



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

Date: 22 November 2017

My Ref:

Your Ref:

Committee:
Audit Committee

Date: Thursday, 30 November 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 7 September 2017 (Pages 1 - 8)

The Minutes of the meeting held on the 7 September 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: Ofsted - Children's Services update

A verbal report by the Director of Children's Services will be given with an update to follow.

Contact: Karen Bradshaw (01743) 254201

6 Management Report: Estates update

The report of the Head of Business Enterprise and Commercial Services is to follow.

Contact: Tim Smith 01743 258676

7 Management Report: Digital Transformation Programme update

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

Contact: Michele Leith (01743) 254402

8 Management Report: Strategic risks update

The report of the Risk and Insurance Manager is to follow.

Contact: Angela Beechey 01743 252073

9 Management Report: Treasury Strategy Mid-Year Report 2017/18

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

Contact: James Walton (01743) 258915

10 Annual Review of Counter Fraud, Bribery and Anti-Corruption Strategy and activities, including an update on the National Fraud Initiative (Pages 9 - 38)

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

11 Annual review of Audit Committee Terms of Reference (Pages 39 - 48)

The report of the S151 Officer is attached, marked 11.
Contact: James Walton (01743) 258915

12 Annual Audit Committee Self-Assessment (Pages 49 - 70)

The report of the S151 Officer is attached, marked 12.
Contact: James Walton (01743) 258915

13 Internal Audit Charter (Pages 71 - 88)

The report of the Head of Audit is attached, marked 13.
Contact: Ceri Pilawski 01743 257739

14 Internal Audit Performance Report and Revised Annual Audit Plan 2017/18 (Pages 89 - 108)

The report of the Head of Audit is attached, marked 14.
Contact: Ceri Pilawski (01743) 257739

15 External Audit: Annual Audit Letter 2016/17 Shropshire Council (Pages 109 - 124)

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

16 External Audit: Audit Committee update (Pages 125 - 142)

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

17 Date and Time of Next Meeting

The next meeting of the Audit Committee will be held on the 1 March 2018 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 Internal Audit: Fraud, Special Investigation and RIPA Update (Exempted by Categories 2, 3 and 7) (Pages 143 - 146)

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



Committee and Date

Audit Committee

30 November 2017

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 7 SEPTEMBER 2017 1.30 - 4.40 PM

Responsible Officer: Michelle Dulson

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

Present

Councillor Peter Adams (Chairman)

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

27 Apologies for Absence / Notification of Substitutes

27.1 An apology for absence was received from Councillor Ioan Jones.

28 Disclosable Pecuniary Interests

28.1 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.

29 Minutes of the previous meeting held on the 29 June 2017

29.1 RESOLVED:

That the minutes of the meeting held on 29 June 2017 be approved and signed by the Chairman as a correct record.

30 Public Questions

30.1 No public questions had been received.

31 Management Report: Information Technology update

31.1 The Committee received the report of the Head of Human Resources and Development - copy attached to the exempt signed Minutes - which provided an update on a number of areas within ICT. The Head of Human Resources and Development informed the Committee that the content of the report included clear evidence of improvement and increased resilience of the IT function.

31.2 The Head of Human Resources and Development gave an overview of the changes and service improvements already made together with those improvements scheduled to be implemented. She highlighted progress against the Disaster

Recovery and Business Continuity plan, which was slightly ahead of schedule with a test plan and live testing schedule prepared and she updated the Committee in relation to the Digital Transformation Programme.

31.3 Members of the Committee commended the Head of Human Resources and Development on her excellent report and praised the progress made to date. They requested a further report to the next meeting in November. In response to a query, the Head of Audit reported that improvements were being seen in processes reviewed to date, whilst it should be noted that the audit plan is only partially completed at this stage, the levels of assurance were increasing with only two limited and eight good/reasonable assurances. The Council's strategic risk exposure had also reduced significantly.

31.4 **RESOLVED:**

That the significant progress in the improvement of Shropshire IT function be noted, and in particular, that a number of these improvements were now being validated through improved audit report outcomes.

32 **Management Report: Assurance feedback on the Adult Services Peer Review**

32.1 The Director of Adult Services gave a presentation on the feedback received following the Adult Services Peer Review – copy of slides attached to the signed Minutes – which showed the Council in a very good light.

32.2 In response to a query, the Head of Finance, Governance and Assurance (Section 151 Officer) explained the work undertaken in relation to setting the appropriate level of budget for Adult Social Care. The Head of Human Resources and Development responded to a query in relation to the IT compatibility between the Council, the NHS and the CCG. She confirmed that there would be the capacity for sharing data however, there were still some questions around permissions. The Director of Adult Services reported that progress had been made in resolving the NHS legacy debt issue and that a formal agreement had been made.

32.3 The Director of Adult Services explained that following receipt of a written response from the Peer Review, the Council had to respond with an Action Plan setting out timescales for achieving each recommendation. A follow up review would then be undertaken six months later for the Council to demonstrate the progress that had been made.

32.4 **RESOLVED:**

That the feedback received following the Adult Services Peer Review be noted.

33 **Management Report: Programme controls and risks**

33.1 The Committee received the report of the Director of Place and Enterprise – copy attached to the signed Minutes – which provided an update on the developments that have taken place to further strengthen governance around commissioning and contract management over the past 12 months.

33.2 The Director of Place and Enterprise reported that as part of the governance around commissioning, the remit of the Commissioning Directors Group had been expanded to include commissioning assurance with a line of sight of key contracts to include the top ten (by value) across each of the Directorates. The terms of reference for the Commissioning Assurance and Performance Board were attached at Appendix 1 of the report.

33.3 The Director of Place and Enterprise explained the focus on training and development which had been identified as a key requirement for good contract management. Turning to commissioning development, the Director of Place and Enterprise drew attention to a piece of work currently being undertaken around Prevention which was looking at different ways for services to be commissioned.

33.4 The Director of Place and Enterprise touched upon the social value charter together with the role of IT and the Digital Transformation Programme. In response to a query, it was agreed that the Commissioning Development and Procurement Management be requested to provide a demonstration of the new Illuminator product, at a future training session, which was being used to analyse the Council's Contracts, to look at market availability and the sustainability of the contractor etc.

33.5 RESOLVED:

That the contents of the report be noted.

34 Management Report: Housing Benefit Overpayment Performance Monitoring

34.1 The Committee received the report of the Revenues and Benefits Service Manager – copy attached to the signed Minutes – which provided Members with performance monitoring information on the collection of Housing Benefit overpayments for the year 2016/17.

34.2 The Revenues and Benefits Service Manager informed Members that as at the 2 August 2017 the total amount outstanding, including previous years was £6 million, compared to £6.2 million as at 31 July 2016. He explained that nationally Housing Benefit Overpayments were increasing and that a number of national initiatives, detailed in the report, may explain why the figures had continued to increase. These initiatives highlighted errors in the system which created overpayments along with an increase in data matching which was leading to more overpayments being identified.

34.4 Referring to the breakdown by financial year set out in Appendix A, a query was raised as to whether there was any debt prior to 2008/09. The Revenues and Benefits Service Manager explained that debt prior to 2008/09 had been written off in accordance with the Council's write-off policy. Members requested figures for the amount of debt that had actually been written-off along with the amount that had been identified as possibly written-off.

34.3 RESOLVED:

That the contents of the report be noted.

35 Audited Annual Statement of Accounts 2016/17

35.1 The Committee received the report of the Head of Finance, Governance and Assurance (Section 151 Officer) – copy attached to the signed Minutes – which presented Members with the final audited outturn position for the financial year 2016/17. It was confirmed that no material changes had been identified during the audit however a number of amendments had been made to disclosures, set out in Paragraph 7.1 of the report. Members were informed that the accounts would go to Full Council on 21 September 2017, giving an opportunity for any final adjustments to be made, following which an unqualified audit opinion was expected to be given.

35.2 RESOLVED:

- A. That the 2016/17 Statement of Accounts be approved and that the Chairman of the Council be recommended to sign them in accordance with the requirements of the Accounts and Audit Regulations 2015.
- B. That the Head of Finance, Governance and Assurance be authorised to make any minor adjustments to the Statement of Accounts prior to the 30th September 2017.
- C. That the Head of Finance, Governance and Assurance and the Chairman of the Audit Committee be authorised to sign the letter of representation in relation to the financial statements on behalf of the Council and send to the External Auditor.

It was agreed to take Agenda Item 14 – External Audit: Shropshire Council Audit Findings 2016/17 next.

36 External Audit: Shropshire Council Audit Findings 2016/17

- 36.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – which summarised the key matters arising from the audit of Shropshire Council's financial statements for the year ending 31 March 2017. The report also set out the value for money conclusion for the Council.
- 36.2 The Engagement Lead advised that the vast majority of the financial statements had been completed and he anticipated that an unqualified opinion would be given, along with an unqualified value for money conclusion. He drew attention to the key audit and financial reporting issues, including areas where improvements could be made in order to strengthen controls eg sales ledger debt and IT.
- 36.3 The Engagement Lead confirmed that there were no material concerns around the Council's ability to continue as a going concern. There were no adjusted misstatements and only one unadjusted misstatement in relation to an extrapolated error.
- 36.4 The Engagement Lead expressed concern going forward with the long term financial plan and the potential £21million funding gap which was currently being dealt with by way of one-off grants and reserves. Although recognising the Council's approach of savings programmes and income generation, more work was required. Due to this significant gap in the financial plan, he warned that as the Council approached 2019/2020 it may be necessary for a qualified opinion to be issued.

36.5 The Engagement Lead recognised the progress that had been made in relation to replacement of the IT infrastructure and business continuity, but cautioned that there was still a risk of a severe IT failure. He explained that business continuity plans needed to be tested to ensure that if the system did go down, it could successfully be restored. In response to a query, it was confirmed that there was a programme in place to test all of the ICT systems within this financial year. The Head of Finance, Governance and Assurance informed the Committee that the ERP (Enterprise Resource Planning) system which will replace the old Northgate system did not include Revenues and Benefits (Northgate iWorld system) due to their complexity.

36.6 RESOLVED:

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

37 Annual Treasury Report 2016/17

37.1 The Committee received the report of the Head of Finance, Governance and Assurance (Section 151 Officer) – copy attached to the signed Minutes – which informed Members of the treasury activities for Shropshire Council for 2016/17 and included the investment performance of the internal treasury team to 31 March 2017.

37.2 The Head of Finance, Governance and Assurance (Section 151 Officer) confirmed that the internal treasury team had outperformed their investment benchmark by 0.34% in 2016/17.

37.3 The Head of Finance, Governance and Assurance (Section 151 Officer) drew attention to the breakdown of borrowing over future years and he explained that the Council would not be undertaking any further borrowing in the next few years. He informed the Committee that it was hoped to develop a significant capital programme but that any such projects would need to be considered by Council.

37.4 RESOLVED:

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

38 Management Report: Risk and Insurance Annual Report 2016/17

38.1 The Committee received the report of the Risk and Insurance Manager – copy attached to the signed Minutes – which set out the challenges and achievements accomplished by the Risk Management Team during 2016/17.

38.2 The Risk and Insurance Manager informed Members that following an audit of both risk management and insurance, an assurance level of “good” had been identified. She explained that strategic risks had been reviewed bi-monthly whilst operational risks had been reviewed on a quarterly basis. It was confirmed that business continuity management arrangements were constantly reviewed with regular testing and exercising undertaken, following which, post exercise reports and action plans were produced. The Team undertook a lot of work with the local business community and with schools in relation to business continuity.

38.3 Turning to Insurance, the Risk and Insurance Manager confirmed that 448 claims had been received which was a reduction of 11.5% on the previous year, leading to a

saving of £48,000. Of those claims received, 381 related to liability claims, decisions for which had been reached on 158 of these with 142 being repudiated (a 90% repudiation rate). Savings of £2.8m had been achieved against defended liability claims. The repudiation rate for pot hole claims was 92.3%.

38.4 The Risk and Insurance Manager informed the Committee that eight employers liability claims had been received during 2016/17, five of which were historic. A total of 47 motor claims and 12 property claims had been received. There were currently 244 open claims with a total reserve of £5.3m, of these, 107 (48.3%) had been repudiated, 111 remained under investigation and 23 claims had been accepted. A total of five cases had been to court which were all successfully defended.

38.5 In response to a query, the Risk and Insurance Manager explained that the number of pot hole claims had been reducing however there had not been a really bad winter for a number of years. The Risk and Insurance Manager informed the meeting how in house vehicle accidents were dealt with.

38.6 RESOLVED:

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

39 Management Report: Strategic Risks Update

39.1 The Committee received the report of the Risk and Insurance Manager – copy attached to the signed Minutes – which set out the current strategic risk exposure together with recent modifications and planned changes to strategic risk management within the authority.

39.2 The Risk and Insurance Manager confirmed that strategic risks were historically reviewed and updated every two months before being reported to Directors. She informed the Committee that the Risk Profile and Action Plan behind each strategic risk would be covered in more detail at the Training session taking place on Thursday 5 October. It was explained that a target score for each strategic risk to be achieved by the end of the year had now been included in the Risk Profile and Action Plan.

39.3 As at May 2017, there were 16 strategic risks on the register, as set out in the report. The Risk and insurance Manager stated that two risks had been added to the strategic risk register in 2016/17, the first being the 'Impact of Brexit' and the second 'Difficulty in meeting our capabilities and commissioning needs across the organisation (Expressions of Interest/Tendering)'. It was confirmed that these risks were to be developed further.

39.4 The Risk and Insurance Manager informed the meeting that going forward strategic risks would be reviewed quarterly and operational risks six monthly. The Risk and Insurance Manager answered a number of queries from Members of the Committee and explained that a brief report was prepared following each strategic risk review setting out the direction of travel for individual strategic risks. The Risk and Insurance Manager advised that the committee could ask for individual risk profiles to be brought by the risk owner to future meetings for Members to look at in more detail, if wished.

39.5 RESOLVED:

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

40 Internal Audit Performance Report and revised Annual Audit Plan 2017/18

40.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which provided Members with an update of work undertaken by Internal Audit in the four months since the beginning of the financial year and the start of Shropshire Council's approved audit plan implementation.

40.2 The Head of Audit advised Members that 34% of the revised Plan had been completed and it was hoped to achieve 90% completion by year end. She reported that eleven good, thirteen reasonable, two limited and one unsatisfactory assurance opinions had been issued and that the 27 final reports contained 211 recommendations. Of these, two fundamental recommendations had been identified and two had been rejected by management.

40.3 The Head of Audit drew attention to performance against plan and the assurance levels awarded to each completed audit area, 89% of which were good or reasonable. It was reported that there is no strong pattern of lower assurance levels during this period, with two limited audit areas and one unsatisfactory audit area, detailed in table 3 of the report.

40.4 In response to a query, the Head of Audit explained the process for when recommendations were rejected by management. The recommendations in question were not fundamental, however Internal Audit still highlighted the associated risks to management who would need to add them to their own risk register and the risks were escalated to Audit Committee as necessary.

40.5 In relation to Estates Management, Members requested a follow up report to the next meeting and that the Service Manager and relevant Portfolio Holder be requested to attend. The Head of Audit reported that a follow up audit would be undertaken the following year.

40.6 RESOLVED:

- A. That the performance to date against the 2017/18 Audit Plan be noted.
- B. That the adjustments required to the 2017/18 Plan to take account of changing priorities as set out in Appendix B to the report, be approved.

41 External Audit: Shropshire County Pension Fund Audit Findings Report 2016/17

41.1 Members received the report of the External Auditor - copy attached to the signed Minutes - which set out the Audit Findings for Shropshire County Pension Fund for the year ending 31 March 2017. The Engagement Lead confirmed that an unqualified opinion in respect of the financial statements was anticipated. He drew

attention to the key findings and the disclosure in relation to Related Party Transactions set out on page 17 of the report.

41.2 RESOLVED

That the contents of the report be noted.

42 External Audit: Audit Committee update

42.1 The Committee received the report of the External Auditor - copy attached to the signed Minutes - which provided Members with a report on progress together with a summary of emerging national issues and developments which may be of relevance to the Council.

42.2 RESOLVED:

That the contents of the report be noted.

43 Date and Time of Next Meeting

43.1 Members were reminded that the next meeting of the Audit Committee would be held on the 30 November 2017 at 1.30pm.

44 Exclusion of Press and Public

44.1 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 item as defined by the categories specified against it.

45 Fraud and Special Investigation Update September 2017 (Exempted by Categories 2, 3 and 7)

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

45.2 RESOLVED:

That the contents of the exempt report be noted.

Signed (Chairman)

Date: 30 November 2017



Committee and Date

Audit Committee
30 November 2017
1:30 pm

Item

Public

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

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

Telephone: 01743 257739

1. Summary

This report outlines the measures undertaken in the last year to evaluate the potential for the occurrence of fraud, and how the Council manages these risks with the aim of prevention, detection and subsequent reporting of fraud, bribery and corruption. The Counter Fraud, Bribery and Anti-Corruption Strategy has also been reviewed. The strategy continues to underpin the Council's commitment to prevent all forms of fraud, bribery and corruption whether it be attempted on, or from within, the Council, thus demonstrating the continuing and important role the strategy plays in the corporate governance and internal control framework. This report also provides an update on the action plan to ensure continuous improvement.

2. Recommendations

Members are asked to consider, and endorse with appropriate comment, the Counter Fraud, Bribery and Anti-Corruption Strategy and measures undertaken and detailed in this report to manage associated risks with the aim of prevention, detection and subsequent reporting of fraud, bribery and corruption

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The adoption and promotion of an effective Counter Fraud, Bribery and Anti-Corruption approach helps the Council encourage the detection of fraud and irregularities proactively, and manage them appropriately.

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

4. Financial Implications

All revisions can be met from within existing budgets.

5. Background

- 5.1 The Council sets itself high standards for both members and officers in the operation and administration of the Council's affairs and has always dealt with any allegations or suspicions of fraud, bribery and corruption promptly. It has in place policies, procedures and initiatives to prevent, detect and report on fraud, bribery and corruption, including a Speaking up about Wrongdoing policy supported by an overarching Counter Fraud, Bribery and Anti-Corruption Strategy.
- 5.2 The Counter Fraud, Bribery and Anti-Corruption Strategy is contained in part five of the Constitution, last reviewed and updated in February 2017. There has been no new guidance since February and therefore no changes are proposed to the existing strategy which can be located on the Council's website.

6. Issues

National Picture

- 6.1 The Fighting Fraud and Corruption Locally Strategy (FFCL) 2016–2019 is England's counter fraud and corruption strategy for local government. It continues to be the definitive guide for council leaders, chief executives, finance directors, and all those with governance responsibilities. The Fighting Fraud and Corruption Locally Companion 2016–2019 is aimed at local authorities who undertake work in the counter fraud area. The Companion contains good practice and a checklist for local authorities to use as part of making sure they have the right processes and resources in place. The Council's Counter Fraud, Bribery and Anti-Corruption Strategy continues to be aligned to this checklist.
- 6.2 Members agreed to an Action Plan following the previous review and refresh of the Counter Fraud, Bribery and Anti-corruption Strategy. This Action Plan sets out the developments the Council proposes over the medium term future to further improve its resilience to fraud and corruption and progress against the plan is demonstrated below:

Action Plan

Action	Implementation Date	Update
To proactively use the results of previous fraud risk assessments and publically available information from recognised organisations i.e. CIPFA, Grant Thornton, to direct counter fraud resources in the annual Internal Audit Plan.	Spring 2017	Completed and ongoing
To refresh the Council's suite of anti-fraud policies, strategies and procedures and to ensure that they continue to be relevant to national guidance.	Annually in November	Completed and ongoing
To remind all staff and members of their role in sustaining a strong counter fraud, bribery and anti-corruption culture and the appropriate reporting channels where any fraud is suspected.	Annually in November	Completed and ongoing
To undertake an annual Fraud Risk Assessment covering the Council's main areas of exposure to fraud and to use the results to influence the Council's approach moving forward.	Annually in October	Completed and ongoing
To update the Council's e-learning module on Fraud Awareness and to promote its uptake by all employees.	July 2017	Slippage - a revised date of March 2018 is proposed
To be an active participant in the National Fraud Initiative (NFI) and to investigate robustly suspected cases of fraud identified through NFI and report outcomes to Audit Committee.	Biannually in November	Completed and ongoing
To refresh the Fraud Awareness pages on the web site and to engage with managers through targeted communications to emphasise their obligations to operate effective systems of internal control which are designed to reduce the risk to the Council of fraud, error or inadvertent loss.	Annually in November	Completed and ongoing
To assess the Council's response to fraud against the Fighting Fraud and Corruption Locally companion checklist	February 2017	Completed
Refresh of the Council's Money Laundering Policy, communication of and training on	December 2017	New

6.3 The Annual Fraud Indicator 2013 (AFI) still provides the most recent government recognised figures regarding fraud. Estimates in 2013 showed that fraud costs the UK economy £52bn per year, with losses against the public sector estimated at £20.6bn, £2.1bn at local government level.

6.4 As part of the Midlands Chief Internal Auditors sub group for Fraud, members' research has identified the following areas as ones with a high potential for fraudulent activity in terms of value:

- Housing benefit
- Social Housing
- Right to buy
- Council tax

And that on average, authorities have 2.2 full time equivalent (FTE) investigation officers. Shropshire does not have a dedicated officer. It has three officers who spent 0.58 of their joint time on fraud investigations as reported under the transparency agenda.

6.5 At a recent CIPFA Counter Fraud Summit, the total value of fraud was reported as estimated at £33m over 75,212 cases, in the areas of:

Area	Ranking by number of cases	Ranking by total value of fraud	Ranking by average case value
Council tax	1	2	10
Housing	2	1	1
Disabled parking concessions	3	7	9
Business rates	4	3	5
Adult social care	5	5	4
Insurance claims	6	6	3
No recourse to public funds	7	4	2
Mandate fraud	8	8	6
Schools fraud (excl. transport)	9	10	8
Payroll	10	9	7

6.6 The CIPFA Fraud and Corruption Tracker (CFaCT) is an annual survey of the fraud and corruption detected in local authorities across the UK. Its intention is to provide a more complete picture of local authorities' vigilance in respect of fraud. It examines:

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

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

6.7 The Council participated in CFaCT, the key results from which for 2017 are yet to be received and will be provided to members in due course.

CIPFA's Counter Fraud Assessment Tool

- 6.8 Members may recall that CIPFA developed and shared a counter fraud assessment tool. The tool is designed to help councils assess their counter fraud arrangements against the standards set out in CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption, as published and reported to Audit Committee in November 2014. The tool is used as a basis for ongoing improvement and development planning, it also provides a basis for assurance on the adequacy and effectiveness of the Council's counter fraud arrangements. The action plan reported on earlier within this report is reflective of the improvements identified when applying this tool.
- 6.9 Whilst no organisation is fraud proof, Shropshire Council has taken robust steps to improve its resilience and continues to meet the standard set out in the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption. Leadership has acknowledged its responsibilities for managing risks and it has robust arrangements in place to identify and manage risks. It has a counter fraud strategy, backed up by the resources and arrangements to carry it out, and is proactive in managing fraud and corruption risks and responds effectively. Stakeholders can be confident in the approach taken by the Council and meeting the standards of this code contributes to good governance.

National Fraud Initiative (NFI)

- 6.10 The National Fraud Initiative (NFI), run by the Cabinet Office, is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. The Council continues to participate in this exercise, Results of the 2016/17 data matching exercise are shown in the table below.

Area of Investigation	Outcome of Investigations	Saving Identified
Deceased Pensioner Matches	73 matches were identified and all matches investigated. Seven deceased pensioners were identified as receiving a pension into the deceased pensioner's bank account. This resulted in overpayments of £19,275.01 with a total of £19,209.93 in the process of being recovered. Payments under £100 are not recovered as per the agreed policy. The sum of £19,209.93 recovered included one case of confirmed fraud totalling £13,146.10. All the money has been recovered in respect of this fraud.	£19,209.93
Blue Badges to Deceased Persons	The report identified 398 matches and all matches were investigated.	£0.00

Area of Investigation	Outcome of Investigations	Saving Identified
	<p>This identified 196 errors for resolution. In all 196 cases the Blue Badge Team confirmed they had not been notified of the death but had since cancelled the blue badge.</p> <p>It is not a legal requirement for the return of a blue badge upon the death of the holder.</p>	
<p>Concessionary Bus Passes to Deceased Persons</p>	<p>These reports identified 1,134 matches. All matches were investigated and identified a total of 228 errors where the Council had not been notified of the pass holders' death.</p> <p>All passes have since been cancelled. A saving of £1 per pass is automatically allocated to the match re future admin saving costs, therefore a total of £228.00 has been saved due to the NFI exercise.</p>	<p>£228.00</p>
<p>Residential Care Home Residents to Deceased Persons</p>	<p>The report identified 95 matches, all were investigated and confirmed to be due to timing differences.</p>	<p>£0.00</p>
<p>Housing/Council Tax Benefits/Council Tax Reduction Scheme</p>	<p>Dispensation has been obtained from the Cabinet Office that the team would only sample investigate a small number of matches due to existing controls in place in respect of real time reporting and processes for annual billing.</p> <p>No overpayments were identified on the matches reviewed.</p>	<p>£0.00</p>
<p>Creditor Reports</p>	<p>Creditor reports on possible duplicate payments, invalid VAT registration numbers and duplicate supplier accounts were provided.</p>	<p>£681.00</p>

Area of Investigation	Outcome of Investigations	Saving Identified
	<p>Audit Services investigated potential duplicate payments and to date one duplicate of £681.00 has been identified and the money recovered.</p> <p>Investigations identified that an invoice had been paid by two schools for a Head Teachers conference where the schools shared a Head Teacher.</p>	
Housing Tenants to Deceased Persons	These reports identified 57 matches. All were investigated and found to be due to either timing differences or mis-matches.	£0.00
Personal Budgets to Deceased Persons	<p>A total of 17 matches were identified and all matches were investigated.</p> <p>It was confirmed that the matches were all due to timing issues and no frauds or errors were identified.</p>	£0.00
Other reports	<p>Other reports such as possible duplicate insurance claims, deceased parking permit holders, taxi drivers to in-country immigration, personal budgets to pensions, payroll to payroll and procurement were all investigated and where appropriate records have been updated accordingly. No savings have been identified from these reports.</p>	£0.00
	Total Savings	£20,118.93

6.11 The final national report in respect the 2016/17 data matching exercise has yet to be issued and a copy will be made available to the Committee when this is published.

Transparency requirements

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

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

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

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

Whistleblowing Policy's

6.14 The Council has a whistleblowing policy for the public and its employees. Both policies have been reviewed and updated in respect of key contacts and staff information. There have been no changes proposed to the process of 'blowing the whistle'. An annual reminder is circulated to all employees to raise awareness as to the availability of this policy.

6.15 The Whistleblowing Policy is available to staff via the Intranet pages and is also available to them, along with members and the public, via the web-site; allowing it to be accessed from any computer. This is particularly important as it allows staff to access the policy outside of a work environment, where they may be reluctant to be seen accessing the Whistleblowing policy.

Money Laundering Policy

6.16 The Council has a Money Laundering Policy and following new regulations, The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 which commenced on the 26th June 2017, the policy is to be updated and will be reported to a future meeting of the Committee.

Qualified officers

6.17 Internal Audit continues to have sufficient officers trained, up to date and capable of undertaking investigations in a professional manner as the need arises. One officer has the Advanced Professional Certificate in Investigative Practice. Two further officers are accredited CIPFA Counter Fraud Technicians Course. In total over a third of the Audit team have qualifications and/or considerable experience in conducting investigations.

Update on counter fraud plans

6.18 In terms of *potential* for fraud, the counter fraud risk assessment has been refreshed. There is no change to the high risk area of housing benefits. Eleven medium risk areas have been identified. These are the same as last year with the inclusion of a new risk covering pension fraud where they are not covered elsewhere in the fraud risk assessment. The Council acts as the Administering Authority for the Shropshire County Pension Fund and therefore it has been included in the fraud risk assessment. The total list of risks is:

High

- Housing benefits

Medium

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

- Theft of cash
- Council tax discounts
- NDR reliefs
- Disabled parking blue badges
- Direct payments / personal budgets
- Pension abuse individuals and funds

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

- Housing benefit investigations are referred to the Department of Work and Pensions Single Fraud Investigation Service for action. Housing Benefits, Internal Audit and Human Resources officers continue to jointly risk assess any employees that are suspected of benefit fraud to consider if internal investigations are required or Council assets within the employee's control may be at risk.
- Specific Internal audit reviews of arrears payments and over payments to employees is underway. To establish the root cause of any such payments and follow up if any misconduct is suspected.
- The 2016/17 NFI exercise includes data matching for payroll, pensions, creditors, housing benefit, council tax, personal budgets, blue badge parking permits. The results of which continue to be worked through to identify any control risks and deal with any potential fraudsters.
- To reduce the risk of cybercrime and the impact it would have on all areas of the councils services, a full IT risk assessment is conducted and audit reviews planned and completed in these specialist areas.

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

- Cash regularity, in addition cash is reviewed as part of establishment audits
- Council tax
- NNDR discretionary relief
- Parking enforcement
- Payroll
- Pensions
- Personal budgets and direct payments
- Purchase ledger
- Purchasing and contract arrangements
- Sales ledger

In addition, for every investigation where weaknesses have been identified in internal controls, a report highlights areas to be improved to reduce the risk of future inappropriate activity.

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

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

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

The Bribery Act 2010

NFA Fighting Fraud Together, The strategic plan to reduce fraud

Fighting Fraud Locally: The Local Government Fraud Strategy

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017

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

Cabinet Member (Portfolio Holder) Peter Nutting (Leader of the Council) and Peter M Adams (Chairman of Audit Committee)

Local Member n/a

Appendices: Not applicable



Counter Fraud, Bribery and Anti-Corruption Strategy

POLICY STATEMENT AND STRATEGY

Document Details:

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

Date: November 2017

Review Arrangements: Next Review Date - November 2018

Counter Fraud, Bribery and Anti-Corruption Policy Statement

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

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

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

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

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

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

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

Counter Fraud, Bribery and Anti-Corruption Strategy

1. Introduction

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

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

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

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

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

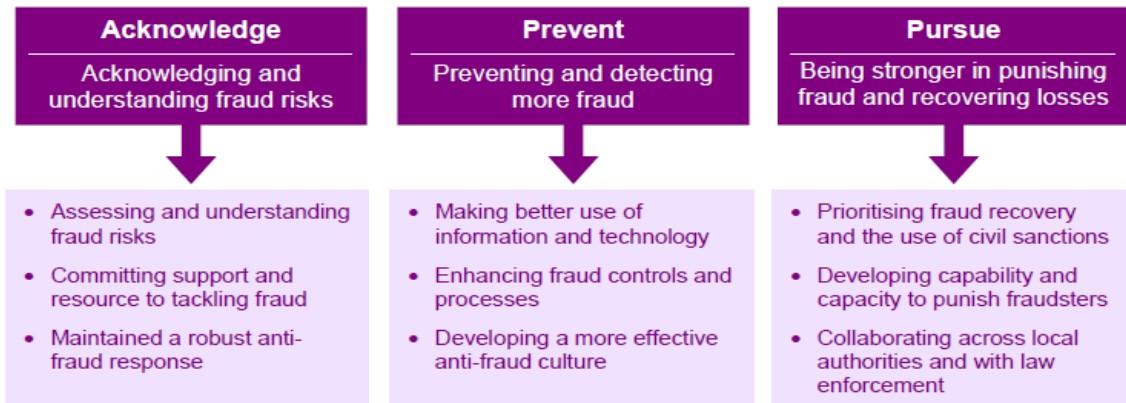
The five key elements of the CIPFA Code are to:

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

Take action in response to fraud, bribery and corruption

PURSUE

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



2. Definitions

What is Fraud?

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

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

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

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

What is Bribery?

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

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

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

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

What is Corruption?

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

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

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

What is Theft?

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

3. Scope

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

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

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

4. Strategy Aims and Objectives

The aims and objectives of this strategy are to:

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

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

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

Managing the Risk of Fraud and Corruption

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

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

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

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

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

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

6. Fighting Fraud Locally: Acknowledge – Prevent – Pursue

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

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

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

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

7. Responsibilities

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

8. Reporting, Advice, Support

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

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

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

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

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

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

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

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

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

9. Investigations

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

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

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

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

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

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

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

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

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

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

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

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

10. Strategy Review

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

APPENDIX 1



FRAUD RESPONSE PLAN

INTRODUCTION

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

WHAT YOU SHOULD DO IF YOU SUSPECT FRAUD

9. Immediately report your suspicions to:
 - Your immediate Supervisor or Line Manager (or more senior management depending on the seriousness and sensitivity of the issues involved and who is thought to be involved in the wrongdoing).
 - The Head of Audit, Ceri Pilawski on 01743 257739 or the Section 151 Officer, James Walton on 01743 255011.
 - The Whistleblowing Hotline on 01743 252627 or email audit@shropshire.gov.uk.
 - Audit Services, Shropshire Council, Shirehall, Abbey Foregate, Shrewsbury SY2 6ND, 01743 257737.

- If the fraud is in relation to Benefits details for reporting appear on the Council's web site:
<https://www.shropshire.gov.uk/benefits/report-benefit-fraud/>.

TOP TIPS

10.	DON'T	DO
	Delay: report the matter quickly.	Record your suspicions: write down what you have found, seen and heard.
	Approach or accuse individuals directly: you may alert them and evidence may be destroyed.	Keep any evidence you have in a safe place until you can pass it to the Head of Audit. However, do not do this if such action would risk alerting the suspect.
	Tell anybody else: you don't know who may be involved.	Tell Audit who you are: they will want to talk to you as you may know more than you realise.
	Undertake any investigations yourself: you may spoil the evidence and prevent a criminal prosecution.	Keep outwardly calm and carry out your own work as usual.

SAFEGUARDS

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

INVESTIGATION

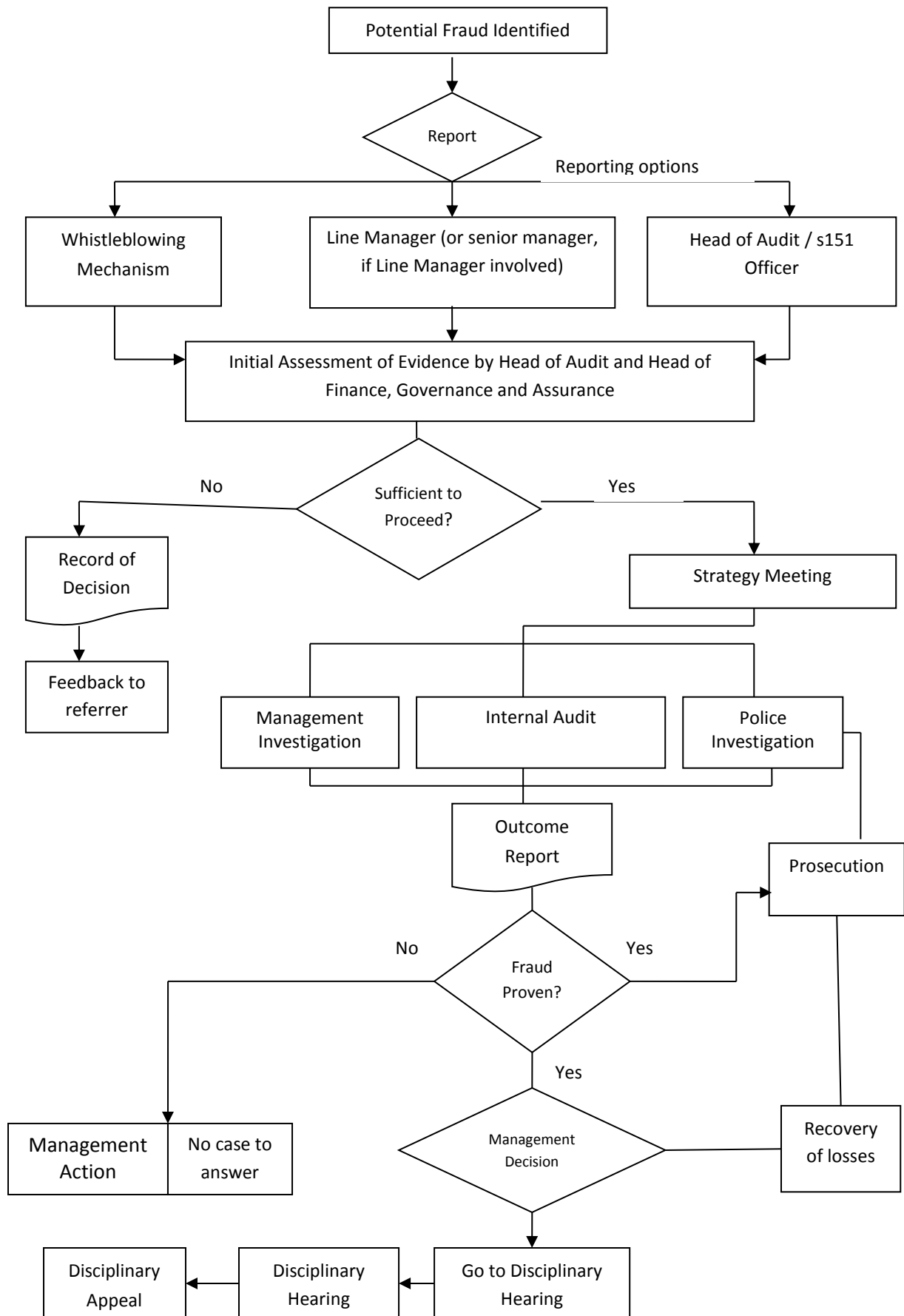
15. All suspected fraud must be referred to the Head of Audit.
16. The Head of Audit will assess the initial information and decide how to proceed. This may include a strategy meeting with the relevant manager where appropriate.

17. Following best practice, Audit will investigate most cases of suspected fraud – management may investigate low level fraud involving an employee after consultation with Audit.

POTENTIAL OUTCOMES

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

Appendix 1 - The Council's typical fraud response plan



APPENDIX 2

NOLAN COMMITTEE REPORT – THE SEVEN PRINCIPLES OF PUBLIC LIFE

Selflessness

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

Integrity

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

Objectivity

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

Accountability

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

Openness

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

Honesty

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

Leadership

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

SPECIFIC RESPONSIBILITIES

APPENDIX 3

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

Appendix 4

Shropshire Council – Loss Recovery Approach

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

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

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

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

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

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

Financial Considerations in relation to reporting fraud to law enforcement authorities

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

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

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

² Section 40 (1) Magistrates' Courts Act 1980

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

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

Adopted Strategy

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

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

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

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

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Committee and Date

Item

Audit Committee

30 November 2017

1:30pm

Public

ANNUAL REVIEW OF AUDIT COMMITTEE TERMS OF REFERENCE

Responsible Officer James Walton

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

Tel: 01743 258915

1. Summary

Effective audit committees bring many benefits to an organisation, and to ensure that the Council continues to provide an effective Audit Committee, the Committee's Terms of Reference are considered and approved as appropriate by members on an annual basis. The Terms of Reference reflect guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA): Audit Committees, Practical Guidance for Local Authorities and Police 2013 Edition. The revised Terms of Reference are attached as an **Appendix** with proposed changes shown in bold, italics and are underlined. There is only one major amendment, that being the inclusion of an option to co-opt an independent member on to the Audit Committee, should this be considered appropriate.

2. Recommendations

- A. Members are asked to consider the revised Audit Committee Terms of Reference attached and provide appropriate comment or amendments.
- B. Subject to the above, Members are asked to approve the revised Audit Committee Terms of Reference.

REPORT

3. Risk Assessment and Opportunities Appraisal

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

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

4. Financial Implications

There are no financial implications.

5. Background

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

- 5.5 It is therefore important that the Terms of Reference are reviewed to ensure that best practice guidance is incorporated.
- 5.6 Members, at their meeting in November 2016, agreed for the Terms of Reference to be amended to allow provision for an independent member if, in the future, elected members felt the Committee would benefit from one. The terms of reference have been updated to reflect this but will need to be ratified by Council, this issue will be included in a wider report to Council from the Monitoring Officer. Proposed changes are shown in **bold, italics and are underlined** in the attached **Appendix**.

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

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

Cabinet Member (Portfolio Holder) Peter Nutting (Leader of the Council) and Peter M Adams (Chairman of Audit Committee)

Local Member N/A

Appendices Audit Committee Terms of Reference

AUDIT COMMITTEE TERMS OF REFERENCE

Membership

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

Meetings

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

8. The Monitoring Officer is responsible for ensuring the Audit Committee is serviced with all necessary papers and support to enable it to fully discharge its responsibilities.

CORE FUNCTIONS

Governance risk and control

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

Internal Audit

18. To approve the Internal Audit Charter.
19. To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.

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

28. To support the development of effective communication with the Head of Audit.

External Audit

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

Financial reporting

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

Treasury Management

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

Accountability Arrangements

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

¹ Clause 3 Treasury Management Code of Practice

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

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

Work plan

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

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

Powers of the Audit Committee

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

Audit Committee Competency Framework

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

- b) Understanding of the wider governance environment in which the council operates and the accountability structures within that environment.
- c) Financial management and accounting including accounting concepts and standards.
- d) Risk management.
- e) Audit.
- f) Counter fraud.
- g) Treasury management.

And that the Committee should receive appropriate levels of training.

Reviewed and updated **November 2017**.



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
30 November 2017	
13:30 pm	<u>Public</u>

AUDIT COMMITTEE SELF-ASSESSMENT OF GOOD PRACTICE

Responsible Officer James Walton
e-mail: James.walton@shropshire.go.uk Tel: 01743 258915

1. Summary

Members are asked to review and comment on the self-assessment of good practice questionnaire attached to this report. The questionnaire allows members to assess the effectiveness of the Audit Committee and identify whether there are any further improvements that could be made which would improve its overall effectiveness. The Self-Assessment has identified high levels of compliance with accepted good practice. A number of areas of non-compliance with good practice have, nonetheless, been identified and this needs to be considered and appropriate action taken.

2. Recommendations

Members are asked to:

- A. Consider the self-assessment of good practice attached at **Appendix A** and identify any errors or amendments required.
- B. Identify the further work, actions or training required as a result of the completion of the self-assessment of good practice and the analysis of training requirements attached at **Appendix B**
- C. Provide the necessary input to enable an action plan to be created to improve areas of weakness.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The Audit Committee has a key function in ensuring effective corporate governance, risk and control arrangements are in place in the Council. The effectiveness of the committee should be judged by the contribution it makes to, and beneficial impact it has on, the Council's business. A good standard of performance against recommended practice, together with a knowledgeable and experienced membership, are essential requirements which empower an effective Audit Committee. By reviewing effectiveness annually using a good practice self-assessment, it can be established that the Committee is demonstrating a high degree of performance, is soundly based, and has a knowledgeable membership unimpaired in any way. Completion of the self-assessment can also be used to support the planning of the Audit Committee work programme and its training plans, and inform the Committee's annual report to Council.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.

4. Financial Implications

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

5. Background

- 5.1 The Chartered Institute of Public Finance and Accountancy, CIPFA, has produced guidance on the function and operation of audit committees; 'Audit Committees in Local Authorities and Police, 2013 edition'. The guidance represents CIPFA's view of best practice for Audit Committees in local authorities throughout the UK.
- 5.2 In the guidance, CIPFA provide a suggested self-assessment against recommended practice. Authorities are encouraged to use the checklist to determine if they are meeting recommended practice and as an indicator of the Committee's effectiveness; following which any changes or improvements identified to enhance the Committee's performance should be managed.
- 5.3 The Section 151 Officer and the Head of Audit have completed an initial review of the self-assessment, based on information from previous assessments and with knowledge of the Committee's compliance with recommended practices, for members to consider, discuss and amend as appropriate. Membership of the Audit Committee has changed since the last refresh and the assessment has been considered at a training session in October 2017. Annual refreshers are undertaken with Member involvement and reported to this Committee. In preparation for 2017/8, the self-assessment has been updated and circulated to members for consideration prior to this meeting, attached as **Appendix A**.
- 5.4 Following changes to Audit Committee membership in 2017, Members were asked to complete the following activities to gain a better picture of the Committee's understanding of its effectiveness as part of the review process:

- A self-assessment of individual training requirements.
- A self-assessment of the effectiveness of the audit committee.

5.5 Learning from these self-assessments is important and the data extracted will be used to inform training sessions and identify areas for continued improvement. The information from self-assessments are balanced alongside ongoing requests from committee members in response to current topics.

Training sessions provided in June and October 2017 have included:

- Purpose of the Audit Committee
- Core functions
- Wider committee role
- Membership and effectiveness
- Annual assessment, evaluating effectiveness and identifying any improvements
- Members self-assessment of skills and training needs
- Contract management and Porge
- Risk management and registers.

5.6 The next training session is the 12 January 2018 and Members have requested that focus is on: Risk management, Improvement, The value of good governance and Strategic thinking, including the understanding of materiality

5.7 **Appendix B** provides a summary from the two self-assessments, detailed in 5.4 above, showing the areas members have identified for future focus and refresh sessions and also where updated training has been provided.

5.8 Following the current review of the Audit Committee self-assessment of good practice, a number of areas of partial compliance were identified and two of none compliance. These are summarised below with the proposed actions to improve for members to consider as components in an action plan looking forward.

SAR ¹	Partial compliance	Proposed action
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	Members to consider areas identified for improvement in the Annual Governance Statement against their work and training plans, to ensure coverage of all areas the committee requires assurances from.
12	Has an effective audit committee structure and composition of the committee been selected? <ul style="list-style-type: none"> • An appropriate mix of knowledge and skills among the membership 	Consider feedback from skills self-assessment for members, results in Appendix B .

¹ SAR = Self-assessment reference

SAR ¹	Partial compliance	Proposed action
18	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	Committee to consider the benefit of more formal feedback or support from an external body, e.g. CIPFA to help assess its performance.
19	Has the committee evaluated whether and how it is adding value to the organisation?	The proposed action at 5 above, will continue to ensure this in addition to completing the self-assessment: Evaluating the effectiveness of the audit committee.
	Non compliance	
15	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?	By completing the action in 12 above, alongside Recommendation C, compliance can be achieved.
20	Does the committee have an action plan to improve any areas of weakness?	See Recommendation C. The actions proposed throughout this document will help to identify the Audit Committee's improvement plan going forward.

5.9 In addition there are areas where the assessment is positive and proposed actions identified will help to reinforce and build upon the current position

	Full compliance	Proposed action
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?	The proposed action at 5, will continue to ensure this.
10	Where coverage of core areas has been found to be limited, are plans in place to address this?	The proposed action at 5, will continue to ensure this.
13	Does the chair of the committee have appropriate knowledge and skills?	The new Chair may wish to consider shadowing an established Audit Committee Chair for another organisation to build on their understanding of the role and further refine their approach. (Repeated from last year and left in for the new Chair to decide).
14	Are arrangements in place to support the committee with briefings and training?	The proposed action at 12 above, will continue to ensure this.

Do members support or wish to adjust the findings of the self-assessment?

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

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

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

Cabinet Member (Portfolio Holder)

Peter Nutting (Leader of the Council) and Peter M Adams (Chairman of Audit Committee)

Local Member n/a

Appendices

A Self-assessment of good practice November 2017

B Analysis of training requirements and the effectiveness of the Audit Committee based on the 2017 self-assessments

C Self-assessment of good practice November 2017 showing evidence

Appendix A: Self-assessment of Good Practice November 2017

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

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

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

Appendix B: Analysis of training requirements based on 2017 self-assessments.

Training requirements

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

H	High
M	Medium
L	Low

Rank	Skills: Core	Evidence of training since April 2017
H ²	Organisational knowledge	October 2017 ³
H	Audit Committee role and functions	June 2017
H	Governance	June 2017
H	Internal Audit	June 2017
H	Financial management and accounting	June 2017
H	External Audit	June 2017
H	Risk Management	June and October 2017
H	Counter-fraud	
H	Values of good governance	June 2017
M	Treasury management	June 2017
H	Strategic thinking and understanding of materiality	
H	Questioning and constructive challenge	
H	Focus on improvement	
H	Able to balance practicality against theory	
H	Clear communication skills and focus on the needs of users	

² Based on 4/9 completed

³ Contract management

Skills: Specialist		
L	Accountancy	
L	Internal Audit	June 2017
L	Risk Management	June and October 2017
L	Governance and Legal	October 2017 ⁴
M	Service knowledge relevant to the functions of the organisation	
M	Programme and project management	
L	IT system and IT governance	
Analysis of the effectiveness of Audit Committee based on 2017 self-assessments		
M ⁵	Promoting the principles of good governance and their application to decision making.	
M	Contributing to the development of an effective control environment.	
M	Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.	
M	Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	
M	Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence.	
M	Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements.	
M	Supporting the development of robust arrangements for ensuring value for money.	
M	Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risk.	
M	Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.	

⁴ Contract management

⁵ Based on 3/9 completion

Appendix C: Self-assessment of Good Practice showing evidence

	Good practice questions	Yes/ No/ Partly	Evidence
	Audit Committee purpose and governance		
1	Does the authority have a dedicated audit committee?	Yes	Constitution/ actual meetings, details on internet.
2	Does the audit committee report directly to full council? (Applicable to local government only.)	Yes	ToR ⁶ paragraph (para) 39/40, reviewed, revised and reapproved at November Audit Committees.
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	Yes	ToR from para 9 reviewed, revised and reapproved at November Audit Committees.
4	Is this role and purpose of the audit committee understood and accepted across the authority?	Yes	Officers and members are aware of this – there can be some confusion over the scrutiny/ audit committee role at times, this is worked on by key members and officers at every opportunity. Officers are invited to Audit Committee to discuss major risks and control issues, examples can be provided from various agendas. Discussions take place between the Chairman, CEO, senior officers and Portfolio Holders as required.

⁶ Terms of reference

	Good practice questions	Yes/ No/ Partly	Evidence
			Member training is sometimes extended to a wider member audience The annual report from Committee to Council informs all members of the Committee's activities.
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	Partly	ToR para 9-17. ToR Para 41, j. The Committee's work plan identifies areas of governance that it provides support on, this can be seen in Committee agendas at February meetings. The Annual assurance report to Council presented to the June Committee also demonstrates this. Proposed Action: <i>Members to consider areas identified for improvement in the Annual Governance Statements against their work and training plans, to ensure coverage of all areas the committee requires assurances from.</i>
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?	Yes	No complaints from Council. Annual report to Council appears on June Audit Committee agenda allows members to comment and challenge the Committee's work. Evidence that the Committee is reviewing issues aligned to the Strategic Risks of the Council and the Annual Governance Statement action plans (IT, Commissioning, etc.). Proposed Action: <i>An action to review this, to keep it current, is included above.</i>
	Functions of the committee		

	Good practice questions	Yes/ No/ Partly	Evidence
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFAs Position Statement?	Yes	
	<ul style="list-style-type: none"> • Good governance 		ToR para 9+
	<ul style="list-style-type: none"> • Assurance framework 		ToR para 9+
	<ul style="list-style-type: none"> • Internal audit (IA) 		ToR para 18+
	<ul style="list-style-type: none"> • External audit 		ToR para 29+
	<ul style="list-style-type: none"> • Financial reporting 		ToR para 34+
	<ul style="list-style-type: none"> • Risk management 		ToR para 12+
	<ul style="list-style-type: none"> • Value for money or best value 		ToR para 11+
	<ul style="list-style-type: none"> • Counter-fraud and corruption 		ToR para 16+
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?	Yes	Evaluation is through the: <ul style="list-style-type: none"> • Self-assessment of compliance with this best practice document, reported to November. • Annual report to Committee is written to map back to the terms of reference.

	Good practice questions	Yes/ No/ Partly	Evidence
			<ul style="list-style-type: none"> • Annual work plan, reported to February Committee, which maps back to the ToR. • Agendas, minutes and reports of Committee support that all core areas are being reviewed.
9	Has the audit committee considered the wider area identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?	Yes	<p>Wider areas are:</p> <ul style="list-style-type: none"> • Matters at the request of Statutory Officers or other committees – if these are brought to the Committee they would be considered in line with the ToR, para 6. • Ethical Values – The Committee does not have responsibility for reviewing ethical standards. A separate Standards Committee which has this responsibility is held as and when required. • Treasury Management – The Committee covers this responsibility as evidenced by its ToR para 36+.
10	Where coverage of core areas has been found to be limited, are plans in place to address this?	Yes	<p>No limitations have been found, evidence is demonstrated openly on the Internet in the:</p> <ul style="list-style-type: none"> • Work plan • Regular Committee reports • ToR

	Good practice questions	Yes/ No/ Partly	Evidence
			<ul style="list-style-type: none"> Annual report to Council Lack of negative feedback from Council and statutory officers <p>Proposed Action: <i>The proposed action at 5 above, will continue to ensure this.</i></p>
11	Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?	Yes	ToR, especially para 42, sets out decision making powers. Review of work plans, agendas, reports and minutes demonstrate this, all are available on the Internet.
	Membership and support		
12	Has an effective audit committee structure and composition of the committee been selected? This should include:	Partly	
	<ul style="list-style-type: none"> Separation from the executive 	Yes	ToR, para 1 Where it has been recognised that Members have conflicting responsibilities, they have resigned from the Committee.
	<ul style="list-style-type: none"> An appropriate mix of knowledge and skills among the membership 	Partly	ToR, para 43+ This will be further demonstrated by self-assessments when completed by Members which will help to inform the training plans covered in publically available reports on the Committee's work plan (February) and the annual report to Council (June). Members have wide experience and continuity of knowledge, some of which sit on Audit Committee's for other public

	Good practice questions	Yes/ No/ Partly	Evidence
			<p>sector organisations, they also have private business knowledge, financial, and governance awareness. Where members feel further knowledge or training is required they have the opportunity to and do raise this, demonstrated through work, training plans and self-assessments once completed</p> <p>Proposed Action: <i>Consider feedback from skills self-assessment for members, November 2017.</i></p>
	<ul style="list-style-type: none"> A size of committee that is not unwieldy 	Yes	ToR, para 1
	<ul style="list-style-type: none"> Where independent members are used, that they have been appointed using an appropriate process. 	Yes	<p>There are currently no independent members on the Committee.</p> <p>Appointment would follow good recruitment processes including evaluation of the skills sets required, advertising, clear job specifications and descriptions, selection and awarding processes.</p>
13	Does the chair of the committee have appropriate knowledge and skills?	Yes	<p>Chair is new to the role. Completion of self-assessment confirms appropriate knowledge and skills are in place. Evidenced by attendance at Committee and resulting recommendations and minutes, available on public web sites.</p> <p>The Chair also works closely with the S151 Officer and Head of Audit to retain current knowledge and management of risks as they develop.</p>

	Good practice questions	Yes/ No/ Partly	Evidence
			<p>Proposed Action: <i>The new Chair may wish to consider shadowing an established Audit Committee Chair for another organisation to build on their understanding of the role and further refine their approach.</i></p>
14	Are arrangements in place to support the committee with briefings and training?	Yes	<p>Regular training sessions are agreed with the Chair and wider members of the Committee.</p> <p>Demonstrated by:</p> <ul style="list-style-type: none"> • Completion of the skills assessment (agreed to be refreshed every two years, to be completed autumn 2017). • Committee work plan (February Committee agenda) • Evidence of training including agendas, supporting training documents etc. available on request. • CIPFA’s Better Governance Framework provides members with up to date briefing papers at least twice a year and all members can access the web site which provides weekly updates. Specialist training sessions are also accessible through this subscription. • External auditors provide training sessions available to members – demonstrated in their updates to the Committee.

	Good practice questions	Yes/ No/ Partly	Evidence
			Proposed Action: <i>The proposed action at 12 above, will continue to ensure this.</i>
15	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?	No	Self-assessments have been shared with members for completion autumn 2017 Proposed Action: <i>By completing the action in 12 above, alongside Recommendation C, compliance can be achieved.</i>
16	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	Yes	Demonstrated by regular attendance at all Committees by these key stakeholders and the professional manner in which the meetings are managed. Interviews with all parties would help to support this conclusion.
17	Is adequate secretariat and administrative support to the committee provided?	Yes	Regular qualified and experienced secretarial support is provided to all Committee meetings.
	Effectiveness of the committee		The Committee will be evaluating its effectiveness by Members working through and completing a self-assessment to feed into this overall assessment, see results at Appendix B . In addition completion of the skills and training requirements will help support this. A training session in October 2017 revisited the skills matrices and effectiveness of the Audit Committee.
18	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	Partly	Committee has received verbal feedback from members, officers and external audit which is fed into the effectiveness evaluation below.

	Good practice questions	Yes/ No/ Partly	Evidence
			<p>Proposed Action: <i>Committee to consider the benefit of more formal feedback or support from an external body, i.e. CIPFA to help assess its performance.</i></p>
19	<p>Has the committee evaluated whether and how it is adding value to the organisation?</p>	Partly	<p>Demonstrated by the year-end report sent to Council in September (agreed by Audit Committee in June) which sets out delivery in the following areas:</p> <ul style="list-style-type: none"> • Promoting the principles of good governance and their application to decision making; advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively • Contributing to the development of an effective control environment • Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks • Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence

	Good practice questions	Yes/ No/ Partly	Evidence
			<ul style="list-style-type: none"> • Aiding the achievement of the authority’s goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements • Supporting the development of robust arrangements for ensuring value for money • Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks • Promoting effective public reporting to the authority’s stakeholders and local community and measures to improve transparency and accountability <p>Proposed Action: <i>The proposed action at 5 above, will continue to ensure this in addition to completing the self-assessment: Evaluating the effectiveness of the audit committee.</i></p>
20	Does the committee have an action plan to improve any areas of weakness?	No	The committee has new membership from April and already has planned training sessions in place based on topics included in the work plan (February) and effectiveness of the Audit Committee (November) public reports. Committee have also agreed to run self-assessments against the skills matrices and effectiveness of the

	Good practice questions	Yes/ No/ Partly	Evidence
			<p>Committee on a biennial basis. Information from these will inform action plans.</p> <p>Proposed Action: <i>See Recommendation C. The actions proposed throughout this document will help to identify the Audit Committee's improvement plan going forward.</i></p>

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<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
30 th November 2017	
1:30 pm	<u>Public</u>

INTERNAL AUDIT CHARTER

Responsible Officer Ceri Pilawski

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Tel:

01743 257739

1. Summary

The Internal Audit Team works to a Charter which complies with the Public Sector Internal Audit Standards (PSIAS) as applied in the UK, based on international standards. The Charter is reviewed and considered by the Audit Committee on an annual basis. The PSIAS were refreshed in March 2017 and, to ensure that Shropshire Council's Internal Audit Service Charter reflects the key changes, it too has now been reviewed and refreshed to reflect these. In addition, the Charter has been refreshed to reflect learning points identified following the external review of Internal Audit, by the Chartered Institute of Public Finance and Accountancy (CIPFA), reported to your February 2017 meeting.

2. Recommendations

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

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 Audit Committee has a key function in ensuring that effective corporate governance arrangements are maintained in the Council. The Internal Audit Charter provides evidence of such arrangements in respect of the Internal Audit function, and has been updated to reflect the recent refresh of the Public Sector Internal Audit Standards and learning following the external review of Internal Audit.

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

4. Financial Implications

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

5. Background

- 5.1 The Public Sector Internal Audit Standards (PSIAS) were updated in April 2017. The standards are mandatory for internal audit in public services, including local government. The update reflects the changes made to the International Professional Practices Framework (IPPF) of the Global Institute of Internal Auditors on which the PSIAS is based. In addition, amendments were made to the public sector requirements and public sector interpretations which form part of the PSIAS. The Internal Audit Charter has been updated to reflect the new standards and brought to the Audit Committee for approval.
- 5.2 Public Sector Internal Audit Standard 1000 requires that Purpose, Authority and Responsibility be defined in an Audit Charter. The Charter establishes Internal Audit's position within the organisation, including the nature of the Audit Service Manager's reporting relationship with the Audit Committee, authorises access to personnel, records, and physical properties relevant to audit work, and defines the scope of internal audit activities. The senior management and board representatives for Internal Audit's client organisations is set out in Annex B of the Charter. Final approval of the Internal Audit Charter resides with Shropshire Council's Audit Committee.
- 5.3 The Internal Audit Charter refers to;
- The nature of assurance services provided to the Council.
 - Organisational independence.
 - Individual objectivity.
 - Impairment to independence or objectivity.
 - Proficiency and due professional care.
 - Continuing professional development.
 - Quality assurance and improvement programme – internal and external.
- 5.4 The charter will communicate the contribution that Internal Audit makes to the Council and includes:
- Internal Audit's mission
 - Purpose, principles and responsibilities.
 - Independence and objectivity.
 - Competencies and standards.
 - Planning.
 - Nature of work.
 - Reporting.
 - Quality assurance.
 - Fraud and corruption.

- Rights of access.

Roles beyond internal auditing

- 5.5 One area of significant change to the PSIAS is the introduction of a new standard: 1112 Chief Audit Executive Roles beyond Internal Auditing. If the head of internal audit (referred to as the chief audit executive in the standards) takes on roles or responsibilities that fall outside of internal auditing, then safeguards must be put in place to limit impairments to independence or objectivity. The head of internal audit must highlight any actual or perceived impairment to the board or audit committee and safeguards should be considered to protect internal audit independence.
- 5.6 At Shropshire, the Head of Audit has responsibility for corporate counter fraud. The standards allow for this, but rightly emphasise the importance of internal audit independence and the need to ensure it is safeguarded. It is vital that this principle is considered locally and the Head of Audit is adequately supported to meet professional requirements. The Audit Committee should exercise its responsibility for oversight of internal audit and support internal audit's ability to meet professional standards.
- 5.7 It is not felt that the corporate counter fraud responsibilities impair the independence or objectivity contained in the Code of Ethics of the Head of Audit or the team. Counter fraud work completed by internal audit aims to identify control improvements and follows the same review processes applied to standard internal audit engagements that ensures reliance on evidence and impartiality of the auditor. Given that the Head of Audit does not have direct managerial responsibility for any of the areas examined in relation to counter fraud activity, the independence is further demonstrated. This point has been reflected in the revised Charter at paragraph 17.
- 5.8 Following CIPFA's external assessment of Internal Audit against the PSIAS, two areas of partial compliance were identified under standard 1000, Purpose authority and responsibility and 1100, Independence and objectivity; to address these issues and improve conformity with the standards, slight adjustments have been made to the Audit Charter to reflect these.
- 5.9 The proposed adjustments can be found at **Appendix A** and appear in **bold font and underlined**

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

Accounts and Audit Regulations 2015;
Public Sector Internal Audit Standards 2017
Internal Audit Quality Assurance Improvement Programme – External Assessment, February 2017

Cabinet Member (Portfolio Holder)

Peter Nutting (Leader of the Council) and Peter M Adams (Chairman of Audit Committee)

Local Member All

Appendix A Internal Audit Charter with annexes A and B

Appendix A



INTERNAL AUDIT CHARTER

MISSION STATEMENT

“To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.”

INTERNAL AUDIT CHARTER

INTRODUCTION

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

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

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

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

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

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

INTERNAL AUDIT PURPOSE AND RESPONSIBILITIES

Purpose

7. Internal Audit led by the Head of Internal Audit⁶ is 'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.'⁷

Principles

8. Internal Audit, the auditors and the internal audit activity, comply with the following principles in delivering and achieving internal audit's mission:
 - Demonstrates integrity.
 - Demonstrates competence and due professional care.
 - Is objective and free from undue influence (independent).
 - Aligns with the strategies, objectives, and risks of the organisation.
 - Is positioned appropriately and resourced adequately.
 - Demonstrates quality and continuous improvement.
 - Communicates effectively.
 - Provides risk-based assurance⁸.
 - Is insightful, proactive, and future-focused.
 - Promotes organisational improvement.

Objectives

9. Internal Audit's objective is to give assurance and an opinion to the Section 151 Officer, Audit Committee and the Council, on the adequacy of the Council's risk management, governance and control environment and the extent to which it can be relied upon, in line with the Accounts and Audit (England) Regulations 2015.

Responsibilities

10. Internal Audit is responsible for conducting an independent appraisal of all the Council's (and that of its external clients) activities, financial or otherwise,

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

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

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

⁸ **Assurance opinions and recommendation categories are defined in Annex A**

including services provided in partnership or under contract with external organisations. It provides this service to the Council and all levels of management.

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

INDEPENDENCE AND OBJECTIVITY

14. Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out their responsibilities in an unbiased manner.
15. Objectivity is an unbiased mental attitude that allows internal auditors to perform audit reviews in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not allow their judgement on audit matters to be influenced, distorted, or subordinated by others.

16. Threats to objectivity and independence must be managed at the individual auditor, audit, functional and organisational levels.
17. Internal Audit has no executive responsibilities and is independent of the activities that it audits to enable Auditors to provide impartial and unbiased professional evaluations, opinions and recommendations. Internal Audit is free to plan, undertake and report on its work as the Head of Internal Audit deems appropriate, in consultation with relevant managers. **Counter fraud is a responsibility of the Head of Internal Audit but remains independent of the services from where counter fraud controls are operating.**
18. The Head of Internal Audit has direct access to the Section 151 Officer, the External Auditor, senior managers, the Leader, Audit Committee and other members as required.
19. The Head of Internal Audit fosters constructive working relationships and mutual understanding with management, external auditors and with other review agencies.
20. Constructive working relationships make it more likely that internal audit work will be accepted and acted upon, although the internal auditor does not allow their objectivity or impartiality to be impaired.
21. Internal auditors are required to have an impartial, unbiased attitude characterised by integrity and objectivity in their approach to work. They avoid conflicts of interest and a register of interests is maintained. Audit reviews are planned to ensure potential conflicts are avoided. **To ensure integrity and objectivity are not impaired, auditors will not audit areas of previous responsibility for a period of at least twelve months after the responsibility ended.** Auditors should not allow external factors to compromise their professional judgement and must maintain confidentiality in their work.
22. The Head of Internal Audit cannot give total assurance that control weaknesses or irregularities do not exist. Managers are fully responsible for the quality of internal control within their area of responsibility. They should ensure that appropriate and adequate risk management processes, control systems, accounting records, financial processes and governance arrangements i.e. the control environment, exist without depending on internal audit activity to identify weaknesses.
23. The Head of Internal Audit is to be consulted about significant proposed changes in the internal control system and the implementation of new systems and shall make recommendations on the standards of control to be applied. This need not prejudice the audit objectivity when reviewing the systems at a later date.

COMPETENCIES AND STANDARDS

24. Audits must be performed with proficiency and due professional care. Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities.
25. The Head of Internal Audit holds a relevant professional accountancy qualification and is suitably experienced. In addition the Head of Internal Audit must maintain a team of staff who are properly trained to fulfil all their responsibilities and continue to enhance their knowledge, skills and competencies through continuing professional development.
26. Internal auditors are expected to:
 - exercise due professional care based upon appropriate experience, training, ability, integrity and objectivity;
 - apply confidentiality as required by law and best practice and
 - obtain and record sufficient audit evidence to support their findings and recommendations.

INTERNAL AUDIT PLANNING

27. The Head of Internal Audit produces the Council's annual risk based audit plan, in consultation with the Section 151 Officer, to establish priorities, achieve objectives and ensure the efficient and effective use of audit resources. The plan takes into account the Accounts and Audit (England) Regulations 2015, the management of risk, previous internal/external audit work, discussions with the Head of the Paid Service and senior managers, external networking intelligence, local and national risks, comments from the Audit Committee and any requirements of the External Auditor.
28. The Plan is subject to regular reviews and revisions as required to reflect changes to the risk environment and these changes are approved when significant. The Plan includes an element of contingency to allow Internal Audit to be responsive to changing risks and requests for assistance from managers. It is the responsibility of the Section 151 Officer to ensure that the budget⁹ and resources allocated to Internal Audit are sufficient to ensure delivery of the plan and to report any concerns to the Audit Committee. The Audit Committee agree the annual risk based plan and any significant change to the plan during the year.
29. **The Internal Audit team has retained a rich mix of skills in finance, information technology, contract management, governance, job evaluation, establishments, systems, counter fraud, investigations and project management. To help supplement the internal resources and**

⁹ The budget, including the remuneration the Audit Service Manager is approved by Council.

respond to demand during periods of change, additional audit time will be purchased from external contractors to deliver the plan.

NATURE OF WORK

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

Governance

31. The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- promoting appropriate ethics and values within the organisation;
- ensuring effective organisational performance management and accountability;
- communicating risk and control information to appropriate areas of the organisation;
- coordinating the activities of, and communicating information among, the audit committee, external and internal auditors and management;
- the internal audit activity must assess whether the information technology governance of the organisation supports the organisation's strategies and objectives.

Risk Management

32. Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:

- organisational objectives support and align with the organisation's mission;
- significant risks are identified and assessed;
- appropriate risk responses are selected that align risks and their mitigation with the organisation's risk appetite;
- relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management and the board to carry out their responsibilities.

33. The internal audit activity must evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk.

34. When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

Control

35. The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organisation's governance operations and information systems regarding the:
- achievement of the organisation's strategic objectives;
 - reliability and integrity of financial and operational information;
 - effectiveness and efficiency of operations and programmes;
 - safeguarding of assets; and
 - compliance with laws, regulations, policies, procedures and contracts.
36. In accordance with the PSIAS, most individual audits are undertaken using the risk based systems audit approach, the key elements of which are listed below:-
- identify and record the objectives, risks and controls;
 - establish the extent to which the objectives of the system are consistent with higher level corporate objectives;
 - evaluate the controls in principle to decide whether or not they are appropriate and can be reasonably relied upon to achieve their purpose;
 - identify any instances of over and under control;
 - determine an appropriate strategy to test the effectiveness of controls, i.e. through compliance and/or substantive testing;
 - arrive at conclusions and produce a report, leading to management actions as necessary and providing an opinion on the effectiveness of the control environment.
37. To reduce duplication of effort Internal Audit will work in partnership to identify and place reliance on assurance work completed elsewhere in the Council. A computerised audit management system, supported by working papers, is used to streamline working practices. This reflects best professional practice.

INTERNAL AUDIT REPORTING

38. Internal Audit findings are reported in writing to appropriate managers against four assurance opinions (good, reasonable, limited and unsatisfactory). The Head of Internal Audit sets standards for reporting and makes arrangements for their review and approval before issue. The reports:
- prompt management action to implement recommendations for change, leading to improvement in performance and control;
 - provide a formal record of points arising from the assignment, and where appropriate, of agreements reached with management;
 - state scope, purpose and extent of conclusions;
 - make recommendations relative to the risk which are appropriate, relevant and flow from the conclusions;
 - acknowledge the action taken or proposed by management; and

- ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations, or that management has understood and assumed the risk of not taking action.
39. The Head of Internal Audit reports regularly to the Section 151 Officer and at least three times a year to the Council's Audit Committee on progress against the annual audit plan and other issues of concern in respect of the control environment and emerging issues. The Audit Committee meet at least four times per year and they have a detailed work plan agreed for the year. In addition, the Head of Internal Audit produces an annual report to the Section 151 Officer and Audit Committee on the main issues raised by Internal Audit during the year and on the performance of Internal Audit. In particular the annual report:
- includes an opinion on the overall adequacy and effectiveness of the Council's control environment;
 - discloses any qualifications to that opinion, together with the reasons for the qualification;
 - presents a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies;
 - draws attention to any issues the Head of Internal Audit considers particularly relevant to the preparation of the Annual Governance Statement;
 - compares the work actually undertaken with the work as planned and summarises the performance of the Internal Audit function against its performance measures and criteria;
 - comments on compliance with these standards and communicates the results of the Internal Audit quality assurance and improvement programme.

QUALITY ASSURANCE

40. In order to ensure Internal Audit independence, the audit of any areas managed by the Head of Internal Audit will be carried out by an appropriate auditor and reviewed by an audit senior. The Head of Internal Audit will take no part in the audit or review process other than in the role of auditee. The final report will be issued to the Section 151 Officer as the Head of Internal Audit's line manager.
41. The Head of Internal Audit will develop and maintain a quality assurance and improvement programme covering all aspects of the internal audit activity and conforming to the relevant standards. This will include an on-going internal assessment covering adequate supervision of work performed, an internal review process and the retention of appropriate evidence. In addition, at least once every five years, an external assessment of Internal Audit by an appropriate person¹⁰ external to the Council will be conducted. The timing, form of the assessment, qualifications of any external assessor, results and any

¹⁰ Qualified independent assessor or assessment team

improvement plans will be agreed with and reported to the Audit Committee in the annual report¹¹. Significant deviations will be considered for inclusion in the Annual Governance Statement.

42. The Head of Internal Audit develops and maintains a set of performance measures which are reported to the Section 151 Officer and Audit Committee.

FRAUD AND CORRUPTION

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

RIGHTS OF ACCESS

45. Under the Council's Financial Rules, internal auditors have the authority to:
- access at reasonable times, premises or land used by the Council;
 - access all assets, records, documents, correspondence and control systems except for those from which they are statutorily prevented;
 - require and receive any information and explanation considered necessary concerning any matter under consideration;
 - require any employee of the Council to account for cash, stores or any other Council property under his/her control and produce supporting evidence and assets for inspection if required;
 - access records belonging to third parties, such as contractors, when required.

Reviewed 20 October 2017

¹¹ For both internal and external reviews

Annex A

Public Sector Internal Audit Standards

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

Assurance

Overall Assurance is provided on the organisation's risk management, governance and internal control processes to confirm that they are operating effectively. **Opinions take into account the expectations of senior managers, the board and other stakeholders and are supported by sufficient, reliable, relevant and useful information.**

Audit assurance opinions **for engagements** are awarded on completion of audit reviews reflecting the efficiency and effectiveness of the controls in place **and consideration of the engagement results and their significance.**

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.

Audit recommendation categories are 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.

Consultancy Activity

Audit can, where resources and skills exist, provide independent and objective consultancy services, which apply the professional skills of Internal Audit through a systematic and disciplined approach, and may contribute to the opinion that Internal Audit provides on the control environment.

Consultancy comprises the range of services, which may go beyond Internal Audit's usual assurance roles, provided to assist management in meeting the objectives of the Council.

The nature and scope of the work may include:

- Facilitation;
- Process and / or control design;
- Training;
- Advisory services;
- Risk assessment support.

As with any piece of work, it is important to define clearly the terms of reference for the involvement of Audit in any consultancy activities, so that both the client and the auditor know what is expected from the involvement of Audit.

Any auditor asked to provide consultancy services or undertake a consultancy-style activity should consult their manager or the Head of Internal Audit before agreeing to provide such services. **For any significant additional consulting services not already included in the plan, approval will be sought from the Audit Committee prior to accepting the engagement.**

Code of Ethics

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

There are four principles in the code of ethics:

1. **Integrity** – The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

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

Internal auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life.¹²

¹² Information can be found at www.public-standards.gov.uk

Annex B

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

Shropshire and Wrekin Fire and Rescue Authority

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

Oswestry Town Council

Senior Management	Town Clerk
Board	Town Council Audit & Performance Panel

STaRH

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

West Mercia Energy

Senior Management	Treasurer Managing Director
Board	Joint Committee

Shropshire County Pension Fund

Senior Management	Pension Fund Administrator
Board	Pensions Committee



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

INTERNAL AUDIT PERFORMANCE AND REVISED ANNUAL AUDIT PLAN 2017/18

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

Telephone: 01743 257739

1. Summary

This report provides members with an update of work undertaken by Internal Audit in the two and a half months since the last report in September. Fifty eight percent of the revised plan has been completed (**see Appendix A, Table 1**), which is slightly ahead of previous delivery records. The team is on target to achieve 90% delivery by the year end.

Three good, fourteen reasonable, sixteen limited and four unsatisfactory assurance opinions have been issued. The 37 final reports contained 409 recommendations, none of which were fundamental.

This report proposes minor revisions taking the overall audit plan from 2,044 days, as reported in September 2017, to 2,038 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**.
- c) The action it wishes to take in response to the limited and unsatisfactory areas reported and the residual control environment where a recommendation has been rejected, as detailed in the report.

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

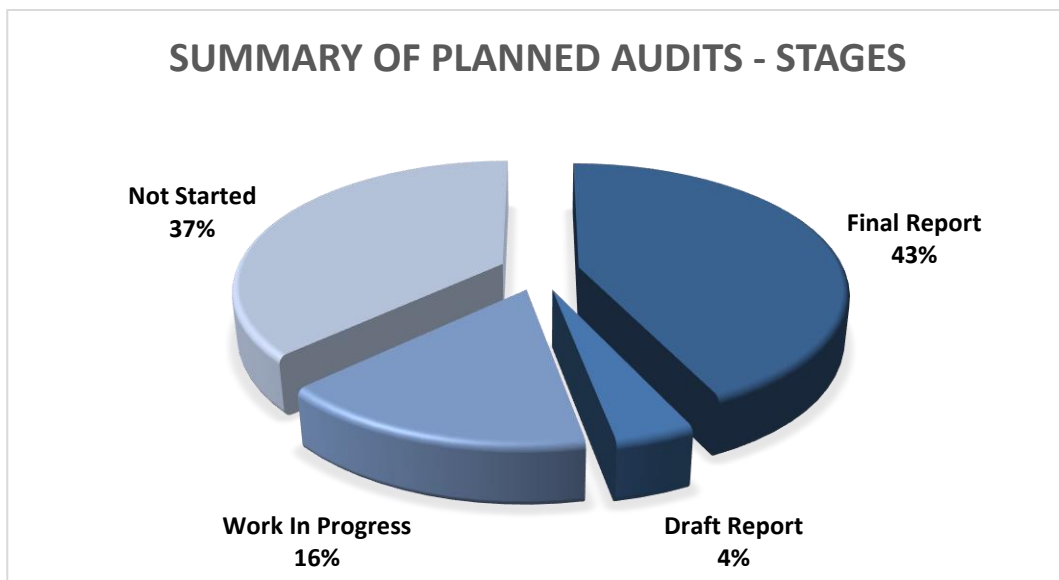
- 5.1 Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal Audit reviews, appraises and reports on the efficiency, effectiveness and economy of financial, governance, risk and other management controls. The Audit Committee is the governing body charged with monitoring progress on the work of Internal Audit.
- 5.2 The revised 2017/18 Internal Audit Plan was presented to, and approved by, members at the 7th September 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 31st October 2017 and includes minor revisions to the plan.

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

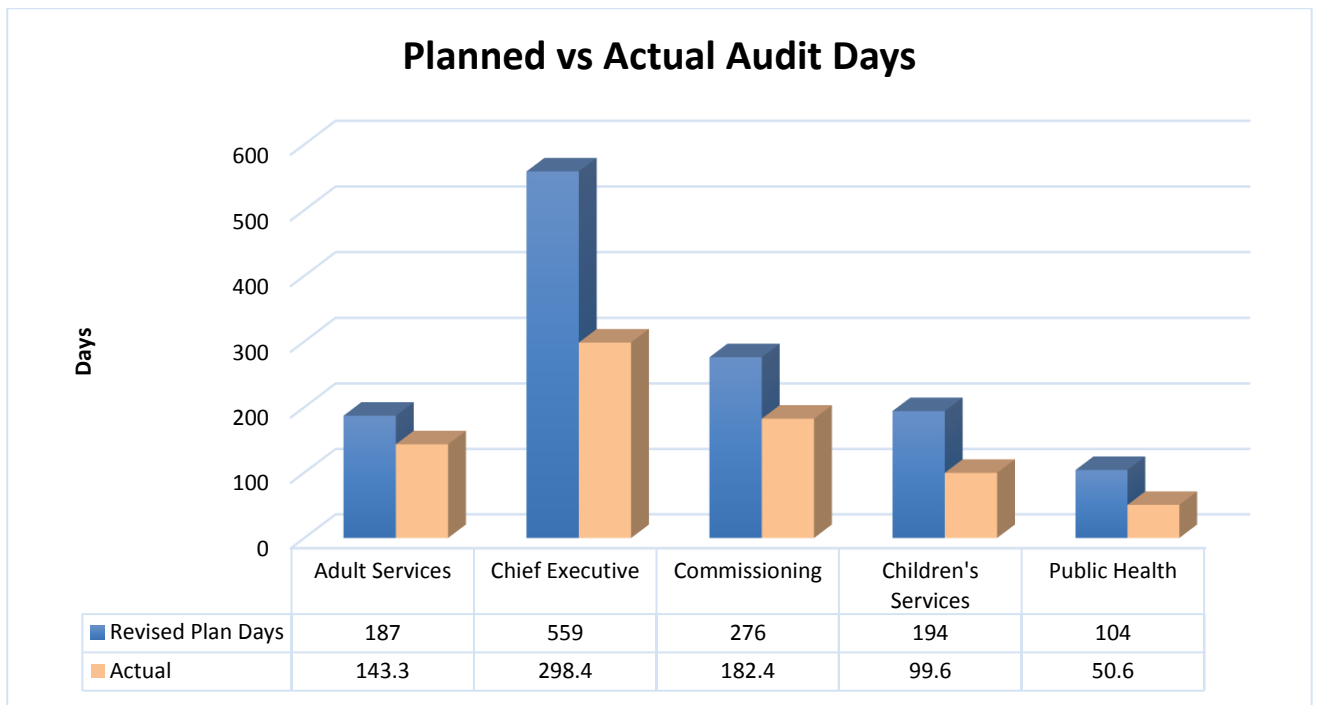
Performance against the plan 2017/18

5.4 Revisions to the 2017/18 plan provide for a total of 2,038 days following slight changes overall reflecting adjustments in risks and resources. In carrying out our audits we identified no unexpected restrictions to the scope of our work. Since the last report the team has an Auditor vacancy and will follow an internal recruitment exercise in the first instance. Minor changes between chargeable and non-chargeable work accounts for the slight decrease in days from 2,044 to 2,038 days. Performance to date is marginally higher than previous delivery records at 58% (53% 2016/17) and overall the team is on track to deliver a minimum of 90% of the annual plan by year end.

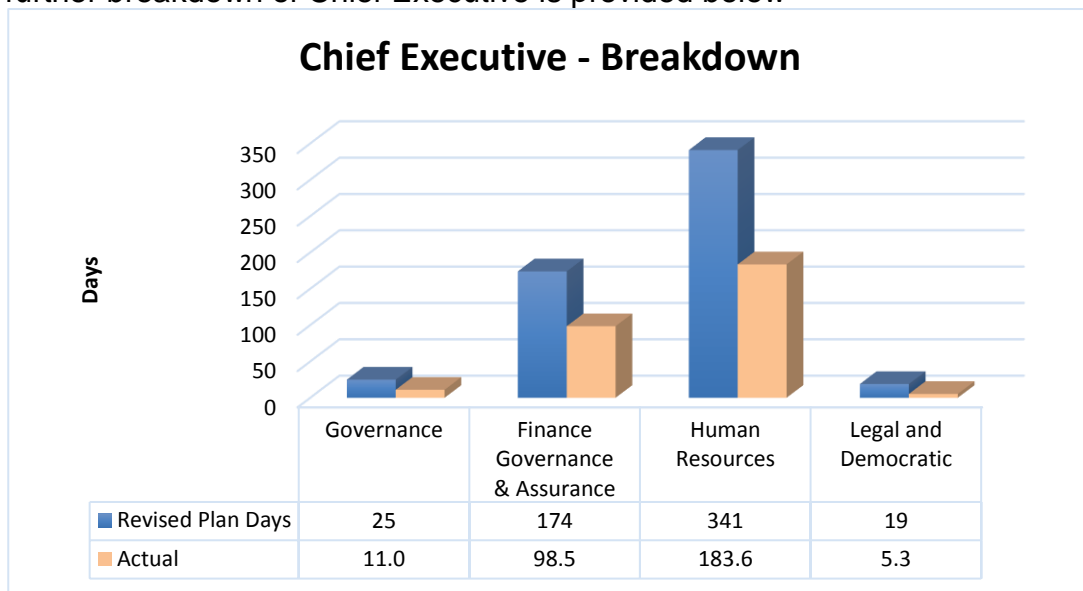
5.5 In total, 37 final reports have been issued in the period from 12th August 2017 to 31st October 2017. The following chart shows performance against the approved Internal Audit Plan for 2017/18 year to date, the first eight months:



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



A further breakdown of Chief Executive is provided below

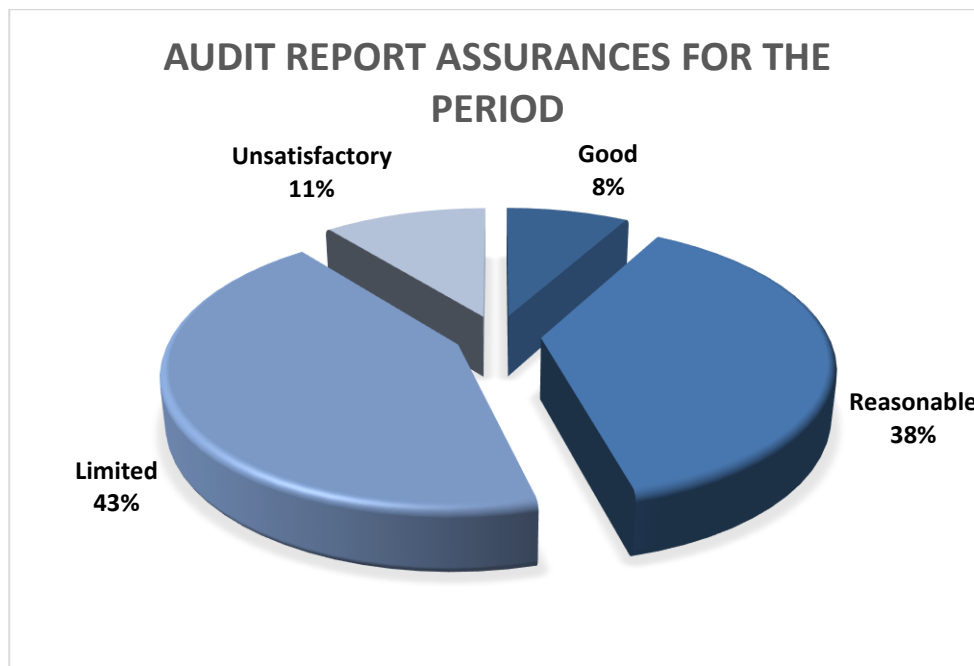


5.6 The following audits have been completed since the 12th August 2017:

- Private Sector Housing
- Electronic Homecare Monitoring (CM 2000)
- Enable
- The Meres Day Centre Closure
- Maesbury Metals Trading Account
- Building Control
- Highways Management System (CONFIRM)
- Highways Permits
- Much Wenlock Leisure Centre
- Libraries System (Galaxy)
- Transport Operations Group

- The Meadows Primary School
- Social Care system (CareFirst)
- Troubled Families Grant
- Debt Recovery
- Purchase Ledger
- Cash Office Regularity - Acton Scott Working Farm
- Cash Office Regularity - Shrewsbury Museum, Art Gallery and Visitor Information Centre
- Social Media
- Lone Working Arrangements
- Payroll - Self Service Facility
- Recruitment Arrangements
- Human Resources (ResourceLink) - Application Review
- Salary Sacrifice Schemes
- Redeployment Arrangements
- Parenting Assessment Manual (2016/17)
- Antivirus Controls
- Disposal of IT Equipment
- Hardware Replacement Programme
- IT Registration and Deregistration Procedures
- IT Helpdesk system (Landesk)
- IT Physical and Environmental Controls
- Print Unit Operations
- Remote Access, Citrix and Virtual Private Network
- Remote Servers
- Remote Support
- Transport Operations System (Tranman)

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



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



- 5.9 Between the 12th August and 31st October 2017, 17 reports have been issued, providing good or reasonable assurances, accounting for 46% of the opinions delivered in the period. This is offset by 54% limited and unsatisfactory assurances for the period.
- 5.10 During this period, there is no strong pattern of areas attracting lower assurance levels. Details of the 16 limited and four unsatisfactory audits, along with the control objectives evaluated and not found to be in place, appear in a summary of the audit reviews 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**.

Audit Committee are asked to advise what action they wish to follow in relation to the limited and unsatisfactory areas reported?

- 5.11 Six 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 various grant claims.
- 5.12 A total of 409 recommendations have been made in the 37 final audit reports issued in the two and a half month period; these are broken down by audit area and appear in **Appendix A, Table 7**.
- 5.13 No fundamental recommendations have been identified during the period 12th August to 31st October 2017.
- 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 by seeking an update from management. Cases where fundamental and significant recommendations are not implemented in a timely manner are escalated to directors. Fundamental recommendations continuing not to be implemented after a revised date is agreed are reported to Audit Committee.

- 5.15 There are no issues in respect of the implementation of fundamental recommendations to be reported.
- 5.16 One recommendation has been rejected by management.

Audit Committee are asked to advise what action they wish to follow in relation to the residual control environment with the managers of these areas?

Lone Working

Recommendation - The new re-emphasis on ensuring that managers carry out their health and safety responsibilities as evidenced by the completion of the Team Health and Safety Checklist should be continued. This should include reporting on Risk Assessment completion by Managers to Senior Management, along with follow up to ensure that all are completed and appropriate escalation where such information is not returned.

Management Response – No. Self-Monitoring Checklist is one element of the Health and Safety Management System. Senior Managers are informed of health and safety performance via a number of routes which was evidenced by the following documents:

- Annual Health and Safety Performance Report
- Health and Safety Audit Reports at teams and premises and through reporting to the Health and Safety Working Group via the Audit Summary Report.

Audit comment - It is acknowledged that performance is reported via the reports detailed above. However, the service has acknowledged that due to resource limitations, they cannot physically audit everywhere and reintroduced the checklist which had previously lapsed. The checklist sent to managers will assist the Health and Safety Team in identifying areas of weakness where a health and safety audit will add the most value. The recommendation is rated as significant, as this checklist, if completed by all managers will provide important intelligence driven direction to the service and ensure the most effective use of limited resources.

- 5.17 The following demonstrates areas where Audit have added further value with unplanned, project or advisory work, not included in the original plan located at **Appendix A, Table 1.**
- Support continues to be provided to the Digital Transformation Project through the Assurance Group and the provision of ongoing advice as required. We have also scheduled in some interim staged audits, agreed with the Senior Responsible Officers, to advise of areas for improvement as the programme of work delivers.
 - The team has responded to a request for internal audit services from a local charity and are awaiting a formal response.
 - The Head of Audit has been participating in the Leadership Programme for senior managers.

- Tenders have been received and analysed in respect of the Staffordshire framework internal audit contract covering the next four years.
- Completion of a health and safety questionnaire by the service has improved information within the team and led to suggestions for improvement of the wider assessment process.
- Procurement card analysis has found a robust system in place and recommended reminders to staff to ensure the safety and security of cards.
- Audit reviewed the approach taken by the NNDR Team in respect of the allocation of the new discretionary relief scheme for 2017/18 and found it to be in line with the approved Cabinet proposals.

Direction of travel

- 5.18 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
<i>2017/18 to date</i>	22%	42%	28%	8%	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%

Comparison of recommendation by categorisation

Categorisation	Best practice	Requires attention	Significant	Fundamental	Total
<i>2017/18 to date</i>	2%	56%	42%	0%	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%

- 5.19 The number of lower level assurances 36%, at this point in the year, is 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 and members are reminded that only a proportion of the plan has been completed to date and the main financial and governance areas are yet to be completed.

Performance measures

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

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

Draft Internal Audit Risk Based Plan 2017/18 - Audit Committee 22nd February 2017
Public Sector Internal Audit Standards (PSIAS)
Audit Management system
Accounts and Audit Regulations 2015
Internal Audit Performance And Revised Annual Audit Plan 2017/18, September 2017

Cabinet Member (Portfolio Holder)

Peter Nutting, Leader of the Council and Peter Adams, Chairman of Audit Committee

Local Member: All

Appendices

Appendix A

Table 1: Summary of actual audit days delivered against plan 1st April 2017 to 31st October 2017
Table 2: Final audit report assurance opinions issued in the period 12th August 2017 to 31st October 2017
Table 3: Unsatisfactory and limited assurance opinions in the period 12th August 2017 to 31st October 2017
Table 4: Audit assurance opinions
Table 5: Audit recommendation categories
Table 6: Glossary of terms
Table 7: Audit recommendations made in the period 12th August 2017 to 31st October 2017
Appendix B - Audit plan by service 1st April 2017 to 31st October 2017

APPENDIX A

Table 1: Summary of actual audit days delivered and revisions to the audit plan in the period 1st April 2017 to 31st October 2017

	Original Plan	Revised Plan	31 October 2017 Actual	% of Original Complete	% of Revised Complete
Chief Executive	552	559	298.4	54%	53%
Commercial Services	0	0	0	0	0
Finance, Governance and Assurance	204	174	98.5	48%	57%
Governance	18	25	11	61%	44%
Human Resources	309	341	183.6	59%	54%
Legal and Democratic	21	19	5.3	25%	28%
Adult Services	156	187	143.3	92%	77%
Commissioning	257	276	182.4	71%	66%
Children's Services	185	194	99.6	54%	51%
Public Health	110	104	50.6	46%	49%
S151 Planned Audit	1,260	1,320	774.3	61%	59%
Contingencies and other chargeable work	563	482	302.0	54%	63%
Total S151 Audit	1,823	1,802	1,076.3	59%	60%
External Clients	223	236	102.9	46%	44%
Total	2,046	2,038	1,179.2	58%	58%

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 12th August 2017 to 31st October 2017

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Chief Executive	0	11	11	1	23
Commercial Services	0	0	0	0	0
Finance, Governance and Assurance	0	2	1	1	4
Governance	0	0	0	0	0
Human Resources	0	8	9	0	17
Legal and Democratic	0	0	0	0	0
Adult Services	1	2	1	1	5
Commissioning	0	1	4	2	7
Children's Services	2	0	1	0	3
Children's Services: Schools	0	0	1	0	1
Children's Services: Others	2	1	0	0	3
Public Health	0	0	0	0	0
Total for period	3	14	16	4	37

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
➤ Numbers					
➤ Percentage	8%	38%	43%	11%	100%
<i>Percentage 2017/18 YTD</i>	<i>22%</i>	<i>42%</i>	<i>28%</i>	<i>8%</i>	<i>100%</i>
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 12th August 2017 to 31st October 2017 listed by service area¹

UNSATISFACTORY ASSURANCE

Chief Executive (Finance Governance and Assurance): Debt Recovery

1. There are adequate policies and procedures in place in respect of the recovery of debts.
2. There are effective debt recovery actions carried out in practice which are in accordance with the policies and procedures.
3. There is accurate and effective communication with relevant parties regarding debt recovery actions, the details of the outstanding debts and progress to collect the outstanding amounts.

Commissioning: Highways Permits

1. There are policies and procedures in place which are in accordance with the statutory advice.
2. There are controls and procedures to reduce the disruption caused by highways works.
3. The applications received for permits are approved and issued appropriately in accordance with procedures.
4. The fines and penalties are issued consistently and in accordance with procedures.
5. The income due from the issue of permits and fines is collected and recorded accurately and securely.
6. The service budget is monitored and fines and permits income is used in accordance with statutory requirements.
7. Personal data is processed in a secure and controlled manner in line with internal policy and legislation.
8. Overtime payments are appropriate, checked and authorised prior to payment.
9. There are appropriate procedures in place for the operation of Annualised hours within the Team.
10. There are appropriate procedures and processes in place in respect of recruitment within the Team.
11. There are appropriate performance management processes in place to monitor staff performance and development.

Commissioning: Transport Operations Group (TOG)

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.

1. There are procedures and policies available which provide advice and instruction with regard to the operation and administration of vehicles.
2. The Passenger Fleet operation provide and organise transportation, drivers and personal assistants for home to school and centre transport for entitled (SEN) pupils and adults respectively.
3. The vehicle fleet is subject to management to ensure that all vehicles are operated in accordance with legislation and are maintained to an acceptable standard.
4. Vehicle procurement and administration is suitably carried out in accordance with procedures and the Council Contract Rules.
5. The procurement and administration of the fuel supply is carried out in accordance with procedures and the Council Contract Rules.
6. The financial administration of the service including the monitoring of performance is carried out accurately and in accordance with procedures.

Adult Services: Maesbury Metals Trading Account

1. Previous audit recommendations have been implemented.
2. Income is identified and recorded in a permanent record.
3. Expenditure is appropriate and recorded in a permanent record.
4. Stocks held are appropriate, controlled and can be accounted for.
5. Accounts are prepared summarising the transactions for the year.
6. Analytical review of income and expenditure is performed to identify and investigate anomalies.

LIMITED ASSURANCE

Adult Services: CM2000 Electronic Homecare Monitoring – Application Review

1. To follow up the previous recommendations.
2. The application is secure.
3. Users have received the required training.
4. Data is accurately input and the authenticity of the data is verified.
5. There are continuity processes are in place to ensure system availability.
6. Management/Audit trails are in place.
7. Interfaces with the system are secure, efficient and effective.

Commissioning: CONFIRM: Highways Management System (*Follow up therefore limited scope*)

To ensure that the recommendations made in previous audits in relation to the following areas have been implemented as per the original management responses:

1. Ownership of system and system administration is appropriately defined, procedures exist for the authorisation and amendment of user accounts.
2. Access controls provide a secure environment for the operation and integrity of the application. Access permissions are in line with job roles and segregation of duties is maintained.
3. There are adequate resilience and fail over processes built into processing resources. Back-up and recovery arrangements for the application system are robust, secure and tested to meet the system owner's requirements for recovery time and recovery point objectives.
4. Audit Trail / Audit Logs are enabled and protected to ensure the traceability and accountability for system transactions.
5. Support arrangements are in place for both the application software and user's day to day fault resolution.

Commissioning: Much Wenlock Leisure Centre *(Follow up therefore limited scope)*

To ensure that the recommendations made in previous audits in relation to the following areas have been implemented as per the original management responses:

1. Purchases are appropriate, authorised, recorded correctly and comply with Financial Regulations and Contract Procedure Rules.
2. Payment is made to bona fide employees only for the work performed through the Payroll system.

Commissioning: Galaxy – Libraries System *(Follow up therefore limited scope)*

To ensure that the recommendations made in previous audits in relation to the following areas have been implemented as per the original management responses:

1. The system complies with all external legislation and policies
2. The application is secure
3. Clear procedures are in place for the authorisation of changes
4. Interfaces with the system are secure, efficient and effective

Commissioning: Tranman

1. The recommendations made in the 2016/17 audit have been implemented as per the original management response.
2. Management/Audit trails are in place.
3. The System complies with all external legislation and policies.
4. The application is secure.
5. Data is accurately input and the authenticity of the data is verified.
6. Data is processed in a timely manner and validated.
7. There are continuity processes are in place to ensure system availability.
8. Changes to the system are managed effectively, recording and documentation is retained for key changes made to the system.

Children's Services Schools: The Meadows Primary School

1. Budget income is identified, collected and banked in accordance with procedures.
2. Purchases are appropriate, authorised, recorded correctly and comply with Financial Regulations and Contract Procedure Rules.
3. The imprest account is operated in accordance with Imprest Procedures and all monies can be accounted for.
4. Payment is made to bona fide employees only for the work performed through the Payroll system.
5. The school fund is operated in accordance with the school fund notes of guidance.
6. Electronically held data is secure and can be restored in the event of IT failure.
7. Income from school meals is properly recorded, fully accounted for and banked promptly and intact by the cash collection agent.

Chief Executive (Finance Governance and Assurance): Cash Office Regularity – Acton Scott Working Farm

1. Banking of income received is carried out correctly and on a timely basis.
2. Security of the site and income collected is appropriate.
3. Staff are aware of procedures for data security.

Human Resources: Social Media

1. Appropriate management processes exist to manage and control the use of social media for Shropshire Council business.
2. Formal administration is undertaken on social networking accounts by designated responsible officers.

3. Appropriate officers and training are in place to support the social media policy.
4. Monitoring arrangements are in place.
5. A customer complaints process is in place.

Human Resources: Payroll Self-Service Facility

1. The system complies with all external legislation and policies.
2. The application is secure.
3. Management/Audit trails are in place.
4. Interfaces with the system are secure, efficient and effective.

Human Resources: Recruitment Arrangements

1. Staff are appointed on the basis of merit and best person for the post.
2. Management information is produced on a regular basis and is subject to independent review in a timely manner.
3. New members of staff adhere to the terms and conditions set out in employment contracts.

Human Resources: ResourceLink *(Follow up therefore limited scope)*

To ensure that the recommendations made in previous audits in relation to the following areas have been implemented as per the original management responses:

1. The system complies with all external legislation and policies.
2. There are continuity processes in place to ensure system availability.
3. Appropriate management-audit trails are in place and the output from which are reviewed on a regular basis.
4. Changes to the system are managed effectively.
5. Interfaces with the system are secure, efficient and effective.

Human Resources: Redeployment Arrangements

1. An up-to-date redeployment register is maintained.
2. Staff are appointed on the basis of merit and best person for the post.
3. Redeployees who do not take up redeployment opportunities forfeit their right to redundancy pay.
4. Management information is produced on a regular basis and is subject to independent review in a timely manner.
5. Redeployees adhere to the terms and conditions set out in employment contracts.
6. Salary protection is applied in line with the approved procedures / policy.

Human Resources: IT Registration and Deregistration Procedures *(Follow up therefore limited scope)*

To ensure that the recommendations made in previous audits in relation to the following areas have been implemented as per the original management responses:

1. The recommendations made in the 2015/16 audit have been implemented as per the original management response
2. An agreed system is in place to verify the validity of user access at both the network and the application level on an ongoing basis.
3. Clearly defined processes are in place and operating effectively in practice to coordinate between HR and IT in relation to user access management.
4. Procedures exist within IT to control and manage IT administration user accounts.

Human Resources: Print Unit Operations

1. Appropriate management structures are in place to govern Print Unit Operations and the staffing levels are monitored based on commercial performance and business requirement metrics.
2. Management information is produced on a regular basis and is subject to independent review in a timely manner. There is an overall statement of objectives, and performance measures and targets are set up to monitor the Print Unit's performance in achieving its objectives.
3. Procurement of out-sourced printing services is undertaken in line with current procurement rules.
4. Formal job control and costing arrangements are in place.
5. Internal recharging mechanisms are efficient and accurate.
6. Print Unit data and communications are securely managed in line with internal policy and legislation (Data Protection Act 1998 / GDPR).

Human Resources: Remote Servers

To establish what if any remote servers exist within the Council and that they are being managed appropriately.

Human Resources: Remote Support *(Follow up therefore limited scope)*

To ensure that the recommendations made in previous audits in relation to the following areas have been implemented as per the original management responses:

1. Policies and procedures are in place to ensure compliance with internal and external requirements.
2. Appropriate management arrangements are in place, governing the processes around remote support.
3. A function to provide remote support is in place.

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	Proposed improvement, rather than addressing a risk.
-------------	--

Practice (BP)	
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 12th August 2017 to 31st October 2017

Service area	Number of recommendations made				
	Best practice	Requires attention	Significant	Fundamental	Total
Chief Executive	3	92	76	0	171
Commercial Services	0	0	0	0	0
Finance, Governance and Assurance	0	42	20	0	62
Governance	0	0	0	0	0
Human Resources	3	46	46	0	95
Legal and Democratic	0	0	0	0	0
Adult Services	2	27	21	0	50
Commissioning	0	57	83	0	140
Children's Services	0	31	17	0	49
Children's Services: Schools	0	28	15	0	43
Children's Services: Others	0	3	2	0	5
Public Health	0	7	7	0	14
Total for the period					
➤ Numbers	5	210	194	0	409
➤ Percentage	1%	51%	48%	0%	100%
<i>Percentage 2017/18 YTD</i>	<i>2%</i>	<i>56%</i>	<i>42%</i>	<i>0%</i>	<i>100%</i>
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 31st OCTOBER 2017

	Original Plan Days	September Revision	November Revision	Revised Plan Days	31 October 2017 Actual	% Revised Plan Achieved
CHIEF EXECUTIVE						
Governance	18	7	0	25	11.0	44%
Finance Governance & Assurance						
Finance Transactions	37	-8	6	35	23.5	67%
Finance and S151 Officer	73	-23	0	50	38.5	77%
Financial Management	31	-8	0	23	3.2	14%
Revenues and Benefits	35	-15	2	22	2.1	10%
Risk Management and Business Continuity	5	2	0	7	0.1	1%
Treasury	23	2	12	37	31.1	84%
	204	-50	20	174	98.5	57%
Human Resources						
Human Resources	104	-17	2	89	67.0	75%
Customer Services	15	-2	0	13	12.6	97%
ICT	190	26	23	239	104.0	44%
	309	7	25	341	183.6	54%
Legal and Democratic						
Information Governance	21	-5	3	19	5.3	28%
CHIEF EXECUTIVE	552	-41	48	559	298.4	53%
ADULT SERVICES						
Social Care Operations						
Long Term Support	86	-11	11	86	74.0	86%
Provider Services - Establishments	0	7	0	7	7.1	101%
Provider Services - Group Homes	8	0	0	8	0.5	6%
Provider Services - Trading Accounts	4	11	0	15	10.2	68%
Housing Services	43	4	0	47	49.0	104%
	141	11	11	163	140.8	86%
Social Care Efficiency and Improvement						
Developmental Support	15	9	0	24	2.5	10%
ADULT SERVICES	156	20	11	187	143.3	77%

	Original Plan Days	September Revision	November Revision	Revised Plan Days	31 October 2017 Actual	% Revised Plan Achieved
COMMISSIONING						
Places and Enterprise	10	0	0	10	0.0	0%
Business, Enterprise and Commercial Services						
Commercial Services	5	0	0	5	1.0	20%
Property Services	8	0	0	8	0.5	6%
Estates & Facilities	5	0	2	7	1.3	19%
Shire Services	12	6	0	18	13.3	74%
	30	6	2	38	16.1	42%
Economic Growth						
Business & Enterprise	19	0	0	19	8.9	47%
Development Management	18	-5	5	18	17.7	98%
Planning & Corporate Policy	8	-8	0	0	0.0	0%
Project Development	8	-3	0	5	0.1	2%
	53	-16	5	42	26.7	64%
Infrastructure and Communities						
Public Transport	10	-10	0	0	0.0	0%
Highways	56	18	3	77	47.5	62%
Library Services	12	0	3	15	13.7	91%
Public Transport	26	9	1	36	36.4	101%
Theatre Severn and OMH	5	9	2	16	15.0	94%
Visitor Economy	15	-8	0	7	0.0	0%
Waste & Bereavement	10	0	0	10	10.3	103%
	134	18	9	161	122.9	76%
Procurement	30	0	-5	25	16.7	67%
COMMISSIONING	257	8	11	276	182.4	66%
CHILDREN'S SERVICES						
Safeguarding						
Children's Placement Services & Joint Adoption Safeguarding	29	-5	-5	19	4.4	23%
	6	0	0	6	5.1	85%
	35	-5	-5	25	9.5	38%
Education, Improvement and Efficiency						
Business Support	7	0	0	7	0.0	0%
Education Improvements	31	0	-14	17	3.1	18%
Primary/Special Schools	112	44	-21	135	87.0	64%
Secondary Schools	0	10	0	10	0.0	0%

	Original Plan Days	September Revision	November Revision	Revised Plan Days	31 October 2017 Actual	% Revised Plan Achieved
	150	54	-35	169	90.1	53%
CHILDREN'S SERVICES	185	49	-40	194	99.6	51%
PUBLIC HEALTH						
Environmental Protection and Prevention	10	0	0	10	3.8	38%
Public Health	37	0	-9	28	0.1	0%
	47	0	-9	38	3.9	10%
Public Protection						
Community Safety	8	0	0	8	0.0	0%
Environmental Health	15	-13	0	2	1.6	80%
Environmental Protection and Prevention	20	16	3	39	27.9	72%
Health Protection and Prevention	15	-3	0	12	11.8	98%
	58	0	3	61	41.3	68%
Bereavement	5	0	0	5	5.4	108%
PUBLIC HEALTH	110	0	-6	104	50.6	49%
Total Shropshire Council Planned Work	1,260	36	24	1,320	774.3	59%
CONTINGENCIES						
Advisory Contingency	40	0	0	40	23.6	59%
Fraud Contingency	200	-55	-37	108	63.6	59%
Unplanned Audit Contingency	47	-35	0	12	12.0	100%
Other non audit Chargeable Work	276	39	7	322	202.8	63%
CONTINGENCIES	563	-51	-30	482	302.0	63%
Total for Shropshire	1,823	-15	-6	1,802	1,076.3	60%
EXTERNAL CLIENTS	223	13	0	236	102.9	44%
Total Chargeable	2,046	-2	-6	2,038	1,179.2	58%

The Annual Audit Letter for Shropshire Council

Year ended 31 March 2017

October 2017

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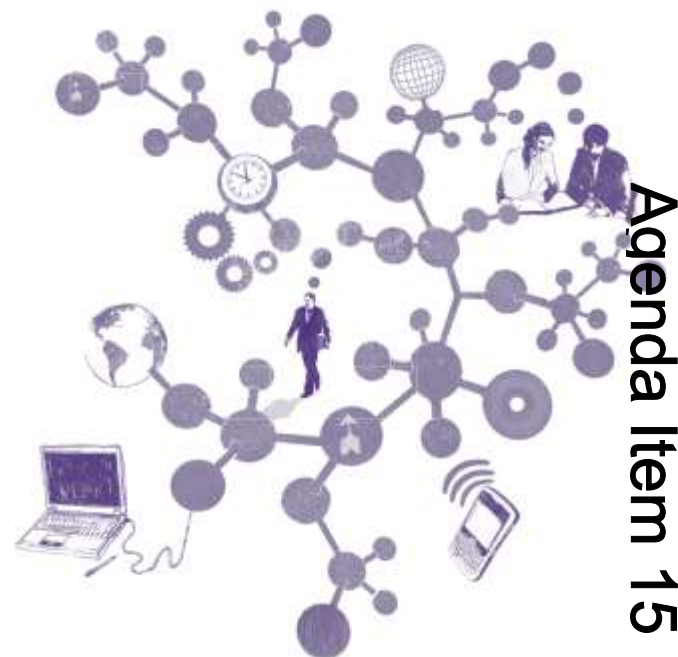
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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Shropshire Council (the Council) for the year ended 31 March 2017.

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

We reported the detailed findings from our audit work to the Council's Audit Committee (as those charged with governance) in our Audit Findings Report on 7th September 2017.

Our responsibilities

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

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

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

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 28th September 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 28th September 2017.

Whole of government accounts

We completed work on the Council's consolidation return following guidance issued by the NAO and issued an unqualified report on 28th September 2017.

Certificate

We certified that we had completed the audit of the accounts of Shropshire Council in accordance with the requirements of the Code on 28th September 2017.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

Working with the Council/Authority

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2017

Audit of the accounts – Shropshire Council

Our audit approach

Materiality

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

We determined materiality for our audit of the Council's accounts to be £10.409 million, which is 1.75% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for senior officer remuneration and related party transactions.

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

Pension Fund

For the audit of the Shropshire County Pension Fund accounts, we determined materiality to be £16.7 million, which is 1% of the Fund's net assets. We used this benchmark, as in our view, users of the Pension Fund accounts are most interested in the value of assets available to fund pension benefits.

We set a lower level of specific materiality for certain areas such as management expenses and related party transactions. We set a threshold of £833,550 above which we reported errors to the Pensions Committee.

The scope of our audit

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

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

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

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

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

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

Audit findings against significant risks continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment</p> <p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<ul style="list-style-type: none"> Reviewed management's processes and assumptions for the calculation of the estimate. Reviewed the competence, expertise and objectivity of any management experts used. Reviewed the instructions issued to valuation experts and the scope of their work Discussed with the Council's valuer the basis on which the valuation was carried out and challenged the key assumptions. Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding. Tested revaluations made during the year to ensure they are input correctly into the Council's asset register Evaluated the assumptions made by management for those assets not revalued during the year and ascertained how management has satisfied themselves that these are not materially different to current value. 	<p>Our audit work noted an above variance of £3.866 million between the market valuation of the Council's HRA stock provided by the District Valuer and estimated values based on a selection of national and regional indices obtained from independent sources by the auditor.</p> <p>We have queried this variance with the valuer who has confirmed that the national and regional indices do not reflect the geography or age of the Housing Stock. Furthermore, they reflect the general housing market, not housing stock and making these adjustments the Valuer considers that the variance appears within reasonable tolerance of the growth implied by the house price indices.</p> <p>We are satisfied that the valuation of property, plant and equipment is not materially misstated.</p>
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>	<ul style="list-style-type: none"> Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. Assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. Reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation, gaining an understanding of the basis on which the valuation was carried out. Undertaken procedures to confirm the reasonableness of the actuarial assumptions made. Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work did not note any issues in this area.</p>

Audit findings against significant risks continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Changes to the presentation of local authority financial statements</p> <p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<ul style="list-style-type: none"> • Documented and evaluated the process for recording the required financial reporting changes to the 2016/17 financial statements. • Reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure. • Reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS). • Tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES. • Tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger. • Tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements. • Reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. 	<p>Our audit work did not find any issues in this area.</p>

Audit of the accounts – Shropshire County Pension Fund

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<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>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 28th September 2017, in advance of the 30th September 2017 national deadline.

The Council initially produced a good set of financial statements with no fundamental issues. The Council made the accounts available for audit in line with the agreed timetable. While working papers were of an appropriate standard we did not receive some working papers in line with the agreed timetable. To achieve the 31 July 2018 audit deadline for next year the Council will need to ensure that all working papers are available at the start of the audit. The finance team responded promptly and efficiently to our queries during the audit.

Internal Audit identified weaknesses in the collection of debtors which resulted in additional testing. This testing identified that there were also issues with the write off of old debtors.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on 7th September 2017. We did not identify any adjustments affecting the Council's and Group reported financial position. The draft and audited financial statements for the year ended 31 March 2017 recorded net expenditure of £191,229k. We have, however, recommended a number of adjustments to improve the presentation of the financial statements.

Pension fund accounts

We also reported the key issues from our audit of accounts of the Pension Fund hosted by the Council to the Council's Audit Committee on 7 September 2017.

In addition to the key audit risks reported above, we identified an issue in relation to disclosure of senior officer remuneration. While we acknowledge that details of the Head of Finance, Governance and Assurance are provided within the Council financial statements, it is our view that pension fund accounts should be capable of standing alone. Therefore, the fund should disclose the appropriate information in line with section 3.4 of the Code of Practice.

Annual Governance Statement and Narrative Report

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

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

Whole of Government Accounts (WGA)

We carried out work on the Council's consolidation schedule in line with instructions provided by the NAO . We issued a group assurance certificate which did not identify any issues for the group auditor to consider on 28th September 2017.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts. Our audit work in 2016/17 did not identify anything that required us to exercise any of these powers.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

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

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in the table overleaf.

As part of our Audit Findings report agreed with the Council in September 2017, we agreed recommendations to address our findings, as follows:

The Council should:

- Consider what services they can afford to deliver going forward
- Challenge the level of savings identified within the financial plan to ensure that appropriate ambition is demonstrated
- Provide Members with sufficient progress updates against savings plans to enable a clear understanding of whether they will be delivered in line with the budget
- Ensure that any issues identified by the live system and business continuity testing are addressed as a priority
- Quantify the benefits and savings from improved productivity of the new systems to ensure that they are captured and delivered. Without identifying and quantifying these, it will be difficult for the Council to monitor and report against them and there is a risk that they will be absorbed by other changes in systems

Overall VfM conclusion

In summary, we have concluded that the Council has adequate plans in place to deliver a balanced budget for 2017/18 and 2018/19 albeit utilising reserves to meet the financial gap. There are sufficient reserves to cover any further financial shortfalls in savings or any unexpected reductions in income or funding. There are significant risks in relation to financial sustainability for 2019/20 which the Council has already highlighted in its financial strategy.

If Members make appropriate decisions now, particularly in relation to service reductions and income generation, they can ensure that the Council is well placed to take further opportunities as they arise going forward. The Council needs to ensure that it remains open to new ideas and has an agile mind-set embedded within its culture.

On this basis, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>Financial resilience over the medium to long term</p> <p>Despite opting to increase Council Tax by the maximum available rate, the Council is required to identify savings to close a funding gap of some £76.5 million by 2019/20. This is in addition to a significant savings program. Achieving the required efficiencies will be extremely challenging.</p> <p>In particular, the growth in Adult Social Care and the costs of other statutory responsibilities are not affordable under the current funding model in place.</p> <p>In the short to medium term, the Council is proposing to close its forecast budget gap of £40 million to 2018/19 by fully utilising the earmarked reserves.</p> <p>There is a significant risk that the Council's financial position will impact on service delivery, both statutory and non-statutory in future years.</p> <p>We also note that the health economy has a significant deficit and has not made the required progress in delivering service reconfiguration.</p>	<p>We reviewed the Council's Medium Term Financial Strategy (MTFS) and monthly financial monitoring reports, assessing the assumptions used.</p> <p>We considered the robustness of the Council's delivery plans and its reporting arrangements for the MTFS.</p> <p>We considered the impact of adult social care costs and the wider health economies finances on the Council.</p>	<p>The Council's revenue position for 2016/17 delivered a net underspend of £0.894 million. This was delivered through non-recurrent savings across a number of service areas.</p> <p>The latest reported position for the 2016/17 savings was in the Period 11 Monitor and was £2.591 million 'red-rated' and £20.464 million 'green-rated'. The outturn position in relation to the 2016/17 savings was £2.197 million 'red-rated' against the original target of £23.055 million. Adult Services and Children's Services have the greatest 'red-rated' savings.</p> <p>For 2017/18 the Council has set a revenue budget of £206 million and has programmed savings of £15.026 million. We have reviewed these savings plans and are satisfied that the Council is on course to deliver the plans. Financial information reported to Cabinet on 6th September 2017 noted that £12.225 million of the savings were 'green-rated' indicating that they were fully developed and in place. £2.453 million of savings remain 'red-rated' and the Council is working hard to develop plans to deliver these. Children's services remains the service directorate with the greatest 'red-rated' savings at quarter 1.</p> <p>Reserves are also at an appropriate level. The General Fund balance moved from £18.370 million at 1 April 2016 to £14.698 million at 31 March 2017. This included a shift of £5 million to the Finance Strategy Reserve to support planned actions as a result of future financial pressures. The General Fund balance at 31 March 2017 of £14.698 million is above the risk based target for 2016/17 of £12.325 million. Earmarked reserves have also increased from £60.841 million to £63.860 million. This includes £28.601 million of Financial Strategy Reserve.</p> <p>Looking ahead, the Council has significant financial challenges. There is a reported funding gap of £76.606 million over the next three years. This comprises £16.187 million (2017/18), £23.822 million (2018/19) and £36,597 million (2019/20). In accordance with the financial strategy, the Council will be using one off funding to close the funding gap between 2017/18 and 2019/20. This is a mixture of one off grant funding and use of reserves. This will result in the Financial Strategy reserve reducing to £0.5 million by 2019/20. Other Earmarked reserves are expected to fall to £17m over the coming years to support the Council's on-going delivery of services. The general fund reserve is expected to remain at current levels for the foreseeable future although the risk based target increases significantly above this level in 2019/20. This reflects the fact that the funding gap has not been closed in that financial year, and the need for the Council to have a robust financial plan in place by this time.</p> <p>We have reviewed the Council's financial plans and are satisfied that the use of one of grant funding and reserves will provide the Council with financial stability to and including 2018/19. The challenge becomes much more significant into 2019/20 and the Council have reported a financial gap of £21 million in 2019/20.</p>

Key findings (continued)

Significant risk	Work to address	Findings and conclusions																																																
<p>Financial resilience over the medium to long term</p> <p>Despite opting to increase Council Tax by the maximum available rate, the Council is required to identify savings to close a funding gap of some £76.5 million by 2019/20. This is in addition to a significant savings program. Achieving the required efficiencies will be extremely challenging.</p> <p>In particular, the growth in Adult Social Care and the costs of other statutory responsibilities are not affordable under the current funding model in place.</p> <p>In the short to medium term, the Council is proposing to close its forecast budget gap of £40 million to 2018/19 by fully utilising the earmarked reserves.</p> <p>There is a significant risk that the Council's financial position will impact on service delivery, both statutory and non-statutory in future years.</p> <p>We also note that the health economy has a significant deficit and has not made the required progress in delivering service reconfiguration.</p>	<p>We reviewed the Council's Medium Term Financial Strategy (MTFS) and monthly financial monitoring reports, assessing the assumptions used.</p> <p>We considered the robustness of the Council's delivery plans and its reporting arrangements for the MTFS.</p> <p>We considered the impact of adult social care costs and the wider health economies finances on the Council.</p>	<table border="1"> <thead> <tr> <th></th> <th>2017/18</th> <th>2018/19</th> <th>2019/20</th> </tr> </thead> <tbody> <tr> <td>Original gross budget requirement</td> <td>£590,672,245</td> <td>£579,536,856</td> <td>£584,478,367</td> </tr> <tr> <td>Inflationary growth and demography</td> <td>£12,614,942</td> <td>£9,838,226</td> <td>£10,284,967</td> </tr> <tr> <td>Specific grant changes between years</td> <td>-£6,307,882</td> <td>-£188,526</td> <td>-£3,412,855</td> </tr> <tr> <td>Adult Social Care grant removed</td> <td>£1,835,000</td> <td>£0</td> <td>£0</td> </tr> <tr> <td>Other</td> <td>-£4,251,425</td> <td>-£1,085,117</td> <td>£0</td> </tr> <tr> <td>Savings required</td> <td>-£15,026,024</td> <td>-£3,623,072</td> <td>£0</td> </tr> <tr> <td>Total Expenditure</td> <td>£579,536,856</td> <td>£584,478,367</td> <td>£591,350,479</td> </tr> <tr> <td>Income</td> <td>-£563,349,506</td> <td>-£560,656,301</td> <td>-£554,753,893</td> </tr> <tr> <td>Gap in year</td> <td>£16,187,350</td> <td>£23,822,065</td> <td>£36,596,586</td> </tr> <tr> <td>One off funding to be used (releasing reserves)</td> <td>£16,187,350</td> <td>£23,822,065</td> <td>£15,090,560</td> </tr> <tr> <td>Remaining gap</td> <td>£0</td> <td>£0</td> <td>£21,506,026</td> </tr> </tbody> </table>		2017/18	2018/19	2019/20	Original gross budget requirement	£590,672,245	£579,536,856	£584,478,367	Inflationary growth and demography	£12,614,942	£9,838,226	£10,284,967	Specific grant changes between years	-£6,307,882	-£188,526	-£3,412,855	Adult Social Care grant removed	£1,835,000	£0	£0	Other	-£4,251,425	-£1,085,117	£0	Savings required	-£15,026,024	-£3,623,072	£0	Total Expenditure	£579,536,856	£584,478,367	£591,350,479	Income	-£563,349,506	-£560,656,301	-£554,753,893	Gap in year	£16,187,350	£23,822,065	£36,596,586	One off funding to be used (releasing reserves)	£16,187,350	£23,822,065	£15,090,560	Remaining gap	£0	£0	£21,506,026
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<p>We consider that the continued use of one off funding and reserves is high risk, but note that the financial strategy includes several other elements:</p>																																																		
<ul style="list-style-type: none"> Digital Transformation Programme – procuring a new payroll, ledger and HR system providing cashable and non-cashable savings. These were not validated when the financial strategy was prepared and so are not included. Identifying and capturing the non-cashable savings will be key. Commerciality – improving income generation through fees and charges and using the Capital Investment Board to identify further commercial investments to generate income. There are currently 23 'projects' in the pipeline to feed immediate and longer term income. Economic Regeneration – covering both the wider economic regeneration and shorter-term investments which support local regeneration, and income generation. 																																																		
<p>There are currently 23 commercial and economic regeneration projects in the pipeline to feed immediate and longer term income and cost reduction. The timescales to deliver these programmes are short, especially as some of the plans to increase income will take a long period to come to fruition. We also consider that the savings planned for 2018/19 (£3.6 million) and 2019/20 (£0) are low and do not represent the scale of service cuts required to deliver financial sustainability. A revised Financial Strategy setting out first iteration proposals to close the funding gap in 2019/20 and beyond is due to be presented to Cabinet before the end of the calendar year.</p>																																																		
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Key findings (continued)

Significant risk	Work to address	Findings and conclusions
<p>Replacement of IT infrastructure / business continuity</p> <p>Previous reviews, by external audit, internal audit and other stakeholders, have identified a requirement for the Council to design and implement a business continuity and disaster recovery strategy to mitigate the risk of severe IT failure or damage to systems through a catastrophic event. This should be supported by a program to replace outdated IT infrastructure. Failure to achieve this represents a significant risk to the on-going functioning of the Council.</p>	<p>We reviewed the risk assurance frameworks established by the Council in respect of IT infrastructure to establish how the Council is identifying, managing and monitoring these risks.</p> <p>We will consider the longer term IT infrastructure plans and how these are linked to supporting the long term vision of the Council in relation to service provision.</p>	<p>There has been a significant weakness in IT infrastructure and business continuity arrangements within the Council for several years. The Head of Internal Audit Opinion has been qualified due to weaknesses in this area for the past five years. The Council has had a significant turnover of Senior Leadership within the IT directorate resulting in a lack of clear vision being communicated and implemented. In October 2016, the Council allocated responsibility for IT to the Head of Human Resources and Development. Following this, the 'IT strategy 2016-19' was presented and approved by Cabinet in December 2016. This prioritised the overall vision, but also set out how the more pressing challenge of implementing adequate Business Continuity and Disaster Recovery Plans would be addressed.</p> <p>The Head of Human Resources and Development is the Senior Responsible Officer (SRO) for the overall Digital Transformation Programme, of which IT infrastructure and business continuity are a key part. There are four strands, (Business Transformation, Social Care, Technology, Digital Programme) which are run as individual projects which includes, meetings, minutes and risk registers. These feed into the over-arching Transformational Board. Our review has identified commonalities between the detailed project risk registers and the Corporate Risk Register where appropriate.</p> <p>Due to the scale of the risk, Digital Transformation is now reported to Audit Committee so that this Committee has oversight of the progress being made and holds the Head of Human Resources and Development to account. The June 2017 Audit Committee was informed that the overall project would reduce duplication, increase productivity on the front line and that jobs would change rather than be removed, due to the differing configuration being implemented for back office services. The overall aim is to bring information together in what is being referred to as 'one vision of the truth'. This will be a key outcome for the overall efficiency of the Council going forward.</p> <p>In relation to IT Infrastructure, the Council identified that the server capacity and locations were not adequate and that there was hardware (mainly desktop computers) which required replacing to ensure that the Council did not lose data in the event of infrastructure failure. As a result of this, additional server capacity was purchased for both Shirehall and Nuneaton, as well as improvements made to the physical environment. The Council also replaced the most at risk desktop computers, mainly with laptops to facilitate agile working going forward, but with another desktop computer where a business case was made. The Council replaced c1200 computers as a result of this exercise. The improvements made to the servers, which included the relocation of back up facilities from Wem to Nuneaton, supported the additional back up arrangements which were put in place to support business continuity arrangements.</p> <p>By March 2017, the Council received assurance that the actions identified to address the IT infrastructure and business continuity risks had been implemented. However, the business continuity plans remain, to date, untested with plans to undertake 'live' tests in the autumn of 2017. This will provide assurance over the mitigation of these key risks. Internal Audit will be involved in assessing the outcome of these tests once complete. Given that this has not been fully tested in a live environment as yet, this remains a risk for the Council.</p>

Key findings (continued)

Significant risk	Work to address	Findings and conclusions
<p>Replacement of IT infrastructure / business continuity</p> <p>Previous reviews, by external audit, internal audit and other stakeholders, have identified a requirement for the Council to design and implement a business continuity and disaster recovery strategy to mitigate the risk of a severe IT failure or damage to systems through a catastrophic event. This should be supported by a program to replace outdated IT infrastructure. Failure to achieve this represents a significant risk to the on-going functioning of the Council.</p>	<p>We reviewed the risk assurance frameworks established by the Council in respect of IT infrastructure to establish how the Council is identifying, managing and monitoring these risks.</p> <p>We will consider the longer term IT infrastructure plans and how these are linked to supporting the long term vision of the Council in relation to service provision.</p>	<p>As a result of the Council developing a longer term IT strategy, they have identified that the Digital Transformation Project may over-take the requirement for the current Business Continuity and Disaster Recovery arrangements and IT services may be managed and delivered in a different way. There is an expectation that the Council will move to cloud based systems which will shift any infrastructure risk to a 3rd party. However, the current risk was sufficiently significant to warrant the immediate action taken and the testing of these arrangements will be key for providing the Council with greater ICT confidence in the short to medium term.</p> <p>The Council consider that the Digital Transformation Programme will be key to delivering reform by driving more responsive, flexible and joined up systems. It is anticipated that this will remove duplication and increase productivity. The Council has now signed with preferred suppliers for two systems within Phase 1 with other in the pipeline. Phase 2 systems for replacement have not been fully scoped as yet. There is a focus on better integration between systems, allowing greater flexibility for data sharing across the Council to support data interrogation. A challenge for the Council will be the transition from the old IT systems and hardware to the new as the project is expected to take several months and dedicated resource from the existing staffing body. There will be a requirement to keep existing systems and hardware operational until the new are fully procured and implemented.</p> <p>The Council will also require a cultural change to support innovation and agile working from the new Digital solutions. There is a risk that departments will redesign the system they already have and not focus on the required outputs and the outcomes for the customer.</p> <p>On this basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

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Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Council	133,845	133,845	133,845
Statutory audit of the Pension Fund	23,427	23,427	23,427
Proposed fee variation for Pension Fund	1,979	1,979	1,979
Response to 2015/16 Elector's objection	11,671	11,671	N/A
Grant certification	11,505	11,505	13,945
Total Fees (excluding VAT)	182,427	182,427	173,196

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

The proposed fee variation for Shropshire County Pension Fund is for IAS19 and 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.

Reports issued

Report	Date issued
Audit Plan	February 2017
Audit Findings Report	September 2017
Annual Audit Letter	October 2017

Fees for other services

Service	Fees £
Audit related services:	
• Audit of West Mercia Energy (fee being split equally between Shropshire, Herefordshire and Worcestershire)	4,333
• Audit of subsidiary – ip&e Ltd.	8,500
• Audit of subsidiary – Shropshire Towns and Rural Housing (STaRH)	
• Grant work outside the PSAA regime 2015/16	6,975
• Grant work outside the PSAA regime 2016/17	TBC
Non-audit services	
• CFO insights license	10,000
• Tax work for ip&e Ltd	2,500

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all other services which were identified.
- We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place, as reported in our Audit Findings Report.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor and have been approved by the Head of Finance, Governance and Assurance and the Audit Committee (as those charged with governance).



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Audit Committee Update for Shropshire Council

Progress Report and Update Year ended 31 March 2018

November 2017

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Introduction

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

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

- Income generation is an increasingly essential part of providing sustainable local services ; <http://www.grantthornton.co.uk/en/insights/the-income-generation-report-local-leaders-are-ready-to-be-more-commercial/>
- Social enterprises are becoming increasingly common vehicles for delivering services that are not an ‘essential’ service for an authority but still important to the local community; <http://www.grantthornton.co.uk/en/insights/a-guide-to-setting-up-a-social-enterprise/>
- Fraud risk, 'adequate procedures', and local authorities; <http://www.grantthornton.co.uk/en/insights/fraud-risk-adequate-procedures-and-local-authorities/>
- Brexit and local government; <http://www.grantthornton.co.uk/en/insights/a-global-britain-needs-more-local-government-not-less/> and <http://www.grantthornton.co.uk/en/insights/brexit-local-government--transitioning-successfully/>

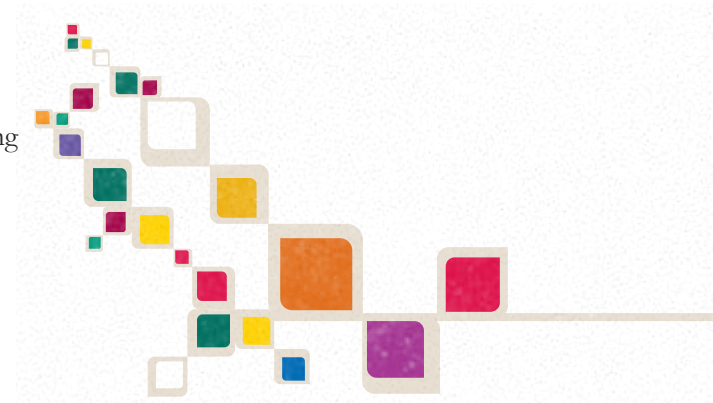
If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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



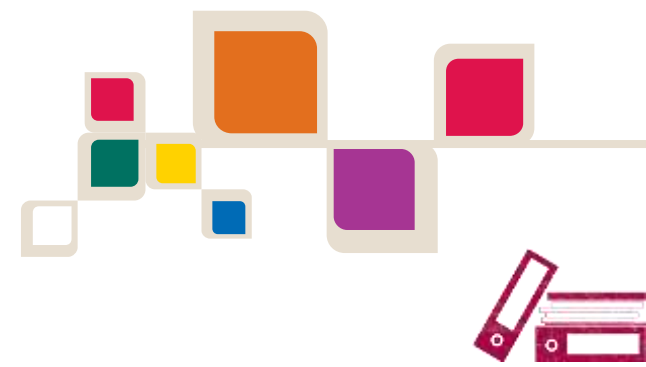
Progress against plan

On track



Opinion and VfM conclusion

Plan to give before deadline of 30 September 2018

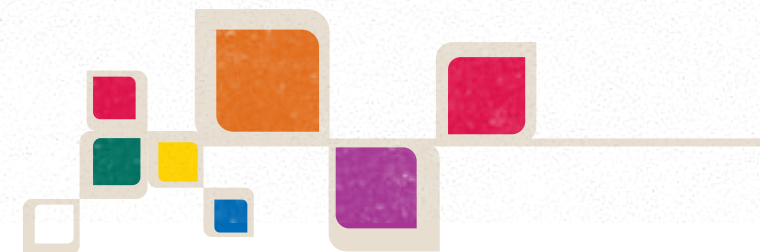


Outputs delivered

Fee letter and Progress Reports delivered to plan

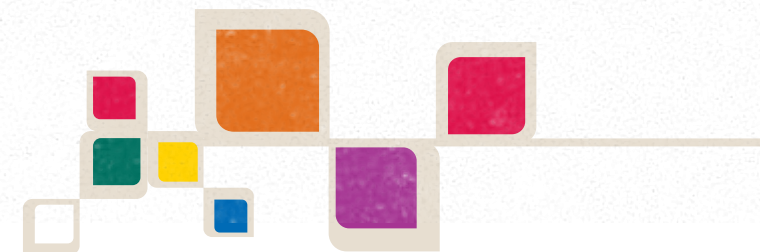
2017/18 work	Planned Date	Complete?	Comments
<p>Fee Letter</p> <p>We are required to issue a 'Planned fee letter' for 2017/18 to the Council by the end of April 2017.</p>	April 2017	Yes	The 2017/18 fee letter was issued in April 2016
<p>Accounts Audit Plan</p> <p>We are required to issue a detailed accounts 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 2017/18.</p>	March 2018	No	<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 2018	No	<p>We will:</p> <ul style="list-style-type: none"> • engage with the finance team to further streamline and improve the audit approach for 2017/18 where possible. • discuss emerging technical issues early. • follow up progress on recommendations made in 2016/17. • undertake 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



2017/18 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 2017/18 financial statements proposed opinion on the 2017/18 financial statements 	<p>June – July 2018</p>	<p>No</p>	<p>We plan to complete our on-site work and provide our opinion by 31st July 2018. As part of the transition to the earlier closedown and audit cycle in 2016/17 we aimed to meet these timescales, but did not. The learning from this experience has been discussed with the finance team and we have put additional processes in place to ensure that information is available and work can be completed to achieve this deadline.</p> <p>A wash-up meeting was undertaken in September 2017 to address known issues early and position the Council in the best position to meet the deadline in 2018. We plan to provide our opinion after the Pension Fund has been signed and so meeting dates should be aligned to facilitate this.</p>
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2017/18 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>January – July 2018</p>	<p>No</p>	<p>We will consider the Council's business and identify the key risks which would impact on the Council delivering value for money. These will be communicated in the Audit Plan in March 2018.</p> <p>However, early work confirms that the Council has significant financial risks for 2017/18 and beyond.</p>

Progress to date



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2017/18 work			
	Planned Date	Complete?	Comments
<p>Annual Audit Letter</p> <p>We will summarise all the work completed as part of our 2017/18 audit within one letter which will be issued after the opinion.</p>	October 2018	No	
<p>Grant work (PSAA regime)</p> <p>We plan to certify the Housing Benefits Subsidy Claim 2017/18 (BEN01)</p>	February – November 2018	No	We will undertake 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 our on-going understanding of your wider business ambitions. • Circulation of our latest collateral to Senior officers.
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	Yes	We are reporting the Annual Audit Letter to the November Audit Committee. This was agreed with Management and submitted to PSAA Ltd by the agreed deadline of 31 October 2017.
<p>Grant work (PSAA regime)</p> <p>We plan to certify the Housing Benefits Subsidy Claim 2016/17 (BEN01)</p>	February – November 2017	No	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>Additional services work</p> <p>The Council has engaged Grant Thornton to provide assurance over the Teachers' Pension claim.</p>	On-going	On-going	We anticipate also providing assurance over the Pooling of Capital Receipt Return. Guidance has yet to be released.

Technical Matters

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Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and forthcoming provisions for IFRS 9 and IFRS 15

Code of Practice on Local Authority Accounting in the United Kingdom 2017/18

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2017/18. The main changes to the Code include:

- amendments to section 2.2 (Business Improvement District Schemes (England, Wales and Scotland), Business Rate Supplements (England), and Community Infrastructure Levy (England and Wales)) for the Community Infrastructure Levy to clarify the treatment of revenue costs and any charges received before the commencement date
- amendment to section 3.1 (Narrative Reporting) to introduce key reporting principles for the Narrative Report
- updates to section 3.4 (Presentation of Financial Statements) to clarify the reporting requirements for accounting policies and going concern reporting
- changes to section 3.5 (Housing Revenue Account) to reflect the Housing Revenue Account (Accounting Practices) Directions 2016 disclosure requirements for English authorities
- following the amendments in the Update to the 2016/17 Code, changes to sections 4.2 (Lease and Lease Type Arrangements), 4.3 (Service Concession Arrangements: Local Authority as Grantor), 7.4 (Financial Instruments – Disclosure and Presentation Requirements)

- amendments to section 6.5 (Accounting and Reporting by Pension Funds) to require a new disclosure of investment management transaction costs and clarification on the approach to investment concentration disclosure.

Forthcoming provisions for IFRS 9 and IFRS 15

CIPFA/LASAAC has issued 'Forthcoming provisions for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers in the Code of Practice on Local Authority Accounting in the United Kingdom 2018'. It sets out the changes to the 2018/19 Code in respect of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. It has been issued in advance of the 2018/19 Code to provide local authorities with time to prepare for the changes required under these new standards.

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes a single classification approach for financial assets, a forward looking 'expected loss' model for impairment (rather than the 'incurred loss' model under IAS 39) and some fundamental changes to requirements around hedge accounting.

Technical Matters

Questions:

- Is your Head of Finance aware of the changes to the Code of Practice in 2017/18 and the forthcoming changes to lease accounting and revenue recognition?

IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 changes the basis for deciding whether revenue is recognised at a point in time or over a period of time and introduces five steps for revenue recognition.

It should be noted that the publication does not have the authority of the Code and early adoption of the two standards is not permitted by the 2017/18 Code.

Sector issues

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Independent Review of Building Regulations and Fire Safety

Sector Issues

The Government has published the terms of reference for the independent Review of Building Regulations and Fire Safety, commissioned following the Grenfell Tower fire tragedy.

The DCLG press release states:

“This Review will urgently assess the effectiveness of current building and fire safety regulations and related compliance and enforcement issues, with a focus on multi occupancy high rise residential buildings. This will include addressing whether the government’s large-scale cladding system testing programme identified any potential systemic failures.

The Review’s 2 key priorities are to develop a more robust regulatory system for the future and provide further assurance to residents that the buildings they live in are safe and remain safe. While the Review will cover the regulatory system for all buildings, it will have a specific focus on multi occupancy high rise residential buildings.

Dame Judith Hackitt, a qualified engineer with strong regulatory background, is leading the Review and will draw on the experience of local government, industry, the fire sector, international experts and MPs. She will also engage with residents of multi occupancy residential buildings.

The Review will report jointly to Communities Secretary Sajid Javid and Home Secretary Amber Rudd. An interim report will be submitted in autumn 2017 and a final report submitted in spring 2018. The Review will co-operate fully with the Public Inquiry, and Dame Judith Hackitt will review her recommendations in the light of the findings of the Inquiry.”

The terms of reference state that the review will:

- map the current regulatory system (i.e. the regulations, guidance and processes) as it applies to new and existing buildings through planning, design, construction, maintenance, refurbishment and change management;
- consider the competencies, duties and balance of responsibilities of key individuals within the system in ensuring that fire safety standards are adhered to;
- assess the theoretical coherence of the current regulatory system and how it operates in practice
- compare this with other international regulatory systems for buildings and regulatory systems in other sectors with similar safety risks;
- make recommendations that ensure the regulatory system is fit for purpose with a particular focus on multi-occupancy high-rise residential buildings.

The full terms of reference are available at:

<https://www.gov.uk/government/publications/independent-review-of-building-regulations-and-fire-safety-terms-of-reference>

Procurement of external audit services



Procurement outcome

As a result of the highly successful procurement of auditor services, opted-in Local government and police bodies throughout England will collectively benefit from reduced fees for audit services in 2018/19 compared to 2016/17. Aggregate savings are expected to exceed £6 million per annum, equivalent to a reduction of approximately 18% in the scale fees payable by local bodies.

The results of the process announced on 20 June 2017 involve the award of the following contracts:

- Lot 1 of approx. £14.6 million per audit year was awarded to Grant Thornton LLP;
- Lot 2 of approx. £10.9 million per audit year was awarded to EY LLP;
- Lot 3 of approx. £6.6 million per audit year to awarded to Mazars LLP;
- Lot 4 of approx. £2.2 million per audit year to awarded to BDO LLP;
- Lot 5 of approx. £2.2 million per audit year to awarded to Deloitte LLP; and
- Lot 6 with no guaranteed value of work to awarded to a consortium of Moore Stephens LLP and Scott-Moncrieff LLP.

Contracts were awarded on the basis of most economically advantageous tender with 50% of the available score awarded to price and 50% awarded to quality.

The procurement strategy, agreed by the PSAA Board in December 2016, sets out the basis on which the procurement of audit services was carried out.

Having concluded the procurement, PSAA will commence the process of appointing auditors to opted-in bodies. For more information on the auditor appointment process [click here](#).

Sector Issues

Finalising and confirming appointments

The PSAA Board will approve all proposed appointments from 2018/19, following consultation with audited bodies, at its meeting in mid-December. The Board's decision on the appointment of auditors is final. Following Board consideration, we will write to each audited body to confirm their appointment. We plan to send all confirmations on 18 December..



Housing Benefit (Subsidy) Assurance Process 2018/19: Module 1 Special Purpose Framework Instruction:

This Circular sets out the arrangements for the audit of the housing benefits subsidy for 2018/19. It is for the LA to appoint a reporting accountant to undertake this work and notify the DWP of this. A standard letter of notification for the LA use is set out in Appendix 1. This letter of notification must be issued to the DWP by the LA no later than the 1st March 2018.

Local Authority 2016/17 Revenue Expenditure and Financing

Sector Issues

DCLG has produced a summary of Local Authorities' 2016/17 provisional revenue spending and financing. It notes that Local government expenditure accounts for almost a quarter of all government spending and the majority of this is through local authority revenue expenditure. The summary is compiled from the Revenue Outturn (RO) returns submitted by all local authorities in England. Coverage is not limited to local councils in England and includes other authority types such as Police and Crime Commissioners and Fire authorities.

The headline messages include:

- Local authority revenue expenditure totalled £93.5 billion for all local authorities in England in 2016-17. This was 1.1% lower than £94.5 billion spent over 2015-16.
- Expenditure on Adult Social Care increased to £14.9 billion in 2016-17. This was £0.5 billion (3.6%) higher than in 2015-16. 2016-17 was first year local authorities were able to raise additional funding for Adult Social Care through the council tax precept.
- The largest decrease in local authority expenditure was on Education services. This was £0.8 billion (2.4%) lower in 2016-17 than in 2015-16. The majority of this decrease is due to local authority funded schools converting to academies.
- Local authorities are financing more of their expenditure from locally retained income. 40.4% of revenue expenditure was funded through council tax and retained business rates and 57.5% from central Government grants. The remaining 2.1% was funded by reserves and collection fund surpluses. These percentages were 38.7%, 60.4% and 0.9% respectively in 2015-16.
- Local authorities used £1.5 billion (6.2%) of the £24.6 billion reserves balance held at the start of the 2016-17.
- Local authorities' use of reserves was £1.1 billion higher in 2016-17 than in 2015-16. Due to changes in their capital programme, £0.5 billion of this increase is due to the Greater London Authority.

The full report is available at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/639755/Revenue_Expenditure_and_Financing_2016-17_Provisional_Outturn.pdf

Did you know....

This data set and many others are included in CFO Insights.

CFO Insights is the Grant Thornton and CIPFA online analysis tool. It gives those aspiring to improve the financial position of their organisation instant access to insight on the financial performance, socio-economic context and service outcomes of theirs and every other council in England, Scotland and Wales.

More information is available at:

<http://www.cfoinsights.co.uk/>

Grant Thornton publications

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Combined Authorities: Signs of Success

In her foreword to ‘Building our Industrial Strategy’ the Prime Minister states that the initiative “will help to deliver a stronger economy and a fairer society – where wealth and opportunity are spread across every community in our United Kingdom, not just the most prosperous places in London and the South East.” Combined Authorities (CAs) – the newest model for the governance of local public services – are central to this.

In response to this, Grant Thornton and Bond Dickinson have jointly commissioned a report which provides an insight into the establishment of each combined authority in the context of their specific challenges. It is still early days for most combined authorities – the political and administrative difficulties of adopting this model are not to be under-estimated - but early signs are emerging of their potential to innovate and drive success.

The report benchmarks combined authorities using key indicators of growth, housing, transport and skills amongst others. We have also used our Vibrant Economy Index, which goes beyond financial returns and takes into account the wellbeing of society, to compare city regions. We believe that these benchmarks can serve as a baseline for assessment of progress over time.

Key findings from the report:

- CAs must begin to reduce the institutional blurring with historic local government structures that has occurred with their formation. As greater clarity emerges over their roles, functions, and profiles of individual mayors, ; their perceived legitimacy will increase.
- CAs stand and fall on their ability to add value through targeted investment, strategic co-ordination, joined-up policy and the leveraging in of additional resources (particularly additional private sector funds).
- There is no single checklist or set of criteria for measuring the success of mayors and combined authorities, each city region must articulate its own challenges and show progress in tackling them.
- A balanced set of benchmarks encompassing both economic and social success will, however, serve as a useful stimulus for the debate around the impact of the combined authority model over time.

Grant Thornton publications

Questions:

- Have you read our report?



<http://www.grantthornton.co.uk/en/insights/combined-authorities-signs-of-success/>

Setting up a successful social enterprise

Local government continues to innovate as it reacts to ongoing austerity. An important strand of this response has been the development of alternative delivery models, including local authority trading companies, joint ventures and social enterprises.

This report focuses on social enterprises in local government; those organisations that trade with a social purpose or carry out activities for community benefit rather than private advantage. Social enterprises come in a variety of shapes and sizes as they do not have a single legal structure or ownership rule and can adopt any corporate form as long as it has a social purpose.

In this report we explore what social enterprises look like, the requirements for setting one up, how they should be managed to achieve success and how they can be ended.

We have complemented this with a range of case studies providing inspiring ideas from those that have been successful and some lessons learned to take into consideration.

Key findings from the report:

- Austerity continues to be a key driver for change: social enterprises are a clear choice where there is an opportunity to enhance the culture of community involvement by transferring these services into a standalone entity at its centre
- The social enterprise model tends to lend itself more to community services such as libraries, heritage management and leisure, but not exclusively so
- Social enterprises can open up new routes of funding including the ability to be flexible on pricing and access to pro bono or subsidised advice
- Some local authorities have converted existing models into social enterprises; for example where a greater focus on social outcomes has been identified

Striking a balance between financial and social returns

If you are a local authority looking to transition a public service to a social enterprise model certain factors will be key to your success including: leadership, continuing the culture, branding, staff reward and secure income stream.

Download our guide to explore how to handle these factors to ensure success, the requirements for setting up a social enterprise; and how social enterprise can be ended. The guide also showcases a number of compelling case studies from local authorities around England, featuring inspiring ideas from those social enterprises that have been a success; and lessons learned from those that have encountered challenges.

Grant Thornton publications

Questions:

- Is your Council exploring options for delivery of services?
- Have you read our report?
- Have you downloaded our guide?



<http://www.grantthornton.co.uk/en/insights/a-guide-to-setting-up-a-social-enterprise/>

A Manifesto for a Vibrant Economy

Developing infrastructure to enable local growth

Cities and shire areas need the powers and frameworks to collaborate on strategic issues and be able to raise finance to invest in infrastructure priorities. Devolution needs to continue in England across all places, with governance models not being a “one-size-fits all”. Priorities include broadband, airport capacity in the North and east-west transport links.

Addressing the housing shortage, particularly in London and the Southeast, is a vital part of this. There simply is not enough available land on which to build, and green belt legislation, though designed to allow people living in cities space to breath, has become restrictive and is in need of modernisation. Without further provision to free up more land to build on, the young people that we need to protect the future of our economy will not be able to afford housing, and council spending on housing the homeless will continue to rise.

Business rates are also ripe for review – a property-based tax is no longer an accurate basis for taxing the activity and value of local business, in particular as this source of funding becomes increasingly important to the provision of local authority services with the phasing out of the Government’s block grant.

Demographic and funding pressures mean that the NHS no longer remains sustainable, and the integration of health and social care – recognised as critical by all key decision makers – remains more aspiration than reality.

There is an opportunity for communities to take a more holistic approach to health, for example creating healthier spaces and workplaces and tackling air quality, and to use technology to provide more accessible, cheaper diagnosis and treatment for many routine issues

Finding a better way to measure the vibrancy of places

When applied to a place we can see that traditional indicators of prosperity such as GVA, do not tell the full story. To address this we have developed a [Vibrant Economy Index](#) to measure the current and future vibrancy of places. The Index uses the geography of local authority areas and identifies six broad objectives for society: prosperity, dynamism and opportunity, inclusion and equality, health wellbeing and happiness, resilience and sustainability, and community trust and belonging.

The city of Manchester, for example, is associated with dynamic economic success. While our Index confirms this, it also identifies that the Greater Manchester area overall has exceptionally poor health outcomes, generations of low education attainment and deep-rooted joblessness. These factors threaten future prosperity, as success depends on people’s productive participation in the wider local economy, rather than in concentrated pockets.

Every place has its own challenges and opportunities. Understanding what these are, and the dynamic between them, will help unlock everybody’s ability to thrive. Over the coming months we will continue to develop the Vibrant Economy Index through discussions with businesses, citizens and government at a national and local level.

Guy Clifton – Head of Local Government Advisory

Grant Thornton publications

Question:

- Have you read our manifesto?



<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/documents/creating-manifesto-vibrant-economy-draft-recommendations.pdf>

The Board: creating and protecting value

In all sectors, boards are increasingly coming under pressure from both the market and regulators to improve their effectiveness and accountability. This makes business sense given a strong governance culture in the boardroom produces better results, promotes good behaviour within the organisation and drives an organisation's purpose.

Grant Thornton's new report 'The Board: creating and protecting value' is a cross-sector review of board effectiveness, based on a survey of executives and non-executives from a range of organisations including charities, housing associations, universities, local government, private companies and publically listed companies.

It considers the challenges faced by boards, ways in which they can operate more effectively; and how to strike the right balance between value protection and value creation.

This report uses the DLMA analysis which categorises skills into four areas: Directorship, Leadership, Management and Assurance. This powerful tool provides a framework (see graph 1) with which to evaluate how well an organisation is performing in balance of skills and understanding of roles; and responsibilities between the executive and Board. It helps align risk (value protection) and opportunity (value creation) with overarching strategy and purpose.

Value creation	
Directorship How well do the non-executives: <ul style="list-style-type: none"> • design, debate and decide the organisation's future? • inspire and guide the executive to realise the organisation's purpose? • provide support to the executives? 	Leadership How well do the executives: <ul style="list-style-type: none"> • Make decisions aligned with realising the organisation's purpose? • Inspire and motivate employees to realise the organisation's purpose? • model the values of the organisation?
Assurance How well do the non-executives: <ul style="list-style-type: none"> • monitor financial, compliance and business indicators? • ensure appropriate processes are in place to manage risk? • have oversight of the executive team? 	Management How well do the executives: <ul style="list-style-type: none"> • set goals, creating plans and allocating resources to achieve them? • effectively assign roles and responsibilities? • Focus on day-to-day tasks and resources needed to deliver strategic aims?
Value protection	

Source: The Board: Creating and protecting value, 2017, Grant Thornton

Grant Thornton publications

Question:

- Have you read our report?



<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/board-effectiveness-report-2017.pdf>

International Consortium on Governmental Financial Management

Introduction

Grant Thornton and the International Consortium on Governmental Financial Management (ICGFM) partner every other year to perform an international survey of Public Financial Leaders.

In 2015 the theme was innovation in public financial management. This year's survey has been designed to identify and describe emerging issues around transparency and citizen engagement – building on the themes highlighted in the 2015 report.

The insights will be published in a report later in 2017 and we would be delighted if you were able to spend some time completing the brief on-line questionnaire which can be found [here](#). Your Audit Manager will be able to provide you with a link to the survey if required.

Please note that the ICGFM and Grant Thornton will not identify, or attribute thoughts and quotations to, individual survey respondents in the final 2017 report. This preserves your anonymity, so please respond freely, honestly and openly.

We have again partnered with the ICGFM to survey Financial Leaders

Question:

- Have you completed the ICGFM survey on transparency and citizen engagement?



Innovation in public financial management

in an increasingly complex and uncertain global environment

Global financial management leaders survey 2015



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