevant officers for the asset type) for other assets</p>	<p>Use Property Services (RICS valuer) for buildings valuations.</p>	<p>Valuations are made in-line with RICS guidance.</p>	<p>No</p>
<p>Bad Debt Provision.</p>	<p>A provision is estimated using a proportion basis of an aged debt listing.</p>	<p>The finance team obtain the aged debt listings for the sales ledger and the aged debt lists for Council Tax, HRA rents and business rates to calculate the provision.</p>	<p>No</p>	<p>Consistent proportion used across aged debt as per the Code.</p>	<p>No</p>

Estimate considerations

Estimate	Method	Controls used to identify estimates	Use of an expert	Underlying assumptions - Assessment of degree of uncertainty - Consideration of alternative estimates	Change in accounting method in year?
Accruals Page 220	Finance team collate accruals of expenditure and income. Activity is accounted for in the financial year that it takes place, not when money is paid or received.	Review financial systems and question service managers to identify where goods have been received but not paid for.	No	Accruals for income and expenditure often based on known values. Where accruals are estimated the latest available information is used.	No
Provisions for liabilities.	Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. Provisions are charged as an expense to the appropriate service line in the CI&ES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties	Charged in the year that the Council becomes aware of the obligation.	No	Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Council	No

Estimate considerations

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



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Audit Committee Update for Shropshire Council

Progress Report and Update Year ended 31 March 2017

February 2017

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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.grant-thornton.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/>

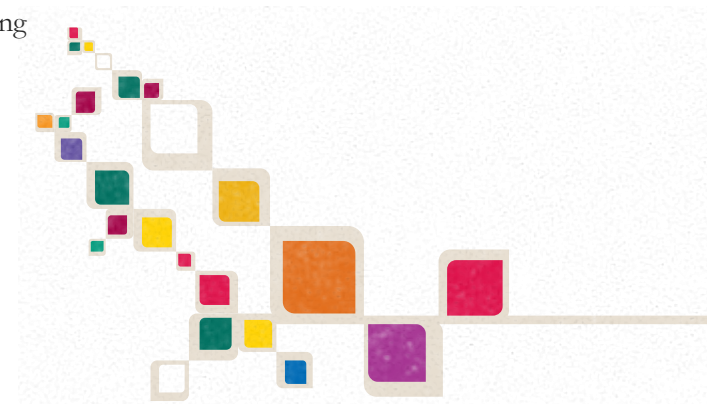
If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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



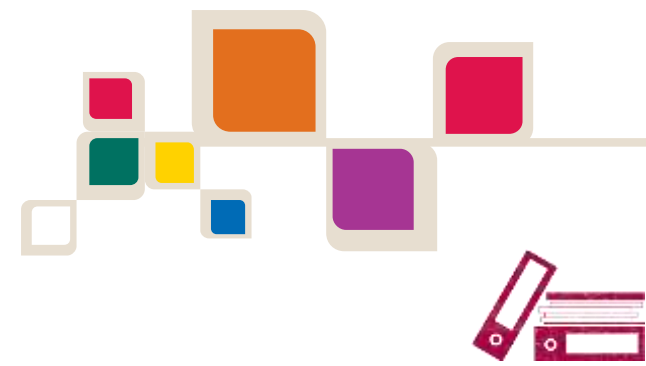
Progress against plan

On track



Opinion and VfM conclusion

Plan to give before deadline of 30 September 2017



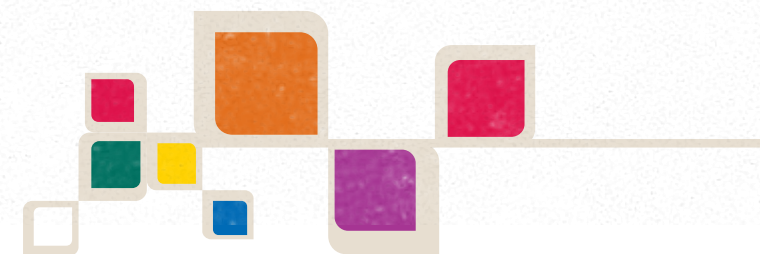
Outputs delivered

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

Page 225

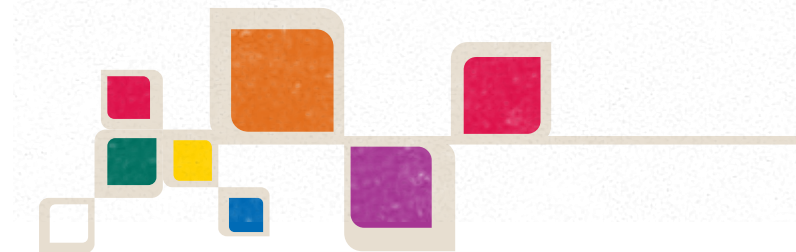
2016/17 work	Planned Date	Complete?	Comments
<p>Fee Letter</p> <p>We are required to issue a 'Planned fee letter' for 2016/17 to the Council by the end of April 2016.</p>	April 2016	Yes	The 2016/17 fee letter was issued in April 2016
<p>Accounts Audit Plan</p> <p>We are required to issue a detailed accounts 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	Yes	<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>Interim accounts audit</p> <p>Our interim fieldwork visits covers work on the Council's arrangements, including:</p> <ul style="list-style-type: none"> • updating our review of the control environments • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing. 	January – April 2017	Not started	<p>We have:</p> <ul style="list-style-type: none"> • engaged with the finance team to further streamline and improve the audit approach for 2016/17 where possible. • discussed emerging technical issues early. • followed up progress on recommendations made in 2015/16. • undertaken as much early testing as possible. This work will continue until April 2017. <p>We continue to work closely with Internal Audit in relation to risk, work on the financial statements and fraud.</p>

Progress to date



2016/17 work	Planned Date	Complete?	Comments
Final accounts audit			
Covering the Council's group financial statements, we will: <ul style="list-style-type: none"> audit the 2016/17 financial statements proposed opinion on the 2016/17 financial statements 	June – July 2017	Not started	
Value for Money (VfM) conclusion			
<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"> Informed decision making Sustainable resource deployment Working with partners and other third parties 	February – July 2017	In progress	<p>We have considered the potential significant risks for our VfM conclusion and identified the following issues as reported in the Audit Plan.</p> <ul style="list-style-type: none"> Financial resilience over the medium to long term – the Council requires savings to close a funding gap of £76.5 million by 2019/20. This is in addition to a significant savings program. Achieving the required efficiencies will be extremely challenging. In the short to medium term, the Council is proposing to close its forecast budget gap of £40 million to 2018/19 by fully utilising the earmarked reserves. There is a significant risk that the Council's financial position will impact on service delivery, both statutory and non-statutory in future years. Replacement of IT infrastructure / business continuity – the Council is aware of the requirement to design and implement a business continuity and disaster recovery strategy to mitigate the risk of a severe IT failure or damage to systems through a catastrophic event. This should be supported by a program to replace outdated IT infrastructure. Failure to achieve this represents a significant risk to the on-going functioning of the Council. <p>Our work on the VfM Conclusion will include attending meeting with key Senior Officers and key document reviews. We are aiming to deliver this work ahead of the national timescales as a move towards the faster close from 2017.</p> <p>As part of this work we will also follow up progress against last year's issues.</p>

Progress to date



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

Technical Matters

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Highways network asset accounting update

On 14 November CIPFA/LASAAC announced a deferral of the move to measuring the Highways Network Asset ('HNA') at depreciated replacement cost in local authority financial statements for 2016/17. This is due to delays in obtaining updated central rates information that was required for the valuations.

CIPFA/LASAAC will issue an Update to the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom to confirm this decision once it has completed the full due process before publication. CIPFA/LASAAC will review this position at its meeting in March 2017 with a view to implementation in 2017/18 and will consider whether central rates and the central assurance processes will be delivered in a timely manner to allow successful implementation. It expects that the 2017/18 Code will be on the same basis as planned for 2016/17, i.e. not requiring restatement of preceding year information.

In August, CIPFA published the 'Code of Practice on the Highways Network Asset (2016 Edition)' and additional guidance to aid the implementation process.

Telling the story – Changes in 2016/17 CIPFA Code

CIPFA has been working on the 'Telling the Story' project, which aims to streamline the financial statements and improve accessibility to the user. This has resulted in changes to CIPFA's 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

The main changes affect the presentation of the Comprehensive Income and Expenditure Statement ('CIES'), the Movement in Reserves Statement ('MIRS') and segmental reporting disclosures. A new Expenditure and Funding Analysis has been introduced.

The key changes are:

- the cost of services in the CIES is to be reported on basis of the local authority's organisational structure rather than the Service Reporting Code of Practice (SERCOP) headings
- an 'Expenditure & Funding Analysis' note to the financial statements provides a reconciliation between the way local authorities are funded and the accounting measures of financial performance in the CIES
- the changes will remove some of the complexities of the current segmental note
- other changes to streamline the current MIRS providing options to report Total Comprehensive Income and Expenditure (previously shown as Surplus and Deficit on the Provision of Services and Other Comprehensive Income and Expenditure lines) and removal of earmarked reserves columns.

Other amendments have been made to the Code:

- changes to reporting by pension funds in relation to the format and fair value disclosure requirements to reflect changes to the Pensions SORP
- other amendments and clarifications to reflect changes in the accounting standards.

Delivering Good Governance

In April, CIPFA and SOLACE published 'Delivering Good Governance in Local Government: Framework (2016)' and this applies to annual governance statements prepared for the 2016/17 financial year.

The key focus of the framework is on sustainability – economic, social and environmental – and the need to focus on the longer term and the impact actions may have on future generations.

Local authorities should be:

- reviewing existing governance arrangements against the principles set out in the Framework
- developing and maintaining an up-to-date local code of governance, including arrangements for ensuring on-going effectiveness
- reporting publicly on compliance with their own code on an annual basis and on how they have monitored the effectiveness of their governance arrangements in the year and on planned changes.

The framework applies to all parts of local government and its partnerships and should be applied using the spirit and ethos of the Framework rather than just rules and procedures.

Sector issues and developments

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National Audit Office reports

Below is a selection of reports issued during 2016 which may be of interest to Audit Committee members. Please see the website for all reports issued by the NAO.



Overview: Local government

This Overview looks at the local government landscape during the last financial year and summarises both matters of likely interest to Parliament as well as our work with local authorities. The NAO prepares statutory guidance on how local auditors should meet their responsibilities.

Sector(s): [Local services](#)

Performance Improvement area(s): [Departmental Overviews](#), [Local service delivery](#)

Published:
9 Nov 2016

<https://www.nao.org.uk/report/overview-local-government/>



The Troubled Families programme: update

This report is a factual update to support the Committee of Public Accounts' evidence session on the government's Troubled Families programme on 19 October 2016. It is based primarily on published sources, information supplied by the Department for Communities and Local Government and previous reports published by the National Audit Office.

Sector(s): [Community and society](#), [Local services](#)

Published:
18 Oct 2016

<https://www.nao.org.uk/report/the-troubled-families-programme-update/>

Local Government Association

Below is a selection of reports issued recently which may be of interest to audit committee members. These are available on the website:

<http://www.local.gov.uk/publications>



Provisional LG Finance Settlement for 2017/18

12 January 2017

The LGA has published its responses to the DCLG consultation on proposals for the local government finance settlement for 2017 to 2018 and for the approach to future local government finance settlements.

<http://www.local.gov.uk/documents/10180/8150261/Local+Government+Finance+Settlement+1718+LGA+response.pdf/dd8d32e1-ec9f-4314-8121-7aae2195f89f>



A councillor's workbook on neighbourhood and community engagement

11 January 2017

Neighbourhood and community engagement has a rightful place as one of the key processes involved in planning and decision making. As such, it should not be viewed as an additional task, but as a core part of the business



Building our homes, communities and future: The LGA housing commission final report

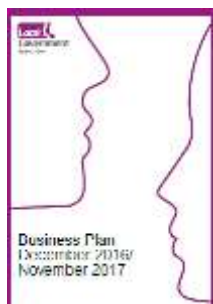
22 December 2016

The Local Government Association (LGA) Housing Commission was established to help councils deliver their ambition for places. It has been supported by a panel of advisers and has engaged with over 100 partners; hearing from councils, developers, charities, health partners, and many others. All partners agree that there is no silver bullet, and all emphasise the pivotal role of councils in helping provide strong leadership, collaborative working, and longer-term certainty for places and the people that live there.

Local Government Association

Below is a selection of reports issued recently which may be of interest to audit committee members. These are available on the LGA website:

<http://www.local.gov.uk/publications>



Business Plan December 2016/November 2017

30 December 2016

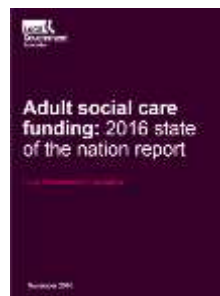
Britain's exit from the EU means that we are reshaping the way our country is run. Our vision is one of a rejuvenated local democracy, where power from Westminster and from the EU is significantly devolved to local level and citizens feel they have a meaningful vote and real reason to participate in civic life and their communities.



Stronger together: shared management in local government

29 November 2016

Around 45 councils across England share a chief executive and senior management team in about 20 different partnerships. Most also share at least some services. These councils have already delivered savings of at least £60 million through greater efficiencies and the other benefits of collaboration, with more savings planned



Adult social care funding: 2016 state of the nation report

2 November 2016

Adult social care is an absolutely vital public service that supports some of our most vulnerable people and promotes the wellbeing and independence of many more

Grant Thornton

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Integrated Reporting

Looking beyond the report

The move away from reporting based on historic financial information is beginning to gain momentum and Integrated Reporting is now mandatory in some countries.

In the UK, CIPFA proposed in their consultation document that the narrative report from 2017/18 reflects elements of the International Integrated Reporting Council's framework whilst the Treasury is encouraging public sector organisations to adopt Integrated Reporting.

Integrated reporting: Looking beyond the report was produced by our global Integrated Reporting team, based in the UK, New Zealand and South Africa, to help organisations obtain the benefits of Integrated Reporting.

The International Integrated Reporting Council (IIRC) describes Integrated Reporting as *"enhancing the way organisations think, plan and report the story of their business."*

At Grant Thornton, we fully agree with this and, in our view, the key word is 'enhancing' because a lot of the elements to support effective Integrated Reporting are likely to be in place already.

But anyone focussing purely on the production of the report itself will not reap the full benefits that effective Integrated Reporting can offer.

Instead, think of Integrated Reporting as demonstrating "integrated thinking" across your entire organisation, with the actual report being an essential element of it.

Our methodology is based on six modules which are designed to be independent of each other.

1. **Secure support** – effective Integrated Reporting needs leadership from the top.
2. **Identify stakeholders** – who are they and how can you engage with them?
3. **Identify the capitals for your organisation** – what resources do you use to create value?
4. **What do you have – and what do you need?** – do you have the data you need and is it accurate?
5. **Set limits and create boundaries** – make sure your report is focussed.
6. **Review and improve** – Integrated Reporting is a continuous learning process.

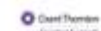
Our approach to Integrated Reporting is deliberately simple; experience has shown us that this works best. Things are often only complicated because people made them that way.

Our experienced, independent teams can help you keep focused throughout the entire Integrated Reporting process and can support you, no matter what stage you are at. Please speak to your Engagement Lead if you would like to discuss this further.

Grant Thornton publications

Challenge question:

- Have you thought about how the principles of Integrated Reporting can help your organisation become more focussed?



Integrated reporting
Looking beyond the report



Integrated Thinking and Reporting

Focusing on value creation in the public sector

Grant Thornton has seconded staff to the International Integrated Reporting Council on a pro bono basis for a number of years.

They have been working on making the principles of Integrated Reporting <IR> relevant to the public sector and co-authored a recent report by CIPFA and the World Bank: *Integrated thinking and reporting: focusing on value creation in the public sector - an introduction for leaders*.

Around one third of global gross domestic product (GDP) is made up by the public sector and this is being invested in ensuring there is effective infrastructure, good educational opportunities and reliable health care. In many ways, it is this investment by the public sector that is helping to create the conditions for wealth creation and preparing the way for the success of this and future generations.

Traditional reporting frameworks, focussed only on historic financial information, are not fit-for-purpose for modern, multi-dimensional public sector organisations.

Integrated Reporting supports sustainable development and financial stability and enables public sector organisations to broaden the conversation about the services they provide and the value they create.

The public sector faces multiple challenges, including:

- Serving and being accountable to a wide stakeholder base;
- Providing integrated services with sustainable outcomes;
- Maintaining a longer-term perspective, whilst delivering in the short term; and
- Demonstrating the sustainable value of services provided beyond the financial.

The <IR> Framework is principle based and enables organisations to tailor their reporting to reflect their own thinking and strategies and to demonstrate they are delivering the outcomes they were aiming for.

Integrated Reporting can help public sector organisations deal with the above challenges by:

- Addressing diverse and often conflicting public accountability requirements;
- Focussing on the internal and external consequences of an organisation's activities;
- Looking beyond the 'now' to the 'near' and then the 'far';
- Considering the resources used other than just the financial.

The report includes examples of how organisations have benefitted from Integrated Reporting.

CIPFA Publications

Challenge question:

- Have you reviewed the CIPFA guide to Integrated Reporting in the public sector?



Apprentice Levy-Are you prepared?

Grant Thornton update

What is the levy?

The UK has been struggling on productivity, now estimated to be 20% behind the G7 average. Developing apprenticeships is set to play a key part in tackling this and bridging the skills gap.

Announced by government in July 2015, the levy is to encourage employers to offer apprenticeships in meeting their skill, workforce and training needs, developing talent internally. The levy is designed to give more control to employers, through direct access to training funds and creation of apprenticeships through the Trailblazer process.

What is the levy?

From April 2017, the way the government funds apprenticeships in England is changing. Some employers will be required to pay a new apprenticeship levy, and there will be changes to the funding for apprenticeship training for all employers.

All employers will receive an allowance of £15,000 to offset against payment of the levy. This effectively means that the levy will only be payable on paybill in excess of £3 million per year.

The levy will be payable through Pay As You Earn (PAYE) and will be payable alongside income tax and National Insurance.

Each employer will receive one allowance to offset against their levy payment. There will be a connected persons rule, similar the Employment Allowance connected persons rule, so employers who operate multiple payrolls will only be able to claim one allowance.

Employers in England are also able to get 'more out than they put in', through an additional government top-up of 10% to their levy contribution.

When employers want to spend above their total levy amount, government will fund 90% of the cost for training and assessment within the funding bands.

The existing funding model will continue until the levy comes into effect May 2017. The levy will apply to employers across all sectors.

Paybill will be calculated based on total employee earnings subject to Class 1 National Insurance Contributions. It will not include other payments such as benefits in kind. It will apply to total employee earnings in respect of all employees.

What will the levy mean in practice

Employer of 250 employees, each with a gross salary of £20,000:

Paybill: $250 \times £20,000 = £5,000,000$

Levy sum: $0.5\% \times = £25,000$

Allowance: $£25,000 - £15,000 = £10,000$ annual levy

How can I spend my levy funds?

The funding can only be used to fund training and assessment under approved apprenticeship schemes. It cannot be used on other costs associated with apprentices, including wages and remuneration, or training spend for the wider-team.

Through the Digital Apprenticeship Service (DAS), set up by government, employers will have access to their funding in the form of digital vouchers to spend on training.

Training can be designed to suit the needs of your organisation and the requirements of the individual in that role, in addition to specified training for that apprenticeship. Training providers must all be registered with the Skills Funding Agency (SFA).

What do I need to start thinking about now?

- How much is the levy going to cost and have we budgeted for it?
- How do we ensure compliance with the new system?
- Which parts of my current spend on training are applicable to apprenticeships?
- Are there opportunities to mitigate additional cost presented by the levy?
- How is training in my organisation structured?
- How do we develop and align to our workforce development strategy?

Off-payroll working in the public sector

The Chancellor's Autumn Statement 2016 speech delivered a number of changes that will impact the UK business environment and raise considerations for you as an employer.

In particular, the Chancellor announced that the measures that were proposed in Budget 2016 that could affect services supplied through personal service companies (PSCs) to the public sector will be implemented.

At present, the so-called IR35 rules require the worker to decide whether PAYE and NIC are due on the payments made by a PSC following an engagement with a public sector body. The onus will be moved to the payer from April 2017. This might be the public sector body itself, but is more likely to be an intermediary, or, if there is a supply chain, to the party closest to the PSC.

The public sector body (or the party closest to the PSC) will need to account for the tax and NIC and include details in their RTI submission.

The existing IR35 rules will continue outside of public sector engagements.

HMRC Digital Tool – will aid with determining whether or not the intermediary rules apply to ensure of “*consistency, certainty and simplicity*”

When the proposals were originally made, the public sector was defined as those bodies that are subject to the Freedom of Information rules. It is not known at present whether this will be the final definition. Establishing what bodies are caught is likely to be difficult however the public sector is defined.

A further change will be that the 5% tax free allowance that is given to PSCs will be removed for those providing services to the public sector.

Impact

- Increased costs
- Responsibility moved to the engager
- Increased risks for the engager
- Consider current arrangements in place

Areas / risks to consider

- Interim and / or temporary staff engaged through an intermediary or PSC
- Where using agencies ensure they're UK based and operating PAYE
- Update on-boarding / procurement systems, processes and controls
- Additional take on checks and staff training / communications
- Review of existing PSC contractor population before April 2017
- Consider moving long term engagements onto payroll
-

Salary Sacrifice Arrangements-Autumn Statement

The Chancellor's Autumn Statement 2016 speech delivered a number of changes that will impact the UK business environment and raise considerations for you as an employer.

In particular, the proposals from earlier this year to limit the tax and NIC advantages from salary sacrifice arrangements in conjunction with benefits will be implemented from April 2017.

Although we await the details, it appears that there is a partial concession to calls made by Grant Thornton UK and others to exempt the provision of cars from the new rules (to protect the car industry). Therefore, the changes will apply to all benefits other than pensions (including advice), childcare, Cycle to Work schemes and ultra-low emission cars.

Arrangements in place before April 2017 for cars, accommodation and school fees will be protected until April 2021, with others being protected until April 2018.

These changes will be implemented from April 2017.

As you can see, there is a limited opportunity to continue with salary sacrifice arrangements and a need also to consider the choice between keeping such arrangements in place – which may still be beneficial – or withdrawing from them

What should you be thinking about?

- Review the benefits you offer - particularly if you have a flex renewal coming up
- Consider your overall Reward and Benefit strategy
- Consider your Employee communications

Brexit

Planning can help organisations reduce the impact of Brexit

Several months have passed since the referendum to leave the European Union (EU), during which there has been a flurry of political activity, including the party conference season.

After many years of relative stability, organisations will need to prepare themselves for a period of uncertainty and volatility and will need to keep their risk registers under constant review. The outcome of the US Presidential election in November 2016 has added to this uncertainty.

The High Court ruling that Parliament should have a say before the UK invokes Article 50 of the Lisbon Treaty – which triggers up to two years of formal EU withdrawal talks – will not, in our view, impact on the final outcome. There appears to be a general political consensus that Brexit does mean Brexit, but we feel there could be slippage beyond the original timetable which expected to see the UK leave the EU by March 2019.

2017 elections in The Netherlands (March), France (April/May), and Germany (October/November) will complicate the Brexit negotiation process and timeline at a time when Brexit is more important for the UK than it is for the remaining 27 Member States

The question still remains, what does Brexit look like?

While there may be acceptance among politicians that the UK is leaving the EU, there is far from any agreement on what our future relationship with the continent should be.

So, what do we expect based on what has happened so far?

Existing EU legislation will remain in force

We expect that the Government will introduce a “Repeal Act” (repealing the European Communities Act of 1972 that brought us into the EU) in early 2017.

As well as undoing our EU membership, this will transpose existing EU regulations and legislation into UK law. We welcome this recognition of the fact that so much of UK law is based on EU rules and that trying to unpick these would not only take many years but also create additional uncertainty.

Taking back control is a priority

It appears that the top priority for government is 'taking back control', specifically of the UK's borders. Ministers have set out proposals ranging from reducing our dependence on foreign doctors or cutting overseas student numbers. The theme is clear: net migration must fall.

Grant Thornton update

Challenge question:

- Have you assessed the potential impact of Brexit on your organisation?

Leaving the Single Market appears likely

The tone and substance of Government speeches on Brexit, coupled with the wish for tighter controls on immigration and regulation, suggest a future where the UK enjoys a much more detached relationship with the EU.

Potential existing examples for the UK's future relationship, such as the 'Norwegian' or 'Swiss' models, seem out of the question. The UK wants a 'bespoke deal'. Given the rhetoric coming from Europe, our view is that this would signal an end to the UK's membership of the Single Market. With seemingly no appetite to amend the four key freedoms required for membership, the UK appears headed for a so-called 'Hard Brexit'. It is possible that the UK will seek a transitional arrangement, to give time to negotiate the details of our future trading relationship.

Brexit

This is of course, all subject to change, and, politics, especially at the moment, moves quickly.

Where does this leave the public sector?

After a relatively stable summer, we expect there will be increased volatility as uncertainty grows approaching the formal negotiation period.

Page 243 Planning can help organisations reduce the impact of Brexit

The chancellor has acknowledged the effect this may have on investment and signalled his intention to support the economy, delaying plans to get the public finances into surplus by 2019/20.

We expect that there will be some additional government investment in 2017, with housing and infrastructure being the most likely candidates.

Clarity is a long way off. However, public sector organisations should be planning now for making a success of a hard Brexit, with a focus on:

Staffing – organisations should begin preparing for possible restrictions on their ability to recruit migrant workers and also recognise that the UK may be a less attractive place for them to live and work. Non-UK employees might benefit from a degree of reassurance as our expectation is that those already here will be allowed to stay. Employees on short term or rolling contracts might find it more difficult to stay over time.

Financial viability – public sector bodies should plan how they will overcome any potential shortfalls in funding (e.g. grants, research funding or reduced student numbers).

Market volatility – for example pension fund and charitable funds investments and future treasury management considerations.

International collaboration – perhaps a joint venture or PPP scheme with an overseas organisation or linked research projects.

Grant Thornton update

Challenge question:

- Does your risk register include Brexit and is this regularly updated and reported?

For regular updates on Brexit, please see our website:

<http://www.grantthornton.co.uk/en/insights/brexit-planning-the-future-shaping-the-debate/>



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