



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

Date: 30 August 2017
My Ref:
Your Ref:

**Committee:
Audit Committee**

Date: Thursday, 7 September 2017
Time: 1.30 pm
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

Peter Adams (Chairman)
Ioan Jones
Chris Mellings

Brian Williams (Vice Chairman)
Michael Wood

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 29 June 2017 (Pages 1 - 12)

The Minutes of the meeting held on the 29 June 2017 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: Information Technology update

The report of the Head of Human Resources and Development is to follow.

Contact: Michele Leith 01743 254402

6 Management Report: Assurance feedback on the Adult Services Peer Review

The report of the Director of Adult Services is to follow.

Contact: Andy Begley (01743) 258911

7 Management Report: Programme controls and risks

The report of the Director of Place and Enterprise is to follow.

Contact: George Candler 01743 258671

8 Management Report: Housing Benefit Overpayment Performance Monitoring (Pages 13 - 20)

The report of the Revenues and Benefits Service Manager is attached, marked 8.

Contact Phil Weir 01743 256113

9 Audited Annual Statement of Accounts 2016/17

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

Contact: James Walton 01743 258915

10 Annual Treasury Report 2016/17 (Pages 21 - 34)

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

Contact: James Walton 01743 258915

11 Management Report: Risk and Insurance Annual Report 2016/17 (Pages 35 - 48)

The report of the Risk and Insurance Manager is attached, marked 11.

Contact: Angela Beechey 01743 252073

12 Management Report: Strategic Risks Update (Pages 49 - 54)

The report of the Risk and Insurance Manager is attached, marked 12.

Contact: Angela Beechey 01743 252073

13 Internal Audit Performance Report and revised Annual Audit Plan 2017/18 (Pages 55 - 70)

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

Contact: Ceri Pilawski 01743 257739

14 External Audit: Shropshire Council Audit Findings 2016/17

The report of the Engagement Lead is to follow.

Contact: Mark Stocks (0121) 232 5437

15 External Audit: Shropshire County Pension Fund Audit Findings Report 2016/17 (Pages 71 - 94)

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

Contact: Mark Stocks (0121) 232 5437

16 External Audit: Audit Committee update (Pages 95 - 104)

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

Contact: Mark Stocks (0121) 232 5437

17 Date and Time of Next Meeting

The next meeting of the Audit Committee will be held on the 30 November 2017 at 1.30 pm in the Shrewsbury Room.

18 Exclusion of Press and Public

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

19 Fraud and Special Investigation Update September 2017 (Exempted by Categories 2, 3 and 7) (Pages 105 - 110)

The report of the Principal Auditor is attached, marked 19.
Contact: Barry Hanson (01743) 257737



Committee and Date

Audit Committee

INSERT NEXT MEETING DATE

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 29 JUNE 2017 9.30 AM - 12.50 PM

Responsible Officer: Julie Fildes

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

Present

Councillor Peter Adams (Chairman)

Councillors Ioan Jones, Chris Mellings, Brian Williams (Vice Chairman) and Michael Wood

5 Apologies for Absence / Notification of Substitutes

5.1 No apologies for absence were received.

6 Disclosable Pecuniary Interests

6.1 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.

7 Minutes of the previous meetings held on the 22 February 2017 and 18 May 2017

7.1 RESOLVED:

That the minutes of the meetings held on 22 February 2017 and 18th May 2017 be approved and signed by the Chairman as a correct record.

8 Public Questions

8.1 Members noted that a public question had been received, regarding an objection to the accounts. This matter had previously been dealt with by the Council's auditors, no further action or correspondence would be entered into. The matter was considered to be closed.

9 Management Report: Digital Transformation Programme update

9.1 The Head of Human Resources and Development as Senior Responsible Officer [SRO] for the programme gave Members a presentation on the Digital Transformation Programme – copy attached to the signed minutes. She explained that she had responsibility for the strategic management of the project and the Communications and Technology Manager had responsibility for the day to day

management of it. Members noted that although many of the key officers involved in the project were based in the IT Service, the project went beyond IT. In response to a Member's query, the Head of Human Resources and Development explained that culture change was broader than Digital Transformation; that the programme for culture change encompassed DTP, Commercialism, Mobile and Agile working and Customer Experience interactions.

- 9.2 Members noted the Business Case which had been confirmed by Full Council and considered the sample Terms of Reference.
- 9.3 Members considered the chart showing the Proposed Programme Management Structure. They noted that there was an overarching Digital Transformation Board with a Programme Manager for each strand of the programme. Three discrete Project Boards had been established, each of which had a Senior Responsible Officer and a Project Manager working with the Project Team. The Infrastructure and Architecture Project Board supported the three Project Boards. In turn all of these were supported by the Project Assurance Team which included support from ICT, audit, and information Governance. Members noted that during the Design Phase the organisation would specify the systems which were required and consideration would be given to how these integrated with other Council systems. Once the Design Phase was completed there would be a better understanding of the Council's requirements.
- 9.4 Members discussed the role of internal audit and it was confirmed that Audit and Finance was involved throughout the process at every level.
- 9.5 Replying to a Members query regarding sharing health data with other organisations, the Head of Human Resources and Development explained that the new system was capable of integration and we are working closely with health in this respect however, there were a number of issues in achieving this not least the legal restrictions around data sharing and IT.
- 9.6 The Head of Human Resources and Development advised that the target date for implementation was 1st April 2018. She agreed that this was a challenging target and it may be that some of the project streams may 'go live' after that date. Where this happens we would need to consider contingency arrangements around system interfaces.

9.7 **RESOLVED:**

That the report be noted and Members receive regular updates on the progress of the Digital Transformation Programme at future meetings.

10 **Annual Whistleblowing Report**

- 10.1 The Committee received the report of the Head of Human Resources and Development – copy attached to the signed Minutes – which provided Members with an update on the number of Whistleblowing cases raised regarding Council employees over the previous year (excluding school based employees).

- 10.2 The Head of Human Resources and Development reported that in 2015/16 there had been fifteen cases. Audit had initially received and investigated thirteen cases, Human Resources two.
- 10.3 As a result of investigations, one case was found to be a service complaint and was passed to the complaints team, one employee had resigned, one had been given a final written warning and one had been relocated. Seven of the cases were unfounded or vexatious. In response to a query, it was confirmed that an investigation would continue after a resignation had been received.
- 10.4 Members noted that both internal and public whistle blowing policies were readily available and could be found on the internet giving details of prescribed officers and bodies. Audit and external audit pages gave national whistle blowing links. It was also included in the staff induction programme.

10.5 RESOLVED:

That the report be noted.

11 Council Tax and NNDR Performance Report Monitoring

- 11.1 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 income for the year to 31 March 2017, and progress on the year to 31 March 2018.
- 11.2 The Revenues and Benefits Service Manager reported that the final collection rate for council tax for 2016-17 was £161,534,025 or 98.4%, which compared to the previous year's collection rate of 98.4% (£153,091,967), an increase of £8,442,058. It also compared favourably to the national collection rate for 2015/16 of 97.1%.
- 11.3 In the year to 6 June 2016, 25.2% of council tax had been collected compared to 25.2% for the equivalent period in the previous year. The total arrears for council tax as at 31 March 2017 stood at £9.9m but by 1 June 2017 this had reduced to £9.2m.
- 11.4 In respect of Business Rates (NNDR), the Revenues and Benefits Service Manager stated that £79,748,300 or 99.8% had been collected between 1 April 2016 and 31 March 2017, the previous year's collection rate had been 99.1% with £78,124,707 received. Members' attention was drawn to the National Statistics for 2015-16, which showed that the national average collection rate was 98.2%.
- 11.5 In the year to 5 June 2017, 28.7% of business rates debt had been collected, which compared favourably to 27.9% for the equivalent period in the previous year.
- 11.6 In response to a query about the Governments rebanding of properties, the Revenues and Benefits Service Manager commented that he had not analysed the movement of properties between the bands, although he anticipated that the majority would be in the medium bands.
- 11.7 The Revenues and Benefits Service Manager answered a number of queries from Members of the Committee in relation to arrears and interaction with debtors. He confirmed that the Council would pursue debtors using an Enforcement Agency and through the courts for non-payment, although it was a long-winded process and all efforts were made to prevent the

situation getting to this stage. He confirmed that once a debt was written off, the loss was borne by the Council.

11.8 RESOLVED:

That the report be noted.

12 Financial Outturn Report 2016/17

12.1 The Finance Governance and Assurance [Section 151] Officer presented the revised Financial Outturn 2016/17 report, copy attached to the signed minutes. Members noted that during the completion of the draft Statement of Accounts a minor error had been identified. Although the error had no material impact on the final Financial Outturn position of £0.129m, for the sake of accuracy and to maintain correct unambiguous records, Cabinet had received a revised Financial Outturn Report.

12.2 Members noted that the report set out the final financial position for 2016/17 and showed a slight underspend on the Revenue Account and an underachievement in the Capital Programme. The Finance and Governance Assurance [Section 151] Officer observed that previously Revenue and Capital outturns were detailed in two separate reports but these had been combined into one report.

12.3 Members considered table 1 on page 3 of the report, which set out the revised budget, controllable outturn and controllable under/over spend for each Service Area. All Service Areas apart from Children's Services achieved an underspend. Despite this the outturn position improved by £0.670m since Quarter 3.

12.4 Members noted that the General Fund Balance at 31st March 2017 was £14,689,000, which was above the anticipated level. The Finance Governance and Assurance [Section 151] Officer explained that significant levels of savings were required by the Budget Strategy 2017/18 and in future years, he made clear that there was insufficient funding to provide additional contributions into the General Fund Balance to ensure that the Council achieved the risk based target in 2017/18 and the following two years. He continued that it was important to closely monitor the potential gap between the Risk Based target and General Fund Balance. Should it become apparent that the projected balance was insufficient, this would be reported to Cabinet.

12.5 Members discussed the remodelling of Children's Services costs and the reasons why anticipated savings were not achieved. Members noted that in this Service Area small deviations in projected figures could have a significant impact on the Service Budget. The Finance Governance and Assurance [Section 151] Officer explained that the budget was set to reflect the known factors such as increasing costs, demographics and wage inflation. It was difficult to predict the number of children coming into the system and the level of care that they would require. Fewer children did not necessarily result in a reduction of expenditure if they had complex needs.

12.6 Members requested clarification on why Education and Children's services were combined in the report. The Finance Governance and Assurance [Section 151] Officer explained that this was a statutory requirement as the Director for Children's Services had legal responsibility for both areas. Other, more detailed, lower level reports were available which dealt with these areas separately. A Member

suggested that Children's Services Management should consider the assumptions that underpinned the budget, and endeavour to improve the accuracy of their predictions.

12.7 In response to a Member's query regarding Corporate Landlords, the Finance Governance and Assurance [Section 151] Officer explained that there had been significant reorganisation of this area which had previously been managed by individual Directorates, but was now managed by one Service Area. This had been a significant undertaking and was still not completed. This had resulted in issues in ensuring that tenants were billed correctly.

12.8 The Finance Governance and Assurance [Section 151] Officer responded to a Member that it was anticipated that the Digital Transformation would not be fully in place by April 2017, and this had been incorporated into the work plan.

12.9 Members considered the remodelling around Adult Social Care budgets. They noted that there were large numbers of service users and a vast amount of information to be included in the modelling. There were a variety of representative variables which the modal was not sensitive to interpret. Members were assured that the budget was closely monitored to ensure that it stayed within pre-set tolerance bands.

12.10 RESOLVED:

That the report be noted.

13 Annual Statement of Accounts 2016/17

13.1 The Committee received the report of the Section 151 Officer - copy attached to the signed Minutes - which provided Members with an overview of the Accounts and also provided details of the reasons for the most significant changes between the 2015/16 Accounts and the 2016/17 Accounts.

13.2 The Section 151 Officer explained that there had been a significant change to the dates governing the submission of the accounts. From 2017-18 the Council's accounts had to be signed and submitted by the end of July instead of September. This would bring them into line with the requirements for private companies. He continued that a dry run had been undertaken during this financial year. The accounts had been produced by the end of May this year but had not been checked so additional time was taken for this process.

13.3 Members' attention was drawn to section 7 of the report which outlined a number of changes to accounting policies. In response to a Member's question regarding changes to the way in which depreciation charge was calculated, the Officer replied that he was unaware of any significant increase in workload caused by this change but would make enquires.

13.4 In response to a query the Section 151 Officer confirmed that regarding Council Pension Contributions and the possibility of the employers contribution rate increasing, the Pension Fund Strategy aimed to keep the Employer Contribution stable.

13.5 Members noted that the explanations contained in Appendix 2 were helpful.

13.6 In response to a Member's query regarding debts owed by the NHS, the Section 151 Officer confirmed that this issue had been resolved and work was being undertaken to address the legacy debt.

13.7 RESOLVED:

That the contents of the draft 2016/17 Statement of Accounts be noted.

14 Internal Audit Annual Report 2016/17

14.1 The Committee received the report of the Head of Audit - copy attached to the signed Minutes - which provided Members with details of the work undertaken by Internal Audit for the year ended 31 March 2017. It also reported on delivery against the approved Annual Audit Plan and included the Head of Audit's opinion on the Council's internal controls as required by the Public Sector Internal Audit Standards (PSIAS).

14.2 The Head of Audit reported that final performance had been good with the revised plan being delivered in excess of the 90% delivery target. She continued that payroll was the largest financial system in the Council, the audit had not been completed in 2016/17 but she was satisfied that the data provided for completion early 2017/18 was robust and provided confidence.

14.3 The Head of Audit drew attention to Section 5.8 of her report and the tables showing a comparison of the assurance levels and categorisation of recommendations. Members noted a 3% increase in the higher levels assurance compared to the previous year, offset by a 3% decrease in limited and unsatisfactory opinions.

14.4 The Head of Audit referred Members to section 5.16 of her report which noted the fundamental recommendations made in the year. Hardware replacement remained at an unsatisfactory level with improvements still being embedded that were not reflected fully in the control environment. The Hardware Replacement Programme was to be aligned to the overall IT strategy with a revised implementation date of 30 June 2017.

14.5 Members noted that three recommendations, less than 1% of all recommendations made had been rejected by management. The Head of Audit continued that this was not cause for concern where the risk had been recognised and compensating controls were in place.

14.6 The Head of Audit referred Members to section 5.20 which listed 14 audit IT reviews which received unsatisfactory or limited assurance and further supported qualification of her opinion.

14.7 Members attention was drawn to section 5.22 which listed a number of internal audit reviews conducted to ensure that appropriate controls were in place and operational to counter the risk of fraud. In general sound controls were found to be in place.

14.8 Members noted section 5.24 which set out examples of additional work undertaken by Internal Audit to add value to the Council. In response to a query the Head of

Audit explained that Internal Audit would take on the role of critical friend to ensure that applications for funding were robust.

- 14.9 The Head of Audit explained that on the basis of work undertaken and management responses received she had qualified her overall opinion of the Council's internal control environment. The reason for this was primarily based on the continuing numbers of the internal audit assurances provided on the IT infrastructure and a number of application systems. She continued that she accepted that this had been the case for some time and significant resources had been allocated to manage the risk with improvements being reported, she accepted that it would take several years for the necessary improvements to be implement and sufficiently embedded to attain the appropriate assurance levels.
- 14.10 Members considered the table in section 5.29 which demonstrated Audit Performance by measuring achievement against the plan where the target had been 90% for 2016/17 and 99% had been delivered. Also ensuring compliance against Public Sector Internal Audit Standards. The percentage of customers satisfied with the overall service target had been set at 80% and 89% had been achieved.
- 14.11 Members discussed the situation with IT and causes for concern and reassurance, and commented that there was a clear direction of travel although it may take years for the situation to be fully resolved. They expressed concern that the Accounts would continue to be qualified until the situation changed. The Head of Audit assured Members that the Audit Opinion did not directly impact on the Council's accounts and it was not the accounts that were the subject of her qualified opinion. Members observed that IT was an important focus for the Audit Committee and they expressed confidence in the process outlined but asked that the Committee be kept informed of progress and achievement in relation to timescales for implementation.
- 14.12 Members considered Table 4 in Appendix A, Unsatisfactory and limited assurance opinions since February 2017 listed by Service Area. The Head of Audit agreed to circulate a complete list of all unsatisfactory assurances. She suggested that Members may be minded to suggest topics for future meetings or training events.
- 14.13 Members discussed the issue of the Finance Sales Ledger and considered if the concerns raised would be addressed by the new financial IT system.
- 14.14 **RESOLVED:**
- A. That performance against the Audit Plan for the year ended 31 March 2017 be noted.
 - B. To note that Internal Audit had evaluated the effectiveness of the Council's risk management, control and governance processes, taking into account public sector internal auditing standards or guidance, the results of which could be used when considering the internal control environment and the Annual Governance Statement for 2016/17.
 - C. To note the Head of Audit's qualified year end opinion on the Council's internal control environment for 2016/17 on the basis of the work undertaken and management responses received. However the Committee is concerned that this is the fifth year that the Head of Audit's opinion is qualified.

15 Review of the Code of Corporate Governance 2016/17

- 15.1 The Committee received the report of the Principal Auditor - copy attached to the signed Minutes - which clearly identified how the Council achieved effective Corporate Governance in 2016/17.
- 15.2 Members noted that New Guidance had been published by CIPFA and SOLACE in April 2016 and this had replaced the guidance issued in 2007. The Principal Auditor observed that Shropshire Council's Code of Corporate Governance was based entirely on this guidance.
- 15.3 The Council's Code of Corporate Governance had been reviewed against the seven core principles identified in the CIPFA/SOLACE guidance and set out at Paragraph 5.6 of the report. The Principal Auditor drew attention to Appendix A which demonstrates how the Council addressed and met these principles in accordance with best practice identified by CIPFA/SOLACE.

15.4 RESOLVED:

To note that the Council has very strong compliance with the Code of Corporate Governance.

16 Annual Governance Statement and a review of the effectiveness of the Council's system of internal control 2016/17

- 16.1 The Committee received the report of the Section 151 Officer - copy attached to the signed Minutes - which set out the Annual Governance Statement to be considered following a review of the effectiveness of the Council's system of internal controls.
- 16.2 The Section 151 Officer highlighted the seven core principles set out in paragraph 5.7 of the report and briefly took Members through the Statement. The strategic governance issues identified were set out at paragraph 5.13 of the report.
- 16.3 In response to a Members question, the Section 151 Officer confirmed that information was cascaded to staff from Director level to those who needed it. It was also included in staff work plans.

16.4 RESOLVED:

That the Annual Governance Statement for 2016/17 be approved.

17 Annual review of Internal Audit, Quality Assurance and Improvement Programme (QAIP) 2016/17

- 17.1 The Committee received the report of the Section 151 Officer - copy attached to the signed Minutes - which provided Members with the results of a self-assessment of the Internal Audit Service against the requirements of the Public Sector Internal Audit Standards (PSIAS), compliance against which demonstrates an effective Internal Audit service.

17.2 The Section 151 Officer drew Members' attention to paragraph 5.1 of the report which set out the mandatory Public Service Internal Audit Standards for all principal local authorities, updated in 2017.

17.3 Members consider paragraph 5.7 of the report which set out areas of potential non-conformance.

17.4 In response to a Member's question the Head of Audit explained that where advice and guidance was provided during a development project by one auditor they would not be involved in the pure audit of the process.

17.5 RESOLVED:

To note the conclusion that the Council employs an effective Internal Audit to evaluate its risk management, control and governance processes that complies with the principles of the Public Sector Internal Audit Standards and has planned improvement activities to work towards full compliance where appropriate.

18 Annual Assurance Report of Audit Committee to Council 2016/17

18.1 The Committee received the draft report of the Section 151 Officer - copy attached to the signed Minutes.

18.2 The Section 151 Officer explained that this report was a reflection on the work undertaken by the Audit Committee and their opportunity to demonstrate the value that they added to the Council. Members particularly endorsed Paragraph 6 which highlighted continuous training as a key priority.

18.3 Members discussed the relationship between the Audit Committee and Scrutiny Committees. Members noted the importance of the Audit Committee identifying issues but had to leave it to Officers to take forward and resolve. The Section 151 Officer confirmed that he updated Directors on issues that were considered by the Audit Committee.

18.4 In response to a Members request, the Head of Audit agreed to provide regular reports on issues that were found to be unsatisfactory and had not been resolved. She observed that it was usual practice to bring information to the Committee on issues where a pattern could be identified.

18.5 RESOLVED:

That the Draft Annual Assurance Report be approved and that Council be recommended to accept the contents of the report.

19 Annual Assurance Report of Audit Committee to Council 2016/17

19.1 The Committee received the report of the External Auditor - copy attached to the signed minutes - which set out the details of the planned audit work in relation to the Council's Pension Fund.

19.2 RESOLVED:

That the contents of the report be noted.

20 External Audit: Audit Fee Letter 2017/18

20.1 The Committee received the report of the External Auditor - copy attached to the signed minutes - which set out details of the audit fee for the Council for 2017/18 along with the scope and timing of work to be undertaken by the External Auditors. The Council's scale fee for 2017/18, which had been set by the Public Sector Appointments Limited at the same level as the scale fees applicable for 2016/17, at £133,845.

20.2 Members noted that the fees were for work that had been set out in the statutory guidance, additional work due to the objection to the accounts which had been received might incur an additional charge.

20.3 RESOLVED:

That the contents of the report be noted.

21 External Audit: Audit Committee Update

21.1 The Committee received the report of the External Auditor - copy attached to the signed Minutes - which provided members with a report on progress.

21.2 The External Audit Manager drew attention to the progress to date. She reported that the final accounts audit had begun on site. It was anticipated to complete this by 31 July 2017, as part of the transition to the earlier close down and audit cycle from 2017.

21.3 The Engagement Lead advised that two risks had been identified and would be reported to the September meeting of the Audit Committee. The objection received to the Accounts would be included in the list of Engagements.

21.4 Members discussed the Apprentice Levy detailed in page 16 of the report. They noted that apprenticeships were now available to existing staff and were suitable for middle and higher tier managers.

21.5 The Engagement Lead advised Members that a wide range of publications were available for their use from the Grant Thornton Website with hardcopies available from the Grant Thornton Team if required.

21.6 RESOLVED:

That the contents of the report be noted.

22 Appointment of External Auditors

22.1 The Committee received the report of the Section 151 Officer – copy attached to the signed Minutes – which summarised the appointment arrangements of external auditors through PSAA Ltd, the Local Government Association National Sector Led Body.

22.2 Members observed that they were very satisfied with the work of Grant Thornton as external auditors. The Section 151 Officer advised that under the new arrangements an independent process conducted by the PSAA determined who would be appointed.

22.3 RESOLVED:

That the information provided on the national auditor appointment arrangements with PSAA Ltd be endorsed.

23 Date and Time of Next Meeting

23.1 RESOLVED:

That the next meeting of the Audit Committee would be held on 7th September 2017 with a new start time of 1.30pm.

24 Exclusion of Press and Public

24.1 RESOLVED:

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

25 Exempt Minutes

25.1 RESOLVED:

That the exempt Minutes of the meeting held on 22 February 2017 be approved and signed by the Chairman as a correct record.

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

26.1 The Committee received the exempt report of the Principal Auditor – copy attached to the signed Minutes – which provided 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.

26.2 RESOLVED:

That the contents of the report be noted.

Signed (Chairman)

Date:



Committee and Date
Audit Committee

7th September 2017

Item

Public

BENEFIT OVERPAYMENT PERFORMANCE MONITORING REPORT

Responsible Officer Phil Weir

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

Tel: 01743 256159

1. Summary

The Revenues and Benefits Service is responsible for the recovery of Housing Benefit overpayments. This report provides Members with performance monitoring information on the collection of this income for the year to 2016/17.

2. Recommendations

Members are asked to note the report.

REPORT

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

2. With regards to Housing Benefit overpayment recovery, the total value of invoices raised in 2016/2017 is: -

Created £3,417,788.96

Recovered £3,265,991.73

Written off £ 229,333.36

3. The total value of invoices raised for the period April 2017 to July 2017 is:-

Created £ 680,623.32

Recovered £ 655,554.29

Written off £ 50,062.82

4. At 2 August 2017 the total amount outstanding, including previous years, was £6 million compared with £6.2 million as at 31st July 2016. The table at Appendix A provides a detailed breakdown of this debt by financial year, and also categorises the debt between sundry debt and debt being recovered from ongoing Housing Benefit.
5. Nationally, Housing Benefit overpayments are increasing. There are a number of ongoing national initiatives that explain why a large number of Housing Benefit Overpayments continue to have been created in the past twelve months.
 - Shropshire Council has been required to participate in the Real Time Information (RTI) project since September 2014. This is a data matching exercise that matches earnings information between Shropshire Council and HMRC and which focusses on higher level mismatches.
 - Shropshire Council has signed up to the Fraud and Error Reduction Scheme (FERIS) since November 2014. This requires us to undertake various activity to identify fraud and error (which results in overpayments). For 2017-18 the FERIS scheme has been replaced with the Right Benefit Initiative scheme.
 - There has been an increase in data matching via the Housing Benefit Matching Service (HBMS). This matches Shropshire Council and DWP data files to identify discrepancies between the two sets of records such as Income Support, JSA, Incapacity benefit and Pension Credit.
 - We are also receiving a higher volume of information via Automated Transfer to Local Authority Systems (ATLAS). This automatically loads DWP information directly into Shropshire Council's systems meaning that we are made aware of the changes more quickly
5. In order to deal with this higher level of overpayments we have taken the following action.
 - We have purchased additional functionality from Northgate which ensures that we are recovering overpayments at the appropriate rate. (For example, where a claim has been sanctioned or if there are income disregards we can recover at a higher rate). This functionality identifies discrepancies in our current system so we can increase our ongoing recovery rate. The recovery rates for 2017-18 are at Appendix C.
 - We have reorganised outstanding sundry debt into meaningful enforcement stages to easily identify what action is currently being taken in respect of each debt, and automate our enforcement procedures. These include where debt is being recovered from DWP benefit, where debt is with an enforcement

agent, where there is a payment arrangement etc. We have also recently taken advantage of Direct Earnings Orders, which allow us to attach earnings where people are working. Debt at each enforcement stage is monitored monthly to ensure appropriate action is being taken. A breakdown of debt at various enforcement stages is at Appendix B (please note this analysis does not include cases at invoice, reminder and final notice).

- This work is providing improved management information and is being monitored on a monthly basis by the Revenues and Benefits Service Manager, the Recovery Manager and the Benefits Manager.

REPORT

3. Risk Assessment and Opportunities Appraisal

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

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

4. Financial Implications

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

5. Background

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

6. Additional Information

None

7. Conclusions

Members are asked to note the content of the report.

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

N/A

Cabinet Member (Portfolio Holder)

David Minnery

Local Member

N/A

Appendices

Appendix A – Housing Benefit Overpayment Debt Breakdown by financial year

Appendix B – Housing Benefit Enforcement Stage Analysis

Appendix C – Recovery rates from ongoing Housing Benefit 2017-18

Appendix A – Housing Benefit Overpayment Debt Breakdown by financial year

02/08/2017			
YEAR	TOTAL DEBT	SD	HB
2008/09	£96,121.60	£48,085.56	48,036.04
2009/10	£454,462.02	£337,279.29	117,182.73
2010/11	£270,824.31	£219,008.52	51,815.79
2011/12	£343,581.92	£267,439.56	76,142.36
2012/13	£405,395.39	£332,904.69	72,490.70
2013/14	£575,448.56	£434,561.73	140,886.83
2014/15	£922,927.43	£637,217.46	285,709.97
2015/16	£1,150,178.73	£716,273.94	433,904.79
2016/17	£1,350,513.02	£787,519.93	£562,993.09
2017/18	£470,068.46	£190,162.73	£279,905.73
Total	6,039,521.44	3,970,453.41	2,069,068.03

Appendix B – Housing Benefit Enforcement Stage Analysis

Housing Benefit Enforcement Analysis 02/08/2017		
	accounts	£ value
Payment Stages		
Arrangement	653	£1,224,209.39
Bail	536	£720,751.63
DWP	65	£89,720.69
HALL	25	£7,676.83
OtherLa	3	£13,143.61
DEA	133	£196,192.30
Total for stage	1,415	£2,251,694.45
Referral stages		
BAIL refer	37	£29,443.12
DWP refer	97	£72,343.01
PDEAW	46	£45,557.27
Visit	122	£197,929.51
LA refer	1	£785.31
Total for stage	303	£346,058.22
Non payment stages		
Prison	13	£19,188.32
AD Pen Defer	3	£3,147.98
Legal	7	£21,566.35
Charging Order	4	£29,980.07
Bankruptcy	3	£988.89
No Forwarding address	6	£7,075.05
Write off	84	£102,425.96
BAILRET	453	£359,814.67
Arrangement Reminder	59	£122,717.15
Arrangement Cancelled	17	£21,983.04
Correspondence	3	£2,029.38
UC pending	15	£44,766.68
UC recovery	0	£0.00
Dispute	14	£17,375.37
Total for stage	681	£753,058.91
Totals	2,399	£3,350,811.58

Appendix C – Recovery rates from ongoing Housing Benefit 2017-18

Maximum Rates for Deductions from Ongoing Benefit 2017-18	
Standard Rate	£11.10
If the claimant has been found guilty of fraud, or admitted fraud after caution	£18.50
Plus 50% of any earned income disregards	
Plus any disregard of regular charitable or voluntary payments	
£10 disregard of war disablement or bereavement pension	

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<u>Committee and Date</u>	<u>Item</u>
Cabinet 6 September 2017	
Audit Committee 7 September 2017	
Council 21 September 2017	
	<u>Public</u>

ANNUAL TREASURY REPORT 2016/17

Responsible Officer James Walton

e-mail: James.Walton@shropshire.gov.uk

Tel: (01743) 258915

1. Summary

- 1.1. The report informs members of treasury activities for Shropshire Council for 2016/17, including the investment performance of the internal treasury team to 31 March 2017. The internal treasury team outperformed their investment benchmark by 0.34% in 2016/17 and performance for the last three years is 0.29% per annum above benchmark. Treasury activities during the year have been within approved prudential and treasury indicators set and have complied with the Treasury Strategy.
- 1.2. During 2016/17 the performance of the Treasury Team delivered an underspend of £1.468 million compared to budget as highlighted in paragraph 10.4 of this report. This underspend helped the Council to achieve an overall underspend at the end of the financial year.

2. Recommendations

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

REPORT

3. Risk Assessment and Opportunities Appraisal

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

Treasury Management activities and the potential for financial loss.

4. Financial Implications

- 4.1. The Council makes assumptions about the levels of borrowing and investment income over the financial year. Reduced borrowing as a result of capital receipt generation or delays in delivery of the capital programme will both have a positive impact of the council's cash position. Similarly, higher than benchmarked returns on available cash will also help the Council's financial position. For monitoring purposes, assumptions are made early in year about borrowing and returns based on the strategies agreed by Council in the preceding February. Performance outside of these assumptions results in increased or reduced income for the Council.
- 4.2. The 2016/17 performance is above benchmark for the reasons outlined in paragraph 10.5 of this report and has delivered additional income of £1.468 million which has been reflected in the final Revenue Monitor report for 2016/17.

5. Background

- 5.1. The Council defines its treasury management activities as "the management of the authority's investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks".
- 5.2. The Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2016/17. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.
- 5.3. Changes in the regulatory environment place a much greater onus on members for the review and scrutiny of treasury management policy and activities. Minimum reporting requirements are that the Council should receive the following reports:
 - An annual treasury strategy in advance of the year.
 - A mid-year treasury update report.
 - An annual report following the year describing the activity compared to the strategy.
- 5.4. The CIPFA Code of Practice on Treasury Management states that these reports should be scrutinised by a nominated committee and members should be trained on treasury management activities in order to support them in their scrutiny role. These reports were scrutinised by the Audit Committee before they were reported to full Council for approval. Members have also received training on treasury management issues to support their scrutiny role.

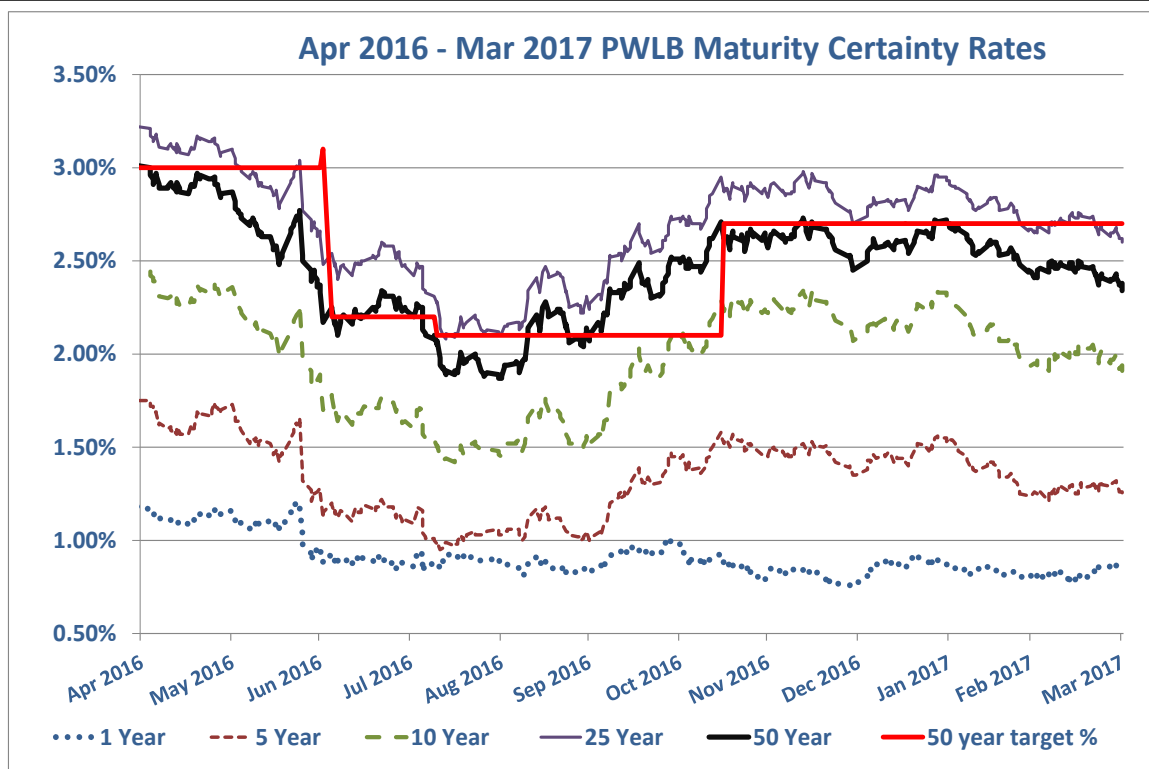
- 5.5. In addition to the minimum reporting requirements, the Director's and Cabinet also receive quarterly treasury management update reports for information.
- 5.6. The Treasury Strategy for 2016/17 was approved by Council in February 2016, the mid-year treasury update report was approved by Council in December 2016. This Annual Report sets out our actual treasury performance for the year and shows how the actual treasury performance varied from our estimates and planning assumptions.

6. Borrowing Strategy for 2016/17

- 6.1. The Council did not have an external borrowing requirement for 2016/17 to 2018/19 but based on the prospects for interest rates outlined in the Treasury Strategy, the Council would adopt a pragmatic approach if circumstances changed when considering any new borrowing.
- 6.2. Short term Public Works Loan Board (PWLB) rates were expected to be significantly cheaper than longer term borrowing rates during the year therefore borrowing in the under 10 year period early on in the financial year when rates were expected to be at their lowest would be considered. Variable rate borrowing was also expected to be cheaper than long term fixed rate borrowing throughout the year.
- 6.3. An alternative strategy was to defer any new borrowing as long term borrowing rates were expected to be higher than investment rates during the year. This would maximise savings in the short term and also have the added benefit of running down investments which would reduce credit risk. Short term money market borrowing was not used during the year.

7. Borrowing outturn for 2016/17

- 7.1. The Treasury Team take advice from its external treasury advisor, Capita Asset Services, on the most opportune time to borrow. Movements in rates during 2016/17 are shown in the graph below.



7.2. Members have previously been advised of the unexpected change of policy on PWLB lending arrangements in October 2010 following the Comprehensive Spending Review. This resulted in an increase in all new borrowing rates of between 0.75 – 0.85%, without an associated increase in early redemption rates. This made new borrowing more expensive and repayment relatively less attractive.

7.3. The table below shows PWLB borrowing rates for a selection of maturity periods. The table also shows the high and low points in rates during the year, average rates during the year and individual rates at the start and the end of the financial year.

	4.5 – 5yrs	9.5 – 10yrs	24.5 – 25 yrs	49.5 – 50 yrs
01/04/2016	1.62%	2.31%	3.14%	2.95%
31/03/2017	1.24%	1.91%	2.60%	2.34%
High	1.80%	2.51%	3.28%	3.08%
Low	0.95%	1.42%	2.08%	1.87%
Average	1.36%	2.01%	2.72%	2.49%
High date	27/04/2016	27/04/2016	27/04/2016	27/04/2016
Low date	10/08/2016	10/08/2016	12/08/2016	30/08/2016

7.4. Following discussions with Capita, as general fund borrowing rates were significantly higher than investment rates during the year it was agreed that if any new borrowing was required during the year it would be deferred in order to maximise savings in the short term and reduce credit risk by reducing investments. Due to a review of the Capital Programme no new external borrowing was required in 2016/17.

7.5. The Council’s total debt portfolio at 31 March 2017 is set out below:-

Type of Debt	Balance £m	Average Borrowing Rate 2016/2017
General Fund Fixed rate – PWLB	191.42	5.44%
HRA Fixed rate - PWLB	83.35	3.51%
Fixed rate – Market	49.20	4.10%
Variable rate	0	N/A

- 7.6. The maturity profile of the debt is evenly spread to avoid large repayments in any one financial year. The average debt period for PWLB loans is 21 years, market loans have an average debt period of 53 years. The total debt portfolio has a maturity range from 1 year to 61 years.
- 7.7. The Treasury Strategy allows up to 15% of the total outstanding debt to mature in any one year. It is prudent to have the Council's debt maturing over many years so as to minimise the risk of having to re-finance when interest rates may be high. The actual debt maturity profile is within these limits (Appendix A).

8. Debt rescheduling

- 8.1. No debt restructuring was undertaken during 2016/17. The introduction of a differential in PWLB rates on the 1 November 2007, which was compounded further following a policy change in October 2010 as outlined above has meant that large premiums would be incurred if debt restructuring was undertaken, which cannot be justified on value for money grounds.
- 8.2. Although these changes have restricted debt restructuring, the current debt portfolio is continually monitored in conjunction with external advisers in the light of changing economic and market conditions to identify opportunities for debt rescheduling. Debt rescheduling will only be undertaken:
- To generate cash savings at minimum risk.
 - To help fulfil the Treasury Strategy.
 - To enhance the balance of the long term portfolio by amending the maturity profile and/or volatility of the portfolio.

9. Investment Strategy for 2016/17

- 9.1. Our treasury advisor originally felt when the strategy was approved by Council in February 2016 that the bank rate would remain at its historically low level of 0.50% until December 2016 when a rise to 0.75% was expected. During the year their interest rate forecast was reviewed and their updated forecast was approved by Council in December 2016 as part of the mid-year report. Their revised forecast was that the bank rate would be reduced to 0.10% in December 2016 and remain at this level until June 2018.
- 9.2. In 2016/17 investment of surplus cash was managed by the internal treasury team. The strategy for the in-house team was influenced by the need to keep funds relatively short for cash flow purposes. Lending continued to be

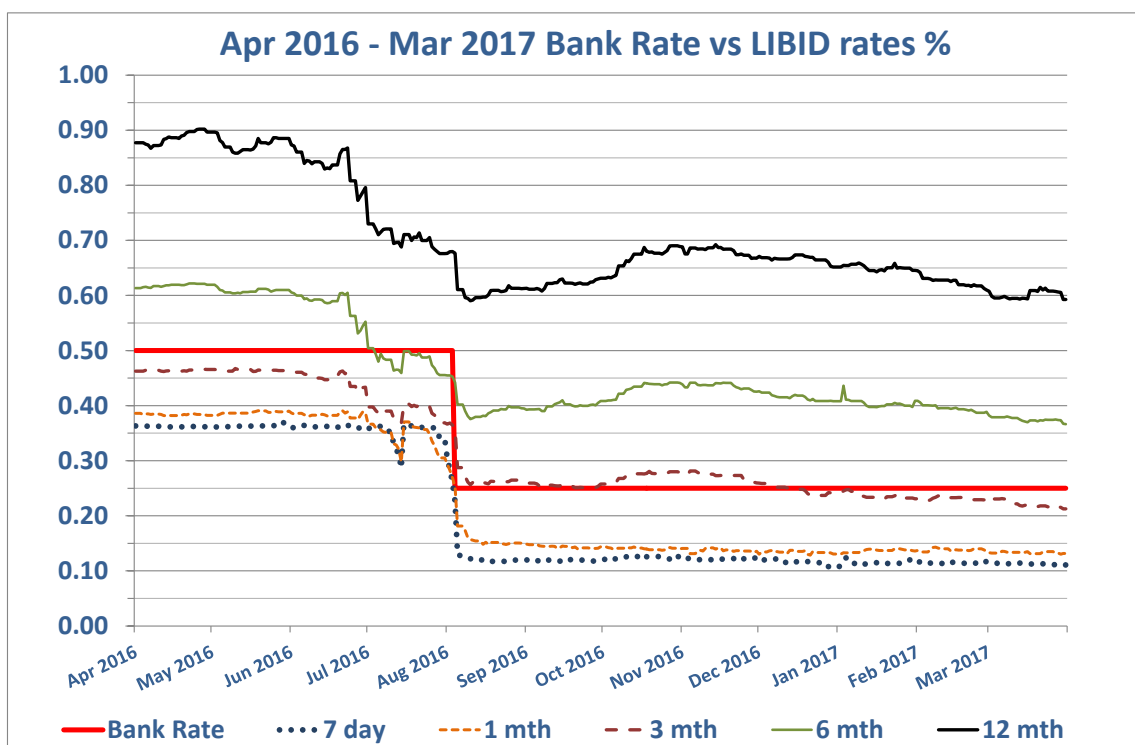
restricted to UK banks, one overseas bank, three Building Societies, two Money Market Funds (AAA credit rating), Nationalised and Part Nationalised Banks, UK Government and other Local Authorities in line with the Council's policy on creditworthiness which was approved in the Annual Investment Strategy.

10. Investment outturn 2016/17

10.1 After the Brexit vote, Bank Rate was cut from 0.5% to 0.25% in August and remained at that level for the rest of the year. Deposit rates continued into the start of the year at previous depressed levels but then fell further during the first two quarters and fell even further after the Monetary Policy Committee's decision in August to cut Bank Rate. Rates made a weak recovery towards the end of 2016 but then fell to fresh lows in March 2017.

10.2 To counter the historically low investment rates and following advice from Capita, use was made of direct deals with main UK banks, for various periods from three months to one year. Direct deals offered enhanced rates over the equivalent rates available through brokers. This provided opportunities to lock into higher, long term rates at times when it was thought they offered substantial enhancement over short term benchmark rates. Enhanced market rates when compared to bank rate has resulted in the total portfolio outperforming the benchmark. Use of instant access accounts with NatWest, HSBC and Svenska Handelsbanken was continued, together with use of Money Market Funds with Standard Life & Insight Investment. These accounts offered both instant access to funds and paid a rate which was higher than placing short term deposits through brokers.

10.3 Movements in short term rates through the year are shown in the below.



10.4 Throughout the year the average investment balances were higher than budgeted. This resulted in the internal treasury team achieving a higher level of interest on revenue balances than budgeted. This surplus was in addition to an underspend on debt charges due to no long term general fund borrowing being undertaken in 2016/17. The total £1.468 million underspend helped the Council to achieve an overall under spend at the end of the financial year.

10.5 At 31 March 2017 the allocation of the cash portfolio was as follows:

	£m
• In-house short dated deposits for cash flow management	83.0
• In-house long dated deposits (up to 1 year)	22.0
• Other Local Authorities	47.0
Total	152.0

10.6 The following table shows the average return on cash investments for the internal treasury team during the year and for the last 3 years to 31 March 2017. Recognising the need to manage short term cash flow requirements, the target for the internal team is the 7 day LIBID rate.

	Return 2016/17	Return 3 years to 31 March 2017
	%	% p.a.
Internal Treasury Team	0.54	0.58
Benchmark (7 Day LIBID rate)	0.20	0.29

10.7 The conclusions to be drawn from the table are:

- During 2016/17 the internal treasury team outperformed their benchmark by 0.34%.
- Over the 3 year period the internal team's performance has been 0.29% per annum above the benchmark.

11. Compliance with Treasury Limits and Prudential Indicators

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

11.2 Appendix B shows the Prudential Indicators approved by Council as part of the 2016/17 and 2017/18 (revised estimate) Treasury Strategies compared with the actual figures for 2016/17. In summary, during 2016/17 treasury activities have been within the prudential and treasury limits set in the Treasury Strategy.

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

Council, February 2016, Treasury Strategy 2016/17.

Council, December 2016, Treasury Strategy 2016/17 Mid-Year Review.

Council, February 2017, Treasury Strategy 2017/18.

Cabinet, July 2016, Treasury Management Update Quarter 1 2016/17.

Cabinet, December 2016, Treasury Management Update Quarter 2 2016/17.

Cabinet, February 2017, Treasury Management Update Quarter 3 2016/17.

Cabinet, July 2017, Treasury Management Update Quarter 4 2016/17.

Cabinet Member:

Peter Nutting (Leader), Portfolio Holder

Local Member

N/A

Appendices

A. Debt Maturity Profile as at 31 March 2017

B. Prudential Indicators 2016/17

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APPENDIX B

SHROPSHIRE COUNCIL PRUDENTIAL INDICATORS 2016/17

- C1. The Prudential Code requires the Council to set Prudential Indicators in the Treasury Strategy and report performance against those indicators in the Annual Treasury Report.
- C2. The ratio of financing costs compared to the net revenue stream of the Council was slightly lower than expected in 2016/17 due to net revenue stream being higher than estimated.

Prudential Indicator	2016/17 Estimate	2016/17 Actual
	%	%
Non HRA Ratio of financing costs to net revenue stream	8.8	8.1

Prudential Indicator	2016/17 Estimate	2016/17 Actual
	%	%
Non HRA Ratio of financing costs (net of investment income) to net revenue stream	8.5	7.5
HRA Ratio of financing costs to HRA net revenue stream	41.9	35.9*

*HRA ratio is lower than estimated due to a change in depreciation methodology

- C3. The cost of capital investment decisions funded from a re-direction of existing resources was as expected due to no new borrowing during the year.

Prudential Indicator	2016/17 Estimate	2016/17 Actual
Estimates of impact of Capital Investment decisions in the present capital programme	£ p	£ p
Cost of capital investment decisions funded from re-direction of existing resources (Council Tax Band D, per annum)	23.64	23.64
Cost of capital investment decisions funded from increase in council tax (Council Tax Band D, per annum)	0	0
Cost of capital investment decisions funded from increase in average housing rent per week	0	0
Total	23.64	23.64

C4. It can be seen from the tables that the authority was well within the approved authorised limit and the operational boundary for external debt for 2016/17.

Prudential Indicator	2016/17 Estimate	2016/17 Actual
External Debt	£ m	£ m
Authorised Limit:		
Borrowing	449	324
Other long term liabilities	80	107
Total	529	431

Prudential Indicator	2016/17 Estimate	2016/17 Actual
External Debt	£ m	£ m
Operational Boundary:		
Borrowing	402	324
Other long term liabilities	80	107
Total	482	431

C5. Gross borrowing was as anticipated due to no general fund borrowing being undertaken in 2016/17. A key indicator of prudence is that net borrowing should not exceed the capital financing requirement. It can be seen from the following figures that the Council continues to meet this prudential indicator. The Capital Financing Requirement was lower than estimated following slippage in the capital programme that resulted in a reduced financing requirement from the capital receipts previously set-aside as approved by Council.

Prudential Indicator	2016/17 Revised Estimate	2016/17 Actual
Net Borrowing & Capital Financing Requirement:	£ m	£ m
Gross Borrowing (inc. HRA)	324	324
Investments	160	152
Net Borrowing	164	172
Non HRA Capital Financing Requirement	261	243
HRA Capital Financing Requirement	85	85
Total CFR	346	328

C6. Total capital expenditure during the year was lower than anticipated. Explanations for these under-spends were included in the 2016/17 final capital outturn report.

Prudential Indicator	2016/17 Revised Estimate	2016/17 Actual
	£ m	£ m
Non HRA Capital expenditure	47.5	39.7
HRA Capital expenditure	6.4	5.2

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

Prudential Indicator	2016/17 Estimate	2016/17 Actual
Upper Limit For Fixed/Variable Rate Borrowing	£ m	£ m
Fixed Rate (GF)	449	239
Fixed Rate (HRA)	96	85
Variable Rate	225	0

C8. The level of fixed rate and variable rate investments were within the approved limits during 2016/17.

Prudential Indicator	2016/17 Estimate	2016/17 Actual
Upper Limit For Fixed/Variable Rate Investments	£ m	£ m
Fixed Rate	200	110
Variable Rate	200	42

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

Prudential Indicator	2016/17 Estimate	2016/17 Actual
Upper Limit For Sums Invested over 364 days	£m	£m
Internal Team	40	0
External Manager	30	0

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

Prudential Indicator	2016/17 Upper Limit	2016/17 Actual
Maturity Structure of External Borrowing	%	%
Under 12 months	15	2
12 months to 2 years	15	2
2 years to 5 years	45	6
5 years to 10 years	75	2
10 years to 20 years	100	32
20 years to 30 years	100	24
30 years top 40 years	100	17
40 years to 50 years	100	7
50 years and above	100	8

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<u>Committee and Date</u>	<u>Item</u>	<u>Paper</u>
Audit Committee – 7 th September 2017		

RISK & INSURANCE ANNUAL REPORT 2016/2017

Responsible Officer Angela Beechey

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252073

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252858

1. Summary

- 1.1 This report sets out the challenges and achievements accomplished by the Risk Management Team during 2016/2017, which has again seen an intense and varied workload.
- 1.2 The team continues to strive to ensure that Shropshire Council embeds Opportunity Risk Management practices throughout all service areas and this is recognised by the reputation held by Shropshire Council within the risk and insurance market.

2. Recommendations

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

REPORT

3. Risk Management and Opportunities Appraisal

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

4. Financial Implications

- 4.1 Failure to effectively and strategically manage the risks associated with developing a sustainable budget will potentially leave the Council exposed to external challenge and financial ramifications.
- 4.2 Through the purchase of an insurance policy the large financial risks are transferred.

5. Background

- 5.1 This year saw the Audit Team undertake an audit of both risk management and insurance and we are pleased to confirm that both final reports identified the assurance level as “**Good**”.

5.2 The Opportunity Risk Management Strategy, which supports our rapidly changing environment, is reviewed on an annual basis and has now been fully embedded by the Risk Management Team throughout the council. The council needs to ensure that it is taking advantage of every opportunity possible and the strategy is therefore outcome based and focuses on the achievement of our key priorities, objectives and benefits realisation.

6. Additional Information – Risk Management

6.1 Strategic Risk Management

6.1.1 Throughout 2016/2017 our strategic risks were reviewed on a bi-monthly basis ensuring that the level of risk exposure was monitored closely in our rapidly changing environment.

6.1.2 This was achieved through scheduled meetings with key officers, Directors, Chief Executive and Portfolio Holder. The outcome of each review is then reported to Directors and Informal Cabinet.

6.1.3 The new Risk Profile & Action Plan templates for managing our strategic risks are now completed and fully embedded. This details the direction of travel for each strategic risk over the year and clearly articulates the current controls in place and the additional controls required to mitigate and manage our strategic risk exposure effectively.

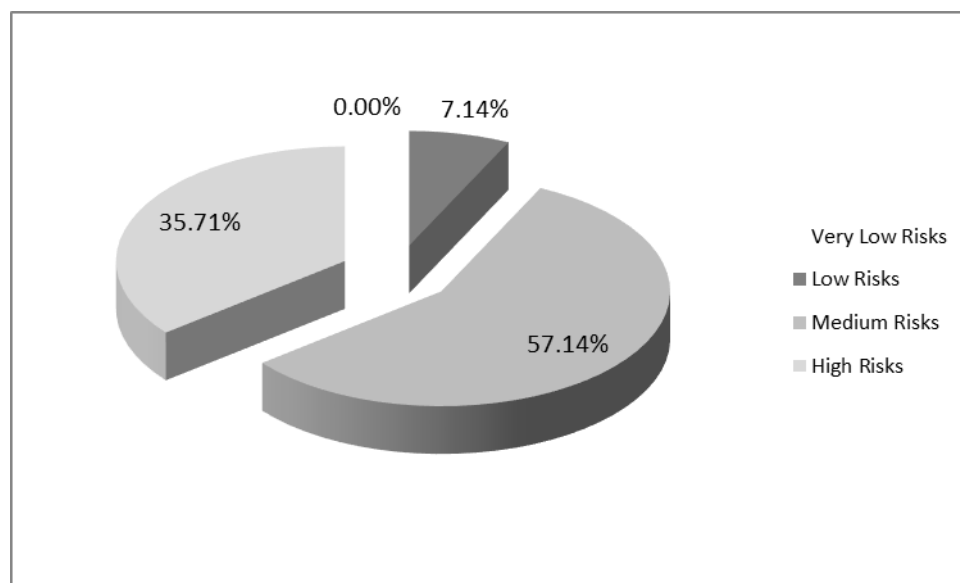
6.1.4 The Risk Profile & Action Plan now also includes target scores for each strategic risk to be achieved by the end of the current financial year.

6.1.5 During this year we have continued to develop an assurance mapping process linked to our strategic risks which incorporates the three lines of defence:-

Defence	Type of Assurance	Provided by/ Obtained through
First Line	Management	Provided by Heads of Service/ key managers
Second Line	Internal Governance	Provided by:- <ul style="list-style-type: none"> • Performance (scrutiny, customer experience) • Legal (monitoring officer reports, committee reports, legal advice) • Risk (operational, programmes, projects) • Finance (MTFP, Revenue & Capital, Treasury Management)
Third Line	External Assurance	Obtained through:- <ul style="list-style-type: none"> • Quality Assurance & 3rd Parties (e.g. Ofsted, CQC) • External Audit • Peer Reviews
Third Line	Internal Audit	Provided by Internal Audit

6.1.6 All relevant strategic risks have been linked to the Annual Governance Statement Targeted Outcomes. This demonstrates that we are managing these Outcomes at a strategic level and this is shown clearly on each of the strategic risks where there is a link.

6.1.7 The following diagrams demonstrate our overall strategic risk exposure at the end of 2016/2017:-



6.2 Operational Risks

6.2.1 Operational risks are reviewed and reported upon on a quarterly basis. All risks are held within one overarching risk register for each Head of Service area and circulated to risk owners for review and update.

6.2.2 At the end of the review period a detailed report is provided firstly to Heads of Service and then a collated version for Directors. These reports detail all current medium and high risks, the area they relate to and who is responsible for their mitigation. The report also details all changes that have occurred during this reporting period. These have enabled pro-active operational risk dialogue and challenge between Directors, Heads of Service and Service Managers ensuring a more accurate and robust operational risk review.

6.2.3 Following the provision of these reports a final summary report is presented by the Section 151 Officer to Directors.

6.2.4 To support the implementation of any changes to operational risk management, all operational risk owners are invited to facilitated risk workshops which briefs them on the background to the Opportunity Risk Management Strategy and the methodology to enable them to robustly manage their operational risks. The workshops also allow time for the risks to be updated there and then which enables all risk owners to complete the update and have members of the Risk Management team on hand to support them.

6.3 Business Continuity Management

6.3.1 With the many changes occurring within the council, Business Continuity Management arrangements are constantly reviewed to ensure that we have relevant skilled personnel on the emergency response teams and that these people are trained appropriately.

- 6.3.2 To support our business continuity management arrangements, regular testing to ensure they are robust is necessary. Following the live exercise 'Back to the 70's' which took place during the early part of 2016 to test how we would manage a cyber-attack and the impact this would have on our organisation, a follow up desktop exercise was completed successfully in June 2016.
- 6.3.3 Following all exercises a Post Exercise Report & Action Plan is produced and we continue to develop processes and undertakings to meet the requirements identified within these.
- 6.3.4 One of the key actions which has been completed, was to ensure that loggists were available to log key decisions during any incident and we continue to provide training to new volunteers for this role. The trained loggists take part in all exercising to practice their skills.
- 6.3.5 Under the Civil Contingencies Act we have a responsibility to raise awareness within the local business community of the need to have robust business continuity management arrangements in place to preserve their organisations/businesses. We have facilitated two sessions called 'Your Business Matters' with local businesses sharing best business continuity management practice.
- 6.3.6 During national Business Continuity Week in May we facilitated a live exercise over the week with local businesses to test the robustness of their arrangements in conjunction with the Local Resilience Direct live exercise taking place nationally at the same time. Following this we collated a response and action plan document which was provided to all participants. Feedback has been excellent and we will continue to support local businesses to develop robust business continuity management arrangements.
- 6.4 Emergency Response & Business Recovery Plan for Schools
- 6.4.1 Following the provision of the Emergency Response & Business Recovery Plan for schools we have continued to support schools in the completion of this and the testing of the robustness of their plans.
- 6.4.2 We have undertaken desktop exercises with schools and their School's Emergency Management Teams together with a cyber-attack exercise as requested by the Central Policy Group (CPG).
- 6.4.3 We continue to receive excellent feedback from schools who have confirmed that they have found the plan and training extremely beneficial enabling them to become more robust and confident in their planned response to any incident.
- 6.5 Opportunity Risk Management Strategy
- 6.5.1 During 2016/2017 we have continued to share our strategy nationally. Shropshire Council's Opportunity Risk Management Strategy is considered nationally, through Alarm (Association of Local Authority Risk Managers), to be best practice and is now contained as a link on their website.
- 6.5.2 Angela Beechey and Jane Cooper continue to be involved in the activities of Alarm, both nationally and regionally, which puts the authority at the forefront of risk and insurance for developing best practice.

6.6 Project Risk Management

6.6.1 We continue to support key projects that are currently underway or due to be commenced.

6.6.2 The majority of projects commence with an opportunity risk workshop to develop a robust risk register. These are reviewed and updated at project team meetings with key officers taking responsibility to manage specific areas of risk. The direction of travel for projects is monitored to ensure that risks are well managed preventing delays to project plans or timescales.

6.6.3 As a result of the focus on the Digital Transformation Programme (DTP), members of the Risk Management Team provide overall assurance through the DTP Assurance Board together with colleagues from IT Governance, Information Governance and Audit.

6.7 Audit Team Collaborative Working

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

6.8 Risk Management & Business Continuity Training

6.8.1 We have continued to provide risk management and business continuity training opportunities for all colleagues including schools as detailed below.

6.8.2 Schools Emergency Response & Business Recovery Plan Development and Exercising

- We have offered a further development training opportunity for schools who had not previously attended, together with a desktop exercise to test the robustness of their arrangements. In total 42 delegates attended these sessions.

6.8.3 Operational Risk Management Training

- During 2016/2017 we facilitated four operational risk management training sessions to provide refresher training to existing risk owners and introduce new risk owners to the process. This also enabled us to introduce any changes to the risk management process. In total 79 delegates attended these training sessions which is 85% of risk leads. The sessions allowed delegates to undertake their quarterly review with support from the risk management team on hand to answer queries or provide advice.

6.8.4 Risk & Insurance Training for Schools

- This training continued to be offered to all maintained schools on a termly basis. However, due to 92% of schools having already been represented at the training sessions, only one more session was required this year to capture the remaining schools. These sessions will continue to be offered annually as they provide updated and relevant information in relation to changes in legislation and best practice.

6.8.5 Business Continuity Awareness Training

- During 2016/2017 the Risk Management Team offered Business Continuity awareness sessions to all Shropshire Council members of staff. This was to share with all staff the policy, plans and processes in place to manage a business interruption incident. As many staff are not directly involved in business continuity management arrangements, it was hugely beneficial to provide assurance that there are robust plans and procedures in place to manage an incident. In total seven sessions took place with a total of 137 members of staff attending.

6.8.5 Loggist training

- Loggist training was developed as a result of an action in the post exercise report and action plan produced following 'Back to the 70's'. We developed and delivered three training sessions resulting in the provision of 16 trained loggists to support future responses to real incidents or exercises.

6.8.6 Service Recovery Plan (SRP) training

- A new and more effective service recovery plan template was developed by the team and introduced for the annual review which takes place in January/February. In order to introduce the new process all SRP leads were invited to attend an awareness session, again with sufficient time to undertake their review with support on hand. In total five sessions took place with 86 delegates attending which represents almost 90% required attendance.

6.8.6 We will continue to provide scheduled training opportunities and work with colleagues to develop bespoke training packages where required.

6.9 External Work

6.9.1 During the year we have worked to develop commercial relationships with external colleagues and organisations. This has enabled income generating opportunities with the following organisations:-

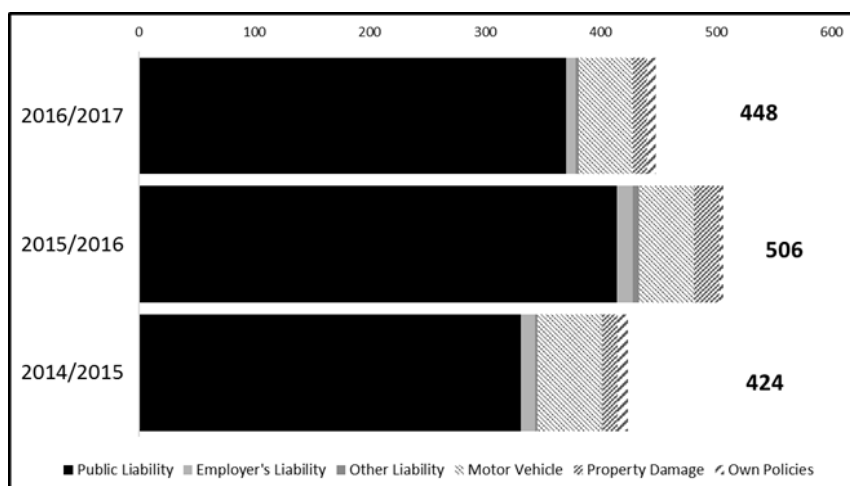
- Academy Schools - Emergency Response & Business Recovery planning and exercising;
- STaR Housing - loggist training;
- Severnside UnlTe – delivery of a business continuity management desktop exercise with post exercise report and action plan.

6.9.2 We are currently continuing discussions with organisations in scoping further income generating opportunities.

7. **Additional Information – Insurance**

7.0.1 During the 2016/2017 policy year we received 448 claims against the Authority, a reduction of 11.5% compared to the previous year. The reduction is mainly due to fewer pothole claims being received following a milder winter.

Illustration 1 - Comparison of claims received year on year



7.0.2 Compared to 2014/2015 claims numbers increased by 5.7% which is largely as a result of a higher number of Surface Defect claims being received. Whilst claims numbers in this area are higher, it is pleasing to note that liability has only been admitted on two of the 53 claims received.

7.0.3 Of the 448 claims received in 2016/2017 it should be noted that not all relate to incidents occurring within the 2016/2017 policy year. Illustration 2 below summaries the years in which incidents occurred compared to when the claim was received. During 2016/2017 13.6% of claims received related to earlier policy years representing 42.5% of the total value of all claims in the year.

Illustration 2 – Claims received by incident date

Incident Year	2016/2017		2015/2016		2014/2015	
	No.	Value (£)	No.	Value (£)	No.	Value (£)
1960's	2	10,980	3	264,602	0	0
1970's	4	213,406	7	241,161	2	15,029
1980's	4	284,367	1	9,789	3	10,000
1990's	0	0	0	0	1	10,000
2005/2006	0	0	1	6,000	0	0
2007/2008	0	0	0	0	1	300,000
2010/2011	0	0	1	2,220	0	0
2011/2012	0	0	0	0	2	17,705
2012/2013	0	0	2	7,500	6	215,107
2013/2014	3	22,831	5	45,293	47	920,026
2014/2015	2	11,111	37	189,130	362	626,238
2015/2016	46	282,147	449	1,486,887		
2016/2017	387	1,117,454				
Total	448	1,942,295	506	2,252,582	424	2,114,105

7.0.4 When a letter of claim is received, a Claim Form will be issued to gather additional facts to allow the thorough consideration of allegations. Of the 448 claims against the 2016/17 policy year, 160 have a current status of 'Pending', meaning the Claimant is yet to return their completed Claim Form to allow the claim to be registered. Had these claims been registered with the Council's external claims handlers the cost to the Authority would have been approximately £24.7k. Over the last three years, the Authority has saved over £48k through the issuing of Claim Forms which have not been returned.

7.0.5 Illustration 3 below summarises the claims received by their Class of Business and also by the current status of the claim. The claims are split into Liability and non-liability claims and will be looked at in more detail in the next section of this report.

Illustration 3 – Claims received in 2016/2017 by current status

2016/2017	Total No.	Pending claims		Under Investigation		Accepted claims		Repudiated		
		No.	Reserve (£)	No.	Reserve (£)	No.	Value (£)	No.	Savings (£)	Defence (£)
Public Liability	370	151	124,126.00	63	953,329.50	16	39,446	140	600,296	0
Employer's Liability	8	0	-	6	73,107.00	0	0	2	27,678	0
Other Liability	3	1	16,500.00	2	35,329.00	0	0	0	0	0
<i>Liability Sub-total:</i>	<i>381</i>	<i>152</i>	<i>140,626.00</i>	<i>71</i>	<i>1,061,765.50</i>	<i>16</i>	<i>39,446</i>	<i>142</i>	<i>627,974</i>	<i>0</i>
Motor Vehicle	47	5	1,800.00	15	17,289.00	24	13,104	3	1,600	0
Property Damage	12	3	4,000.00	5	20,680.00	2	11,380	2	1,000	0
Own Policies	8	0	-	0	-	8	1,632	0	0	0
Overall Total:	448	160	146,426.00	91	1,099,734.50	50	65,561	147	630,574	0
									Total Paid (£):	65,561
									Reserves (£)	1,246,161
									'Savings' (£):	630,574
									Potential Cost (£):	1,942,295

7.1 Liability Claims

7.1.1 Liability claims represent 381 of all claims received in 2016/2017. A liability claim means an allegation of negligence is being made against the Council.

7.1.2 Following investigations a liability decision has been reached on 158 of these claims, with 142 (89.9%) of them being repudiated (i.e. turned down).

7.1.3 The good work carried out by Shropshire Council staff is again proven by the cost we could have incurred if repudiated claims had been paid. Based on the present position, in 2015/2016 savings of £628k have been achieved against defended Liability claims. Over the last three years savings amount to over £2.8m.

7.1.4 16 of the liability claims received have been accepted, with a combined expected cost once fully settled of £39.4k.

7.1.5 There are currently 71 claims that are under investigation, meaning a liability decision has not yet been reached. Reserves of over £1.06m are attached to these claims, however it should be noted that it is highly likely that the majority of these claims will also be repudiated and further savings will be achieved. Included within these figures are two high value claims which have a combined value of £281k.

7.1.6 Illustration 4 below highlights the split of claims that are repudiated against those settled – whilst the Authority has little control over the number of claims that are made, this shows that we are able to defend (ie repudiate) the majority of claims successfully.

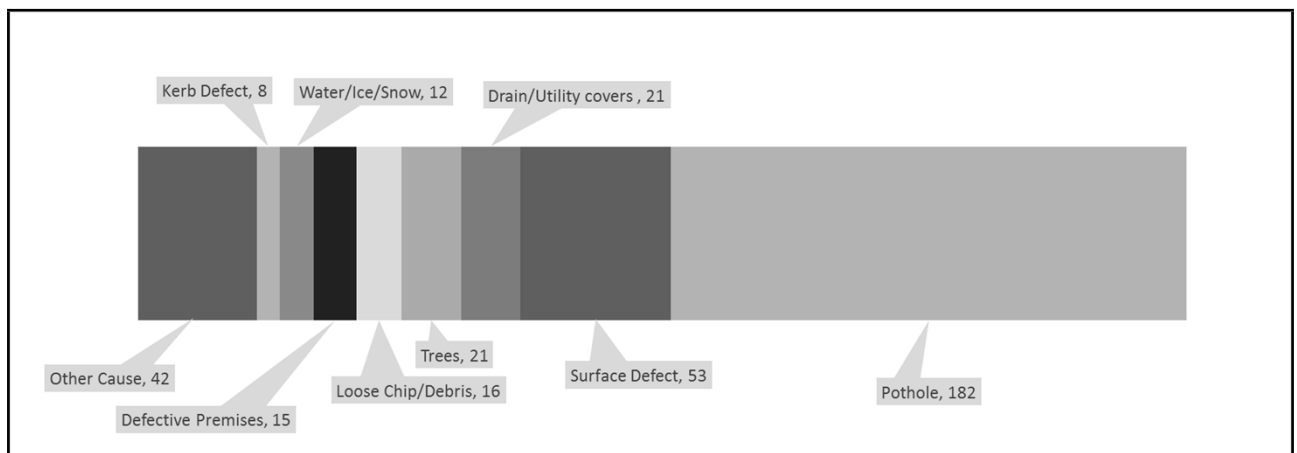
Illustration 4 - Comparison of those Liability claims accepted and those defended



7.2 Public Liability claims

7.2.1 Of the 370 Public Liability claims received during 2016/2017, the majority of claims (85.7%) have arisen through Highways Maintenance incidents mainly as a result of potholes. The current repudiation rate for Highways Maintenance claims is 92.3% - well above the industry average of 82%.

Illustration 5 – Public Liability claims by Cause



7.2.2 182 Pothole claims were received during 2016/2017. A liability decision has been reached on 72 of these claims, of which 61 have been repudiated and we expect to achieve savings of approximately £159.7k. The main reason that we are able to successfully defend pothole claims is because there is a Section 58 defence under the Highways Act - we can demonstrate that we have an adequate system of inspection in place, or we had no knowledge of the defect prior to the incident (but took action as soon as we were put on notice).

7.2.3 Liability has been accepted against 11 of the Pothole claims received during 2016/2017, at an expected cost of £20.2k. Four of these claims are as a

result of the failure of our current contractor, Ringway – either because of a failed repair or the repair was not carried out as requested. These claims have a value of £7.9k. Where possible a recovery from Ringway is being undertaken.

7.3 Employers Liability claims

7.3.1 We continue to receive a low number of Employers' Liability (EL) claims, with eight claims being received during 2016/2017. In 2015/2016 we received 14 claims, and 12 in 2014/2015. It should be noted that EL claims often take a number of years to be received and there is the potential for an increase in the claims against 2016/2017 in the future.

7.3.2 Of the eight claims received in 2016/2017 just one of them relates to an incident that occurred in that policy year, two relate to 2015/2016 and the other five relate to noise or vibration disease claims for former employees in the 1960's 70's and 80's.

7.3.3 The incident occurring in 2016/2017 relates to an employee falling on a manhole in a verge whilst surveying. The claim has been repudiated and the expected saving is £14k.

7.4 Other Liability claims

7.4.1 We have received three Official Indemnity claims during 2016/2017. Official Indemnity claims are where a claimant has suffered a purely financial loss as opposed to damage or injury. Liability has not been accepted against any of these claims to date and investigations remain on-going. The combined reserves held are £51.8k. In the last three years no Officials Indemnity claim has been paid.

7.5 Motor claims

7.5.1 During 2016/2017 we received a total of 47 motor claims, which remains in line with the number received in 2015/2016.

7.5.2 Of these claims received, 30 involve our own vehicle only (no Third Party involvement), making up 63.8% of all motor claims received in 2016/2017.

7.5.3 Of the 17 claims involving a Third Party, we have accepted fault in five cases - these claims total £6.5k. Two cases have been defended saving the Authority £1.6k and the other cases are either under investigation or Pending in status.

7.5.4 The main reason for motor claims during 2016/2017 are incidents relating to our own driver reversing – 13 claims being recorded. Fortunately the damage has been minimal and the average value of these claims is £575 per claim.

7.5.5 The second most common cause of incidents is misjudgement/manoeuvring, and this has historically been the cause of the majority of motor related claims.

7.6 Property claims

- 7.6.1 During 2016/2017 we received 12 Property claims, a reduction on the 22 in 2015/2016 when we suffered a much wetter and colder winter. The total value attached to the 12 claims being £37.1k.
- 7.6.2 There was no trend to the 12 claims received, with a small number of burst pipes, storm, impact/collision and theft claims.
- 7.6.3 At £10k, the highest value claim was water ingress at one of our schools following issues with the roof.
- 7.6.4 In total five school property claims were received totalling £18.7k, two general property claims totalling £1k, three All Risk (specific high risk property) claims valued at £16.5k and two housing related claims valued at £0.1k.

7.7 Current exposure

- 7.7.1 We currently have 244 open claims with reserves of £5.3m attached. Whilst this report so far has focused on claims received during the 2016/2017 policy year, it is important to remember that claims can continue to be received against old policy years – we have had a number of claims going back as far as the early 1960's. Historically these would usually relate to Employers Liability disease claims such as exposure to noise and vibration. In recent years we have also started to see an increase in the number of Abuse cases which are classified as Public Liability claims.

Illustration 6 – Open Liability claims by policy year

Year	Employer's Liability		Public Liability	
	No.	Value(£)	No.	Value(£)
1961/1962	1	10,000	0	0
1962/1963	2	247,142	0	0
1963/1964	1	13,000	0	0
1969/1970	1	5,440	0	0
1973/1974	1	13,000	0	0
1974/1975	1	16,253	1	115,000
1975/1976	1	3,529	0	0
1976/1977	1	6,885	0	0
1977/1978	0	0	1	85,000
1978/1979	0	0	2	144,355
1979/1980	3	31,522	1	55,552
1981/1982	0	0	1	31,146
1982/1983	1	7,221	0	0
1985/1986	1	9,789	0	0
1988/1989	0	0	2	246,000
2005/2006	1	6,000	0	0
2006/2007	0	0	1	375,000
2007/2008	0	0	1	300,000
2008/2009	0	0	1	62,859
2011/2012	0	0	1	46,500
2012/2013	3	394,200	3	69,839
2013/2014	1	26,500	4	828,649
2014/2015	0	0	10	125,392

2015/2016	2	55,158	35	969,523
2016/2017	1	14,020	122	751,887
Total	22	859,659	186	4,206,701

7.7.2 We currently have open 22 Employers Liability claims, of which 15 are disease related claims with reserves of £369.8k. 11 are for noise related injuries, three for vibration white finger and one for mesothelioma. The mesothelioma case has a reserve of £246.2k alone as the Claimant unfortunately died as a result of exposure to asbestos during the duration of employment between 1962 and 1994. Liability has been accepted as unfortunately no records are in existence to prove that PPE was supplied to the Claimant during employment.

7.7.3 The largest value claim is valued at £335k and is against the 2012/13 policy year. The Claimant was initially seeking over £0.5m in damages, but accepted an offer representing just 4% of this (£20k) in settlement of the claim. Negotiations are now taking place to settle the Solicitor's costs and we are hopeful that the eventual settlement figure will be significantly lower than the current reserve.

7.7.4 The majority of open claims are of a low value with 35% (85 claims) being valued at less than £1k. This is because the majority of claims we receive relate to vehicle damage caused by the highway conditions. A further 51% (125 claims) are valued between £1k and £25k. Whilst 35% of the number of claims are valued under £1k, the combined value of these claims (£29.1k) represents just 1% of the overall reserve of £5.3m.

7.7.5 We have eight claims that are valued above £100k – the combined reserves of these claims being £2.96m. Liability is denied against two of the claims, three claims have been accepted (includes the two EL claims mentioned above) and three are under investigation.

7.7.6 Of the 244 claims open, just over 48.3% have been repudiated (107 claims) and as such the £1.9m reserved against these claims is not likely to be paid. However there is the possibility of a challenge to these decisions which could result in legal action (and increased costs in some areas). 111 claims remain under investigation at present and 23 claims have been accepted and we are negotiating settlement. The value of the accepted claims being approximately £1.5m.

Illustration 5 – Open claims by detailed status

By Status	No.	Value(£)
Repudiated	107	1,919,254
Accepted	23	1,518,237
Under Investigation	111	1,819,758
Own Policy	3	655
	244	5,257,903

7.7.7 During 2016/2017 a total of five cases went to Court and it is pleasing to note that we successfully defended all five cases, saving the Authority over £71.5k.

7.8 Municipal Mutual Insurance (MMI) Clawback

- 7.8.1 In previous years we reported that as MMI were no longer able to foresee a solvent run off, the Scheme of Arrangement was implemented and a levy was applied to creditors in early 2014 resulting in a payment by Shropshire Council of £834,000.
- 7.8.2 Following the publication of the accounts in 2015 it was confirmed that a levy of a further 10% would be applied to creditors. This resulted in a second payment by Shropshire Council of £444,303 in 2016.
- 7.8.3 There is the possibility that MMI will still be unable to reach a solvent runoff despite the 25% levy already applied, in which case a further levy increase may be made. Within the industry the advice is that Scheme Creditors should be reserving for a final levy of between 50% to 100% of payments made.
- 7.8.4 As the MMI years relate to the old Shropshire County Council days before the Telford & Wrekin split, the above payments are split between Shropshire Council and Telford & Wrekin.
- 7.8.5 In addition to the payments detailed above, there is an ongoing 25% contribution to all claim payments that has to be made by Old Shropshire on an ongoing basis.

7.10 Other Policies

- 7.10.1 With the move to commissioning and new ways of working the insurance policy has been extended to include the name of STAR Housing. Therefore this company is covered under the same policy and conditions as Shropshire Council.
- 7.10.2 The Insurance Team supports and advises the above company in the same way it supports Shropshire Council.

7.11 Reporting

- 7.11.1 The insurance team have access to detailed management information regarding the number of claims received, the cause and the cost and can report on trends happening within any service area. To this end we provide regular reporting to key service areas such as highways, property services, and transport operations group which informs their decision making. We also work closely with services to manage their risks and to ensure that incidents do not happen again which have given rise to a claim.
- 7.11.2 There is close involvement in the Alarm Midlands Group and the Risk & Insurance Manager is chair with the Risk Management Officer also being a committee member. This allows the team to be aware of current legislation changes, trends and best practice from other authorities.

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

Annual Governance Statement

Risk Management Audit Report, Insurance Audit Report

Opportunity Risk Management Strategy

Business Continuity Management Policy

Business Continuity Plan

Insurance Annual Report

Cabinet Member

David Minnery, Portfolio Holder Finance, Governance & Assurance

Local Member

N/A

Appendices



Committee and Date	Item	Paper
Audit Committee – 7 th September 2017		

STRATEGIC RISK REPORT SEPTEMBER 2017

Responsible Officer Angela Beechey

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1. Summary

- 1.1 This report sets out the current strategic risk exposure together with recent modifications and planned changes to strategic risk management within the authority.

2. Recommendations

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

REPORT

3. Current Strategic Risk Exposure

- 3.1 The management of strategic risk is a key process which underpins the successful achievement of our priorities and outcomes. Strategic risks are linked, where appropriate, with the Annual Governance Statement Targeted Outcomes.
- 3.2 Our strategic risks have been reviewed on a bi-monthly basis ensuring that the level of risk exposure was monitored closely in our rapidly changing environment.
- 3.3 This was achieved through scheduled meetings with key officers, Directors, Chief Executive and Portfolio Holder. The outcome of each review is then reported to Directors and Informal Cabinet.
- 3.4 The new Risk Profile & Action Plan templates for managing our strategic risks are now completed and fully embedded. This details the direction of travel for each strategic risk over the year and clearly articulates the current controls in place and the additional controls required to mitigate and manage our strategic risk exposure effectively.
- 3.5 The Risk Profile & Action Plan now also includes target scores for each strategic risk to be achieved by the end of the current financial year.
- 3.6 As at the May 2017 review there were 16 strategic risks on the strategic risk register and these are each managed by specific Directors. These are detailed as follows:-

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
Future Funding Levels	James Walton	4	5	20
Failure to Safeguard Vulnerable Adults	Andy Begley	4	4	16
Digital Transformation Programme	Michele Leith	3	5	15
Contract Management	George Candler	3	4	12
Failure to Safeguard Vulnerable Children	Karen Bradshaw	3	4	12
Delivery of Key Corporate Strategies	George Candler	3	4	12
Governance	Claire Porter	3	4	12
Health & Social Care	Andy Begley	3	4	12
ICT Provision	Michele Leith	3	3	9
Strategic Vision and Strategy	George Candler	2	4	8
Reputation	Michele Leith	2	3	6
Impact of Brexit	Clive Wright	TBC	TBC	*NEW
Meeting our Capabilities and Commissioning Needs	George Candler	TBC	TBC	*NEW

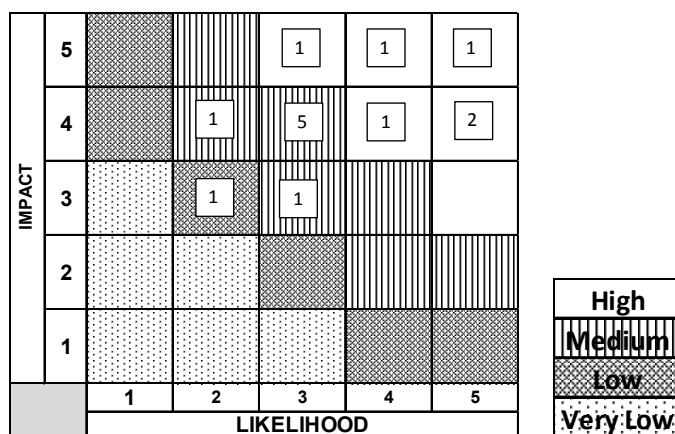
High Risks

Medium Risks

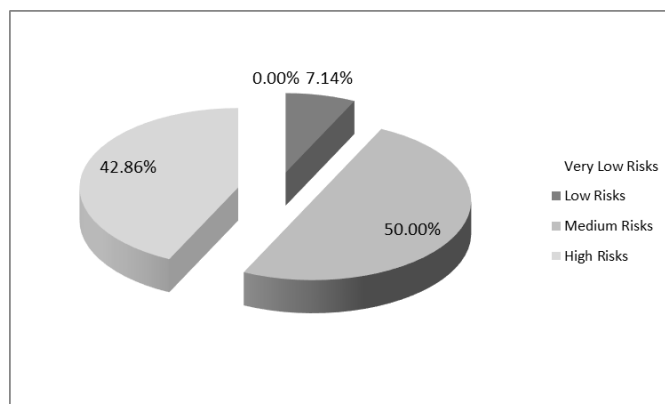
Low Risks

- 3.7 A key part of the risk management process is to be aware of the ever changing arena in which we work and to identify any new or emergency risks. These are highlighted and discussed with the relevant officers and added as a strategic risk if deemed appropriate. During 2016/2017 two risks have been added to the strategic risk list. Each of these risks will be developed with the owner.
- 3.8 The first new risk was highlighted in April 2017 - 'Impact of Brexit'. This was identified as a potential new risk following the outcomes of the referendum.
- 3.9 The second new risk was also highlighted in April 2017. 'Difficulty in meeting our capabilities and commissioning needs across the organisation (Expressions of Interest/Tendering)'. This risk was identified and added to the strategic risk register following concerns raised during the annual review with Directors in relation to lack of suppliers coming forward and in some authorities some contractors not being willing to take on contracts with local authorities. The risk crosses over several areas; contract management, Health & Social Care, vulnerable adults etc. The market is contracting therefore it is more difficult for us to meet our capabilities and our commissioning needs.
- 3.10 As a result of the focus on the Digital Transformation Programme an Assurance Board has been formed utilising the Risk Management Officer, IT Auditor, Information Governance Manager and ICT Governance Officer. The role of the Assurance Board is to challenge across the entire Digital Transformation Programme and provide regular exception reporting of key risks and issues.

3.11 Our current risk exposure, when plotted on our matrix is demonstrated as follows:-



3.12 Our overall current risk exposure following the latest review is demonstrated as follows:-



3.13 As mentioned above the risk profile and action plans detail the target scores that have been allocated to the strategic risks to be achieved by the end of the financial year these are detailed as follows:

Risk	Current Status	Target Status
Sustainable Budget	25	25
Staffing	20	16
Work Related Stress	20	20
Future Funding Levels	20	15
Failure to Safeguard Vulnerable Adults	16	12
Digital Transformation Programme	15	Remove
Contract Management	12	6
Failure to Safeguard Vulnerable Children	12	8
Delivery of Key Corporate Strategies	12	6
Governance	12	8
Health & Social Care	12	12
ICT Provision	9	6
Strategic Vision and Strategy	8	TBC

Reputation	6	Remove
Impact of Brexit	*NEW – TBC	TBC
Meeting our Capabilities and Commissioning Needs	*NEW - TBC	TBC

High Risks
Medium Risks
Low Risks

4. Planned Changes

- 4.1 The Risk Management Team continuously monitor the most appropriate and effective way to manage the Council’s risk exposure (Strategic, Operational or Project related). As the management of risks is so well embedded and due to commitments across the authority to deliver the Digital Transformation Programme, the risk reviews have been altered to reflect this commitment.
- 4.2 Strategic risks will now be reviewed on a quarterly basis from bi-monthly and operational risks will be reviewed twice a year from a quarterly basis. However, adhoc reviews will be undertaken by the Risk Management team throughout the year to ensure that high risk areas continue to be well managed.
- 4.3 During this year we have continued to develop an assurance mapping process linked to our strategic risks which incorporates the three lines of defence:-

Defence	Type of Assurance	Provided by/ Obtained through
First Line	Management	Provided by Heads of Service/ key managers
Second Line	Internal Governance	Provided by:- <ul style="list-style-type: none"> • Performance (scrutiny, customer experience) • Legal (monitoring officer reports, committee reports, legal advice) • Finance (MTFP, Revenue & Capital, Treasury Mgt) • Risk (operational, project, programme)
Third Line	External Assurance	Obtained through:- <ul style="list-style-type: none"> • Quality Assurance & 3rd Parties (e.g. Ofsted, CQC) • External Audit • Peer Reviews
Third Line	Internal Audit	Provided by Internal Audit

- 4.3.1 Each area provides an independent opinion as to the level of assurance they can give based on their knowledge and involvement, the assurances being as follows:

- Unsatisfactory
- Limited
- Reasonable
- Good

The strategic risk owner then gives their overall assurance opinion and this can be challenged by Directors and Informal Cabinet where appropriate.

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

David Minnery, Portfolio Holder Resources & Support

Local Member

N/A

Appendices

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<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
07 September 2017	
1:30pm	<u>Public</u>

INTERNAL AUDIT PERFORMANCE AND REVISED ANNUAL AUDIT PLAN 2017/18

Responsible Officer Ceri Pilawski
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1. Summary

This report provides members with an update of work undertaken by Internal Audit in the four months since the beginning of the financial year and the start of Shropshire Council's approved audit plan implementation. Thirty four percent of the revised plan has been completed (**see Appendix A, Table 1**), which is in line with previous delivery records. The team is on target to achieve 90% delivery by the year end.

Eleven good, thirteen reasonable, two limited and one unsatisfactory assurance opinions have been issued. The 27 final reports contained 211 recommendations, two of which were fundamental.

This report proposes minor revisions taking the overall audit plan from 2,046 days, as reported in February 2017, to 2,044 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.

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 2017/18 Audit Plan set out in this report.
- b) The adjustments required to the 2017/18 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. 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. In delivering the Plan, 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. Without this, 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 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'.

3.3 'Proper practices' can be demonstrated through compliance with the Public Sector Internal Audit Standards (PSIAS).

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

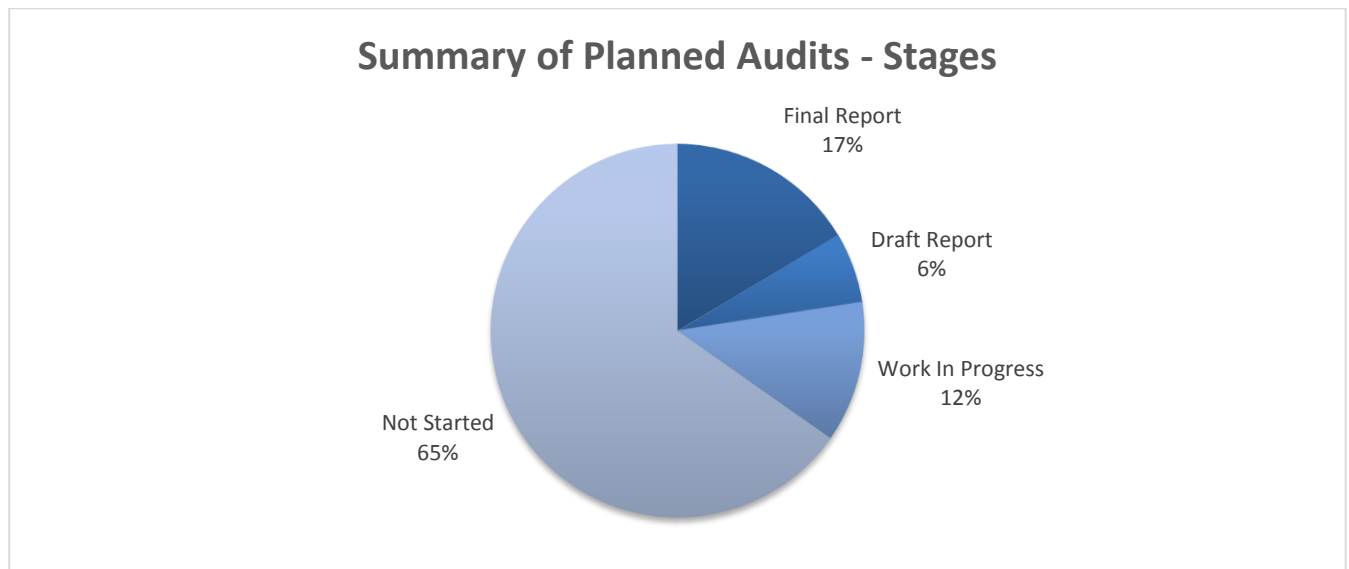
5.1 Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal Audit reviews, appraises and reports on the efficiency, effectiveness and economy of financial, governance, risk and other management controls. The Audit Committee is the governing body charged with monitoring progress on the work of Internal Audit.

5.2 The 2017/18 Internal Audit Plan was presented to, and approved by, members at the 22nd February 2017 Audit Committee, with the caveat that further adjustments may be necessary. This report provides an update on progress made against the plan up to 11th August 2017 and includes minor revisions to the plan.

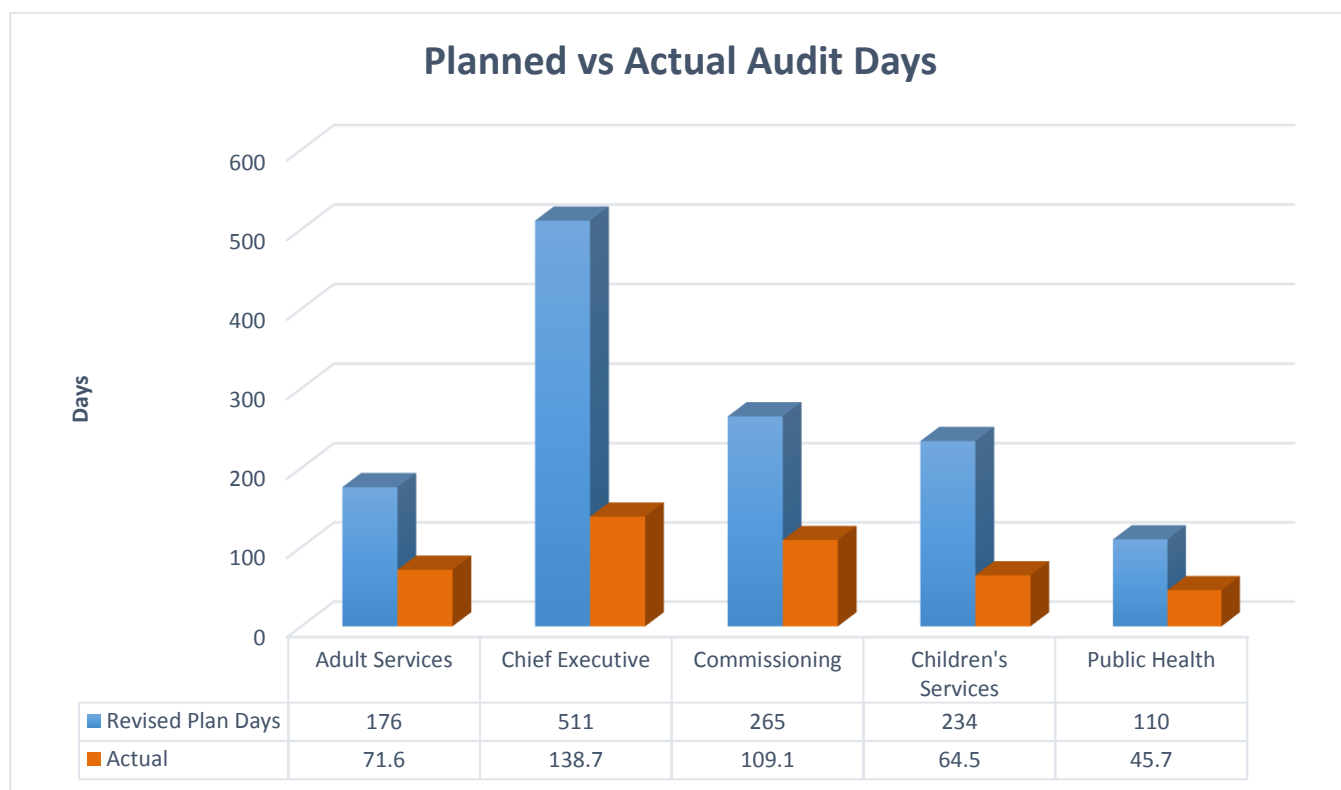
5.3 Part of the internal audit plan will be delivered by external providers.

Performance against the plan 2017/18

- 5.4 Revisions to the 2017/18 plan provide for a total of 2,044 days following slight changes overall reflecting adjustments in risks and resources. A reduction in days for maternity leave has been offset with the engagement of a Trainee Accountant, recruitment to full time posts and additional days bought in from external contractors following a mini tendering exercise. Minor changes between chargeable and non-chargeable work accounts for the slight decrease in days from 2,046 to 2,044 days. Performance to date is marginally higher than previous delivery records at 34% (29% 2016/17) and overall the team is on track to deliver a minimum of 90% of the annual plan by year end.
- 5.5 In total, 27 final reports have been issued in the period from 1st April 2017 to 11th August 2017. The following chart shows performance against the approved Internal Audit Plan for 2017/18:



Audits have been completed over a number of service areas as planned:

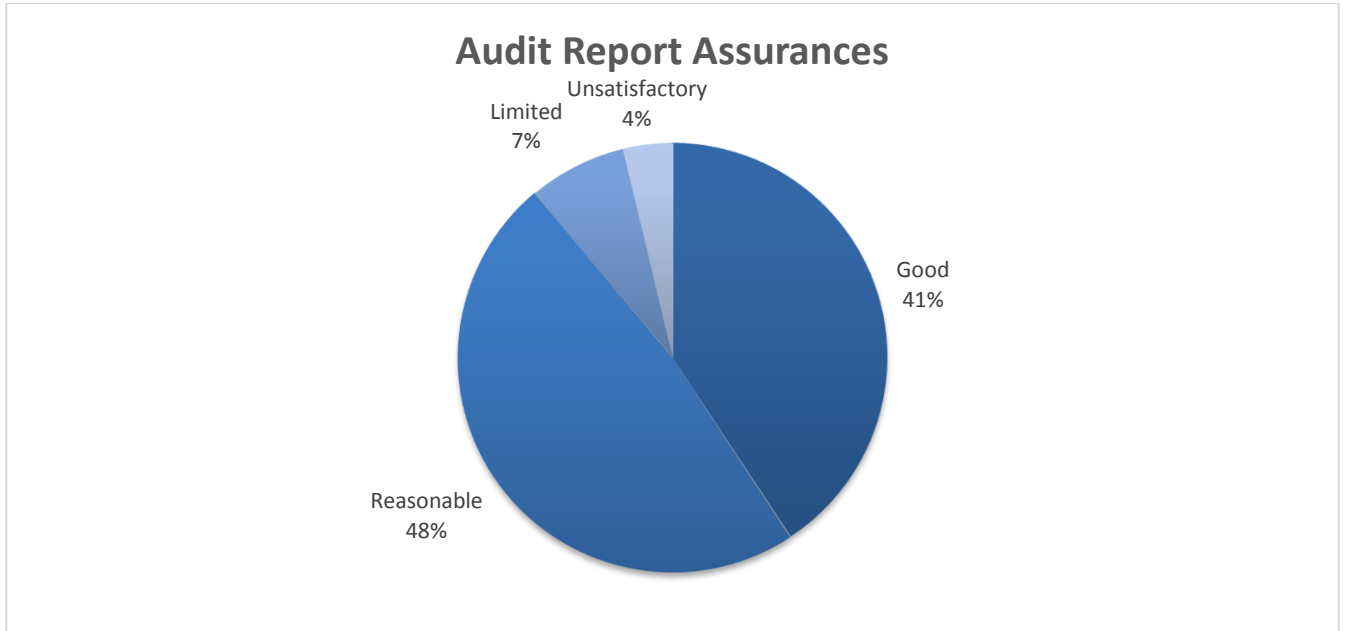


5.6 The following audits have been completed since the beginning of the year:

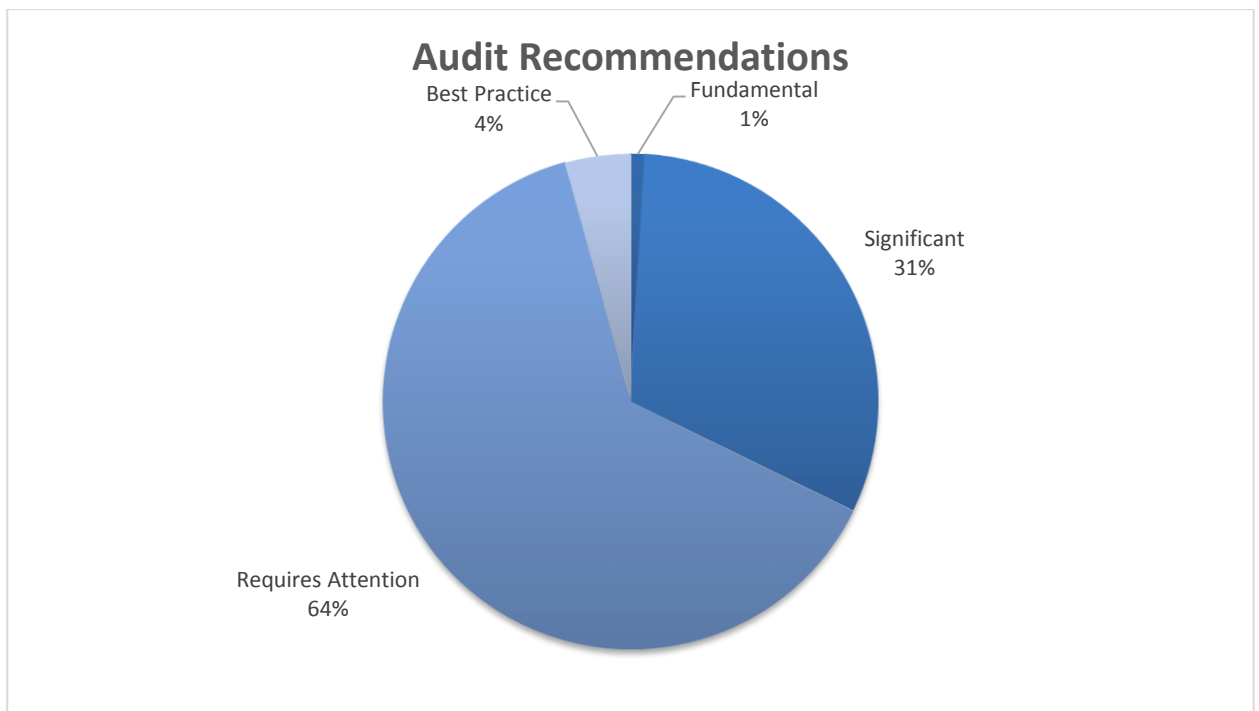
- Corporate Governance
- Refugee Action Grant
- Disabled Facilities Grant
- Energy Grants
- Electronic Homecare Monitoring – non IT CM2000
- Land Charges
- Estate Management
- Concessionary Fares
- Waste - Veolia Contract
- Crowmoor Primary School
- Assessments and looked after children budget monitoring arrangements
- Children’s Social Care Management Controls
- Troubled Families, quarter one and two
- Bereavement Services Contract
- Chipside Parking System application review
- Environmental Service – Pest Control
- Food Safety
- Corporate Budget Management and Control
- Income Collection
- Imprest Administration system
- Cardholder Management system for Blue Badges
- Third Party Audits for Hosted systems
- Payroll System
- Apprenticeship Levy

- Digital Transformation Programme – Governance and Pre Contract Stage Assurance
- IT Strategy
- Patch Management

5.7 The assurance levels awarded to each completed audit area appear in the attached graph:



5.8 The overall spread of recommendations agreed with management following each audit review appear in the attached graph:



- 5.9 Up to the 11th August 2017, 24 reports have been issued, providing good or reasonable assurances, accounting for 89% of the opinions delivered. This represents an increase in the higher levels of assurance for this period, compared to the previous year outturn of 52%. This is offset by a corresponding decrease in limited and unsatisfactory assurances, currently 11% compared to the previous year outturn of 48%. Whilst this reflects a positive improvement, caution is advised on the interpretation of this data as to how it reflects the overall control environment, given that only 34% of the plan has been completed and there are currently a high number of draft reviews in production with limited and unsatisfactory assurance levels.
- 5.10 During this period, there is no strong pattern of areas attracting lower assurance levels. The two limited audit areas are the Chipside Parking system application (Public Health) and Veolia Contract (Commissioning); the unsatisfactory audit is Estate Management (Commissioning). Control objectives evaluated and not found to be in place as part of these audit reviews appear in a summary of the planned audit reviews which resulted in unsatisfactory or limited assurance 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** and provides a glossary of common terms, **Table 6**.
- 5.11 Ten 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 an honorary fund and the certification of a grant claim.
- 5.12 A total of 211 recommendations have been made in the 27 final audit reports issued in the four month period; these are broken down by audit area and appear in **Appendix A, Table 7**.
- 5.13 Two fundamental recommendations have been identified:

Children’s Social Care Management Controls 2016/17

A full review of all driver documentation should be undertaken and any omissions or errors addressed in accordance with the policy. In addition, the process is reviewed to ensure that going forward the system is embedded and any exceptions reported immediately. Licensing should provide assurance to Children's and Adult Services that this recommendation has been implemented within a reasonable period to be agreed between both parties.

Estates Management 2016/17

The data in 'Technology Forge' should be reviewed and brought up to date. In particular the information on the spreadsheet 'databases' of leases and properties should be reviewed against the information in 'Technology Forge' and corrections should be made as required to produce a single, complete and accurate record of all leases and properties.

- 5.14 It is management’s responsibility to ensure accepted audit recommendations are implemented within an agreed timescale. With the exception of annual audits, where recommendations are revisited as a matter of course, 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.

5.15 Two recommendations have been rejected by management.

Chipside Parking System Application Review 2016/17

Recommendation - A formal review of job descriptions specifically related to the administration of the Chipside application should be undertaken and reaffirmed as soon as possible.

Response – No. Job Descriptions deliberately do not specify which systems are administered to avoid amendments being required should systems change.

Audit comment - Accountability is not formally assigned for system administration leading to poor management of systems in place to comply with legislation leading to fines for non-compliance.

Disability Facilities Grants

Recommendation - Procedure notes on how to extract a user list from Civica should be written. These should be dated, version controlled and stored securely either electronically or in manual file. (This recommendation is directed to the PPO Lead Technical Officer).

Response – I do not accept this recommendation as it is extremely low risk and the information is available from the APP system provider CIVICA.

Audit Comment - There are two system administrators for Civica. Neither officer was able to provide a user list to the auditor however, it is noted that the responsibility for adding/amending and deleting users lies with the Administrators. The Environmental Health System Application Review in 2014/15 (recommendation 9) identified that there is currently no regular check of the users on the Civica APP system and a recommendation was made to address this weakness. If the user list is to be checked on a regular basis to ensure all users are currently employed members of staff who require access, a user list should be available from the system without the need to go back to the supplier.

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**.

- Internal Audit were requested to support the Client Property and Appointeeship Team to review planned spend for a vulnerable adult by their carers in relation to a proposed holiday. The holiday costs and areas of expenditure appeared excessive and research showed that the proposed holiday was accommodating the carer's family and the client. Officers intervened and appropriate holiday arrangements were agreed.
- Prior to a library closure Internal Audit provided a checklist for officers to run through to ensure that all assets were accounted for appropriately.
- Support has been provided to the Digital Transformation Project. The Principal IT Auditor has been selected to sit on the Assurance Group and has contributed to a clear terms of reference and early exception reports to the overall programme board.

The group will bring challenge in the areas of controls, information governance and risk.

- Every school submits annually a schools financial value standard (SFVS) and assurance form to the Council. The SFVS helps schools to manage their finances and to provide assurance to the local authority and their governors that they have secure financial management in place. The Council uses this information to inform their programme of financial assessment and audit. Internal audit analyse the results received for the Section 151 Officer to submit the dedicated schools grant assurance form, covering all maintained schools in the area, to the Department for Education.
- The Information Governance (IG) Toolkit is a Department of Health single standard that sets out the information governance requirements the Council needs to complete a self-assessment against to demonstrate its suitability to share data between the two bodies. The Principal IT Auditor has helped by reviewing the evidence providing assurance of the Council's compliance against the IG requirements.
- Microsoft Azure is Microsoft's public cloud computing platform which provides a range of cloud services including those for compute, analytics, storage and networking. Internal Audit provided a note of control areas for review to support the Infrastructure and Security Team Manager in their review of the way in which Azure is currently being used and its future potential.
- Audit worked with a service area to provide learning and to conduct a health check for an area transferring services back into the Council.
- A review of till procedures was conducted at a facility to ensure that controls were robust enough to prevent any loss of funds. Whilst there was no evidence of any losses, control improvements were recommended and adopted by the service.
- A review of the application of travel and subsistence policies identified some areas of non-compliance, a number of which were down to conflicting and confusing information. Issues identified have been shared with Directors who will remind officers of their responsibility and improved guidance has also been made available.

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
2017/18 to date	41%	48%	7%	4%	100%
2016/17	7%	45%	31%	17%	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%
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Comparison of recommendation by categorisation

Categorisation	Best practice	Requires attention	Significant	Fundamental	Total
2017/18 to date	4%	64%	31%	1%	100%
2016/17	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 11%, at this point in the year, is significantly lower than the outturn for 2016/17 of 48%. **Appendix A, Table 3**, shows a full list of areas that have attracted limited and unsatisfactory assurances to date this year. This does not currently demonstrate any one area of concern which is a positive result, however, Members should note that only a proportion of the plan has been completed to date and the main financial and governance areas are yet to be completed. In addition, there have been two fundamental recommendations made as set out in paragraph 5.13 above.

Performance measures

- 5.19 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 2017/18 - Audit Committee 22nd February 2017 Public Sector Internal Audit Standards (PSIAS) Audit Management system Accounts and Audit Regulations 2015</p>
<p>Cabinet Member (Portfolio Holder) Peter Nutting, Leader of the Council and Peter Adams, Chairman of Audit Committee</p>
<p>Local Member: All</p>
<p>Appendices</p> <p>Appendix A Table 1: Summary of actual audit days delivered against plan 1st April 2017 to 11th August 2017 Table 2: Final audit report assurance opinions issued in the period 1st April 2017 to 11th August 2017 Table 3: Unsatisfactory and limited assurance opinions in the period 1st April 2017 to 11th August 2017 Table 4: Audit assurance opinions Table 5: Audit recommendation categories Table 6: Glossary of terms Table 7: Audit recommendations made in the period 1st April 2017 to 11th August 2017 Appendix B - Audit plan by service 1st April 2017 to 11th August 2017</p>

APPENDIX A

Table 1: Summary of actual audit days delivered and revisions to the audit plan in the period 1st April 2017 to 11th August 2017

	Original Plan	Revised Plan	11 August 2017 Actual	% of Original Complete	% of Revised Complete
Chief Executive	552	511	138.7	25%	27%
Commercial Services					
Finance, Governance and Assurance	204	154	35.4	17%	23%
Governance	18	25	8.6	48%	34%
Human Resources	309	316	94.4	31%	30%
Legal and Democratic	21	16	0.3	1%	2%
Adult Services	156	176	71.6	46%	41%
Commissioning	257	265	109.1	42%	41%
Children's Services	185	234	64.5	35%	28%
Public Health	110	110	45.7	42%	42%
S151 Planned Audit	1,260	1,296	429.6	34%	33%
Contingencies and other chargeable work	563	512	196	35%	38%
Total S151 Audit	1,823	1,808	625.6	34%	35%
External Clients	223	236	61.6	28%	26%
Total	2,046	2,044	687.2	34%	34%

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 1st April 2017 to 11th August 2017

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Chief Executive	6	5	0	0	11
Commercial Services					
Finance, Governance and Assurance	2	1	0	0	3
Governance	1	0	0	0	1
Human Resources	3	4	0	0	7
Legal and Democratic					
Adult Services	1	3	0	0	4
Commissioning	1	1	1	1	4
Children's Services	2	2	0	0	4
Children's Services: Schools	0	1	0	0	1
Children's Services: Others	2	1	0	0	3
Public Health	1	2	1	0	4

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Total for 2017/18 to date					
➤ Numbers	11	13	2	1	27
➤ Percentage	41%	48%	7%	4%	100%
Percentage 2016/17	7%	45%	31%	17%	100%
Percentage 2015/16	14%	35%	42%	9%	100%
Percentage 2014/15	17%	47%	28%	8%	100%
Percentage 2013/14	30%	45%	15%	10%	100%
Percentage 2012/13	31%	56%	12%	1%	100%

Table 3: Unsatisfactory and limited assurance opinions issued in the period from 1st April 2017 to 11th August 2017 listed by service area¹

UNSATISFACTORY ASSURANCE

Commissioning: Estate Management 2016/17

1. There are adequate processes in operation where a lease has been granted by the Council.
2. There are appropriate processes in operation where a lease has been taken out by the Council.
3. There are appropriate processes in operation for processing invoices and recovery of arrears.

LIMITED ASSURANCE

Commissioning: Waste – Veolia Contract

1. To establish the extent to which previous recommendations have been implemented.
2. There are suitable arrangements in place to verify that payments to Veolia are valid and accurate.
3. The 2015/16 contract reconciliation work has been completed with all elements understood, mitigated for risk and fully documented.

Public Health: Chipside Parking System Application Review 2016/17

1. There are continuity processes in place to ensure system availability.
2. Management/Audit trails are in place.

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.

Appendix A continued**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: Glossary of terms**Significance**

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

Head of Internal Audit Annual Opinion

The rating, conclusion and/or other description of results provided by the Head of Internal Audit addressing, at a broad level, governance, risk management and/or control processes of the organisation. An overall opinion is the professional judgement of the Head of Internal Audit based on the results of a number of individual engagements and other activities for a specific time interval.

Governance

Comprises the arrangements (including political, economic, social, environmental, administrative, legal and other arrangements) put in place to ensure that the outcomes for intended stakeholders are defined and achieved.

Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Control

Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved.

Management - plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Impairment

Impairment to organisational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations (funding).

Table 7: Audit recommendations made in the period from the 1st April 2017 to 11th August 2017

Service area	Number of recommendations made				
	Best practice	Requires attention	Significant	Fundamental	Total
Chief Executive	3	27	19	0	49
Commercial Services					
Finance, Governance and Assurance	1	10	7	0	18
Governance	0	0	0	0	0
Human Resources	2	17	12	0	31
Legal and Democratic					
Adult Services	4	25	6	0	35
Commissioning	1	40	26	1	68
Children's Services	1	13	9	1	24
Children's Services: Schools	1	9	7	0	17
Children's Services: Others	0	4	2	1	7
Public Health	0	29	6	0	35
Total for 2017/18 to date					
➤ Numbers	9	134	66	2	211
➤ Percentage	4	64	30	1	100%
Percentage 2016/17	4%	50%	46%	0%	100%
Percentage 2015/16	4%	54%	42%	0%	100%
Percentage 2014/15	6%	53%	40%	1%	100%
Percentage 2013/14	15%	57%	27%	1%	100%
Percentage 2012/13	23%	57%	20%	0%	100%

AUDIT PLAN BY SERVICE –PERFORMANCE REPORT FROM 1st APRIL TO 11th AUGUST 2017

	Original Plan Days	September Revision	Revised Plan Days	11 August 2017 Actual	% Original Plan Achieved	% Revised Plan Achieved
CHIEF EXECUTIVE						
Governance	18	7	25	8.6	48%	34%
Finance Governance & Assurance						
Finance Transactions	37	-8	29	0.0	0%	0%
Finance and S151 Officer	73	-23	50	28.8	39%	58%
Financial Management	31	-8	23	0.0	0%	0%
Revenues and Benefits	35	-15	20	0.0	0%	0%
Risk Management and Business Continuity	5	2	7	0.1	2%	1%
Treasury	23	2	25	6.5	28%	26%
	204	-50	154	35.4	17%	23%
Human Resources						
Human Resources	104	-17	87	30.8	30%	35%
Customer Services	15	-2	13	7.6	51%	58%
ICT	190	26	216	56.0	29%	26%
	309	7	316	94.4	31%	30%
Legal and Democratic						
Information Governance	21	-5	16	0.3	1%	2%
CHIEF EXECUTIVE	552	-41	511	138.7	25%	27%
ADULT SERVICES						
Social Care Operations						
Long Term Support	86	-11	75	34.4	40%	46%
Provider Services - Establishments	0	7	7	6.2	0%	89%
Provider Services - Group Homes	8	0	8	0.1	1%	1%
Provider Services - Trading Accounts	4	11	15	5.9	148%	39%
Housing Services	43	4	47	22.6	53%	48%
	141	11	152	69.2	49%	46%
Social Care Efficiency and Improvement						
Developmental Support	15	9	24	2.4	16%	10%
ADULT SERVICES	156	20	176	71.6	46%	41%

	Original Plan Days	September Revision	Revised Plan Days	11 August 2017 Actual	% Original Plan Achieved	% Revised Plan Achieved
COMMISSIONING						
Places and Enterprise	10	0	10	0.0	0%	0%
Business, Enterprise and Commercial Services						
Commercial Services	5	0	5	0.2	4%	4%
Property Services	8	0	8	0.0	0%	0%
Estates & Facilities	5	0	5	0.8	16%	16%
Shire Services	12	6	18	6.3	53%	35%
	30	6	36	7.3	24%	20%
Economic Growth						
Business & Enterprise	19	0	19	0.1	1%	1%
Development Management	18	-5	13	7.1	39%	55%
Planning & Corporate Policy	8	-8	0	0.0	0%	0%
Project Development	8	-3	5	0.1	1%	2%
	53	-16	37	7.3	14%	20%
Infrastructure and Communities						
Public Transport	10	-10	0	0.0	0%	0%
Highways	56	18	74	32.8	59%	44%
Library Services	12	0	12	0.3	3%	3%
Public Transport	26	9	35	27.4	105%	78%
Theatre Severn and OMH	5	9	14	11.8	236%	84%
Visitor Economy	15	-8	7	0.0	0%	0%
Waste & Bereavement	10	0	10	10.3	103%	103%
	134	18	152	82.6	62%	54%
Procurement	30	0	30	11.9	40%	40%
COMMISSIONING	257	8	265	109.1	42%	41%
CHILDREN'S SERVICES						
Safeguarding						
Children's Placement Services & Joint Adoption	29	-5	24	0.6	2%	3%
Safeguarding	6	0	6	2.5	42%	42%
	35	-5	30	3.1	9%	10%
Education, Improvement and Efficiency						
Business Support	7	0	7	0.0	0%	0%
Education Improvements	31	0	31	1.9	6%	6%
Primary/Special Schools	112	44	156	59.5	53%	38%

	Original Plan Days	September Revision	Revised Plan Days	11 August 2017 Actual	% Original Plan Achieved	% Revised Plan Achieved
Secondary Schools	0	10	10	0.0	0%	0%
	150	54	204	61.4	41%	30%
CHILDREN'S SERVICES	185	49	234	64.5	35%	28%
PUBLIC HEALTH						
Environmental Protection and Prevention	10	0	10	0.7	7%	7%
Public Health	37	0	37	0.1	0%	0%
	47	0	47	0.8	2%	2%
Public Protection						
Community Safety	8	0	8	0.0	0%	0%
Environmental Health	15	-13	2	1.6	11%	80%
Environmental Protection and Prevention	20	16	36	26.1	131%	73%
Health Protection and Prevention	15	-3	12	11.8	79%	98%
	58	0	58	39.5	68%	68%
Bereavement	5	0	5	5.4	108%	108%
PUBLIC HEALTH	110	0	110	45.7	42%	42%
Total Shropshire Council Planned Work	1,260	36	1,296	429.6	34%	33%
CONTINGENCIES						
Advisory Contingency	40	0	40	14.4	36%	36%
Fraud Contingency	200	-55	145	43.4	22%	30%
Unplanned Audit Contingency	47	-35	12	11.9	25%	99%
Other non-audit Chargeable Work	276	39	315	126.3	46%	40%
CONTINGENCIES	563	-51	512	196.0	35%	38%
Total for Shropshire	1,823	-15	1,808	625.6	34%	35%
EXTERNAL CLIENTS	223	13	236	61.6	28%	26%
Total Chargeable	2,046	-2	2,044	687.2	34%	34%

The Audit Findings for Shropshire County Pension Fund

Year ended 31 March 2017

7 September 2017

Page 71

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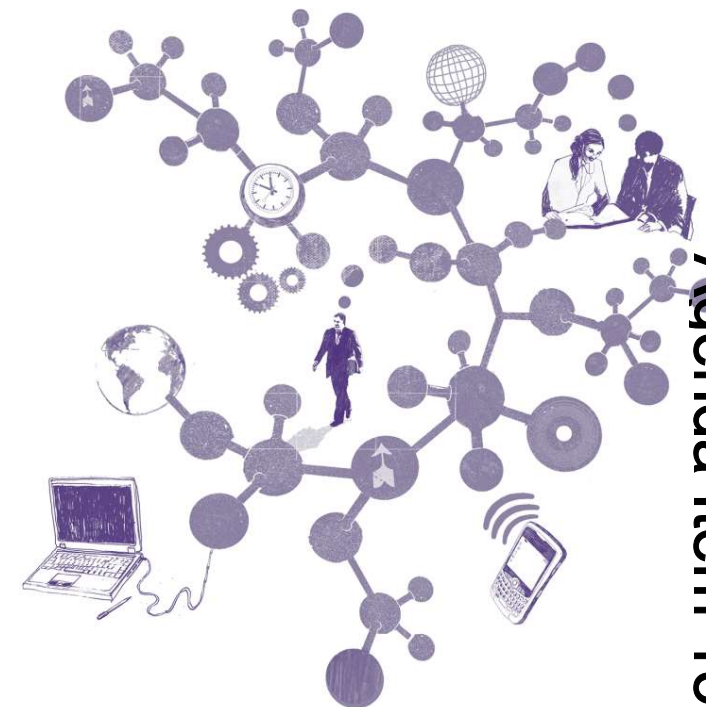
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Agenda Item 15

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7 September 2017

Dear Members of the Pensions Committee

Audit Findings for Shropshire County Pension Fund for the year ending 31 March 2017

The Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Shropshire County Pension Fund, the Pensions Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

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.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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 would like to take this opportunity to record our appreciation for the kind assistance provided by the fund accountants and administration staff during our audit.

Yours sincerely

John Gregory
Director

Chartered Accountants

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Contents

Section	Page
1. Executive summary	4
2. Audit findings	7
3. Fees, non-audit services and independence	18
4. Communication of audit matters	20

Appendices

A Audit opinion

Page 73

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of Shropshire County Pension Fund ('the Fund') and the preparation of the fund's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Fund's financial statements give a true and fair view of the financial position of the fund and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required consider other information published together with the audited financial statements: whether it is consistent with the financial statements and in line with required guidance. This includes the Pension Fund Annual Report.

Introduction

In carrying out our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated March 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- completion of final specialist partner review
- obtaining confirmation from outstanding Investment Managers
- obtaining and reviewing the final management letter of representation
- completion of additional responses required in relation to IAS 19 requests from admitted body auditors
- review of the final version of the financial statements; and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix A).

Key audit and financial reporting issues

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the Fund's financial statements.

The key messages arising from our audit of the Fund's financial statements are:

- We have no adjusted or unadjusted misstatements to report,
- The draft accounts were presented for audit in accordance with the agreed timetable.
- During the course of our work at year end, we were provided with access to all documents as required and the quality of working papers and level of knowledge and assistance provided by fund staff was of a high standard.

We have not identified any adjustments affecting the Fund's reported financial position. However, we have agreed with officers some minor adjustments to improve the presentation of the financial statements.

Further details are set out in section two of this report.

Controls

Roles and responsibilities

The Fund's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Fund.

Findings

We have not noted any significant control weaknesses during our audit.

The way forward

Matters arising from the financial statements audit have been discussed with the Head of Treasury and Pensions.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the fund accountants and administration staff during our audit.

Grant Thornton UK LLP
September 2017

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

This section summarises the findings of the audit. We report on the final level of materiality used and the work undertaken against the risks we identified in our initial audit plan. We also conclude on the accounting policies, estimates and judgements used and highlight any weaknesses found in internal controls as part of the audit. As required by auditing standards we detail both adjusted and unadjusted misstatements to the accounts and their impact on the financial statements.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £17,090,000 (being 1% of net assets). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We 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 accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £828,000. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Page 78

Balance/transaction/disclosure	Explanation	Materiality level
Management Expenses	Due to public interest in these disclosures and the statutory requirement for them to be made.	5% of the value of expenses
Related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	10% of the value of the highest disclosure

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
Page 79	<p>1. The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>We have undertaken the following work in relation to this risk</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Shropshire County Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Shropshire Council as the administering authority, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any material issues in respect of revenue recognition.</p>
	<p>2. Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have undertaken the following work in relation to this risk</p> <ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management, • testing of journal entries, and • review of unusual significant transactions. 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against significant risks 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 address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p>Level 3 Investments – Valuation is incorrect</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> gained an understanding of the transactions via discussions with the pension fund team and reviewed supporting documentation. carried out walkthrough tests of the controls identified in the cycle. tested a sample of Level 3 investments by obtaining and reviewed the audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31 March 2017 with reference to known movements in the intervening period. reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Page 80

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investment Income	Investment income not accurate. (Accuracy)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle, We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances, 	Our audit work has not identified any significant issues in relation to the risks identified.
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle, We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances, 	Our audit work has not identified any significant issues in relation to the risk identified
Investments purchases and sales	Investment activity not valid.	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> We reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances 	Our audit work has not identified any significant issues in relation to the risks identified.

Page 81

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Contributions</p>	<p>Recorded contributions not correct (Occurrence)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • tested key controls over the contributions made to the fund, • tested a sample of contributions to source data to gain assurance over their accuracy and occurrence, and • analysed contributions received with reference to changes in member body payrolls and numbers of contributing pensioners and ensured that any unexpected trends were satisfactorily explained. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p>Benefits payable</p>	<p>Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • tested key controls for member to be enrolled on the scheme, • tested a sample of individual pensions in payment by reference to member files, and • rationalised pension paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>



Page 82

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Member Data	Member data not correct. (Rights and Obligations)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding tested key controls over changes to the pension fund data set, and tested a sample of changes to member data made during the year to source documentation. 	Our audit work has not identified any significant issues in relation to the risk identified

Accounting policies, estimates and judgements


In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<p>There are two key policies in relation to revenue recognition: that for contribution income and that for investment income.</p> <p>Normal contributions are accounted for in the payroll month to which they relate.</p> <p>Investment income from equities is accounted for on the date stocks are quoted ex-dividend. Income from fixed interest and index-linked securities, cash and short term deposits is accounted for on an accruals basis, as is income from other investments.</p>	<ul style="list-style-type: none"> The policies are considered appropriate under the accounting framework in place. 	 (Green)
Judgements and estimates	<p>Because of the nature of the fund no significant accounting judgements have been made, with all judgements following the requirements set out in the Code.</p> <p>The fund has a material balance of investments with significant unobservable inputs. The valuation of these investments is subject to varying degrees of estimation uncertainty. The Fund discloses the differing methods of valuation for these funds within the accounting policies. In each case the Fund chooses to rely on the valuation provided by the fund manager.</p>	<ul style="list-style-type: none"> The policies are considered appropriate under the accounting framework in place. Sufficient assurance has been provided by either the experts used for valuing the fund, or we have been able to agree valuations to third party evidence. 	 (Green)

Page 84

Assessment

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	Officers have a reasonable expectation that the services provided by the Fund will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed officer's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	 (Green)
Other accounting policies	We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	 (Green)

Assessment

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Fund.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no non-trivial omissions in the financial statements.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed aside from the omission of disclosure of transactions with the Pension Fund management team. Further details of this are included on page 18.
6.	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmations from all of the investment managers and the custodian of the fund. Positive confirmation was received from all parties, and as a result no further procedures were considered necessary.
7.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.

Page 86

Misstatements, misclassifications and disclosure changes

We did not identify any misstatements within the draft accounts presented to us for audit. We agreed a small number of minor disclosure amendments with officers, and these are being reflected in the final set of accounts. None of these are individually significant enough to merit drawing to the Committee’s attention.

There is, as in previous years, one area where officers disagree with our view in relation to a disclosure issue, and this is noted below and the accounts have not therefore been amended. We consider this to be a minor disclosure weakness only. The Committee is asked to confirm that it is content that the financial statements are not amended in relation to this matter.

	Adjustment type	Account balance	Impact on the financial statements
Page 87	Disclosure	Note 23, Related Party Transactions	As in prior years, Note 23 on related party transactions notes that the details in respect of the Head of Finance, Governance and Assurance are provided within the Shropshire Council financial statements. Pension Fund financial statements must be capable of standing alone from the local authority financial statements and our view is that appropriate disclosures should be made within the pension fund accounts in line with section 3.4 of the Code of Practice.

Section 3: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

We confirm below our final fees charged for the audit.

Fees

	Proposed fee per Audit Plan £	Actual fees £
Pension fund scale fee	23,427	23,427
Proposed fee variation	1,979	1,979
Total audit fees	25,406	25,406

The proposed fee variation for IAS 19 above takes account of the work we are required to undertake for admitted bodies within the PSAA regime and is consistent with that requested in prior years.

Fees for other services

Service	Fees £
Audit related services:	
• None	Nil

Independence and ethics

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

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

Section 4: Communication of audit matters

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Page 90

Communication to those charged with governance

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

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report 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 Fund'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 (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Fund 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 Fund 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 auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Page 92

Appendix A: Audit opinion

We anticipate we will provide the Authority with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHROPSHIRE COUNCIL

We have audited the pension fund financial statements of Shropshire Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Head of Finance, Governance and Assurance and auditor

As explained more fully in the Statement of Responsibilities, the Head of Finance, Governance and Assurance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance, Governance and Assurance; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts and the Annual Report to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our opinion: the pension fund financial statements present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2017 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay pensions and benefits after the end of the fund year]; and the pension fund financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts and the Annual Report for the financial year for which the financial statements are prepared is consistent with the audited pension fund financial statements.

Signature - to be added

John Gregory
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

Date – to be added



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Audit Committee Update for Shropshire Council

Progress Report and Update Year ended 31 March 2017

September 2017

Page 95

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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:

- Income generation is an increasingly essential part of providing sustainable local services (March 2017); <http://www.grantthornton.co.uk/en/insights/the-income-generation-report-local-leaders-are-ready-to-be-more-commercial/>
- CFO Insights – reviewing council's 2015/16 spend (December 2016); <http://www.grantthornton.co.uk/en/insights/cfo-insights-reviewing-councils-201516-spend/>
- Fraud risk, 'adequate procedures', and local authorities (December 2016); <http://www.grantthornton.co.uk/en/insights/fraud-risk-adequate-procedures-and-local-authorities/>
- Brexit and local government; (April 2017) <http://www.grantthornton.co.uk/en/insights/a-global-britain-needs-more-local-government-not-less/> and (December 2016) <http://www.grantthornton.co.uk/en/insights/brexit-local-government-transitioning-successfully/>

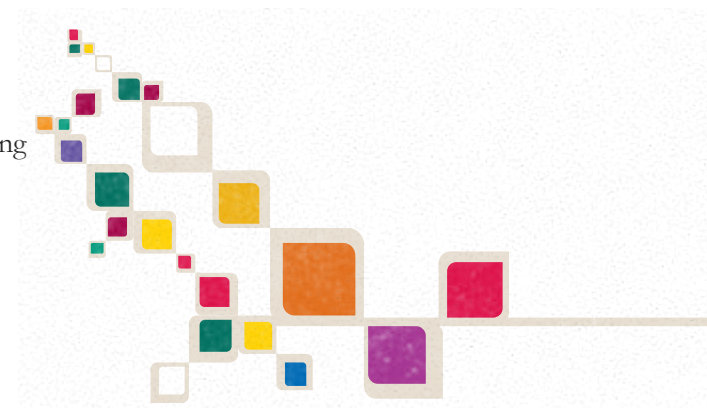
If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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



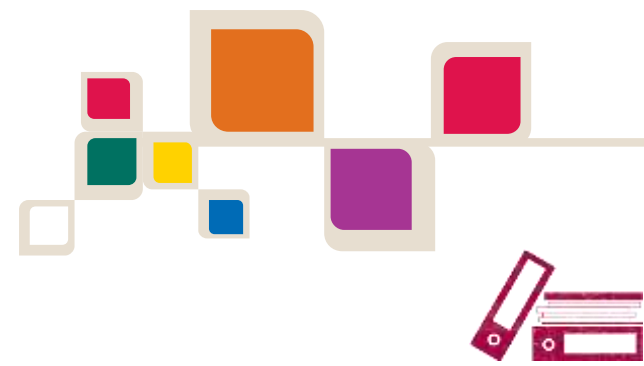
Progress against plan

On track



Opinion and VfM conclusion

Plan to give before deadline of 30 September 2017



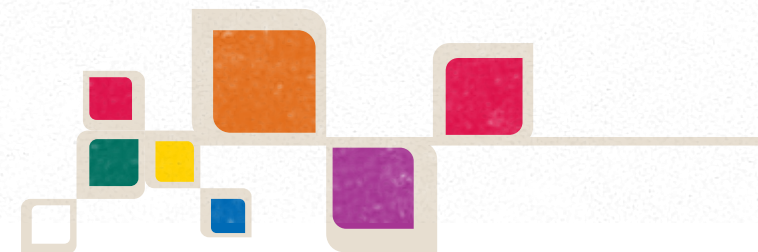
Outputs delivered

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

Page 97

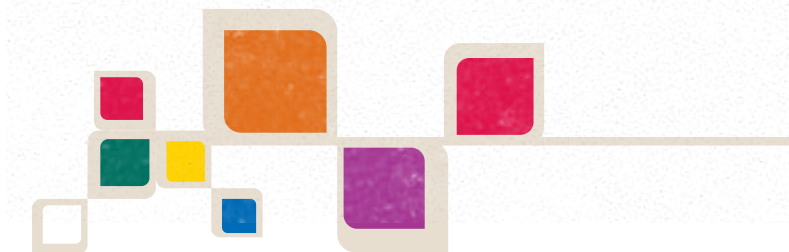
2016/17 work	Planned Date	Complete?	Comments
<p>Fee Letter</p> <p>We are required to issue a 'Planned fee letter' for 2016/17 to the Council by the end of April 2016.</p>	April 2016	Yes	The 2016/17 fee letter was issued in April 2016
<p>Accounts Audit Plan</p> <p>We are required to issue a detailed accounts 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	Yes	<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. <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
<p>Final accounts audit</p> <p>Covering the Council's group financial statements, we will:</p> <ul style="list-style-type: none"> audit the 2016/17 financial statements proposed opinion on the 2016/17 financial statements 	<p>June – July 2017</p>	<p>Substantially complete</p>	<p>Our work on the financial statements is substantially complete. We have identified very few issues within the audit and have concluded that we are able to provide an unqualified opinion. We plan to do this after the Pension Fund Committee towards the end of September.</p> <p>We planning to complete our on-site work by 31st July, as part of the transition to the earlier closedown and audit cycle from 2017. This has not happened, but we have already identified areas for improvements on both sides and have a wash-up meeting booked for September to address known issues early and position the Council in the best position to meet the deadline in 2018.</p>
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2016/17 VfM Conclusion requires conclusions on whether:</p> <p><i>"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".</i></p> <p>This change of guidance was issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> Informed decision making Sustainable resource deployment Working with partners and other third parties 	<p>February – July 2017</p>	<p>Substantially complete</p>	<p>We identified the following significant risks for our VFM conclusion.</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>We are proposing to issue an unqualified opinion for 2016/17 but the Council has significant financial risks for 2017/18 and beyond.</p>

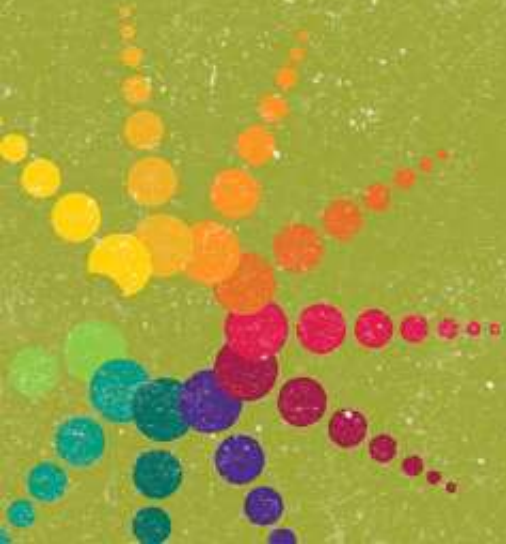
Progress to date



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	In progress	We have undertaken sufficient work for the BEN01 claim to enable us to gain assurance on the housing benefit figures within your financial statements. This work will also be used to provide assurance on the BEN01 claim.
<p>Engagement with you since the last Audit Committee meeting</p>	On-going	On-going	<ul style="list-style-type: none"> • Updates with the Chief Executive and Head of Finance, Governance and Assurance on your business. • Meetings with other Senior Directors to support the value for money conclusion and further understand your wider business ambitions. • Circulation of our latest collateral to Senior officers. • Discussion re developments in your company, ip&e Ltd, ahead of the audit in September.

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Page 100



Income generation

Local government is under immense financial pressure to do more with less. The 2015/16 spending review is forecast to result in a £13 billion funding hole by 2020 that requires. With further funding deficits still looming, income generation is increasingly an essential part of the solution to providing sustainable local services, alongside managing demand reduction and cost efficiency of service delivery. This report shares the insights into how and why local authorities are reviewing and developing their approach to income generation.

Our new research on income generation which includes our CFO Insights tool suggests that:

- ❖ councils are increasingly using income generation to diversify their funding base, and are commercialising in a variety of ways. This ranges from fees and charges (household garden waste, car parking, private use of public spaces), asset management (utilities, personnel, advertising, wifi concession license) and company spin-offs (housing, energy, local challenger banks), through to treasury investments (real estate development, solar farms, equity investment).
- ❖ the ideal scenario to commercialise is investing to earn with a financial and social return. Councils are now striving to generate income in way which achieves multiple strategic outcomes for the same spend; examining options to balance budgets while simultaneously boosting growth, supporting vulnerable communities and protecting the environment.

- ❖ stronger commercialisation offers real potential for councils to meet revenue and strategic challenges for 2020 onwards. Whilst there are examples of good practice and innovation, this opportunity is not being fully exploited across the sector due to an absence of a holistic and integrated approach to corporate strategy development (a common vision for success, understanding current performance, selecting appropriate new opportunities, the capacity and culture to deliver change).

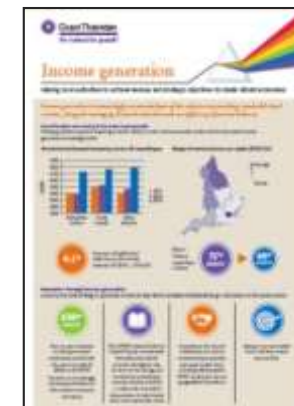
Our report helps local authorities maximise their ability to generate income by providing:

- Case study examples
- Local authority spend analysis
- Examples of innovative financial mechanism
- Critical success factors to consider

Grant Thornton publications

Challenge question:

- Have you read our income generation report?
- Is your council actively exploring options to generate income?



Our Income generation report was published on Thursday 2 March, hard copies are available from your team and via link:

<http://www.grantthornton.co.uk/en/insights/the-income-generation-report-local-leaders-are-ready-to-be-more-commercial/>

Publications

Providing key insight and examples of best practice to local government, police, fire and rescue services.



Innovation in public financial management

Our research on international public financial management shows it is evolving, from having a narrow focus on budgeting, towards a wider mandate as a key driver of policy and strategy across all levels of government, public services, state enterprises and public-private partnerships.



Turning up the volume

Our Business Location Index identifies the most desirable and affordable areas for investment in England, by looking at a combination of economic performance, people & skills, environment & infrastructure and cost.

Our aim is to give local authorities and LEPs the tool to better understand and market their strength and assets to increase inward investment and inform their devolution discussions.



Reforging local government

The autumn statement identified how councils will need better financial management and further efficiency to achieve the projected 29% savings. This presents a serious challenge to manage councils that have already become lean.

Our report looks at the financial challenge facing councils, the new governance agenda that will challenge traditional arrangements and expectations, and the way forward for the public sector through devolution, innovation, collaboration and cultural change.



Making devolution work

This report gets under the bonnet of the devolutionary conversations taking place between Whitehall and local government across England. It offers a practical guide to local leaders by outlining the benefits of devolution, the areas of priority to central government and the key questions that must be addressed in order to produce a successful devolution bid.



Growing healthy communities

It has long been recognised that the health of a population is strongly linked to the circumstances in which people live.

Our health and wellbeing index looks at the health determinants and outcomes of an area, highlights the scale and nature of inequality across the country and reiterates the need for a local, place-based approach to tackling health outcomes. It also identifies the wider economic determinants on an area's circumstances, emphasising the need for local collaboration between public sector bodies.



Spreading their wings

Our first report in a series looking at alternative delivery models in local government looks at local authority trading companies (LATCs).

The need to improve performance against the continuing financial pressure in the public sector has led to an increase in innovative solutions to the challenges, such as alternative delivery models.

Our report provides a guide on building a successful LATC, identifying the areas that must be considered at each stage of the process, as well as offering a number of examples of best practice.

Hardcopies of these reports are available from your audit team



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

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