

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

Date: 21 February 2018
My Ref:
Your Ref:

**Committee:
Audit Committee**

Date: Thursday, 1 March 2018
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 30 November 2017 (Pages 1 - 10)

The Minutes of the meeting held on 30 November 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: Highways Permits (Pages 11 - 16)

The report of the Director of Place and Enterprise is attached, marked 5.

Contact George Candler (01743) 255003

6 Management Report: Transport Operations Group (Pages 17 - 30)

The report of the Director of Place and Enterprise is attached, marked 6.

Contact George Candler (01743) 255003

7 Management Report: IT Update (Pages 31 - 40)

The report of the Head of Human Resources is attached, marked 7.

Contact Michele Leith (01743) 254402

8 Management Report: Income Generation

The report of the Head of Finance, Governance and Assurance is to follow.

Contact James Walton (01743) 255011

9 Management Report: Strategic risks update (Pages 41 - 46)

The report of the Risk and Insurance Manager is attached, marked 9.

Contact Angela Beechey (01743) 252073

10 Internal audit report of the review of Risk Management 2017/18 (Pages 47 - 50)

The report of the Principal Auditor is attached, marked 10.
Contact: Katie Williams (01743) 257737

11 Draft Audit Committee annual work plan and future training requirements (Pages 51 - 82)

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

12 Management Report: Treasury Strategy 2018/19 (Pages 83 - 132)

The report of the Head of Finance, Governance and Assurance (Section 151 Officer) is attached, marked 12.
Contact: James Walton (01743) 255011

13 Internal Audit performance report and revised annual audit plan 2017/18 (Pages 133 - 152)

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

14 Draft Internal Audit risk based plan 2018/19 (Pages 153 - 164)

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

15 External Audit: Certification summary report

The report of the Engagement Lead is to follow.
Contact: Mark Stocks (0121) 232 5356

16 External Audit: Audit Plan

The report of the Engagement Lead is to follow.
Contact: Mark Stocks (0121) 232 5356

17 External Audit: Informing the risk assessment

The report of the Engagement Lead is to follow.
Contact: Mark Stocks (0121) 232 5356

18 External Audit: Audit Committee update

The report of the Engagement Lead is to follow.
Contact: Mark Stocks (0121) 232 5356

19 Date and Time of Next Meeting

The next meeting of the Audit Committee will be held on the 28 June 2018 at 1.30 pm.

20 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.

21 Internal Audit: Fraud, Special Investigation and RIPA Update (Exempted by Categories 2, 3 and 7) (Pages 165 - 168)

The report of the Principal Auditor is attached, marked 21.
Contact: Katie Williams (01743) 257737



Committee and Date

Audit Committee

1 March 2018

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 30 NOVEMBER 2017 1.30 - 4.45 PM

Responsible Officer: Michelle Dulson

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

Present

Councillor Peter Adams (Chairman)

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

46 Apologies for Absence / Notification of Substitutes

46.1 An apology for absence was received from Councillor Michael Wood. Councillor Gerald Dakin substituted for Councillor Wood.

47 Disclosable Pecuniary Interests

47.1 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.

48 Minutes of the previous meeting held on the 7 September 2017

48.1 RESOLVED:

That the Minutes of the meeting held on 7 September 2017 be approved and signed by the Chairman as a correct record.

49 Public Questions

49.1 No public questions had been received.

50 Management Report: Ofsted - Children's Services update

50.1 The Committee received a verbal update from the Director of Children's Services following the recent Ofsted inspection of Shropshire Council's Children's Services which received a 'good' rating placing it amongst the top 53 Council's in the Country.

50.2 The Director of Children's Services informed the Committee that the inspection had taken place over 4 weeks in September and had looked at children in need of help and protection together with the safeguarding of Looked after Children (LAC) and

those leaving care. The outcome of the inspection was good for Shropshire Council but was also good for children and families, stakeholders and partners.

50.3 The Director of Children's Services went on to give some detail about what the Inspectors said, as follows:

- Skilled and confident practitioners. Social workers know families well;
- Leadership/management and governance was good;
- Systematically developed and improved services since the last inspection;
- LAC/Care leavers – requires improvement to be good. Recommendations were around permanency planning, support to be more independent etc
- Adoption/Foster services were deemed good.

50.4 A number of recommendations had been identified in the inspection report, one of which was around developing an Action Plan which had to be submitted to Ofsted in March 2018. The Director of Children's Services reported that the Action Plan would be presented to the People Overview Committee for approval.

50.5 In response to a query, the Director of Children's Services explained that trafficked children who went missing was a national issue as they were a flight risk, however, the Council had done all it could to mitigate the risk and some of those who had gone missing from Shropshire had subsequently been found.

50.6 In response to a query about what the main pressure areas would be going forward, the Director of Children's Services felt these would be the same as the current pressures, including young people with more complex backgrounds, not just unaccompanied asylum seekers but highly specialist needs and disabilities; the cost of accommodating LAC; the significant number of e.g. foster carer breakdowns etc. She reported that residential placements were becoming more and more costly from £3,500 per week up to £6,700 per week.

50.7 Members praised the Director of Children's Services for achieving a good rating.

50.8 RESOLVED:

To note the contents of the update and that an Action Plan is to be developed to address the recommendations contained in the Ofsted inspection report.

51 Management Report: Estates update

51.1 The Committee received the report of the Head of Business Enterprise and Commercial Services – copy attached to the signed Minutes – which set out the management action that had been undertaken to address the recommendations set out in the internal audit report dated 21 April 2017 in respect of the corporate landlord function and estate management at the Council.

51.2 The Head of Business Enterprise and Commercial Services informed the Committee that there had been 19 recommendations set out in the Internal Audit report, one of which was fundamental, eight were significant and ten required attention. He reported that management actions had now been put in place to address the recommendations, which included additional staffing resources and more effective

controls and processes in order to ensure that all rent associated with leased out property was identified, invoiced and collected in a timely manner. It was hoped that the new Enterprise Resource Planning (ERP) system would provide an opportunity to move the Asset Management data onto one system.

- 51.3 The Head of Business Enterprise and Commercial Services reported that an independent review of the assets and estate function had been commissioned in order to identify where/how improvements could be made. The full report was expected during the second/third week of January 2018. He also informed the Committee that an independent review had been commissioned of all systems and processes that were undertaken within the Council to ensure that they supported economic growth and commercial strategies.
- 51.4 In summary, the Head of Business Enterprise and Commercial Services reassured Members that management action was being taken in order to address the issues raised in the Internal Audit report and such actions were reviewed on a quarterly basis. In response to a query, the Head of Business Enterprise and Commercial Services drew Members attention to Appendix B of the report which set out the management responses to the recommendations contained in the Internal Audit report together with dates when the actions were to be completed. He stated that it was hoped that all of the actions would be completed by Easter 2018.
- 51.5 The Portfolio Holder for Corporate Support explained that the role had changed significantly since the Internal Audit report had been issued and he reminded members that the Audit report was backward looking. He stressed the importance of looking forward as the service was currently in a different position and the focus was changing quite rapidly. He was however satisfied that sufficient resources were now in place in order to address the recommendations.
- 51.6 In response to a query the Head of Audit confirmed that Estate Management would be revisited by Internal Audit in 2018/19 which would allow more time for implementation of the changes. In response to a further query, the Head of Business Enterprise and Commercial Services explained that there had been no lost income but some income could have been collected earlier. The focus was now on obtaining the right information about the leases and knowing when to raise invoices etc. A report on progress was requested for a future meeting.

51.7 RESOLVED:

That the progress made to address the recommendations in the Audit report of 21 April 2017 to ensure that all improvements be effectively implemented and monitored via the action plan for estate management be noted and that a further update report be presented to the Committee at its June 2018 meeting.

52 Management Report: Digital Transformation Programme update

- 52.1 The Committee received the report of the Head of Human Resources and Development – copy attached to the signed Minutes – which provided an update on the progress of the digital transformation programme including the most recent position for each project in the programme and the overarching programme as a whole.

52.2 The Section 151 Officer took Members through the report. He confirmed that a lot of the requirements for the social care project had already been completed whereas the ERP was more challenging as there had been a delay in getting the contract signed due to protracted negotiations with the supplier. The design stage had therefore been extended from the end of November 2017 until mid-January 2018. The Section 151 Officer stressed the importance of getting the design stage correct. He reported that the customer experience project was progressing well and it was hoped that this would be in place by February/March 2018. Work was ongoing with CRM following an issue with the original supplier. A new option was now being pursued with a different provider.

52.3 The Section 151 Officer informed the Committee that an Infrastructure and Architecture Board had been formed and had begun to work through all of the legacy systems in order to prioritise the transfer of these systems on to the new platform, whilst the Programme Assurance team had oversight of the whole programme. It was reported that a new project manager had been employed to work on the Infrastructure and Architecture project.

52.4 The Section 151 Officer confirmed that the budget was being monitored as the projects were worked through, and it was felt that there would be an underspend. Finally, the Section 151 Officer reported that a new overarching programme manager was in place who had a better understanding of the overall approach.

52.5 In response to a query, the Section 151 Officer explained why the design phase had been extended. Due to the Council's low staff/low cost policy, there was often only one person within the authority with the relevant knowledge to do a job well. So although the resources issue may be red, it may move to amber, but would never be green because there was simply not enough staff.

52.6 In response to a query, the Section 151 Officer explained that the Council had a Data Protection Board, chaired by the Head of Legal and Democratic Services which would ensure that the requirements of the new data protection legislation were adhered to. The Risk and Insurance Manager informed the Committee that the Council were covered under its insurance for any liabilities incurred under the new data protection legislation. In response to a further query, the Section 151 Officer estimated that the majority of systems would be in place and up and running by October 2018.

52.7 **RESOLVED:**

That the contents of the report be noted and that a further update report be presented to the Committee at its June 2018 meeting.

53 **Management Report: Strategic risks update**

53.1 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 following completion of the October review, outcomes of which were reported to Directors and Informal Cabinet.

53.2 The Risk and Insurance Manager reported that the Risk Profile and Action Plan which included target scores for each strategic risk had also been revisited. There had been no change to the 15 strategic risks, with the exception of the impact of Brexit risk which had been given a medium score. A new emerging risk had been identified in relation to Safeguarding Children and the financial capacity of the service to meet the needs and demands of delivering the service and looking after vulnerable children.

53.3 If Members wished to have a more detailed examination of any of the strategic risks, the risk owner could be invited to a future meeting of the Committee in order to discuss their risks.

53.4 RESOLVED:

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

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

54.1 The Committee received the report of the Head of Finance, Assurance and Governance (Section 151 Officer) – copy attached to the signed Minutes – which provided an economic update for the first six months of 2017/18; including a review of the Treasury Strategy; Annual Investment Strategy, the Council's investment portfolio; the Council's borrowing strategy; any debt rescheduling undertaken and compliance with Treasury and Prudential limits all for 2017/18.

54.2 The Section 151 Officer reported that the internal treasury team had outperformed its benchmark by 0.33%, delivering additional income of £265,650 and that all treasury management activities had been in accordance with the approved limits and prudential indicators set out in the Council's Treasury Strategy.

54.3 The Section 151 Officer drew attention to paragraph 10.2 of the report which informed Members of the formation and operation of the Capital Investment Board. In response to a query, the Section 151 Officer informed the meeting that the current investment list represented the best deals that could be obtained at that particular time and for the length of time needed to invest.

54.4 RESOLVED:

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

B. To note that any changes required to the Treasury Strategy including the Annual Investment Strategy or prudential and treasury indicators as a result of decisions made by the Capital Investment Board will be reported to Council for approval (see paragraph 10.3 of the report).

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

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

corruption. It also provides an update on the action plan to ensure continuous improvement. It was confirmed that no changes were being proposed to the existing strategy. The Head of Audit drew attention to the Action Plan set out at paragraph 6.2 of the report.

55.2 In response to a query, the Head of Audit explained that the areas covered by procurement fraud were broken down into various categories e.g. false invoicing etc. In relation to Blue Badges the Head of Audit agreed to find out more information about the steps taken to request return of Blue Badges once notified of a death.

55.3 RESOLVED:

To continue to monitor systems to manage associated risks with the aim of prevention, detection and subsequent reporting of fraud, bribery and corruption.

56 Annual review of Audit Committee Terms of Reference

56.1 The Committee received the report of the S151 Officer – copy attached to the signed Minutes – which set out minor changes being proposed to the Audit Committee Terms of Reference shown in bold and underlined in Appendix A of the report. The only major amendment being the inclusion of an option to co-opt an independent member on to the Audit Committee, should this be considered appropriate in the future.

56.2 Members felt it was important that the words ‘remain apolitical’ in the first line of paragraph 1 of the Audit Committee Terms of Reference be kept in. It was proposed that the words ‘suitably qualified’ be added to Paragraph of 3 and that paragraph 40 be expanded to include the areas considered by the Audit Committee throughout the year in order to highlight the value added by the Committee.

56.3 RESOLVED:

That the Audit Committee Terms of Reference be endorsed, subject to the amendments set out above.

57 Annual Audit Committee Self-Assessment

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

57.2 The S151 Officer drew attention to a number of areas of partial/non-compliance that had been identified, including not having an Action Plan to improve areas of weakness.

57.3 Concern was raised that the Analysis of training requirements based on 2017 self-assessments, set out at Appendix B, was only based on 4 out of 9 self-assessments. A brief discussion ensued in relation to Substitute Members on Audit Committee. It was felt that as Substitutes were not called upon very often, they may be unlikely to attend the training and therefore not be able to assess their own skills and

weaknesses. It was therefore felt that perhaps Substitutes should not be appointed to the Audit Committee as they were not suitably trained and added little value whilst only attending one meeting.

57.4 RESOLVED:

- A. That the self-assessment of good practice be further enhanced by exploring options for external facilitation in order to assess the skills and overall effectiveness of the Committee against best practice.
- B. That an action plan be created in order to improve areas of weakness.

58 Internal Audit Charter

58.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which set out the changes being proposed to the Internal Audit Charter following a refresh of the Public Sector Internal Audit Standards (PSIAS) in March 2017. The Charter had also been refreshed to reflect learning points identified following the external review of Internal Audit by the Chartered Institute of Public Finance and Accountancy (CIPFA) which had been reported to the Committee in February 2017.

58.2 The Head of Audit drew attention to the new standard for the head of internal audit about roles or responsibilities that fall outside of internal audit, for example corporate counter fraud. The new standard was introduced to limit impairments to the independence or objectivity of the head of internal audit. It was felt that as the Head of Audit did not have direct managerial responsibility for any of the areas examined in relation to corporate counter fraud, her independence was demonstrated.

58.3 It was agreed to change the word 'rich' in the first line of paragraph 29 of the Charter, to read 'suitable'.

58.4 RESOLVED:

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

59 Internal Audit Performance Report and Revised Annual Audit Plan 2017/18

59.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which provided Members with an update of the work undertaken by Internal Audit in the two and a half months since the last report in September 2017.

59.2 The Head of Audit informed the meeting that 58% of the revised plan had been completed which was in line with the target to achieve 90% delivery by year end, and which was slightly ahead of the previous year. She reported that three good and fourteen reasonable assurance opinions had been issued together with sixteen limited and four unsatisfactory assurance opinions. She went on to say that thirty seven final reports had been issued which contained 409 recommendations, none of which were fundamental. The Head of Audit explained that one of the recommendations had been rejected by management in relation to lone working.

59.3 The Head of Audit drew attention to the Direction of Travel set out at Paragraph 5.18 of the report which showed that the lower level assurance levels had decreased from 48% in 2016/17 to 36% year to date. The unsatisfactory assurance opinions were listed by service area in Appendix A, Table 3 of the report.

59.4 In response to a query the Section 151 Officer explained that debt recovery was the area of greatest concern, with 10 significant recommendations being identified in this area. By directing the audit here, however, it would enable any problems to be flushed out before the new system was in place. Once the new ERP system was in place a follow up audit would be undertaken.

59.5 In response to a further query, the Section 151 Officer reported that although the Council was not at risk of losing income there was a risk of non-collection in some areas.

59.6 Members were requested to advise the action they wished to follow in relation to both the limited and unsatisfactory assurance levels and the residual control environment where a recommendation had been rejected. In relation to the unsatisfactory assurance levels, Members requested management reports be presented to the Committee at its March 2018 meeting on Transport Operations Group and Highways Permits. In relation to limited reports, commended that the Head of Audit monitor the situation and report back to Audit Committee as part of the Direction of Travel update. If there had been no improvement then this would be followed up and escalated to Directors. In relation to the residual control environment, Members wished the Head of Audit to report back to the managers of those areas informing them that the Audit Committee urged them to comply with the recommendation.

59.7 RESOLVED:

- a) That performance to date against the 2017/18 Audit Plan as set out in the report be noted;
- b) That the adjustments required to the 2017/18 plan to take account of changing priorities, as set out in Appendix B of the report, be endorsed.
- c) That the actions to be followed in relation to the limited and unsatisfactory areas reported and the residual control environment where a recommendation had been rejected, set out at paragraph 59.6 above, be noted.

60 External Audit: Annual Audit Letter 2016/17 Shropshire Council

60.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – which summarised the key findings arising from the work carried out for the year ended 31 March 2017.

60.2 The Senior Manager introduced the report and drew attention to the unqualified opinion given on the Council's Financial Statements along with the Value for Money Conclusion for 2016/17. She explained that financial sustainability remained a risk for the Council. The Senior Manager went on to draw attention to the unqualified opinion given on the Shropshire County Pension Fund along with the final fees which were set out on page 122.

60.3 RESOLVED:

That the contents of the report be noted.

61 External Audit: Audit Committee update

61.1 The Committee received the report of the External Auditor - copy attached to the signed Minutes - which provided Members with a report on progress. The Senior Manager reported that an update on progress would be reported to each meeting. She confirmed that confirmation in relation to the pooling of receipts was still awaited.

61.2 The Senior Manager drew Members' attention to the technical matters and sector issues. It was confirmed that the Head of Finance, Governance and Assurance (Section 151 Officer) was aware of the changes to the Code of Practice on Local Authority Accounting in the UK 2017/18 and the forthcoming changes to IFRS9 and 15 (lease accounting and revenue recognition).

61.3 RESOLVED:

That the contents of the report be noted.

62 Date and Time of Next Meeting

62.1 Members were reminded that the next meeting of the Audit Committee would be held on 1 March 2018 at 1.30pm.

63 Exclusion of Press and Public

63.1 RESOLVED:

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

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

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

64.2 RESOLVED

That the contents of the report be noted.

Signed (Chairman)
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Date:

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MANAGEMENT REPORT – HIGHWAYS PERMITS

Responsible Officer Steve Brown, Highways, Transport and Environmental Manager

Email: Steven.brown@shropshire.gov.uk Tel 01743 257802

1. Summary

1.1. The street works team/service has undergone rapid growth and expansion and has been very successful in the high profile generation of income, as well as being shortlisted for the 2017 Municipal Journal Team of the year. The team had grown significantly, new approaches to services were being undertaken that the Council had no prior experience and significant fines/prosecutions of utility providers were being undertaken. As a result, the Highways Transport and Environmental Manager requested in March 2017 that Audit colleagues undertake an Audit of the service. It was thought prudent to ensure that a review of the service was undertaken from a corporate governance issue. There was no underlying concern motivating the request.

1.2. The Audit was to provide assurance on the extent to which the following 11 management control objectives were being achieved: -

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

1.3. Progress made against the recommendations for each of these objectives is given in section 6 below.

2. Recommendations

- 2.1. It is recommended that Audit revisit the Street Works team once all recommendations have been implemented to review and monitor the controls previously assessed and confirm that they are happy that the management control objectives are now being met satisfactorily.
- 2.2. Members are asked to consider and endorse with appropriate comment the contents of this report.

REPORT

3. Risk Assessment and Opportunities Appraisal

(NB This will include the following: Impact on Children and Vulnerable Adults, Risk Management, Human Rights, Equalities, Community and other Consultation)

- 3.1. Failure to address the recommendations made in the internal audit report will put the council at risk. However, numerous positive actions have already taken place, and as far as reasonably practical we are confident that the remaining outstanding recommendations will be resolved by the end of May 2018.
- 3.2. A follow up visit from Audit would satisfy the council that control measures have been reviewed and assessed as satisfactory, and therefore it is considered that the level of risk would be low.

4. Financial Implications

- 4.1. There are no cost implications of the above recommendations as they do not require any additional council expenditure.

5. Background

- 5.1. The audit took place in May 2017 and provided an assurance level to indicate the level of assurance that can be given based upon testing and evaluation of the system. There are four levels of assurance; Good, Reasonable, Limited and Unsatisfactory.
- 5.2. As a result of the evaluation and testing of the controls that were in place at the time of the audit in the areas examined, Audit Services gave the following assurance opinion:

Unsatisfactory	The system of control is weak and there is evidence of non-compliance with the controls that do exist.
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- 1.1. Audit recommendations are rated Fundamental, Significant, Requires Attention or Best Practice according to their level of priority. Implementation of these recommendations will serve to address the risks identified and enhance the procedures that are currently in place. The following table summarises the number of recommendations that were made in each category:

Total	Fundamental	Significant	Requires Attention	Best Practice
51	0	21	30	0

1.1. The review identified the following areas where appropriate management controls were in place and operating satisfactorily and, upon which, positive assurance can be given:

There is appropriate reporting which is in accordance with statutory requirements.

6. Additional Information

6.1. A summary of the recommendations made in relation to each of the management control objectives is given in the tables below in order to give assurance to the Audit Committee of progress made to date. These are split into those with a 'Significant' rating and those with a 'Requires Attention' rating.

6.1.1. Recommendations rated as 'Significant':

Management Control Objective	Number of Recommendations	Summary of Progress
There are policies and procedures in place which are in accordance with the statutory advice	2	<ul style="list-style-type: none"> • 1 implemented • 1 partially completed, request for an extension to May 2018
The applications received for permits are approved and issued appropriately in accordance with procedures	1	<ul style="list-style-type: none"> • Implemented
The fines and penalties are issued consistently and in accordance with procedures	4	<ul style="list-style-type: none"> • Implemented
The income due from the issue of permits and fines is collected and recorded accurately and securely	1	<ul style="list-style-type: none"> • Implemented
The service budget is monitored and fines and permits income is used in accordance with statutory requirements	2	<ul style="list-style-type: none"> • Implemented
Personal data is processed in a secure and controlled manner in line with internal policy and legislation	1	<ul style="list-style-type: none"> • Implemented
Overtime payments are appropriate, checked and authorised prior to payment	2	<ul style="list-style-type: none"> • Implemented
There are appropriate procedures in place for the operation of Annualised hours within the team	3	<ul style="list-style-type: none"> • Implemented
There are appropriate procedures and processes in place in respect of recruitment within the team	3	<ul style="list-style-type: none"> • Implemented
There are appropriate performance management processes in place to monitor staff performance and development	2	<ul style="list-style-type: none"> • Implemented

6.1.2. Of the 21 recommendations that were rated as 'Significant', 20 of these are now implemented. There is one remaining that is partially completed, with an extension request to May 2018 due to awaiting information from a third party.

6.1.3. Recommendations rated as 'Requires Attention':

Management Control Objective	Number of Recommendations	Summary of Progress
There are controls and procedures to reduce the disruption caused by highway works	1	<ul style="list-style-type: none"> Partially completed, request for an extension to March 2018
The applications received for permits are approved and issued appropriately in accordance with procedures	9	<ul style="list-style-type: none"> 4 Implemented 4 partially completed and on track for target implementation dates. 1 partially completed, request for an extension to May 2018.
The fines and penalties are issued consistently and in accordance with procedures	13	<ul style="list-style-type: none"> Implemented
The income due from the issue of permits and fines is collected and recorded accurately and securely	2	<ul style="list-style-type: none"> Implemented
Overtime payments are appropriate, checked and authorised prior to payment	2	<ul style="list-style-type: none"> Implemented
There are appropriate procedures and processes in place in respect of recruitment within the team	3	<ul style="list-style-type: none"> 2 Implemented 1 partially complete, request for an extension to March 2018

6.1.4. Of the 30 recommendations that were rated as 'Requires Attention', 23 of these are now implemented. There are 7 remaining that are partially completed, 4 of which are on track for their target implementation dates, and extensions are requested on the remaining 3 due to awaiting information from third parties.

7. Conclusions

7.1. Excellent progress has been made by the team in implementing the required processes and control measures in order to meet the requirements of the audit recommendations. In summary, the current status of the 51 recommendations are as follows:

Status	Number
Implemented	43
Partially Completed	8

7.2. The audit identified the headline management objectives that required improvement were in relation to permit application procedures and the issue of fines and penalties, with 27 of the 51 recommendations being in these areas. The team are thankful for the feedback received from audit and have welcomed the opportunity to enhance internal processes and procedures and create a more robust service.

- 7.3. The team have embraced the need for the new processes and measures to be put in place to improve the internal control environment, and have achieved a great deal in the 6 months since the audit report was received. It is evident that the progress made and processes implemented to date have significantly improved the controls that were originally assessed.
- 7.4. It should be noted that this service operates within a complex and legalistic framework, and does undertake active enforcement, prosecution and/or fines to utilities. The team has developed rapidly, and performance is high with national external recognition. However, this also requires the need for such a new service, working in the context of services that the council has no previous experience of delivering, to ensure that its systems and process and the council's governance of this Service is appropriate. Thus the reason the initial request was made, and the need for support in developing its internal systems and processes to ensure it can act effectively in its complex environment, but also to ensure the council has confidence in its activities and outcomes.

<p>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Internal Audit Report – Highways Permits – 2017/18</p>
<p>Cabinet Member (Portfolio Holder) Cllr Steven Davenport</p>
<p>Local Member All</p>
<p>Appendices</p>

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Committee and Date

Audit Committee

Thursday 1 March 2018

Item 6

Public

Management Report – Transport Operations Group

Responsible Officer George Candler

e-mail: george.candler@shropshire.gov.uk Tel:

Fax

1. Summary

- 1.1 This report provides an update on the progress made and actions taken as a result of the Audit of the Council's Transport Operations Group (TOG).
- 1.2 The Audit report identified a range of administrative processes that required attention and these are detailed in Appendix 1, with most of these action points addressed and new systems and ways of working in place.
- 1.3 The number of vehicles managed by TOG will be reduced from 300 to 200 during 2018, with an initial reduction to 230 vehicles effective from the 1 April 2018.

2. Recommendations

- 2.1 Members are asked to note the significant progress and improvements that have been made to the TOG area (as detailed in appendix 1).

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The risks associated with TOG are set out in the Team's service recovery plan and the Council's Risk register document, with the review of TOG seeking to reduce these risks further.

4. Financial Implications

- 4.1 The TOG operates on a zero-based budget where all costs incurred are recovered from client users.
- 4.2 The review of TOG and the subsequent Audit report highlighted opportunities for savings and efficiencies, which are currently being implemented across a number of work areas.

4.3 The following highlighted areas have been identified and actioned, providing improvements to existing processes to maximise efficiencies, achieve best value for the various client areas and provide financial savings:

- Reducing the size of the vehicle fleet
- Reducing the use of agency staff
- Procurement of a new council fuel contract to reduce costs
- Seeking alternative procurement platforms to provide better value for the council
- Improvements to a range of administrative processes to provide improved working practices
- A restructure and downsizing of the administrative team
- The transfer of certain management responsibilities to existing managers within the passenger transport team to provide better working and reduce costs.
- Improvements to the replacement vehicle process to reduce vehicle downtime and costs
- Monthly re-charges to clients to provide improved budgetary management
- Exploring opportunities with the Council's term maintenance contract, and in particular an option to provide a seamless digital IT link for the on-going management of vehicle maintenance processes.

5. Background

- 5.1 TOG are responsible for the procurement and management of all Council vehicles to enable appropriate service delivery across many front line service areas. TOG act as a gatekeeper to ensure the council is only providing vehicles that are necessary for a service area and that best value is always provided.
- 5.2 TOG ensure that financial, service and road risk is kept to a minimum across the various client areas.
- 5.3 The Transport Commissioning Manager undertook a review of TOG to seek out efficiency savings and service improvements on the basis that this service area had not been reviewed for some time. As part of this review an internal audit was commissioned to investigate the procedures and processes at TOG and make any recommendations to make improvements.
- 5.4 As part of the TOG review a restructure of the team has taken place to ensure greater synergy within the overall passenger transport team and to better meet client needs and the developing profile of the Council.
- 5.5 Discussions are ongoing with Gallagher Bassett (the council's insurance claims handler) to find ways of reducing road risk, ensuring that we have the appropriate policies and procedures in place.

Cabinet Member:

Steve Davenport – Portfolio holder for Highways and Transport

Local Member - All

Appendices - Updated Audit Action Plan (Appendix 1)

Appendix 1

TOG Audit Action Plan – Update at January 2018

Following the Audit Review of TOG, the table below sets out progress at January 2018, with most of the required actions now implemented (green), and those on-going (amber).

James Willocks, Transport Commissioning Manager - 19 February 2018

Page 20

Audit Recommendation No. Green = completed, Amber = in progress	Summary of Audit Recommendation Subject (2017)	Outcome at February 2018	Detail
1	Written procedure documents required for TOG staff	Completed – TOG Policy Guidance in place	TOG Policy Guidance set up – guidance being added. A new digital TOG Policy Guidance located on the Fleet 'H' Drive is accessible to all relevant staff. This will provide a second platform for the Team Book, and both hard copy office file and digital file will be identical. It includes new staff guidance documents, consolidates existing documents and provides a duplicate hard copy file version, which provides both work practice information for staff and a TOG policy reference. The original TOG Policy Guidance was set up Autumn 2017. The digital version to be set up by end February 2018 and to duplicate the hard copy version. New documents recently added to TOG Policy Guidance help to complete the Audit actions required. 30/1/18
2	Intranet Policies Updated	In progress	Work is continuing to replace the existing three entries with one consolidated single entry. The new version will provide an updated policy and guidance document for all Council transport aspects. Target for completion is end of March 2018 for the structural changes. 30/1/18

3	Client SLAs required	New SLA based on VPAF produced and being launched April 2018	<p>This has largely been completed, with a new SLA based on the VPAF (Vehicle Procurement Authorisation Form), which provides the necessary checks and balances for vehicle procurement via TOG, and sets out the terms and conditions of vehicle supply by TOG to Vehicle Client.</p> <p>TOG have produced the supplementary T&Cs that will be attached to the VPAF and this sets out the detailed relationship between TOG and client, and the responsibilities of both parties. To supplement this there has also been produced an overall guidance document called 'Terms & Conditions of Vehicle Usage' which is now in the TOG Policy Guidance and attached to the SLA. 17/1/18</p>
4	TRANMAN link to TSC	Discussions being undertaken with Kier re Kerridge digital link	<p>This link project has been paused whilst the new Term Service Contractor (Highways) provider was considered. Kier will now replace Ringway in April 2018 and discussions are already arranged with Kier about TOG piggybacking on their Kerridge Autoline system with a discreet TOG module, incorporating a digital link between TOG and Kier. Likely therefore that TRANMAN will be abandoned and replaced with Kerridge Autoline, but evaluation work needs to continue prior to any sign off later in Spring/Summer 2018. Also noted that TRANMAN was in the original TSC tender specification, so will need addressing. 30/1/18</p>
5	Servicing policy required	New policy in Team Book	<p>Work has been undertaken on this and every vehicle will be assigned a 'servicing model' determined by the vehicle owner and requirements thereof. This servicing requirement will be set out in the VPAF. The range of servicing requirements for various vehicle owners will be placed in the TOG Team Book. In the main, where TOG/owners are both happy with the TSC 'One Link' option, that will be the default option, and where TOG/owners both prefer main dealer servicing, the local dealer will be the default option. Apart from any bespoke Shropshire Council (SC) requirements (e.g. 3mm minimum for tyres), servicing requirements will be as per the manufacturers guidance. 17/1/18</p>
6	Vehicle numbering review	Completed review and maintaining 'twin' numbering for time	<p>Noted that the recommendation was for a review of the twin numbering system and there are still mixed views on these. Fleet numbering is a standard industry practice and for the time being, the twin system will continue to provide continuity; moreover,</p>

		being	registration numbers are considered essential and the Fleet numbering system provides some inherent data such as client and type of asset, providing a valuable cross checking role. A TOG Policy Guidance entry (TOG Systems) makes reference to this. As we move into a new relationship with Kier (TSC) we will monitor this and make changes where necessary. 30/1/18
7	Review maintenance inspections quality	Completed review and will continue to use FTA spot checks and in-house client 'expert' monitoring role	<p>Maintenance quality inspection options were considered and for the time being the TOG arrangement of having Fleet Transport Association (FTA) to undertake random inspections twice yearly on quality outputs on TSC maintenance will continue. This is considered good practice but we will review this again to see if any enhancements or changes need to be made. This demonstrates an independent approach to quality checks and it also means that the TSC is always aware that random quality checks will uncover any possible poor performance on their part, and thus this provides security for the Council.</p> <p>It was thought that the 'in-house' TOG maintenance 'expert' was important in providing assurance to both TSC and main dealers that TOG had and would provide quality checking on a continual basis and that this helped the Council demonstrate that it was constantly vigilant and proactive in providing quality assurance in this high risk area. So, the TOG maintenance expertise is considered vital to safe operation of Council fleet services and should continue.</p> <p>At present a TOG work area is dedicated to this and will be maintained until further notice. The new relationship with Keir will allow the exact details of the TOG quality checking to be further examined and refined and this will take place during the 2018/19 financial year (i.e. Kier's first year as TSC). 17/1/18</p>
8	Insurance charge review	Completed review and new per capita charge in place 2017/18	Discussions took place in Summer 2017 about insurance costs and it is noted that weighting and penalty factors had been considered in the past but not adopted, so that the recharges could be kept simple and transparent. It is considered that marginal charges do not necessarily provide much added value in the Council's self-insurance scheme. Moreover, the process for the review of the TOG re-charges for 17/18 considered that a simple per capita vehicle re-charge would be best and that any fundamental changes or review with clients at that stage may present difficulties for

			client funding. The simple per capita re-charge reconciles cost with recovery and will continue as at present, but it would be regularly monitored for effectiveness. 30/1/18
9	Driver Assessment commercialisation/profits	Considered matter and will pursue opportunities where they arise	TOG are essentially an-house agent to help facilitate the delivery of Council services, but where opportunities occur to 'sell' this service outside the Council at no detriment to it, these will be pursued. A recent example of this has been where Bethpage (Adult Social Care outsourced provider) have been offered this assessment service. The budget basis of TOG continues to be a 'Zero Based Budget' where all incurred costs are recovered back to zero. It was also agreed that the Driver Assessment Scheme is important in supporting schools and CT groups and this would continue within the general auspices of Council provided services. 30/1/18
10	Merge Vehicle Lists	Completed and a new single 'master' spreadsheet now in place on Fleet 'H' drive	The new vehicle list that was consolidated in October 2017, includes the client re-charge facility, and is working well. It constitutes the fleet 'master' version of the vehicle fleet along with the re-charge elements for SAMIS transfers. It is held on the Fleet 'H' Drive and accessible to all authorised staff. A TOG Policy Guidance entry (TOG systems) makes reference to this. 30/1/18
11	Single vehicle record required with expiry date system	Completed (as part of 10. above) with expiry 'amber/red list' prompting system	A new system has been in place since October 2017 and is working well. This includes ownership identification (i.e. Contract Hire, Operating lease, name of owner, and identifies SC ownership for the dwindling number of 20 x owned vehicles). This uses the new merged fleet 'master' spreadsheet with a 'traffic light' coding on the expiry date column. This provides an expiry 'amber/red list' prompting system for identifying vehicles about to contract expire within 6 months (Amber), and any that may have been exceptionally authorised to extend beyond their end dates (Red), with those in contract and over 6 months to expiry (Green), along with the vehicle numbers in each category. The new VPAF system also supports the integrity of the contract end date system and all clients are made aware that vehicles will be returned on their 'end dates' even if clients have decided not to replace the vehicle in question (unless there are exceptional and approved circumstances). A new digital TOG Policy Guidance document to address this matter was produced in Jan 2018. 30/1/18
12	Avoid Vehicle Contracts extensions	Agreed and implemented with	All vehicles now have 'contract end dates' and these have been recorded on the new merged 'master' spreadsheet since October 2017 with its 'amber/red list' prompting

		'amber/red list' prompting system (as per 10 & 11 above)	system. Up-to-date contract agreements for new vehicles are placed on the vehicle file. Contracts are no longer allowed to expire without the vehicle being returned (unless in exceptional circumstances). A new digital TOG Policy Guidance document to address this matter was produced in Jan 2018. It is recognised that informal extensions offer poor value for money, and this alone is a reason not to allow this practice to continue. 30/1/18
13	Vehicle Procurement process should be progressed and implemented	New CCS/ESPO Framework procurement (with VPAF system) in place since Spring 2017, and still continuing to better develop it as it progresses	New arrangements are working well, but we still would look for opportunities to develop and improve the process where we can. CCS/ESPO frameworks have been established and are used for all new procurement. New vehicle provision contract arrangements with successful suppliers have also been set up and are well established. The new client VPAF system is now embedded in the process since its introduction in Spring 2017 with some updates since. The new system requires client application, specification, TOG gatekeeping and authorisation for any new vehicle procurement, with the appropriate audit trail and records. Likewise, the new CCS/ESPO (via DELTA where appropriate) processes also provide good audit routes and validate best price/quality vehicle awards. Overall, it is compliant, offers best value, provides good audit trails and no third parties are involved. 30/1/18
14	Lease Renewals strictly enforced	Agreed and in place – all vehicles now returned to owners at end dates	TOG now contacts all clients 6 months prior to contract end dates to notify/remind the client and with a request for the client to apply to procure a replacement vehicle if they so wish, via the VPAF process. It was agreed that the new system is working well, with the previous backlog of 'red' vehicles now nearly all cleared. All vehicles are now returned to their owners on the contract end date, unless in exceptional circumstances. A new digital TOG Policy Guidance document to address this matter was produced in Jan 2018. 30/1/18
15	DVM (Direct Vehicle Management) Review	Completed as part of the 17/18 re-charges, with % charge	DVM had previously not precisely matched on-cost spend, so as part of the construction of the 17/18 client re-charges in Summer 2017, the identified DVM costs that had to be recovered were allocated via a percentage levy for DVM re-charges to all clients. This was set at 7.2% DVM in 17/18. The process will be replicated in future financial years. Recovery of staff costs is on the basis of the new structures launched February 2018, with staffing cost reductions as a key part of this. 30/1/18

16	Asses 'Shropshire Pack'	Regular value for money exercises will be undertaken to confirm overall procurement package remains best value after 'Shropshire Pack' addition	<p>'Shropshire Pack' for new vehicles is now provided as part of the CCS procurement process in order to reduce costs and reduce overlaps between returned and replacement vehicles to 'same day switching'. To ensure best value TOG will identify 'Shropshire Pack' costs previously with individual local contractors. PTCG will check this against new 'Shropshire Pack' charges. It is noted that this is at the margins of overall costs, which are secured to provide the Council best value via CCS or other frameworks. Clearly, it would not be sensible for the Council to incur significant extra vehicle procurement cost overall to achieve much smaller saving values on 'Shropshire Pack' costs, even if that were possible, so this will be taken account of.</p> <p>PTCG will analyse these costs and circulate the results, confirming or not that the new arrangements are more costs effective overall. This will be repeated annually. 17/1/18</p>
17	Vehicle 'handover' process needed	New TOG Policy Guidance document in place which defines 'handover' process	A new TOG Policy Guidance document determining the vehicle 'handover' process has been produced and is the required guidance for staff. TOG will also undertake to operate a new 'Handover Form' based on the new guidance document. TOG also suggested adding this to the Vehicle Handbook, so that this is all in one place and clients/TOG can readily access the handover confirmation/details. This will be included in the updating of the Handbook. 17/1/18
18	Customer Handbook to be reviewed and updated	Handbook has been reviewed and updated	<p>Updates to the Handbook have been undertaken and this was now in circulation.</p> <p>Further updates are required, including the 'Handover' element will be added by Spring 2018. 17/1/18</p>
19	Out of Hours policy required	New 'out of hours' policy set out in additional TOG Policy Guidance document	New operating advice has been set out in TOG Policy Guidance. In the event of breakdown, it was noted that users should contact the vehicle owner/provider and that breakdown cover is now part of our CCS Framework procurement re recent contract agreements with vehicle providers Lex and Alphabet, for new vehicles supplied by them from Autumn 2017 onwards.

			<p>The breakdown service and their emergency telephone number is provided in the vehicle, and where there is a breakdown, this is the first port of call for clients. They should also contact their service manager to inform them, and client drivers will have the contact details for them.</p> <p>For vehicles with or without breakdown service, each one provided by TOG will have a 'Handbook' in the glove box, and this provides advice about the operation of the vehicle and telephone numbers to call in the event of any problems, including 'out of hours' contact. A number of updates to this are being introduced (re 18 above).</p> <p>In addition, it was noted that if a vehicle user has an emergency or urgent problem 'out of hours' in respect of a vehicle issue, there are also arrangements in place for getting help, including tyre contact, fuel contact and Ringway/Kier/TSC contact. If the vehicle is involved in an accident, it was noted that users should ring the Emergency Services 999 and/or contact Ringway/Kier/TSC, and their service manager. The Council's Customer Service Team (CST) can also be contacted.</p> <p>For any major incident the Council's Emergency Planning Duty Officer (EPDO) will be able to respond and arrange appropriate responses - they can be contacted by Shropshire Fire & Rescue and CST.</p> <p>TOG staff may be contacted out of hours by CST or the EPDO, who have emergency telephone contact numbers that will include TOG and the Transport Commissioning Manager and other designated senior Passenger Transport Commissioning Group staff.</p> <p>It was agreed that the 'Vehicle Handbook' is the key document and means to assistance in or out of office hours, and that it is bespoke to each individual vehicle.</p> <p>A new TOG Policy Guidance document to outline the general guidance and process was produced in Jan 2018. 30/1/18</p>
20	Vehicle disposal policy needed	New TOG Policy Guidance document	This will now be re-determined in the VPAF/SLA from the outset. To this extent, the disposal policy is effectively part of the original TOG/Client agreement and will be

		now sets out process	<p>carried out as such.</p> <p>Disposal in future will simply mean returning the vehicle to the owner at the end of the contract term. TOG will add details of disposal/return in the TOG Policy Guidance as a check list.</p> <p>It is noted that disposing of vehicles at Auction is to end soon, as there are only 20 or so 'owned' vehicles left in the Council's fleet and as a matter of practice/policy, no more are being purchased.</p> <p>In terms of disposal and initial procurement, the TOG's role in acting as 'gatekeeper' for Council vehicles was also discussed and this its importance reiterated. The Council's Vehicle and fleet expertise resides in TOG and it should be best used and applied so as to ensure the Council was best protected from financial, road and service risk, from procurement, through vehicle life and to disposal. 17/1/18</p>
21	Vehicle disposal authorisation needed	A new document placed in the TOG Policy Guidance now sets this process out	A vehicle disposal check list is in place and the need to both document and list the required actions on disposal is now satisfied. This includes vehicles being returned to their owners (Contract Hire or Operating Lease) and dwindling number of vehicles to be disposed of at auction. The new TOG Policy Guidance document dealing with these issues is in place and sets out the requirements. 17/1/18
22	External client agreements needed	New SLA based on VPAF produced and being launched April 2018 (see 3 above)	This has been considered and the new SLA is being constituted in the VPAF and the details of the responsibilities of both parties set out here. Work on this VPAF to capture all relevant SLA aspects is has been undertaken as part of Audit Action Plan no. 3. It was also noted that external clients outside the Council would only be provided with vehicles under Contract Hire, so in this context the meeting considered that TOG would effectively only be an agent linking external client with Contract Hire company. This has been completed, with a new SLA based on the VPAF (Vehicle Procurement Authorisation Form), which provides the necessary checks and balances for vehicle procurement via TOG, and sets out the terms and conditions of vehicle supply by TOG to Vehicle Client.

			An overall guidance document called 'Terms & Conditions of Vehicle Usage' is now in the TOG Policy Guidance and attached to the SLA. 17/1/18
23	Vehicle disposal SAMIS reconciliation required	A new TOG Policy Document entitled 'Guidance for Vehicle Disposal' sets out new requirements	TOG will reconcile the disposal proceeds book with SAMIS six monthly and report to the appropriate officer. Any irregularities will be reported to the manger in PTCG. A new Team Document titled 'Guidance for Vehicle Disposal' sets out the requirements here and is being placed in the new digital Team Book. 17/1/18
24	Temporary fuel card policy needed	A new TOG Policy Document entitled 'Guidance for Temporary Fuel Card Issue' sets out policy	The issue of releasing UK Fuels 'fuel cards' to drivers of vehicles without standard issued cards has been reviewed and the outcome set out in the new TOG Policy Document. Even though systems are in place to ensure that the integrity of the process, this would be made more robust and staff reminded of the updated rules. 17/1/18
25	Fuel Exception reporting required	Discussions with UK Fuels undertaken to find the best solution, whether enhanced restrictions or better reporting, implemented by April 2018	It was agreed that further work needs to be undertaken with UK Fuels, so that 'exception reporting' and/or the means of helping identifying unauthorised Fuel Card usage is made available. It was noted that a new digital TOG Policy Guidance document to outline the general guidance and process was produced in Jan 2018 and this will be updated once further work using the UK Fuel's 'Velocity' system has been agreed. Options for better restricting the use of fuel cards to avoid wrongful use/mistakes may provide better methods of improving security. UK Fuels may not offer the exception reporting that we may want but discussions are continuing with them. The enhanced restriction option would protect the Council at source. Discussions with UK Fuels will find the best solutions and implement this asap. 30/1/18
26	TSC maintenance cost agreement review required	Completed as part of the Council's overall TSC tender and award process and within 'One Link' constraints	This was undertaken as part of the overall TSC tender and its inclusion did involve a review of this arrangement. So this action has been completed as part of the overall TSC signed off by the Council. The 'One Link' system is a nationally agreed maintenance contract for service provider inter changeability on agreed standard terms. So, all Contract Hire maintenance will be under 'One Link', and the previous FPM (Fixed Priced Maintenance) will disappear as part of the tender award, to be replaced by Kier's standard charge for work arrangements set out in in the contract. 17/1/18

27	Ringway maintenance authorisation to be reviewed	Revised process put in place Autumn 2017 to address this matter	<p>A new process has now been established. The new process installed by TOG/Ringway in Autumn 2017 provides for monthly invoices from Ringway (TSC) to the Council, which are individually reconciled in TOG against Ringway quotes for each job. This ensures the Council cannot be overcharged.</p> <p>When Kier take over in April 2018, we will be looking to establish a digital link for these processes, but this is likely not to be with TRANMAN. 17/1/18</p>
28	Ringway invoices - check process	Completed and new process implemented May 2017	<p>The new process established in May 2017 is working well and a significant improvement over the previous system. The TSC (maintenance provider) issues 'quotes' for job items and if approved these are undertaken. The monthly invoices from the TSC are reconciled to these 'quotes' before processing and finally signed off by the appropriate manager in PTCG at Shirehall. Details of this have been set out in a new TOG Policy Guidance document entitled 'Vehicle Servicing Policy' 30/1/18</p>
29	TRANMAN 'outstanding jobs'	Completed in May 2017 when unarchived documents sent to TRANMAN archive to clear system	<p>At the time of the audit, 528 TRANMAN job items had not been archived and looked as if they were still active. It was noted that this made the items appear 'un-cleared' but in fact invoices had been received for these items and the processes completed. Archiving was undertaken in May 2017 and this cleared the system of these apparent uncompleted tasks. The proposed new digital link to the TSC should reduce the possibility of this occurring again. Moreover, this TRAMAN archiving system may well disappear with TRANMAN system itself, if replaced by Kerridge Autoline in 2018. 30/1/18</p>
30	Recharges issued on timely basis	Completed - monthly re-charges now being undertaken, following review with Finance Team	<p>The 2017/18 re-charge and budget process was re-constructed in 2017, and TOG has now set up a revised re-charge process that requires monthly re-charges to clients via SAMIS and this is in place. A new digital TOG Policy Guidance document to set out the requirements vis a vis the client re-charge process was produced in Jan 2018. 30/1/18</p>
31	Finance data on TRANMAN	Agreed and this is being progressed as part of IT development and digital links with	<p>It is noted that TRANMAN may be replaced by Kerridge Autoline via Kier. Meetings with Kier will progress this and finance data will be included as a key part of the project, with an aim of using the system to support the re-charge process to clients, and possibly self-generating client re-charges into SAMIS. 30/1/18</p>

		Kier/SHB/Kerridge Autoline	
32	TOG Requires 'Break Even' budget	Agreed – work on 17/18 budget has resulted in a range of improvements and a balance to 'break even' (Zero based budgeting)	Much work has been undertaken by TOG and the Finance Team on updating and re-working the 2017/18 TOG budget and re-charges. The basis of the TOG operation is cost recovery a 'Zero Based Budget'. TOG facilitates and gate keeps vehicle provision for Council service areas, with the important roles of reducing service, road and financial risk to a minimum. As such, it is noted that it is vital that the TOG costs incurred continue to be matched exactly by the monthly client recovery process, using the newly constructed re-charge model and process launched Summer 2017. This has significantly improved the old model and ironed out a number of issues. 30/1/18

JW/PTCG 14 Feb 2018



<u>Officer and Date</u>
Michele Leith

<u>Item</u>

Management Report to Audit Committee on Information Technology

Responsible Officer Michele Leith

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1.0 Summary

This report will provide updates on the following:

- 1.1 Service Improvement and Compliance
- 1.2 DR/BC Project
- 1.3 Infrastructure and Architecture Project
- 1.4 Digital Transformation

2.0 Recommendations

2.1 The recommendations are that:

- 2.1.1 The Committee notes the progress in the improvement of Shropshire IT function. In particular, that the improvements continue to be validated through improved audit report outcomes.

3.0 Background

- 3.1 This report gives an overview of service improvements achieved in 5 months since the last report to Audit Committee. In addition, it includes a brief update on Digital Transformation where these directly impact the ICT Function.
- 3.2 The Infrastructure and Architecture Project continues to underpin both the business as usual activities (BAU) of the ICT function and all other major projects in the overall digital programme. The appointment of an experienced programme manager to the team has been invaluable in progress of this work and allowed the team to continue to enhance internal capacity to deliver the service improvements and digital transformation.

4.0 Service Improvement and Compliance

- 4.1 The industry best practice IT management methodology of ITIL is now embedded into the BAU of the ICT Function in addition a new Service Desk solution call Ivanti has gone live, this will help IT manage the infrastructure and support staff more

effectively. The software will enable the team to identify and fix system issues quickly meaning shorter down time for staff and greater productivity in IT, which equals financial savings.

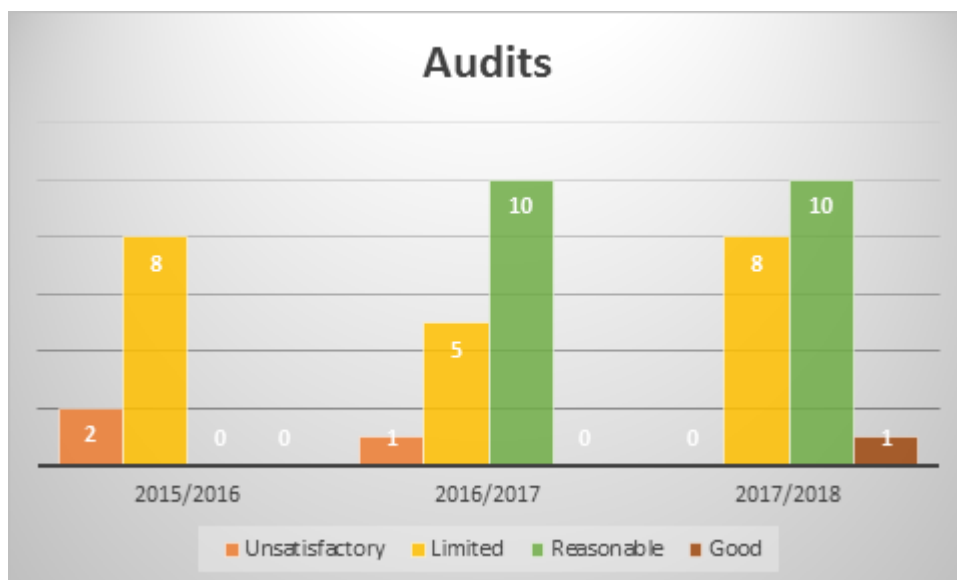
4.2 The new call centre software solution is a market it leader, the advanced functionality will enable us to improve service provision and deliver cost savings. The software is now being used by:-

- The Applications team in IT;
- The Service Desk in IT;
- Revenues and Benefits; &
- Theatre Severn.

The Customer Service Centre (CSC) will be the next location to upgrade to the new solution.

4.3 The much awaited Wi-Fi upgrade programme has started in Shirehall and is Scheduled for completion in mid-March, other buildings will be programmed in after the completion of Shirehall.

4.4 We are pleased to report a continued improvement in audit outcomes. The table below indicated the current position, it should be noted that the data used to produce the 16/17 and 17/18 results will contain outcomes from different audits so it is not a direct comparison just an indication of improved direction of travel.



5.0 Disaster Recovery and Business Continuity Project

5.1 The Council's IT Disaster Recovery and Business Continuity has been a cause for concern for at least 5 years, being judged the biggest strategic risk for the council!. Internal Audit have recently carried an audit of our DR/BC capability and I am pleased to report to the committee today that in the draft audit report the outcome is reasonable. To date we have not carried out a live failover to our backup site, we have run failovers in the test environments but not a live.

6.0 Infrastructure and Architecture Project (I&A Project)

- 6.1 The I&A project is a workstream in its own right but also has a co-ordination function and works across all of the projects in DTP and with BAU activity within IT.
- 6.2 In this respect the project has 3 priorities, data migration, system integration and application strategy. Appendix 1 is a pictorial representation of the applications strategy it shows how the project team will identify which legacy systems will be prioritised for integration to new platforms.

7.0 Digital Transformation Programme

- 7.1 The DTP is reported on separately to the committee however, from a governance perspective the following is of note. The Programme and all 4 projects continue to have fully operational board structures. The governance and assurance board has access to all aspects of the programme and reports to the Programme Board at each meeting. By way of example attached appendix 2 is the most recent Governance and Assurance report to board.

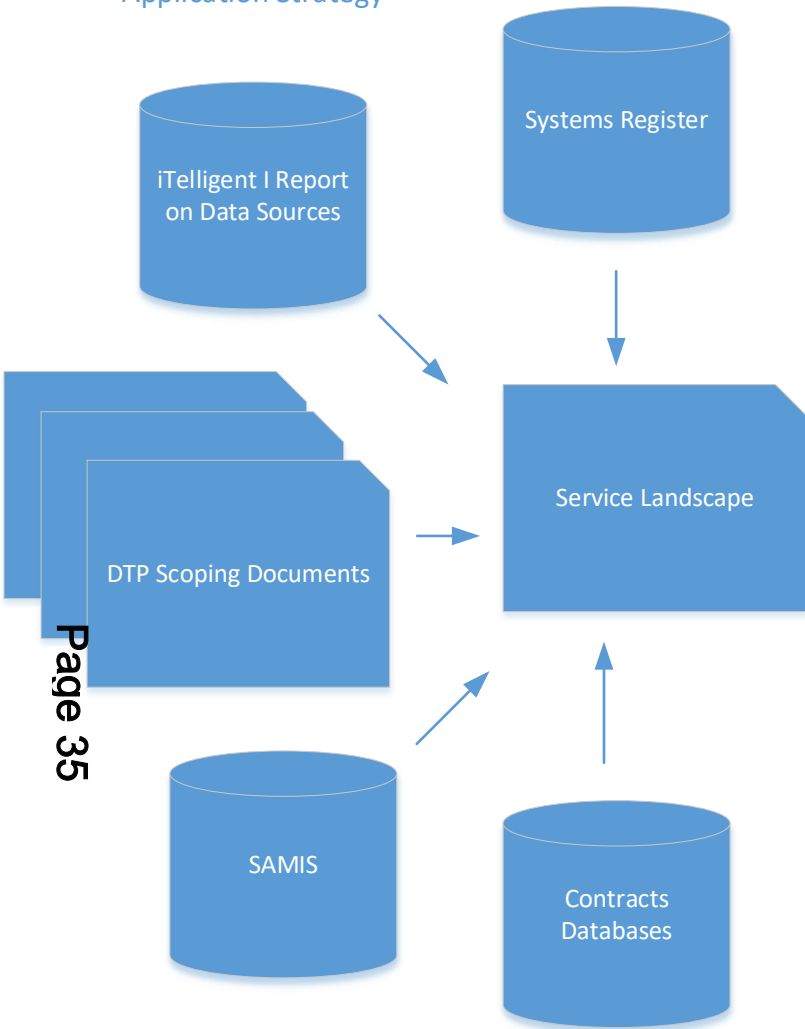
8.0 Conclusions

- 10.1 This report gives highlights of the continued improvement of ICT provision in the council. The amount of activity and hard work for all involved with ICT BAU and Digital Transformation cannot be underestimated. The improvement journey is not easy, the improvements so far have been mostly confined to elements within the scope of the function. To achieve further improvement in certain areas engagement and change within other business areas will be necessary. This will become a focus for some of the future work.

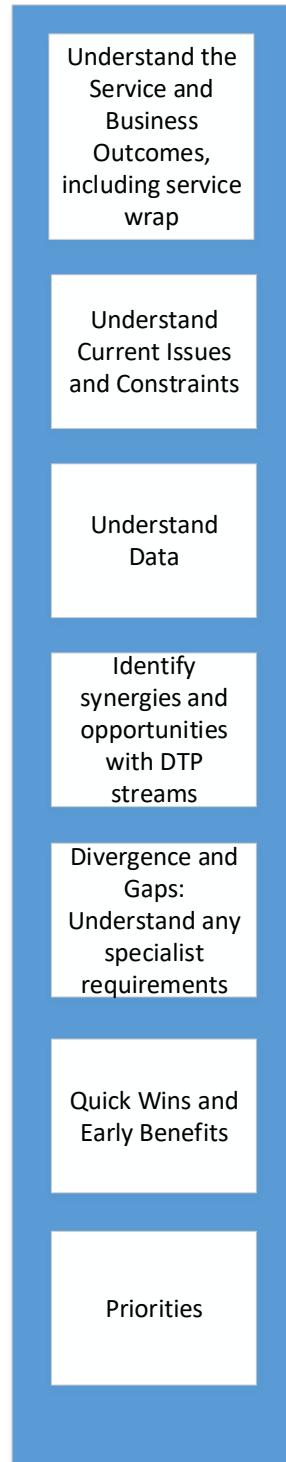
List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)
None
Cabinet Member (Portfolio Holder) Steve Charmley
Local Member
Conflicts of interest declared by members
Appendices Appendix 1 – Pictogram of Applications Strategy Appendix 2 – Governance and Assurance Board Report

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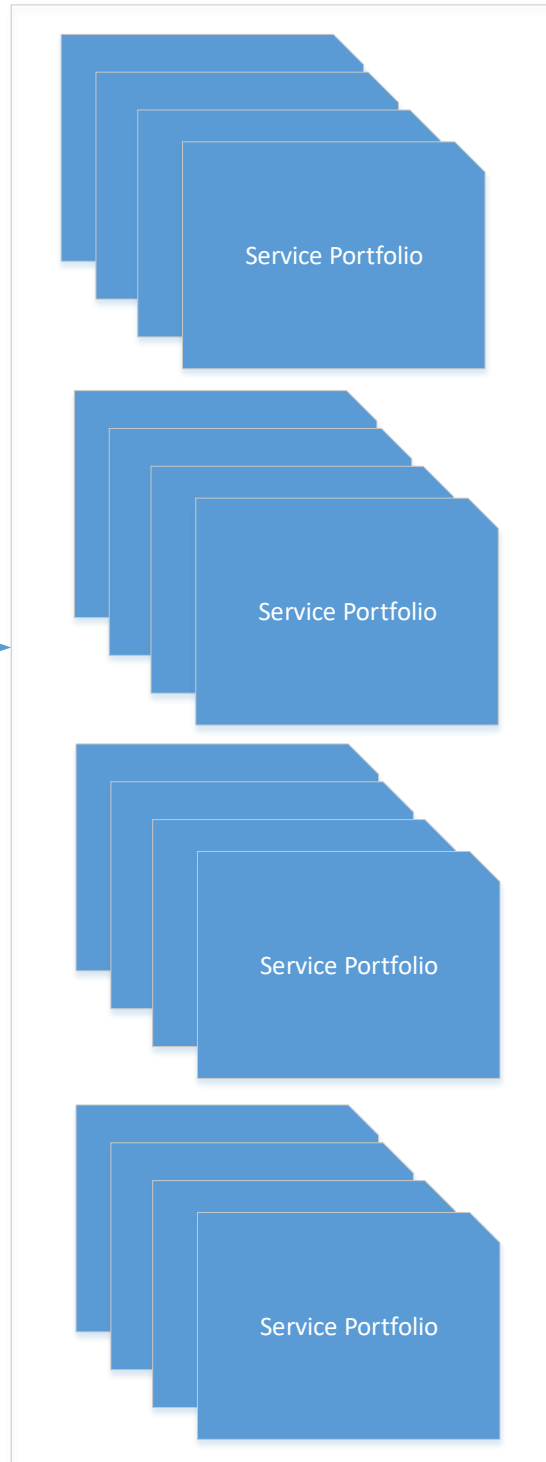
Application Strategy



Business Engagement



Service Portfolio



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Digital Transformation Programme Project Assurance Status Report

Reporting period:	Programme Board 12 th February 2018	
Assurance Board undertakings during this reporting period		
<ul style="list-style-type: none"> • Audit review of the ERP design phase has commenced. • Audit review of the Social Care design phase has commenced. • Detailed risk analysis meetings have been undertaken in relation to Social Care. • Support provided to the new IM for Infrastructure and Architecture to develop the risk profile for the project. • Attendance at Management Support Team (MST) meetings. • Attendance at Project Board meetings. • Raising key issues or concerns at the appropriate boards for clarification and assurance. 		
ERP		
RAG	Project Assurance Related Issues	Management update (SRO James Walton)
Amber	<p>The design has been signed off by the business. However, there are some issues specifically around HR and Payroll elements.</p> <p>Resource implications (BAU and Project) to meet the on-going and increasing demands of the programme.</p>	<p>Formal response to be requested from Unit4 to provide assurances that they will commit to working with us to resolve the critical issues raised and that they meet all required compliancy or legislative requirements.</p> <p>Liaison between PM's and leads in the programme to review resource requirements on a week-by-week basis and identify where resource from elsewhere may be required.</p>
Social Care		
RAG	Project Assurance Related Issues	Management update (SRO Andy Begley)
Green	<p>Resource to fulfil the Implementation Managers role for Children Services has been flagged as an urgent requirement by Colleen Male.</p>	<p>A replacement for the implementation manger role for Children's services is currently being recruited to as an urgent priority. There is mitigation in place in the meantime, with the responsibilities being fulfilled by the project manager, supported by the business analyst, the LCS configuration lead and the Children's Operational lead.</p>
Customer Experience		
RAG	Project Assurance Related Issues	Management update (SRO Andrew Boxall)
Green	<p>Gone live Enghouse Contact Centre Telephony solution for:-</p>	<p>Testament to the internal staff that have been put onto this project and the</p>

	<ul style="list-style-type: none"> • Theatre Severn. • ICT Service Desk and ICT Applications Teams. • Revenues and Benefits. <p>Customer Services is a planned 20th March for Go Live. Signed the contract with Hitachi Solutions Europe for the implementation of the council's new CRM system.</p>	implementation manager appointed to deliver it.
Infrastructure & Architecture		
RAG	Project Assurance Related Issues	Management update (SRO Andrew Boxall)
Amber	<p>Integration requirements across the DTP are currently not known in sufficient level of detail to identify the resource requirements, effort required and timescales for delivery.</p> <p>Requirement to recruit Integration Specialists, which if unsuccessful, could impact the deliverables for the overarching programme.</p>	<p>Requests have been submitted for several months for details of the integrations and the information has not been forthcoming.</p> <p>Work has commenced to appoint two contractors on a short contract to bolster integration expertise, managed and directed by internal staff to ensure knowledge transfer.</p>
<p>RED = Significant issues exist which require consideration and immediate action AMBER = Some variation from the project plan but actions in hand to maintain progress GREEN = On schedule - progress in line with agreed action plan</p>		

<p>Slippage</p> <ul style="list-style-type: none"> • None reported
<p>Impact of Slippage on Interdependencies</p> <ul style="list-style-type: none"> • Not applicable
<p>Risk Considerations</p> <p>Project Managers are regularly reviewing and updating the risks to each of the DTP work streams.</p> <p>Current open risks within DTP work streams above tolerance levels (i.e. red or amber risks) are as follows:-</p> <ul style="list-style-type: none"> • ERP <ul style="list-style-type: none"> ○ 4 red risks ○ 12 amber risks • Social Care <ul style="list-style-type: none"> ○ 1 red risk ○ 8 amber risks (of these 8 risks, 7 are being managed at MST or Project Team level) • Customer Experience <ul style="list-style-type: none"> ○ 1 red risk ○ 3 amber risks

- Infrastructure & Architecture
 - 1 red risk
 - 9 amber risks

(SRO's and PM's can provide additional detailed information in relation to specific risks).

Direction of Travel

Project	Reporting Period	Risk Tolerance Level	Medium	High	Total number of risks	Changes to risk exposure during this period	Reason for change
ERP	Jan-18		14	14	28	NEW	New process for reporting risk added to Assurance Report for Programme Board.
ERP	Feb-18		12	4	16	↓	Significant number of risks now closed and high risks, due to mitigation, reduced to amber risks.
Social Care System	Jan-18		9	1	10	NEW	New process for reporting risk added to Assurance Report for Programme Board.
Social Care System	Feb-18		8	1	9	↓	One medium risk closed.
Infrastructure & Architecture	Jan-18		11	0	11	NEW	New process for reporting risk added to Assurance Report for Programme Board.
Infrastructure & Architecture	Feb-18		9	1	10	↓	Detailed review has been undertaken in relation to the management of the risks. Overall risk exposure reduced but a medium risk has increased to a high risk.
Customer Experience	Jan-18		3	1	4	NEW	New process for reporting risk added to Assurance Report for Programme Board.
Customer Experience	Feb-18		3	1	4	=	Risk status remained the same during this reporting period.

Actions Required by the Programme Board

- Discuss this report at Programme Board and record appropriate decisions/actions within the minutes.
 - Consideration should be given to the alignment of the 'go live' dates for both ERP and Social Care System (Adults) to reduce the risk of the manual processing required for the two week period in between the current estimated 'go live' dates.

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<u>Committee and Date</u>	<u>Item</u>	<u>Paper</u>
Audit Committee – 1 st March 2018		

STRATEGIC RISK REPORT MARCH 2018

Responsible Officer Angela Beechey

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

Tel: (01743)
252073

Fax (01743)
252858

1. Summary

- 1.1 This report sets out the current strategic risk exposure following completion of the January 2018 review.

2. Recommendations

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

REPORT

3. Current Strategic Risk Exposure

- 3.1 The management of strategic risk is a key process which underpins the successful achievement of our priorities and outcomes. Strategic risks are linked, where appropriate, with the Annual Governance Statement Targeted Outcomes.
- 3.2 Our strategic risks are reviewed on a quarterly basis ensuring that the level of risk exposure is monitored regularly in our rapidly changing environment.
- 3.3 The review was achieved through scheduled meetings with key officers, Directors, Chief Executive and Portfolio Holder. The outcome of each review is then reported to Directors and Informal Cabinet.
- 3.4 The Risk Profile & Action Plans for managing our strategic risks are completed and fully embedded. These detail the direction of travel for each strategic risk over the year and clearly articulate the current controls in place and the additional controls required to mitigate and manage our strategic risk exposure effectively. Any slippage on outstanding actions is also identified and challenged.
- 3.5 The Risk Profile & Action Plan also includes target scores for each strategic risk to be achieved by the end of the current financial year.
- 3.6 As at the January 2018 review there were 15 strategic risks on the strategic risk register and these are each managed by specific Directors. These are detailed as follows:-

Risk	Risk Owner	L	I	Status
Sustainable Budget	James Walton	5	5	25
Staffing	Michele Leith	5	4	20
Work Related Stress	Michele Leith	5	4	20
Future Funding Levels	James Walton	5	5	25
Failure to Safeguard Vulnerable Adults	Andy Begley	4	3	12
Digital Transformation Programme	Michele Leith	3	5	15
Contract Management	George Candler	3	4	12
Failure to Safeguard Vulnerable Children	Karen Bradshaw	2	4	8
Delivery of Key Corporate Strategies	George Candler	3	4	12
Governance	Claire Porter	3	4	12
Health & Social Care	Andy Begley	3	4	12
ICT Provision	Michele Leith	3	3	9
Strategic Vision and Strategy	Clive Wright	2	4	8
Reputation	Michele Leith	4	4	16
Economic Impact of Brexit	Clive Wright	4	3	12

High Risks
Medium Risks
Low Risks

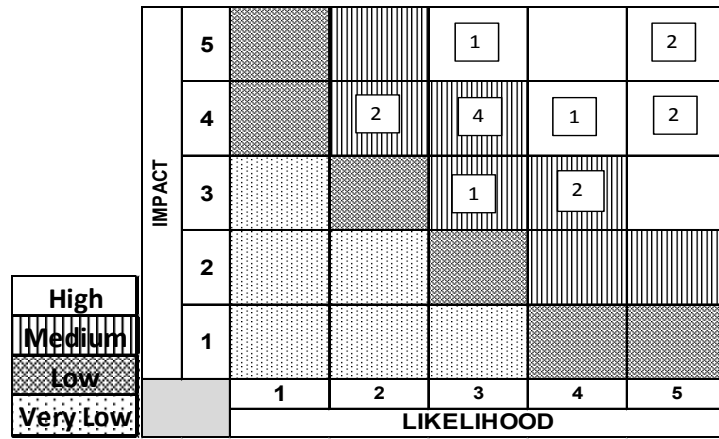
3.7 This review saw changes to the scoring of three of the risks as follows –

3.7.1 **Failure to Safeguard Vulnerable Adults** – This risk has been reduced from a high risk to a medium risk (likelihood 4, impact 3) given the progress that is being made with the backlog within DoLs.

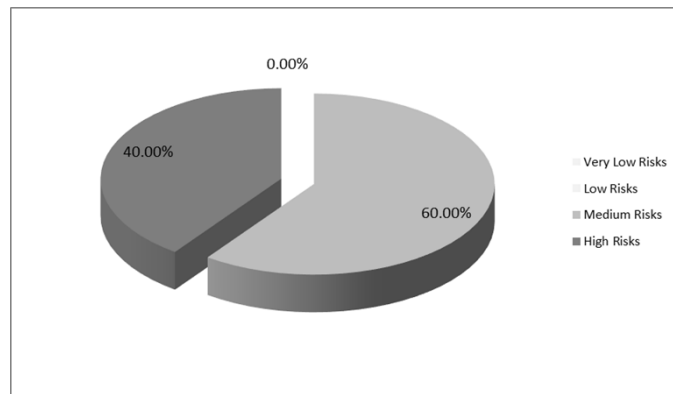
3.7.2 **Failure to Safeguard Vulnerable Children** – Following the successful outcome of the recent Ofsted it has been possible to reduce the score from a 12 to an 8 (likelihood 2, impact 4). This still keeps the risk at a medium risk because of the impact score of 4, but the likelihood of the risk occurring has been reduced.

3.7.3 **Reputation** – This risk has increased from a low risk to a high risk with a likelihood and impact both at 4. This reflects the various projects and announcements that have been made recently and the perception of the public. There is therefore a need for our communications to be pro-active and utilise our own social media to greater benefit.

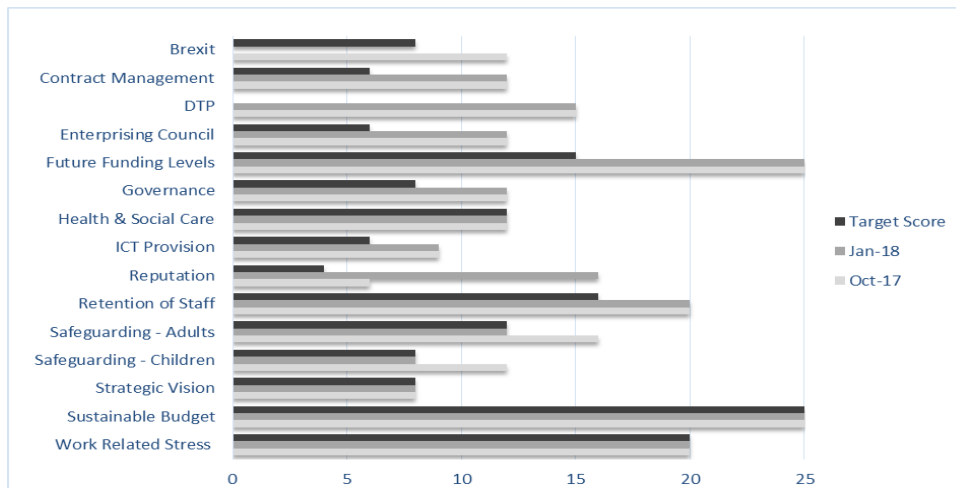
3.8 Our current risk exposure, when plotted on our matrix is demonstrated as follows:-



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



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



Two risks where movement to reach their target score was identified have reached their target this review. They are Children’s Safeguarding and Adults’ Safeguarding.

4. Assurance

4.1 We continue to undertake an assurance mapping process linked to our strategic risks which incorporates the three lines of defence:-

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

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

- Unsatisfactory
- Limited
- Reasonable
- Good

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

5. Monitoring

5.1 Behind all of the strategic risks are Risk Profiles and Action plans which elaborate in greater detail the risk and the current controls and outstanding actions which are in place and are monitored. Audit Committee can at any time elect to have a more detailed examination of any of the strategic risks and can invite the risk owner to a committee meeting to discuss their risk.

5.2 A key part of the risk management process is to be aware of the ever changing arena in which we work and to identify any new or emergency risks. A new emerging risk was identified within Safeguarding children relating to the effect on on-going service improvements in relation to the quality of recording, impact on data reliability and efficiency of social workers system should the new IT system not go live as anticipated on 05/11/18.

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

Annual Governance Statement

Opportunity Risk Management Strategy

Cabinet Member

David Minnery, Portfolio Holder Resources & Support

Local Member

N/A

Appendices

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Committee and Date

Audit Committee

1st March 2018

1:30 pm

Item

Public

INTERNAL AUDIT RISK MANAGEMENT REPORT 2017/18

Responsible Officer Katie Williams

e-mail: Katie.williams@shropshire.gov.uk

Tel: 01743 257737

1. Summary

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

2. Recommendations

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

REPORT

3. Risk Assessment and Opportunities Appraisal

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

4. Financial Implications

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

5. Background

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

Internal Audit Risk Management Report – Executive Summary

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

Control Objective: Conclusion and Summary of Findings

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

	AUDIT OBJECTIVE	CONCLUSION AND SUMMARY OF FINDINGS
1.	Risks arising from business strategies and activities are identified and prioritised and management have determined the level of risk acceptable to the organisation.	<p>This control objective is achieved.</p> <p>There are robust procedures in place for the identification and assessment of current and emerging strategic and operational risks. The Opportunity Risk Management Strategy (ORMS) is in place and a framework, and appropriate structure, embeds this within the Council.</p> <p>A recommendation has been made to ensure that the Roles and Responsibilities section of the ORMS should include details of who approves it¹.</p>
2.	Risk mitigation activities are designed to reduce, or otherwise manage, risk at levels	<p>This control objective is achieved.</p> <p>Risks are considered by management and controls are identified for all risks. Strategic risks are reported bi-monthly to the Senior Management Team and to informal Cabinet. Operational Risks are reported to Heads of Service and</p>

¹ In 2016/17 the strategy was approved by Cabinet, previously it was approved by the Chief Executive Officer.

	AUDIT OBJECTIVE	CONCLUSION AND SUMMARY OF FINDINGS
	determined to be acceptable to management and the board/Cabinet.	<p>Directors on a quarterly basis with an overarching report provided to the Senior Management Team. The reporting arrangements are in line with the Operational Risk Management Strategy.</p> <p>The Risk Management Team are involved in new projects and transformation work to ensure emerging risks are identified at the earliest opportunity.</p> <p>A recommendation has been made to ensure that Committee reports are checked for accuracy prior to circulation as a minor discrepancy was noted in the figures reported to Audit Committee in September 2017.²</p> <p>In addition two best practice recommendations were made to ensure consistency in the completion of operational risk registers:</p> <ul style="list-style-type: none"> • Year-end targets are consistently recorded for all medium and high risks. • Additional actions already in place are recognised as current controls.
3.	On-going monitoring activities are conducted to periodically reassess risk and the effectiveness of controls to manage risk.	<p>This control objective is achieved.</p> <p>Appropriate processes to ensure compliance with the requirements of the 2015 Insurance Act in respect of the Council's duty of fair presentation of risk have been put in place.</p> <p>The operational risk review confirmed that quarterly reviews were in place in line with the Operational Risk Management Strategy.</p>
4.	The board and management received periodic reports of the results of the risk management process.	<p>This control objective is achieved.</p> <p>Reports in respect of strategic risks are considered bi-monthly by informal Cabinet and the Senior Management Team.</p>

5.6 The audit did not identify any control weaknesses, two requires attention and two best practice recommendations have been made.

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

² The total score for the future funding levels risk was reported as 20, whereas the risk profile stated it was 25

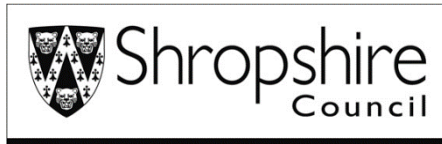
Risk Internal Audit Review

Cabinet Member (Portfolio Holder)

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

Local Member: N/A

Appendices - None



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
1 st March 2018	
1:30 pm	<u>Public</u>

REVIEW OF THE AUDIT COMMITTEE'S ANNUAL WORK PLAN AND FUTURE LEARNING AND DEVELOPMENT REQUIREMENTS 2018/19

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

Tel: 01743 257739

1. Summary

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

2. Recommendations

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

- a) The Audit Committee work plan for 2018/19, **Appendix A**;
- b) A learning and development plan for Members of the committee taking in to account information in **Appendices A and B**.

REPORT

3. Risk Assessment and Opportunities Appraisal

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

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

4. Financial Implications

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

5 Background

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

Work Plan

- 5.2 The Work Plan in **Appendix A** continues to be presented in a format which demonstrates how reports to Audit Committee contribute to the delivery of the Committee's Terms of Reference and what assurances they provide.
- 5.3 In addition, any proposals for changes for which member approval is sought are highlighted in bold and underlined in **Appendix A**. In considering the amendments the following information may be useful:
- a) An additional Audit Committee has been introduced in July allowing members the opportunity to consider and feedback on the External Auditor's annual report prior to Council receiving it, alongside the Statement of Accounts on the 26th July. The tight timescale is to respond to changes in statutory requirements. Members will have had sight of the draft Statement of Accounts before this date and the External Audit report will be shared as soon as it becomes available.
 - b) The Annual Governance Statement and review of the effectiveness of the Council's controls and Shropshire Council's Code of Corporate practice are closely aligned. To reflect this the two elements are to be brought together in a single report.

- c) Members need to consider the strategic risks, reported at their meeting in November 2017, when considering specific report updates. To date members have asked for updates in respect of the following systems:
- IT;
 - Estates and
 - Digital Transformation Programme (DTP)
- These are programmed in and one off requests in last year's plan are removed:
- Programme controls and risks.
- d) Members are also asked to consider, in the current risk environment, if they wish to continue to receive the following service specific reports:
- Council Tax and NNDR performance monitoring report
 - Housing Benefit overpayment performance monitoring report
- e) The National Fraud Initiative (NFI) will be reported as part of the wider Counter Fraud, Bribery and Anti-Corruption Strategy report
- f) There are minor changes to report originator post titles and titles of some reports.

Learning and Development

- 5.4 CIPFA identify a key characteristic of an effective Audit Committee as having a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. There is a range of knowledge and experience that audit committee members can bring to the committee which will enable it to perform effectively. No one committee member is expected to be an expert in all areas. There are however some core areas of knowledge which committee members need to acquire in addition to the need for regular briefings and training.
- 5.5 Members need to consider annually their learning and development plan to support them in delivery of their roles. Following the elections early in 2017/18 Members have received two half day sessions covering a number of topics in detail. These included presentations and workshops on:
- The purpose of the audit committee and its core functions;
 - The wider role of the audit committee;
 - Membership and effectiveness;
 - Conducting an annual assessment evaluating effectiveness and identifying any improvements for the committee;
 - Member self-assessment of skills and training needs;
 - Contract management and Porge;
 - Risk management and registers.
- 5.6 It is proposed that training is again provided in three half day sessions over the next twelve months in March, June, and October with dates to be agreed with the Chairman.

- 5.7 In response to members' requests arrangements for training on March the 8th have been confirmed. An associate of the Chartered Institute of Public Finance and Accountancy (CIPFA), will be facilitating the committee in reviewing its own effectiveness. This training is a cost for the Council at a time of financial constraints but is in direct response to requests from Members of the Audit Committee. With appropriate attendance and engagement this training represents excellent value for money. The s151 Officer has stated that it is essential, to ensure value for money and positive outcomes, that Members prioritise this event. The expectation is that all Members of the Audit Committee will be in attendance for the duration of this event.
- 5.8 **Appendix B** identifies training topics for Audit Committee Members to consider. Training topics are identified as core areas of knowledge that all Audit Committee Members should seek to acquire plus specialisms that can add value to the committee. Members may also want to hear from key officers of the Council where new or changing activities are emerging and can request this as part of their training.
- 5.9 Whilst members are asked to endorse the initial sessions for learning and development, this will not prevent any additional items being added during the year or changes being made if these are felt to be of value.

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

Previous training session records

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

Accounts and Audit Regulations 2015

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

Local Member n/a

Appendices

Appendix A – Audit Committee Work Plan 2018/19 and Summary

Appendix B – Audit Committee Members development topics

Appendix A: Audit Committee Work Plan – 2018/19

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
Core business 28 June 2018		
1. Internal Audit: Annual Report.	<p>Head of Audit’s overall opinion on the Council’s internal control environment.</p> <p>Performance against the revised internal audit plan.</p> <p>Provides a review of the effectiveness of the systems of internal control.</p>	<p>To consider the Head of Audit’s annual report, specifically:</p> <p>a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of Internal Audit.</p> <p>b) The opinion on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the Annual Governance Statement.</p>
2. Section 151 Officer: Approval of the Council's Statement of Accounts.	<p>Ensure that the narrative report to the accounts help the public understand the authority's financial management of public funds.</p> <p>Consider the outcome of the External Audit and the appropriateness of management responses.</p>	<p>To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need</p>

Appendix A: Audit Committee Work Plan – 2018/19

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

Appendix A: Audit Committee Work Plan – 2018/19

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	<p>That there is an improvement programme in place to ensure that any identified gaps are addressed.</p>	<p>during the year, These will include reports on:</p> <ul style="list-style-type: none"> • the results of the Quality Assurance and Improvement Programme; and • instances where the Internal Audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance should be included in the Annual Governance Statement. <p>To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of Internal Audit that takes place at least once every five years.</p>
<p>5. Internal audit: Annual assurance report of Audit Committee to Council.</p>	<p>Provide assurance that the Committee has adequately discharged its terms of reference and has positively contributed to how well the Council is run.</p> <p>Provides Council with an independent assurance report that the Council has in place adequate and effective risk management and internal control</p>	<p>To report annually to Full Council on the Committee's findings, conclusions and recommendations; providing its opinion on the adequacy and effectiveness of the Council's governance, risk management and internal control frameworks; internal and external audit</p>

Appendix A: Audit Committee Work Plan – 2018/19

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	<p>systems that can be relied upon and which contribute to the high corporate governance standards that this Council expects and has consistently maintained.</p>	<p>functions and financial reporting arrangements.</p> <p>To report to Council where the Audit Committee have added value, improved or promoted the control environment and performance in relation to the Terms of Reference and the effectiveness of the Committee in meeting its purpose and functions.</p>
<p>6. Section 151 Officer: Revenue Outturn report.</p>	<p>Provides the financial outturn of the Council's budget for the year and therefore considers the effect that any over/underspend has on the Council's balances.</p> <p>Provides details of the potential risks affecting the balances and financial health of the Council.</p>	<p>To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.</p> <p>To consider the Council's arrangements for securing value for money and review assurances and assessments on the effectiveness of these arrangements.</p>
<p>7. Section 151 Officer: Capital Outturn report.</p>	<p>Provides the financial outturn of the Council's capital budget for the year and therefore</p>	<p>As above</p>

Appendix A: Audit Committee Work Plan – 2018/19

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	considers the impact that slippage within the programme will have on the financing of the capital programme in the future, including any future revenue implications.	
8. Head of Workforce and Technology: Annual Whistleblowing report.	Assurance that as part of the Counter Fraud, Bribery and Anti-Corruption Strategy the Whistleblowing policy contributes to our zero tolerance of fraud, bribery and corruption.	To review the assessment of fraud risks and potential harm to the Council from fraud, bribery and corruption.
9. External Audit: Fee Letter.	To provide a clear indication as to the external Auditor's fees for the year.	To consider the External Auditor's annual letter, relevant reports, and the report to those charged with governance.
10. External Audit: Audit Committee update.	<p>Seek assurance over progress and delivery of the external audit plan and that any risks to successful production of the financial statements and audit are being managed.</p> <p>The paper also includes:</p> <ul style="list-style-type: none"> • a summary of emerging national issues and developments that may be relevant to the Council; and • a number of challenge questions in respect of these emerging issues which the Committee may wish to consider. 	<p>To consider specific reports as agreed with the External Auditor and other inspection agencies.</p> <p>To comment on the scope and depth of external audit work and to ensure it gives value for money.</p>

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

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Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
14. Head of Business Enterprise and Commercial Service: Estates update	Provide management assurance on the direction of travel and robustness of the internal control arrangements for Estates activity and systems arising from the identification of operational risks.	To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
15. Head of Workforce and Technology: Digital Transformation Programme (DTP) update	Provide management assurance on the direction of travel and robustness of the internal control arrangements for delivery of the DTP.	To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
16. IT Manager: IT update	<p>Provide management assurance on the direction of travel and robustness of the internal control arrangements for IT activity and systems arising from the Council's identification of key strategic risks and associated governance issues.</p> <p>To include assurances on the delivery of disaster recovery testing.</p> <p>Monitoring this high risk impact area, provides assurances that actions are completed and risk-related issues are addressed in a timely manner. The Committee is not responsible for the regular performance monitoring of this activity.</p>	To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
Core business: 24 July 2018		

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Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
17. External Audit: Audit Findings report Shropshire Council	<p>Seek assurance over the adequacy of the External Audit opinion on the financial statements and the Council's value for money arrangements.</p> <p>Ensure any issues / risks identified are being effectively managed.</p>	To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.
Core business: 13 September 2018		
18. Risk and Insurance Manager: Risk and Insurance Annual report	<p>To understand the current strategic risk exposure together with recent modifications and planned changes to strategic risk management within the authority.</p> <p>Gain assurance that the Council is effectively managing its key risks – has good risk management systems / processes in place that enable decision makers to understand the level of risk being taken and the Council is prepared to accept.</p>	To monitor the effective development and operation of risk management in the Council.
19. Risk and Insurance Manager: Strategic Risks update	Assurances that the management of strategic risks, a key process that underpins the successful achievement of the Council's priorities and outcomes, is robust. Strategic risks are a key aspect of the Annual Governance Statement.	To monitor the effective development and operation of risk management in the Council.

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Appendix A: Audit Committee Work Plan – 2018/19

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	<p>Provide information to confirm to the Audit Committee that they are receiving assurances on the key risk areas within the Council and how these are being managed through the internal controls and governance processes.</p>	
<p>20. Section 151 Officer: Audited Annual Statement of Accounts</p>	<p>Ensure that the narrative report to the accounts help the public understand the authority's financial management of public funds.</p> <p>Consider the outcome of the External Audit and the appropriateness of management responses.</p> <p>Seek assurance that the Council has appropriate accounting policies in place to ensure that items are treated correctly in the accounts.</p>	<p>To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.</p>
<p>21. Section 151 Officer; Annual Treasury report</p>	<p>Provide assurance on the treasury activities for Shropshire Council, including the investment performance of the internal Treasury team.</p>	<p>To receive regular reports on activities, issues and trends to support the Committee's understanding of treasury management activities. The Committee is not responsible for the regular monitoring of treasury management activity.</p> <p>To review the treasury risk profile and adequacy of treasury risk management</p>

Appendix A: Audit Committee Work Plan – 2018/19

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
		procedures and assurances on treasury management.
22. Internal Audit: Performance report and revised Annual Audit Plan	<p>Understand the level of assurances being given as a result of audit work and their impact on the Council's governance, risk and control environment.</p> <p>Ensure management action is taken to improve controls / manage risks identified.</p> <p>Encouraging ownership of the internal control framework by appropriate managers</p> <p>Confirm appropriate progress being made on the delivery of the audit plan and performance targets.</p> <p>Understand any resourcing issues as a result of changes to the plan.</p>	<p>To consider reports from the Head of Audit on Internal Audit's performance during the year, including the performance of external providers of Internal Audit Services. These will include updates on the work of Internal Audit including key findings, issues of concern and action in hand as a result of Internal Audit work.</p> <p>To consider summaries of specific internal audit reports as requested.</p> <p>To receive reports outlining the action taken where the Head of Audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.</p> <p>To approve significant interim changes to the risk based internal audit plan and resource requirements.</p>

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

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

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Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
Core business: 6 December 2018		
28. Internal Audit: National Fraud Initiative update	Provides an update and assurances on the outcomes of the National Fraud Initiative.	To monitor the counter-fraud, bribery and corruption strategy, actions and resources.
29. Internal Audit: Annual review of Audit Committee Terms of Reference	Ensures the Audit Committees continues to benefit the Council by continuing to provide an effective service assessed against current best practice.	To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.
30. Internal Audit: Annual review of Internal Audit Charter	Assurance that effective corporate governance arrangements are maintained in the Council part of which is evidenced by a current Internal Audit Charter.	To approve the Internal Audit Charter.
31. Internal Audit: Annual review of Counter Fraud, Bribery and Anti-Corruption Strategy <u>and activities; including an update on the National Fraud Initiative (NFI)</u>	<p>Confirm that the Council's counter fraud activity is targeted and effective.</p> <p>Ensure that appropriate progress is being made on the delivery of the Counter Fraud plan.</p> <p>Ensure that lessons have been learnt – understand fraud risks facing the Council and actions being taken to reduce the risk</p>	To monitor the counter-fraud, bribery and corruption strategy, actions and resources.

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

Appendix A: Audit Committee Work Plan – 2018/19

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	<p>Confirm appropriate progress being made on the delivery of the audit plan and performance targets.</p> <p>Understand any resourcing issues as a result of changes to the plan.</p>	<p>To receive reports outlining the action taken where the Head of Audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.</p> <p>To approve significant interim changes to the risk based internal audit plan and resource requirements.</p>
33. Section 151 Officer: Treasury Strategy Mid-Year report	Provide assurance on the treasury activities for Shropshire Council, including the investment performance of the internal Treasury team.	<p>To receive regular reports on activities, issues and trends to support the Committee's understanding of treasury management activities. The Committee is not responsible for the regular monitoring of treasury management activity.</p> <p>To review the treasury risk profile and adequacy of treasury risk management procedures and assurances on treasury management.</p>
34. Section 151 Officer: Annual Audit Committee self-assessment	Confirmation that the Audit Committee is working effectively and where any further improvements	To review the Council's corporate governance arrangements against the

Appendix A: Audit Committee Work Plan – 2018/19

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

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Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
38. Internal Audit: Fraud, special investigations and RIPA update	Provide assurances and an update on current fraud and special investigations undertaken by Internal Audit and the impact these have on the internal control environment together with an update on current Regulation of Investigatory Powers Act (RIPA) activity.	To review the assessment of fraud risks and potential harm to the Council from fraud, bribery and corruption. To monitor the counter-fraud, bribery and corruption strategy, actions and resources.
Other assurance		
39. Revenues and Benefits Service Manager: Council tax and NNDR Performance Monitoring report	Provides assurances through performance monitoring information on the collection of this income. Monitoring this high risk impact area, provides assurances that actions are completed and risk-related issues are addressed in a timely manner. The Committee is not responsible for the regular performance monitoring of this activity.	To monitor progress in addressing risk-related issues reported to the committee and seeking assurances that action is taken by management in risk related issues identified by auditors and inspectors. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
40. IT Manager: IT update	Provide management assurance on the direction of travel and robustness of the internal control arrangements for IT activity and systems arising from the Council's identification of key strategic risks and associated governance issues. To include assurances on the delivery of disaster recovery testing.	To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

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Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	<p>Monitoring this high risk impact area, provides assurances that actions are completed and risk-related issues are addressed in a timely manner. The Committee is not responsible for the regular performance monitoring of this activity.</p>	
Core business: 7 March 2019		
<p>41. Risk and Insurance Manager: Strategic Risks update</p>	<p>Assurances that the management of strategic risks which is a key process that underpins the successful achievement of the Council's priorities and outcomes is robust. Strategic risks are a key aspect of the Annual Governance Statement.</p> <p>Provide information to confirm to the Audit Committee that they are receiving assurances on the key risk areas within the Council and how these are being managed through the internal controls and governance processes.</p>	<p>To monitor the effective development and operation of risk management in the Council.</p>
<p>42. Section 151 Officer: Treasury Strategy</p>	<p>Provides assurances that the Council's Treasury Management practice complies with CIPFA's Code of Practice on Treasury Management, the Council's Treasury Policy Statement, Treasury Management Practices and the Prudential Code</p>	<p>To consider the robustness of the authority's treasury management strategy, policies and procedures before their submission to Cabinet and Full</p>

Appendix A: Audit Committee Work Plan – 2018/19

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	for Capital Finance and together with the rigorous internal controls will enable the Council to manage the risk associated with Treasury Management activities and reduce any potential for financial loss.	Council, ensuring that controls are satisfactory.
43. Internal Audit: Report of the audit review of Risk Management	Provides independent assurance on the overall control environment for the Risk Management system that the Council is effectively managing its key risks – has good risk management systems / processes in place that enable decision makers to understand the level of risk being taken and the Council is prepared to accept.	To monitor the effective development and operation of risk management in the Council.
44. Internal Audit: Performance report and revised Annual Audit Plan	<p>Understand the level of assurances being given as a result of audit work and their impact on the Council's governance, risk and control environment.</p> <p>Ensure management action is taken to improve controls / manage risks identified.</p> <p>Encouraging ownership of the internal control framework by appropriate managers</p>	<p>To consider reports from the Head of Audit on Internal Audit's performance during the year, including the performance of external providers of Internal Audit Services. These will include updates on the work of Internal Audit including key findings, issues of concern and action in hand as a result of Internal Audit work.</p> <p>To consider summaries of specific internal audit reports as requested.</p>

Appendix A: Audit Committee Work Plan – 2018/19

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	<p>Confirm appropriate progress being made on the delivery of the audit plan and performance targets.</p> <p>Understand any resourcing issues as a result of changes to the plan.</p>	<p>To receive reports outlining the action taken where the Head of Audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.</p> <p>To approve significant interim changes to the risk based internal audit plan and resource requirements.</p>
<p>5. Internal Audit: Draft Annual Internal Audit risk based plan</p>	<p>That the Internal Audit Plan focuses on the key risks facing the Council and is adequate to support the Head of Audit opinion.</p> <p>Confirm that the plan achieves a balance between setting out the planned work for the year and retaining flexibility to changing risks and priorities during the year.</p> <p>Ensure that the Internal Audit Resource has sufficiently capacity and capability to deliver the plan.</p>	<p>To approve, but not direct, the risk-based internal audit plan, including internal audit resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.</p> <p>To make appropriate enquiries of both management and the Head of Audit to determine if there are any inappropriate scope or resource limitations.</p>

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

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

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Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	<p>The paper also includes:</p> <ul style="list-style-type: none"> • a summary of emerging national issues and developments that may be relevant to the Council; and • a number of challenge questions in respect of these emerging issues which the Committee may wish to consider. 	<p>To comment on the scope and depth of external audit work and to ensure it gives value for money.</p>
Other assurance		
52. IT Manager: IT update	<p>Provide management assurance on the direction of travel and robustness of the internal control arrangements for IT activity and systems arising from the Council's identification of key strategic risks and associated governance issues.</p> <p>To include assurances on the delivery of disaster recovery testing.</p> <p>Monitoring this high risk impact area, provides assurances that actions are completed and risk-related issues are addressed in a timely manner. The Committee is not responsible for the regular performance monitoring of this activity.</p>	<p>To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.</p>

Audit Committee Work Plan 2018/19 Summary

Audit Committee Work Plan 2018/19	28 June 2018	<u>24 July 2018</u>	13 Sept 2018	6 Dec 2018	7 Mar 2019	Report originator
Internal Audit Annual Report	✓					Internal Audit
Approval of the Council's Statement of Accounts	✓					Section 151 Officer
<u>Review of the Council's Annual Governance Statement (AGS) and review of the effectiveness of the Council's internal controls and Shropshire Council's Code of Corporate Governance.</u>	✓					Section 151 Officer
<u>Review of Code of Corporate Governance</u>	✓					<u>Section 151 Officer</u>
Annual review of <u>the effectiveness of the system of</u> Internal Audit: <u>and</u> Quality Assurance and Improvement Programme (QAIP)	✓					Section 151 Officer
Annual Assurance Report of Audit Committee to Council	✓					Internal Audit
Revenue Outturn Report	✓					Section 151 Officer
Capital Outturn Report	✓					Section 151 Officer
Annual Whistleblowing report	✓					Head of <u>Workforce and Technology</u> <u>Human Resources</u>
Audit Fee Letter 2016/17	✓					External Audit
Audit Committee Update	✓		✓	✓	✓	External Audit
Fraud, special investigations and RIPA Updates (part 2)	✓		✓	✓	✓	Internal Audit
Council Tax and NNDR Performance Monitoring Report	✓			✓		Revenues and Benefits Service Manager
Pension Fund Audit Plan (information)	✓					External Audit
<u>Management Report: Estates Update</u>	✓					<u>Head of Business Enterprise and Commercial Services</u>
<u>Management Report: Digital Transformation Programme Update</u>	✓					<u>Head of Workforce and Technology</u>
Findings Report Shropshire Council		✓	✓			External Audit

Audit Committee Work Plan 2018/19	28 June 2018	24 July 2018	13 Sept 2018	6 Dec 2018	7 Mar 2019	Report originator
Risk and Insurance Annual Report			✓			Risk and Insurance Manager
Strategic Risks update			✓		✓	Risk and Insurance Manager
Audited Annual Statement of Accounts			✓			Section 151 Officer
Annual Treasury Report			✓			Section 151 Officer
Performance Report and revised Annual Audit Plan			✓	✓	✓	Internal Audit
<u>Programme controls and risks</u>			✓			<u>Director of Commissioning Technology and Communications</u> †
IT Update	✓		✓	✓	✓	†
Housing Benefit Overpayment Performance Monitoring Report			✓			Revenues and Benefits Service Manager
Findings Report Shropshire County Pension Fund (Information)			✓			External Audit
<u>National Fraud Initiative Update</u>				✓		<u>Internal Audit</u>
Annual review of Audit Committee Terms of Reference				✓		Internal Audit
Annual review of Internal Audit Charter				✓		Internal Audit
Annual review of Counter Fraud, Bribery and Anti-Corruption Strategy <u>and activities; including an update on the National Fraud Initiative (NFI)</u>				✓		Internal Audit
Treasury Strategy Mid-Year Report				✓		Section 151 Officer
Annual Audit Committee Self-Assessment				✓		Section 151 Officer
Annual Audit Letter				✓		External Audit
Treasury Strategy					✓	Section 151 Officer
Report of the Audit Review of Risk Management					✓	Internal Audit
Draft Annual Internal Audit Risk Based Plan					✓	Internal Audit
Draft Audit Committee annual work plan and future training requirements					✓	Internal Audit

Audit Committee Work Plan 2018/19	28 June 2018	<u>24</u> <u>July</u> <u>2018</u>	13 Sept 2018	6 Dec 2018	7 Mar 2019	Report originator
Audit Plan					✓	External Audit
Certification Summary Report					✓	External Audit
Informing the risk assessment					✓	External Audit

Appendix B

Audit Committee Members development topics

Core areas of knowledge

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

Specialist knowledge that adds value to the Audit Committee

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

Core skills

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

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<u>Committee and Date</u>	<u>Item</u>
Cabinet 14 February 2018	
Council 22 February 2018	
Audit Committee 1 March 2018	
	Public

TREASURY STRATEGY 2018/19

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1. Summary

1.1 The report proposes the Treasury Strategy for 2018/19 and recommends Prudential and Treasury Indicators for 2018/19 to 2020/21. The report is technical in nature but the key points to note are:-

- Borrowing is largely driven by the requirements of the approved Capital Programme. From 2011/12 the Council's borrowing requirement has been significantly reduced due to the Government changing the way in which it funds the Council's capital expenditure and providing capital grants rather than supported borrowing approval with on-going (as it was defined at the time) revenue support grant to meet the financing costs of the borrowing. Currently the only approved borrowing requirement identified within the Capital Programme 2018/19 to 2020/21 is self-financing prudential borrowing of £8.197m.
- In late December 2017, CIPFA issued revised Prudential and Treasury Management Codes. As from 2019/20 all local authorities will be required to prepare an additional report, a Capital Strategy report. The Council is developing both the Capital Strategy report and business cases for a number of large schemes linked to proposals set out in the Council's Finance Strategy. At this stage, however, these proposals have not been finalised. As a result these schemes cannot be included as part of the calculations within the Treasury Strategy and any updates required as a result of future decisions will be reported accordingly.
- The Council's lending continues to be restricted to highly credit rated Banks, three Building Societies, Money Market Funds, Nationalised and Part Nationalised Institutions which meet Link Asset Services (formerly Capita Asset Services) creditworthiness policy, other Local Authorities and the UK Government.
- The internal Treasury Team will continue to look for opportunities to make savings by actively managing the cash and debt portfolio in accordance with the Treasury Strategy.

- The bank rate was increased to 0.5% in November 2017, the first increase since 2009. The Monetary Policy Committee (MPC) have given forward guidance that they only expect to increase the Bank rate by 0.25% twice more by 2020 to end at 1.0%. Every 0.25% increase in the bank rate equates to around £250,000 of additional interest receivable per annum on the Council's current average investment balances.
- Long term borrowing rates are expected to be higher than investment rates during 2018/19 therefore long term borrowing may be postponed in order to maximise savings in the short term. Currently the only borrowing requirement identified within the Capital Programme 2018/19 to 2020/21 is self-financing prudential borrowing of £8.197m. Any changes to this requirement as a result of future decisions will be reported accordingly.
- The Council has agreed to offer to lend funds to Shropshire Housing Ltd (which incorporates both South Shropshire Housing Association and the Meres & Mosses Housing Association) and Severnside Housing at an agreed rate. It has previously been agreed to offer to lend up to £10 million to each of these Housing Associations in order to support the building of affordable housing and shared office accommodation in Shropshire. For security purposes, each loan has been secured against existing assets held by or owned by the Housing Association. To date £9,770,000 has been drawn down by Shropshire Housing Ltd and £10,000,000 by Severnside Housing.
- In December 2017, Cabinet & Council approved the purchase of units held in a Jersey Property Unit Trust (JPUT) for the acquisition of 100% of the units for the Shrewsbury Shopping Centres. This has reduced cash balances available for investment in 2018/19 by £52.6m which represents the actual payment made on 23 January 2018. This investment will be classified as a short term capital investment and has been financed from internal cash balances in the short to medium term.

2. Recommendations

2.1. Recommendations to Cabinet

Cabinet recommend that Council:-

- a) Approve, with any comments, the Treasury Strategy for 2018/19.
- b) Approve, with any comments, the Prudential Indicators, set out in Appendix 1, in accordance with the Local Government Act 2003.
- c) Approve, with any comments, the Investment Strategy, set out in Appendix 2 in accordance with the CLG Guidance on Local Government Investments.
- d) Approve, with any comments, the Minimum Revenue Provision (MRP) Policy Statement, set out in Appendix 3.
- e) Authorise the Section 151 Officer to exercise the borrowing powers contained in Section 3 of the Local Government Act 2003 and to manage the Council's debt portfolio in accordance with the Treasury Strategy.

- f) Authorise the Section 151 Officer to use other Foreign Banks which meet Link's creditworthiness policy as required.
- g) Members are asked to note the changes to the CIPFA Treasury Management Code of Practice and Prudential Code and outstanding consultation exercises.

2.2. Recommendations to Audit Committee

- h) Audit Committee are asked to consider and endorse, with appropriate comment, the Treasury Strategy 2018/19.
- i) Members are asked to note the changes to the CIPFA Treasury Management Code of Practice and Prudential Code and outstanding consultation exercises.

2.3. Recommendations to the Council

- j) Approve, with any comments, the Treasury Strategy for 2018/19.
- k) Approve, with any comments, the Prudential Indicators, set out in Appendix 1, in accordance with the Local Government Act 2003.
- l) Approve, with any comments, the Investment Strategy, set out in Appendix 2 in accordance with the CLG Guidance on Local Government Investments.
- m) Approve, with any comments, the Minimum Revenue Provision (MRP) Policy Statement, set out in Appendix 3.
- n) Authorise the Section 151 Officer to exercise the borrowing powers contained in Section 3 of the Local Government Act 2003 and to manage the Council's debt portfolio in accordance with the Treasury Strategy.
- o) Authorise the Section 151 Officer to use other Foreign Banks which meet Link's creditworthiness policy as required.
- p) Members are asked to note the changes to the CIPFA Treasury Management Code of Practice and Prudential Code and outstanding consultation exercises.

REPORT

3. Risk Assessment and Opportunities Appraisal

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

4. Financial Implications

- 4.1 The financial implications arising from the Treasury Strategy are detailed in this report. The Council makes assumptions about the levels of borrowing and investment income over the financial year. Reduced borrowing as a result of capital receipt generation or delays in delivery of the capital programme will both have a positive impact of the council's cash position. Similarly, higher than benchmarked returns on available cash will also help the Council's financial position. For monitoring purposes, assumptions are made early in the year about borrowing and returns based on the strategies agreed by Council in the preceding February. Performance outside of these assumptions results in increased or reduced income for the Council.
- 4.2 As at 31 December 2017 the Council held £158 million in investments and borrowing of £318 million at fixed interest rates. The amount held in investments has reduced by £52.6m following the purchase of units held in a Jersey Property Unit Trust (JPUT) for the acquisition of 100% of the units for the Shrewsbury Shopping Centres on 23 January 2018.

5. Background

- 5.1. The Council defines its treasury management activities as "the management of the authority's investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks".
- 5.2. This strategy statement has been prepared in accordance with CIPFA's revised Code of Practice on Treasury Management. Accordingly, the Council's Treasury Strategy will be approved annually by full Council and there will also be a mid year review report. In addition, treasury management update reports will be submitted quarterly to Directors and Cabinet. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of policies and practices, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.
- 5.3. In late December 2017, CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code. These revisions particularly focused on non-treasury investments and the requirement for all local authorities to produce a detailed Capital Strategy as from 2019/20. The majority of these requirements are already included in an appendix to the Council's Financial Strategy but this will be included as a separate Capital Strategy report from 2019/20.
- 5.4. Attached in appendix 2 is the Council's Annual Investment Strategy which includes a list of additional responsibilities for the Section 151 Officer role following the issue of the revised Treasury Management Code of Practice and Prudential Code.
- 5.5. The revised codes have clarified CIPFA's position that there is a clear separation between treasury and non-treasury investments and on the role of the treasury management team. Accordingly, periodic reporting by the treasury management team to members will focus solely on treasury investments. If non treasury investments are considered, such as the acquisition of units in relation to the Shrewsbury Shopping Centres, a separate report will be presented for approval and any changes required to Prudential indicators incorporated within an updated Treasury Strategy if necessary.

- 5.6. In addition there are currently outstanding consultations on revised investment guidance & MRP guidance. We are still waiting for the revised guidance to be issued but it is unlikely that the Treasury Strategy will need to be amended as the revised guidance mainly focuses on non-treasury investments which will be reported separately.
- 5.7. The Council will adopt the following reporting arrangements in accordance with the requirements of the Code:-

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

6. Treasury Strategy 2018/19

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

- 6.2. As the Council is responsible for housing, Prudential Indicators relating to Capital Expenditure, financing costs and the Capital Financing Requirement will be split between the Housing Revenue Account (HRA) and the General Fund.
- 6.3. The Act also requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
- 6.4. The proposed Strategy for 2018/19 in respect of the following aspects of the treasury management function is based upon the Section 151 Officer's view on interest rates, supplemented with leading market forecasts provided by the Council's Treasury Advisor, Link Asset Services (formerly known as Capita Asset Services).
- 6.5. The proposed strategy will focus on the following areas of treasury activity:-
- Treasury limits in force which will limit the treasury risk and activities of the Council.
 - The determination of Prudential and Treasury Indicators.
 - The current treasury position.
 - Prospects for interest rates.
 - Capital borrowing strategy.
 - Policy on borrowing in advance of need.
 - Debt rescheduling.
 - Investment strategy.
 - Capital plans.
 - Creditworthiness policy.
 - Policy on use of external service providers.
 - The MRP strategy.
 - Leasing.
- 6.6. It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This therefore means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:-
- increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
 - any increase in running costs from new capital projects
- are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

7. Treasury Limits for 2018/19 to 2020/21

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

- 7.2. The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits.
- 7.3. Whilst termed an “Affordable Borrowing Limit”, the capital plans to be considered for inclusion incorporate those planned to be financed by both internal/external borrowing and other forms of liability, such as credit arrangements. The Authorised Borrowing Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years and is the limit which the Council must not breach. All of the other Prudential Indicators are estimates only and can be breached temporarily but this is very rarely the case. If this did happen it would be reported to Members outlining the reasons for this temporary breach.
- 7.4. The Council are asked to approve these Prudential Indicators in Appendix 1.

8. Prudential & Treasury Indicators for 2018/19 to 2020/21

- 8.1. The Prudential Code and CIPFA Code of Practice on Treasury Management require the Council to set a number of Prudential and Treasury Indicators. Following the December 2017 publication of the revised CIPFA Treasury Management Code of Practice, there is no longer a requirement to include the prudential indicator showing the incremental impact on the Council tax / Housing rents of Capital Investment decisions so this has been removed. In addition to the specified indicators, we have set further internal indicators for Treasury Management, regarding lower limits on interest rate exposure for both borrowing and investments.
- 8.2. It should be noted that these indicators should not be used for comparison with indicators from other local authorities. Use of them in this way would be likely to be misleading and counter-productive as other authorities Treasury Management policies and practices vary. The most important indicator is prudential indicator number 4 which specifies the authorised limit which cannot be breached under any circumstances. In the event that this indicator was breached a separate report would be brought to Council.
- 8.3. **Prudential Indicator 1** - The ratio of financing costs indicator shows the trend in the cost of financing capital expenditure as a proportion of the Authority’s net revenue. This indicator also shows the ratio of the HRA financing costs to the HRA net revenue stream.

Prudential Indicator No. 1	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	%	%	%	%
Non HRA ratio of financing costs (gross of investment income) to net revenue stream	9.9	12.2	11.3	9.9
Non HRA ratio of financing costs (net of investment income) to net revenue stream	9.4	11.7	10.8	9.4
HRA Ratio of financing costs to HRA net revenue stream	37.4	38.0	38.4	36.9

- 8.4. **Prudential Indicator 2** - A key indicator of prudence is that gross external borrowing should not, except in the short term, exceed the capital financing requirement (CFR). The capital financing requirement is the maximum we would

expect to borrow based on the current capital programme. Compliance with the indicator will mean that this limit has not been breached. Gross borrowing includes debt administered on behalf of Telford and Wrekin Council, Magistrates Courts and Probation Service. It also includes the debt transferred from Oswestry Borough Council and North Shropshire District Council on the 1st April 2009. In accordance with the Code the HRA Capital Financing requirement has been calculated separately and has been updated due to the HRA reform which took place on the 28 March 2012. The 2017/18 Non HRA Capital Financing Requirement includes £53.1 million (which represents the gross capital cost of the acquisition of £52.6m net payment plus £0.5m capitalised rental top ups) in relation to the Shrewsbury Shopping Centres.

Prudential Indicator No. 2	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Net Borrowing & Capital Financing Requirement:	£ m	£ m	£ m	£ m	£ m
Non HRA Capital Financing Requirement	243	295	307	298	289
HRA Capital Financing Requirement	85	85	85	85	85
Total CFR	328	380	392	383	374
Gross Borrowing including HRA	324	318	312	308	304
Investments	152	100	100	100	100
Net Borrowing	172	218	212	208	204

Prudential Indicator 3 - The estimated capital expenditure has been split between Non HRA and HRA and represents commitments from previous years to complete ongoing schemes, the expenditure arising from the proposed new schemes within the capital programme for 2018/19, and the estimated expenditure for 2019/20 and 2020/21. This indicator also includes details on the financing of capital expenditure. In 2017/18 the net financing need for the year includes £53.1m gross cost invested in the acquisition of units in relation to the Shopping Centres. This has been funded in the short to medium term by the use of cash balances therefore there is no requirement to borrow at the current time but this will be reviewed going forward. The remaining £0.3m relates to approved investment in Leisure Services to upgrade equipment.

Prudential Indicator No. 3	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£ m	£ m	£ m	£ m	£ m
Non HRA Capital expenditure	39.8	103.1	53.2	7.5	0.7
HRA Capital expenditure	5.2	8.3	1.3	0.0	0.0
Total Capital expenditure	45.0	111.4	54.5	7.5	0.7
Financing of capital expenditure					
Capital receipts	0.9	8.0	13.5	2.1	0.1
Capital grants	33.1	40.0	29.0	5.4	0.6
Other Contributions	0.8	0.7	0.2	0.0	0.0
Major Repairs Allowance	4.0	4.8	0.6	0.0	0.0
Revenue	6.2	4.5	3.0	0.0	0.0
Net financing need for the year	0.0	53.4	8.2	0.0	0.0

8.6. **Prudential Indicator 4 which must not be breached** - The authorised limit is the borrowing limit set for Shropshire Council and includes the HRA borrowing. This indicator shows the maximum permitted amount of outstanding debt for all purposes. It includes three components:

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

Prudential Indicator No. 4	2018/19	2019/20	2021/22
	£ m	£ m	£ m
External Debt			
Authorised Limit for External Debt:			
Borrowing	457	457	454
Other long term liabilities	103	107	103
Total	560	564	557

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

Prudential Indicator	2017/18	2018/19	2019/20	2020/21
	£ m	£ m	£ m	£ m
HRA Debt Limit	96	96	96	96
HRA CFR	85	85	85	85
HRA Headroom	11	11	11	11

8.8. **Prudential Indicator 5** – The more likely outcome for the level of external debt is shown in the operational boundary which the Council is required to set. This is calculated on the same basis as prudential indicator number 4, however, this is the limit which external debt is not normally expected to exceed.

Prudential Indicator No. 5	2018/19	2019/20	2020/21
External Debt	£ m	£ m	£ m
Operational Boundary:			
Borrowing	407	403	384
Other long term liabilities	103	107	103
Total	510	510	487

- 8.9. **Prudential Indicator 6** - The estimated external debt is based on the capital programme for 2017/18.

Prudential Indicator No. 6	2016/17 Actual	2017/18 Estimate
Actual External Debt	£ m	£ m
Borrowing	324	318
Other long term liabilities	107	102
Total	431	420

- 8.10. **Prudential Indicator 7** - The Prudential Code requires the Council to set interest rate exposure limits for borrowing and investments.

Prudential Indicator No. 7*	2018/19	2019/20	2020/21
Internal Indicator No. 1 **			0
Internal Indicator No. 7^			
Internal Indicator No. 2 ^^			
Borrowing Limits			
	£ m	£ m	£ m
Upper Limit for Fixed Interest Rate Exposure *	457	457	454
Upper Limit for Variable Interest Rate Exposure ^	229	229	227
Lower Limit for Fixed Interest Rate Exposure **	228	228	227
Lower Limit on Variable Interest Rate Exposure ^^	0	0	0

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

Upper limit for fixed rate exposure

Calculation:

A maximum of 100% of the Authorised Limit (£457m in 2018/19) exposed to fixed rates is consistent with the Authority's objective to have a long term stable debt portfolio.

Upper limit for variable rate exposure

Calculation:

For efficient management of the debt portfolio it is considered prudent by Link to permit up to 50% (£229m in 2018/19) of the Authorised Limit to be borrowed at variable interest rates.

Lower limit for fixed rate exposure

Calculation:

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

Lower limit for variable rate exposure

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

Prudential Indicator No. 8*	2018/19	2019/20	2020/21
Internal Indicator No. 3 **			
No. 8^			
Internal Indicator No. 4 ^^			
Investment Limits			
	£ m	£ m	£ m
Upper Limit for Fixed Interest Rate Exposure *	220	220	220
Upper Limit for Variable Interest Rate Exposure ^	220	220	220
Lower Limit for Fixed Interest Rate Exposure **	0	0	0
Lower Limit on Variable Interest Rate Exposure ^^	0	0	0

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

Upper limit for fixed rate exposure

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

Upper limit for variable rate exposure

Calculation: For the purposes of efficient portfolio management in response to interest rate conditions a maximum potential exposure to variable rates of £220m in 2018/19 is recommended.

Lower limit for fixed rate exposure

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

Lower limit for variable rate exposure

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

8.11. **Prudential Indicator 9** - The upper and lower limit for the maturity structure of borrowings is detailed below.

Prudential Indicator No. 9	Upper Limit	Lower Limit
Maturity Structure of Fixed/Variable Rate Borrowing 2018/19*	%	%
Under 12 months	15	0
12 months & within 24 months	15	0
24 months & within 5 years	45	0
5 years to 10 years	75	0
10 years to 20 years	100	0
20 years to 30 years	100	0
30 years to 40 years	100	0
40 years to 50 years	100	0
50 years and above	100	0

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

8.12. **Prudential Indicator 10** - The Council is required to set maximum levels for investments over 365 days for both the internal treasury team and an external fund manager if appointed.

Prudential Indicator No. 10	2018/19	2019/20	2020/21
Investment Limits			
	£m	£m	£m
Upper Limit for Total Principal Sums Invested for over 365 days:			
Externally Managed (if appointed)	30	30	30
Internally Managed	50	50	50
Shrewsbury Shopping Centres	60	60	60

Rationale: The limit for the external cash fund manager has been set at £30 million in the event that an external manager is appointed. The limit for the internal treasury team has been set in order for the authority to potentially take advantage of more stable returns going forward. This includes the lending to date to local housing associations. A separate limit of £60 million is included for the investment in units held within the JPUT for the Shrewsbury Shopping Centres. This limit is higher than the gross capital investment cost of £53.1m as it includes headroom for any future capital investment requirements.

9. Current Treasury Position

9.1. The Council's treasury position at 31 December 2017 is set out below:-

Outstanding debt for capital purposes	Actual £m
Long-term fixed rate PWLB	268.8
Long term fixed rate – Market	49.2
Total	318.0
Investments	£m
Internally managed - long term (1 Year)	10.0
- short term cash flow	148.0
Total	158.0

10. Prospects for Interest Rates

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

Link's interest rate forecast as at January 2018

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

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

- remain at its current level of 0.5% until December 2018 when it is expected to rise to 0.75%.
- reach 1.0% by December 2019 and 1.25% by September 2020.

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

Short-term interest rates (investments)

10.2. As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Base rate in November 2017. It is felt that the bank rate will remain at its current level of 0.5% until December 2018 when it is expected to rise to 0.75%. The Bank rate is then expected to rise to 1.0% by December 2019. Interest rate forecasting remains difficult with so many external influences weighing on the UK. Link's Bank Rate forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact.

Long-term interest rates (borrowing)

10.3. The 50 year PWLB rate is expected to rise gradually to reach 2.9% by the end of December 2018. It is expected to continue rising gradually to reach 3.4% by the end of December 2020. There is scope for it to move around the central forecast by + or – 0.25%. The 25 year PWLB rate is also expected to rise slightly to reach 3.1% by the end of December 2018 and 3.6% by the end of December 2020. The 10 year PWLB rate is expected to rise gradually to 2.5% by the end of March 2019. Again further gradual rises are expected in 2019/20 & 2020/21. The 5 year PWLB rate is also expected to rise gradually from 1.5% to 1.8% by the end of March 2019 and to 2.3% by the end of December 2020. The PWLB rates and forecasts shown above take into account the 0.2% certainty rate reduction effective as of the 1 November 2012.

11. Borrowing Strategy

- 11.1. The only approved external borrowing requirement for 2018/19 to 2020/21 within the Capital Programme is £8.197m self-financing prudential borrowing. The Council will adopt a pragmatic approach to changing circumstances when considering new borrowing if required in the future. Consideration will be given to the following:-
- i) As long term borrowing rates are expected to be higher than investment rates and look likely to be for the next couple of years or so all new external borrowing may be deferred in order to maximise savings in the short term. The running down of investments also has the added benefit of reducing exposure to interest rate and credit risk. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing up the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking loans at long term rates which will be higher in future years.
 - ii) Temporary borrowing from the money markets or other local authorities.
 - iii) PWLB variable rate loans for up to 10 years.
 - iv) Long term fixed rate market loans (including loans offered by the Municipal Bond Agency) at rates below PWLB rates for the equivalent maturity period.
 - v) Short term PWLB rates are expected to be cheaper than longer term borrowing therefore borrowing could be undertaken in the under 10 year period early on in the financial year when rates are expected to be at their lowest. This will also have the added benefit of spreading debt maturities away from a concentration in longer dated debt.
 - vi) If it was felt that there was a significant risk in a sharp fall in long and short term rates then long term borrowings will be postponed. If it was felt there was a significant risk of a sharp rise in long and short term rates then the portfolio position would be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.
- 11.2. Delegated authority is sought for the Section 151 Officer to exercise the borrowing powers contained in the Local Government Act 2003 to manage the debt portfolio.

12. External versus internal borrowing

- 12.1. The Prudential Code requires the Council to explain its policy on gross and net debt. The Council currently has gross debt of £318 million and net debt (after deducting cash balances) of £160 million. The next financial year is expected to see the Bank Rate increase by 0.25% to reach 0.75%. As borrowing rates are expected to be higher than investment rates this would indicate that value could best be obtained by avoiding new external borrowing and using internal cash balances to finance new capital expenditure. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. This is referred to as internal borrowing and maximises short term savings.
- 12.2. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.
- 12.3. The Council has examined the potential for undertaking early repayment of some external debt in order to reduce the difference between its gross and net debt positions. However, the introduction by the PWLB of significantly lower rates for repayments than for new borrowing means that large premiums would be incurred and such levels of premiums cannot be justified on value for money grounds.
- 12.4. Against this background caution will be adopted with the 2018/19 treasury operations. The Section 151 Officer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to Members at the next available opportunity.

13. Policy on borrowing in advance of need

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

14. Debt Rescheduling

- 14.1. Consideration will be given to the potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments

are likely to be lower than rates currently paid on debt. However, this will need careful consideration in the light of premiums that may be incurred by such a course of action. The proposals for debt rescheduling are a continuation of the existing policy and such transactions will only be undertaken:-

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

15. Investment Strategy

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

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

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

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

16. Minimum Revenue Provision (MRP) Statement

16.1 The Council is required to pay off an element of the accumulated general fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision - MRP) although it is also allowed to undertake additional voluntary payments if required. Communities and Local Government (CLG) regulations have been issued which require the full Council to approve an MRP statement in advance of each year. Council are asked to approve the Minimum Revenue Provision Statement set out in Appendix 3.

17. Leasing

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

18. Lending to Housing Associations

18.1. As previously approved by full Council, the Council has offered to lend funds to Shropshire Housing Ltd (which incorporates South Shropshire Housing Association and the Meres & Mosses Housing Association) and Severnside Housing at an agreed rate.

18.2. It has been agreed that the interest rate charged will depend on the period over which the loan is to be taken and that it will be linked to the applicable PWLB rate plus an administration fee. It has been agreed to offer to lend up to £10 million to each of these Housing Associations in order to support the building of affordable housing and shared office accommodation in Shropshire. For security purposes, each loan has been secured against existing assets held by or owned by the Housing Association.

18.3. Officers have sought advice from Wragge & Co who have confirmed that the Council has the power to lend funds to Housing Associations under the Housing Act 1996 and have drawn up the legal documentation relating to the loan agreement. To date £9,770,000 has been drawn down by Shropshire Housing Ltd and £10,000,000 by Severnside Housing.

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

Treasury Management Practices

Treasury Strategy 2017/18 (Council 23 February 2017)

Treasury Strategy 2017/18 Mid-Year Review (Council 14 December 2017)

Financial Strategy Report 2018/19 to 2020/21 (Cabinet 14 February 2018)

Shrewsbury Shopping Centres Report (Council 14 December 2017)

Cabinet Member : David Minnery, Portfolio Holder for Finance

Local Member

N/A

Appendices:

1 – Prudential Indicators

2 – Council's Annual Investment Strategy

3 – Minimum Revenue Provision Policy Statement

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Prudential Indicators

Prudential Indicator	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	%	%	%	%
Non HRA ratio of financing costs to net revenue stream	9.9	12.2	11.3	9.9
HRA ratio of financing costs to HRA net revenue stream	37.4	38.0	38.4	36.9

Prudential Indicator	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	%	%	%	%
Non HRA ratio of financing costs (net of investment income) to net revenue stream	9.4	11.7	10.8	9.4

Prudential Indicator	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£ m	£ m	£ m	£ m	£ m
Net Borrowing & Capital Financing Requirement:					
Non HRA Capital Financing Requirement	243	295	307	298	289
HRA Capital Financing Requirement	85	85	85	85	85
Total CFR	328	380	392	383	374
Gross Borrowing (including HRA)	324	318	312	308	304
Investments	152	100	100	100	100
Net Borrowing	172	218	212	208	204

Prudential Indicator	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£ m	£ m	£ m	£ m	£ m
Non HRA Capital expenditure	39.8	103.1	53.2	7.5	0.7
HRA Capital expenditure	5.2	8.3	1.3	0.0	0.0
Total Capital expenditure	45.0	111.4	54.5	7.5	0.7
Financing of capital expenditure					
Capital receipts	0.9	8.0	13.5	2.1	0.1
Capital grants	33.1	40.0	29.0	5.4	0.6
Other Contributions	0.8	0.7	0.2	0.0	0.0
Major Repairs Allowance	4.0	4.8	0.6	0.0	0.0
Revenue	6.2	4.5	3.0	0.0	0.0
Net financing need for the year	0.0	53.4	8.2	0.0	0.0

Prudential Indicator	2018/19	2019/20	2020/21
External Debt	£ m	£ m	£ m
Authorised Limit for External Debt:			
Borrowing	457	457	454
Other long term liabilities (PFI)	103	107	103
Total	560	564	557

Prudential Indicator	2017/18	2018/19	2019/20	2020/21
	£ m	£ m	£ m	£ m
HRA Debt Limit	96	96	96	96
HRA CFR	85	85	85	85
HRA Headroom	11	11	11	11

Prudential Indicator	2018/19	2019/20	2020/21
External Debt	£ m	£ m	£ m
Operational Boundary:			
Borrowing	407	403	384
Other long term liabilities (PFI)	103	107	103
Total	510	510	487

Prudential Indicator	2016/17 Actual	2017/18 Estimate
External Debt	£ m	£ m
Borrowing	324	318
Other long term liabilities (PFI)	107	102
Total	431	420

Prudential Indicator	2018/19	2019/20	2020/21
Borrowing Limits	£ m	£ m	£ m
Upper Limit for Fixed Interest Rate Exposure	457	457	454
Upper Limit for Variable Interest Rate Exposure	229	229	227
Lower Limit for Fixed Interest Rate Exposure	228	228	227
Lower Limit on Variable Interest Rate Exposure	0	0	0

Prudential Indicator	2018/19	2019/20	2020/21
Investment Limits	£ m	£ m	£ m
Upper Limit for Fixed Interest Rate Exposure	220	220	220
Upper Limit for Variable Interest Rate Exposure	220	220	220
Lower Limit for Fixed Interest Rate Exposure	0	0	0
Lower Limit on Variable Interest Rate Exposure	0	0	0

Prudential Indicator	Upper Limit	Lower Limit
Maturity Structure of Fixed/Variable Rate Borrowing During 2018/19 **	%	%
Under 12 months	15	0
12 months & within 24 months	15	0
24 months & within 5 years	45	0
5 years & within 10 years	75	0
10 years & within 20 years	100	0
20 years & within 30 years	100	0
30 years & within 40 years	100	0
40 years & within 50 years	100	0
50 years and above	100	0

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

Prudential Indicator	2018/19	2019/20	2020/21
Investment Limits			
	£m	£m	£m
Upper Limit for Total Principal Sums Invested for over 365 days:			
Externally Managed (if appointed)	30	30	30
Internally Managed	50	50	50
Shrewsbury Shopping Centres	60	60	60

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The Council's Annual Investment Strategy

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

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

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

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

Creditworthiness Policy

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

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

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

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

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

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

Monitoring of Credit Ratings

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

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

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

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

Country Limits

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

Security of Capital

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

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

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

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

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

CLG Investment Guidance

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

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

(i) Specified Investments

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

- be denominated in sterling
- have less than 12 months duration
- not constitute the acquisition of share or loan capital

- either: be invested in the UK government or a local authority
 or a body or investment scheme with a "high" credit quality.

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

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

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

(ii) Non Specified Investments

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

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

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

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

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

It is recommended that for specified investments the range of maximum limits is set between £5m and £30m for the internal treasury team. For non specified investments it is recommended that the limit for the internal treasury team should be restricted to £50m of the total investment portfolio (excluding the Shrewsbury Shopping Centre acquisition). Any changes to the maximum limits must be approved by the S151 Officer.

Temporary Investment Strategy

As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Base rate in November 2017. It is felt that the bank rate will remain at its current level of 0.5% until December 2018 when it is expected to rise to 0.75%. The Bank rate is then expected to rise to 1.0% by December 2019. This view is based on the latest forecasts obtained by the Authority's treasury advisor, Link Asset Services.

If an external fund manager is appointed in 2018/19 they would also have to adhere to the authorised specified and non-specified investments on the attached table. They would also have to comply with the Council's Annual Investment Strategy and their agreement must stipulate guidelines and other limits in order to contain and control risk.

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

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

The present strategy is to diversify investments so as to spread risk over a range of investment types and periods and provide the opportunity to enhance returns. Due to the current lending restrictions in place diversification has been somewhat reduced due to the reduction in the number of institutions which we can lend to, however, by taking this course of action the credit risk has been reduced. The portfolio as at 31 December 2017 is set out in paragraph 9.1 of the Treasury Strategy 2018/19 report. . The amount held in investments has reduced by £52.6m following the purchase of units held in a Jersey Property Unit Trust (JPUT) for the acquisition of 100% of the units for the Shrewsbury Shopping Centres on 23 January 2018. Performance of the in-house operation will continue to be monitored on a monthly basis by your officers in conjunction with the treasury advisor.

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

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

Policy on the use of external service providers

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

Scheme of Delegation

Full Council

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

Cabinet

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

Audit Committee

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

Role of the Section 151 Officer

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

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

The above list of specific responsibilities of the s151 Officer in the 2017 Treasury Management Code has not changed. However, implicit in the changes in both Codes, is a major extension of the functions of this role, especially in respect of non-financial investments:-

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe (20+ years – to be determined in accordance with local priorities. CIPFA has provided advice that it recognises that it is too late in the current budget round for 2018/19 for many local authorities to produce a capital strategy this year therefore this will be done in 2019/20.)
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money

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- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following: -
 - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
 - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*
 - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*
 - *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*
 - *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

Pension Fund Cash

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

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LOCAL GOVERNMENT INVESTMENTS (England)

SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated.

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

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

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

Custodial arrangement required prior to purchase

Monitoring of credit ratings:

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

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

LOCAL GOVERNMENT INVESTMENT (England)

NON-SPECIFIED INVESTMENTS

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

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

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

Investment	(A) Why use it? (B) Associated risks?	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum credit rating **	Capital Expen- diture?	Circumstance of use	Max % of overall investment s	Maximum maturity of investment
Corporate Bonds & Corporate Bond funds (the use of these investments would constitute capital expenditure although this is currently under review)	(A)(i) Excellent credit quality. (ii) Liquid. (iii) If held to maturity, known yield (rate of return) per annum – aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk (B)(i) "Market or interest rate risk" : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss	Yes	Yes	Minimum Sovereign rating AA-	Yes	To be used by external fund managers only	50%	<i>Suggested limit:</i> 5 years
Jersey Property Unit Trust (JPUT)	Required to facilitate the acquisition of the Shrewsbury Shopping Centres via a Jersey based Property Unit Trust – required only subject to full Council approval of the acquisition method on 14 th December 2017.	No	No	No Minimum Credit rating – assets held within the fund to undergo annual valuation to determine value of Units within the Trust.	Yes	In House use following specialist technical and legal advice.	£60m	5 years
Rooted property funds including CCLA Local Authorities Property Fund	Enhanced return but increased risk, only to be used following advice from Link	No	Yes	No Minimum Credit rating need to assess underlying assets within fund following advice taken from Link	No	In House Use & External Fund managers following advice from Link	20%	5 years
Floating Rate notes	(A)(i) Rate of return tied to some measure of current interest rates, so when interest rates are expected to go up they offer protection to investors against such rises (ii) In some circumstances may have access to banks which meet minimum credit criteria but generally don't take small fixed term deposit cash amounts (B)(i) Credit quality : if financial health of issuer deteriorates, investors will demand a greater yield and the price of the bond will fall	Yes	Yes	Minimum Colour band green	No	In House Use & External Fund managers following advice from Link	10%	3 years
US Dollar Deposits (WME Only)	US dollar account to be utilised as a part of West Mercia Energy prudent management of income and expenditure, ensuring that ongoing US dollar commitments can be hedged, thus extinguishing any adverse risk of	No	Yes	Minimum Colour band green	No	West Mercia Energy Only	N/A	3 Months

	exposure to movements in the exchange rate and guaranteeing a known cashflow for West Mercia Energy. The account is only to be used for this purpose and not for the purpose of speculative or trading transactions.							
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The Council's Annual Minimum Revenue Provision Statement

Statutory Requirements

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

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

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

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

Policy for calculation of Prudent Provision

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

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

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

Supported Borrowing

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

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

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

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

Unsupported Borrowing – Asset Life method

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

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

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

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

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

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

PFI Assets and assets held under Finance Leases

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

Long Term Capital Loans

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

Housing Revenue Account MRP

As at 31/03/17 the HRA CFR is £84.6m, this includes the £83.35m transferred to the Council as part of housing self-financing. In managing the HRA debt and considering the HRA business plan there is no mandatory requirement to make provision in the HRA for annual MRP payments. However, the Council will make annual voluntary provision for debt repayment in the HRA based on affordable levels in the HRA against the need for investment and delivering services in the HRA. The annual level of provision will be determined annually as part of the closure of the HRA.

2018/19 Annual MRP Statement

Appendix 3B provides the MRP statement for the 2018/19 financial year.

Capital Receipts set aside

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

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

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

As the full level of capital receipts set aside were not required to finance capital expenditure between 2009/10 and 2016/17, a balance was retained as set aside as at the end of each financial year to enable a further MRP savings in the following financial years. In the 2018/19 MRP Statement it has been assumed all the capital receipts retained as set aside as at 31 March 2017 to reduce the CFR will be offset by an increase in the CFR in 2017/18 from capital expenditure incurred in 2017/18. In the event that the level of capital expenditure in 2017/18 to be financed from the capital receipts set aside is below the level of capital receipts set aside, it is proposed to retain the balance in capital receipts as set aside in order to achieve a further MRP saving in 2018/19. This will be reported for approval as part of the Capital Outturn report 2017/18.

Appendix 3A: Options for Prudent Provision

Option 1: Regulatory Method (Supported borrowing)

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

Option 2: CFR Method (Supported borrowing)

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

Option 3: Asset Life Method (Unsupported borrowing)

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

(a) Equal instalment method

MRP is the amount given by the following formula:

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

Where:

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

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

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

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

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

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

(b) Annuity method

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

Option 4: Depreciation Method (Unsupported borrowing)

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

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

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

Appendix 3B: Minimum Revenue Provision Statement 2018/19

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Supported Borrowing – Asset Life (45 years)

General Fund

Closing CFR 2016/17	203,344,713
Proposed use of capital receipts voluntarily set aside to be applied in 2017/18	5,300,643
	<hr/>
	208,645,356

Less LGR (98) Debt	(152,192)
	<hr/>
	208,493,164

Less MRP 2017/18	(4,650,336)
	<hr/>
CFR for Supported Borrowing MRP Calculation	203,842,828

Add back LGR (98) Debt	152,192
	<hr/>

Closing CFR 31/03/18 – Supported Borrowing (GF)	203,995,020
	<hr/>

Housing Revenue Account

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

Closing CFR 31/03/18 – Supported Borrowing (GF&HRA)	288,589,639
	<hr/>

Unsupported Supported Borrowing – Asset Life (based on individual assets)

Unsupported Borrowing brought forward	19,987,978
Add profiled prudential borrowing 2017/18	53,426,595
Less MRP – 2017/18	(1,155,740)
	<hr/>

Closing CFR 31/03/18 – Unsupported Supported Borrowing	72,258,833
	<hr/>

Closing CFR (GF&HRA) 31/03/18 – Borrowing Requirement	360,848,472
	<hr/>

Additional items included:

Village Hall Loans	297,763
Housing Association Loans	18,442,160
	<hr/>
	379,588,395

Summary MRP

MRP 2018/19 at 45 year life from 2016/17	4,740,531
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LGR (98) Debt MRP	32,521
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Prudential Borrowing MRP	3,491,070
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Total MRP 2018/19

8,264,122

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



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
01 March 2018	
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 three months since the last report in November. Eighty three 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.

Five good, ten reasonable, twelve limited and three unsatisfactory assurance opinions have been issued. The thirty final reports contained 357 recommendations, one of which was fundamental.

This report proposes minor revisions to the audit plan. As reported in November 2017, the number of days available remains static at 2,038 days. Changes to the planned activity reflect adjustments in Council risks. 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 approach contributes to the proper, economic, efficient and effective use of resources. It provides assurances on the internal control systems, by identifying potential weaknesses and areas for improvement, and engaging with management to address these in respect of current systems and during system design. Failure to maintain robust internal control, risk and governance procedures may create 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

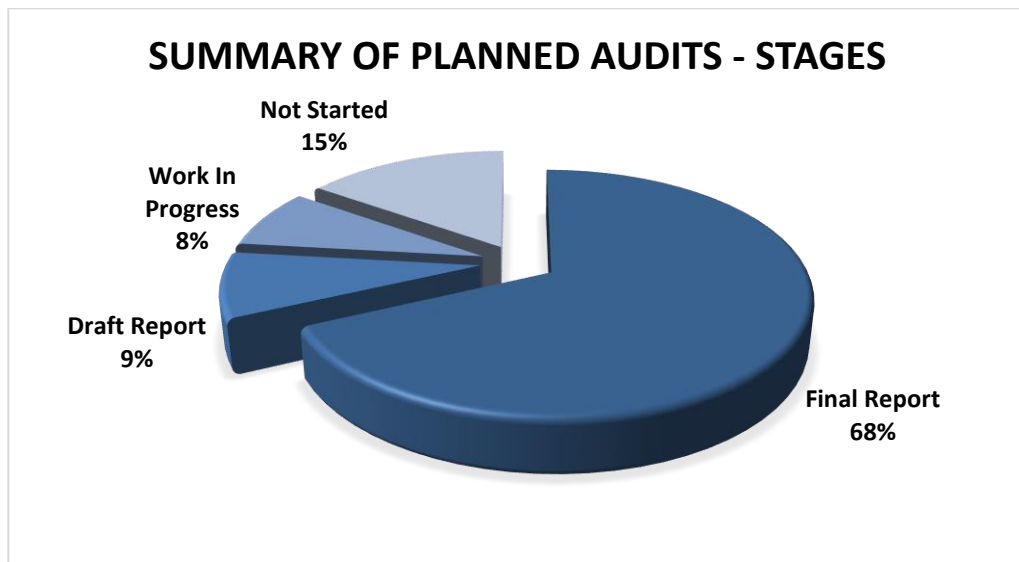
- 5.1 Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal Audit reviews, appraises and reports on the efficiency, effectiveness and economy of financial, governance, risk and other 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 30th November 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 January 2018 and includes minor revisions to the plan.

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

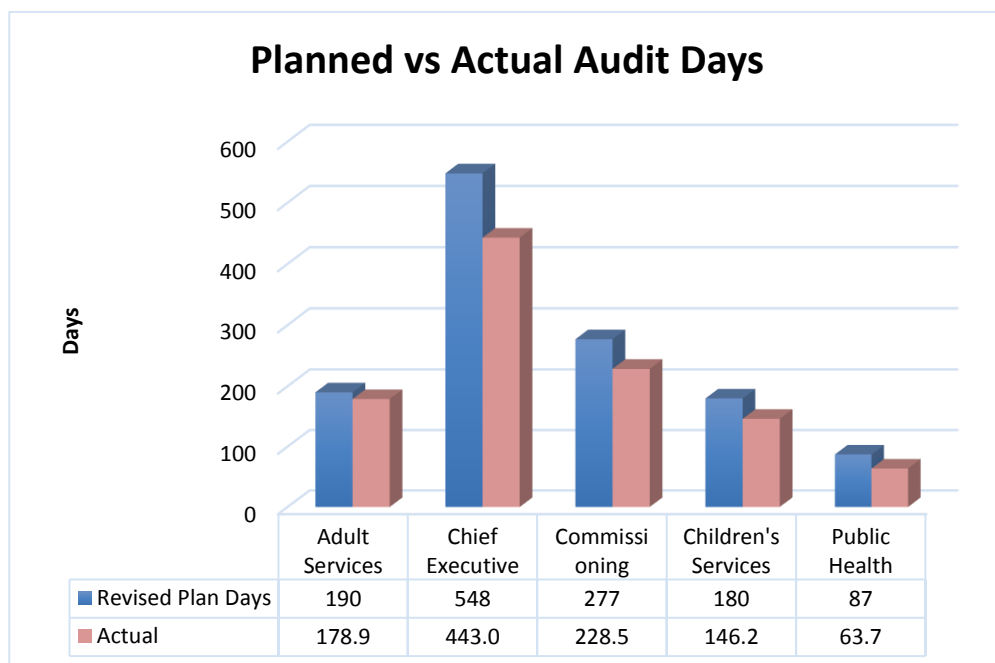
Performance against the plan 2017/18

5.4 Revisions to the 2017/18 plan have been made to reflect adjustments in risk, the total days available remaining static at 2,038. In carrying out our audits we have not identified any unexpected restrictions to the scope of the work. The team presently has an Auditor vacancy under recruitment. Performance to date is marginally higher than previous delivery records at 83% (81% 2016/17) and overall the team is on track to deliver a minimum of 90% of the annual plan by year end.

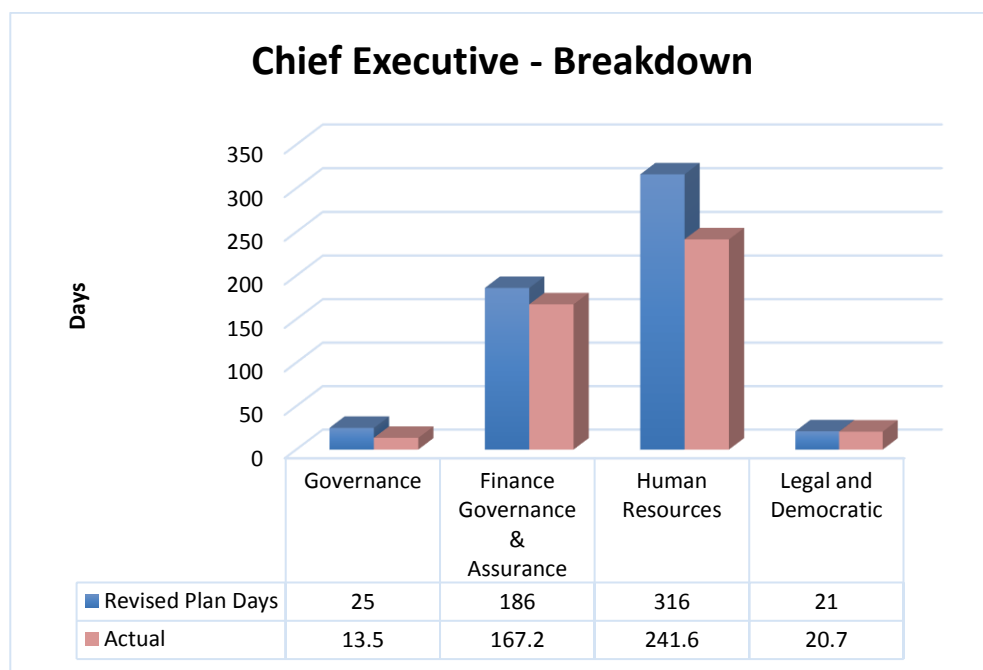
5.5 In total, thirty final reports have been issued in the period from 1st November 2017 to 31st January 2018. The following chart shows performance against the approved Internal Audit Plan for the first ten months of 2017/18:



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



A further breakdown of Chief Executive is provided below:

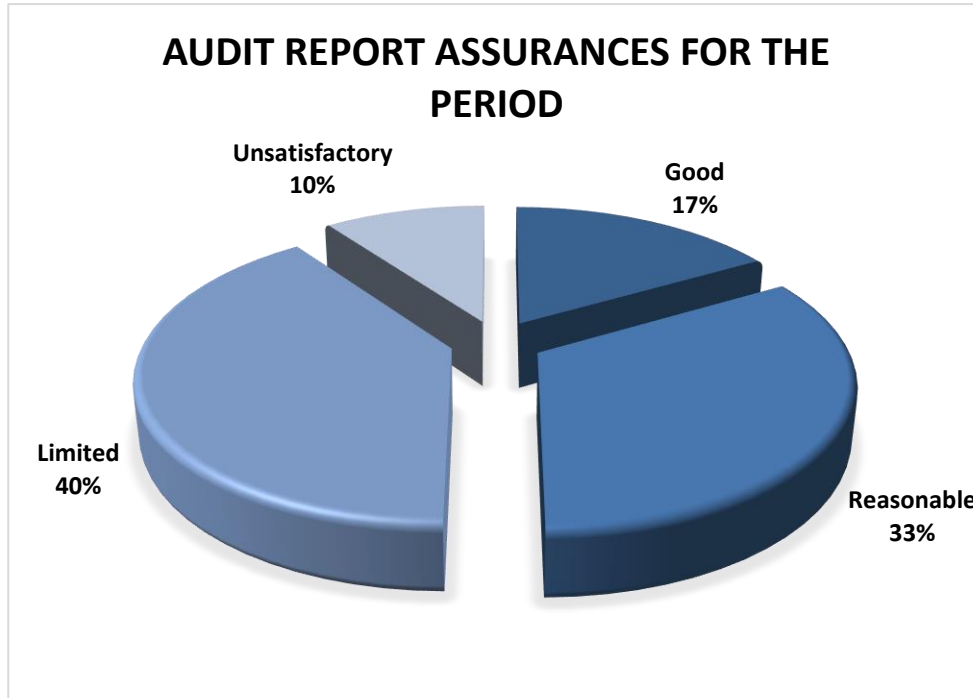


5.6 The following audits have been completed since the 31st October 2017:

- Adult Social Care - Financial Assessments
- Deprivation of Liberty Safeguards (DOLS)
- Local Enterprise Partnership
- Shrewsbury Library
- Property Repair and Maintenance
- Special Transport / Routing Arrangements
- Special Transport Contract Arrangements
- Shire Services Menu Planning System - Saffron
- Theatre Ticketing and Online Booking System - Spektrix
- Brockton CE Primary School
- Cockshutt CE (Controlled) Primary School
- Greenacres Primary School
- St Giles CE Primary School
- Education Management System - One
- Inspire to Learn
- Strengthening Families 2017/18 April - October 2017
- Strengthening Families Grant - December Claim
- Strengthening Families Grant - January 2018
- Private Water Supplies
- Capital Accounting System
- General Ledger
- Council Tax Collection
- Risk Management
- Treasury Management
- Back-up Arrangements
- Corporate Networking - Active Directory

- Digital Transformation Programme: Governance and Pre contract stage assurance follow-up
- Electronic Data Records Management (EDRM) – Sharepoint
- Data Protection / Freedom of Information
- IT Security Policy

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 1st November 2017 and 31st January 2018, fifteen reports were issued, providing good or reasonable assurances, accounting for 50% of the opinions delivered in the period. This is offset by 50% limited and unsatisfactory assurances for the period.
- 5.10 During this period, Commissioning has attracted lower assurance levels in 67% of cases as have schools. Details of the twelve limited and three 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 Twelve 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 357 recommendations have been made in the thirty final audit reports issued in the three month period; these are broken down by audit area and appear in **Appendix A, Table 7**.
- 5.13 One fundamental recommendation has been identified during the period 1st November 2017 to 31st January 2018, detailed below.

St Giles CE Primary School

Expenditure over £50,000 should be subject to formal tender. The cost of the contract over its whole term should be included when calculating the value. In addition, and as agreed in the Autumn Term 2017 meeting, expenditure over £10,000 should be approved by the Governing Body. Evidence of this should be clearly noted in the Governing Body minutes. The school should ensure that Contract Rules are adhered to with any future contracts. Further advice should be sought from Nigel Denton (Commissioning Development and Procurement Manager). (Updated from recommendation made and agreed in 2016/17).

- 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, not implemented after a revised date, will be reported to Audit Committee.
- 5.15 There are no issues in respect of the implementation of fundamental recommendations to be reported.
- 5.16 Two recommendations have been rejected by management.

Greenacres Primary School

Recommendation 1 - Consideration should be given to involving another senior member of staff in the purchasing process, in order to provide greater segregation of duties.

Management Response - We do not have any other senior members of staff. NH/SH are joint head teachers and SH is the deputy head teacher. Both members of the admin team are also involved in the segregation of duties.

Audit Comment - It is accepted that there is a sufficient number of people involved in the purchasing process, however, the recommendation relates to orders and invoices being authorised only by Mr and Mrs Hey. Authorisation of orders by the Deputy Head Teacher and authorisation of the subsequent invoices by the Head Teacher means, in this instance, that the process is controlled totally by a married couple. This would leave the school open to additional and unnecessary criticism in the event of any financial discrepancy. The Administrators may feel that it is inappropriate for them to challenge senior members of staff over purchases, especially given the personal as well as close working relationship of the two officers. It would be sufficient for a senior teacher, for example Head of KS1/KS2 to be involved in this process to improve the level of segregation.

Recommendation 2 - The school fund accounts should be presented to Governors and recorded in the minutes of the meeting at which they are presented.

Management Response – Presented to GPC 13/6/16 & FGB 29/6/17 and signed by the Chair, and minuted.

Audit Comment - It is accepted that there is evidence in the minutes that the school fund was discussed by the Governing Body on 29/06/2017, however there is no evidence of the accounts being presented.

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?

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.**

- Responding to:
 - A money laundering query from a member of the public in relation to a Community Infrastructure Levy enquiry;
 - A query from a member of the public in respect of a land covenant and compliance with its terms and conditions.
- Providing guidance on internal control requirements:
 - For charity collections and fund raising accounts;
 - For another authority in relation to audit planning;
 - For DTP assurance processes and refining them as learning dictates;
 - For segregation of duties and online payments at schools
 - To approve an approach for an advanced payment for a major contract and other smaller contract due diligence enquiries;
 - To complete due diligence checks for the Shopping Centre purchases;

- When closing a service or passing it to a new provider.
- Creation of and application of a cyber security health check for clients, currently being trialled with a town council;
- Review of planning consultation processes in respect of a specific piece of land that led to lessons learnt being identified and communicated to officers.
- Ensuring the processes between two IT systems (ResourceLink and iconnect) were working and the data transferred was reconciled accurately.
- Supporting and participating in business continuity exercises, to ensure the team and Council knows how best to respond in the event of an actual disaster.
- Sharing best practice across the Council in respect of conflict of interest forms.

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
2017/18 to date	20%	39%	32%	9%	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
2017/18 to date	3%	56%	41%	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 41%, at this point in the year, is lower than the outturn for 2016/17 of 49%. **Appendix A, Table 3**, shows a full list of areas that have attracted limited and unsatisfactory assurances in the period 1st November 2017 to 31st January 2018. This does not currently demonstrate any one area of concern.

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
Internal Audit Performance And Revised Annual Audit Plan 2017/18, November 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 January 2018
Table 2: Final audit report assurance opinions issued in the period 1st November 2017 to 31st January 2018
Table 3: Unsatisfactory and limited assurance opinions in the period 1st November 2017 to 31st January 2018
Table 4: Audit assurance opinions
Table 5: Audit recommendation categories
Table 6: Glossary of terms
Table 7: Audit recommendations made in the period 1st November 2017 to 31st January 2018
Appendix B - Audit plan by service 1st April 2017 to 31st January 2018

APPENDIX A

Table 1: Summary of actual audit days delivered and revisions to the audit plan in the period 1st April 2017 to 31st January 2018

	Original Plan	Revised Plan	31 January 2018 Actual	% of Original Complete	% of Revised Complete
Chief Executive	548	548	443.0	81%	81%
Finance, Governance and Assurance	204	186	167.2	82%	90%
Governance	18	25	13.5	75%	54%
Human Resources	305	316	241.6	79%	76%
Legal and Democratic	21	21	20.7	99%	99%
Adult Services	156	190	178.9	115%	94%
Commissioning	261	277	228.5	88%	82%
Children's Services	185	180	146.2	79%	81%
Public Health	110	87	63.7	58%	73%
S151 Planned Audit	1,260	1,282	1,060.3	84%	83%
Contingencies and other chargeable work	563	512	423.1	75%	83%
Total S151 Audit	1,823	1,794	1,483.4	81%	83%
External Clients	223	238	207.2	93%	87%
Total	2,046	2,032	1,690.6	83%	83%

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

Table 2: Final audit report assurance opinions issued in the period from 1st November 2017 to 31st January 2018

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Chief Executive	3	5	3	0	11
Finance, Governance and Assurance	3	2	0	0	5
Governance	0	0	0	0	0
Human Resources	0	1	3	0	4
Legal and Democratic	0	2	0	0	2
Adult Services	0	0	2	0	2
Commissioning	0	3	4	0	7
Children's Services	2	2	2	3	9
Children's Services: Schools	0	1	1	2	4
Children's Services: Others	2	1	1	1	5
Public Health	0	0	1	0	1
Total for period					
➤ Numbers	5	10	12	3	30

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
➤ Percentage	17%	33%	40%	10%	100%
<i>Percentage 2017/18 YTD</i>	<i>20%</i>	<i>39%</i>	<i>32%</i>	<i>9%</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 1st November 2017 to 31st January 2018 listed by service area¹

UNSATISFACTORY ASSURANCE

Children's Services Schools: Brockton CE Primary School (2015/16 unsatisfactory audit).

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

Children's Services Schools: Greenacres Primary School

1. Governors and staff clearly understand their respective roles and responsibilities.
2. Budget income is identified, collected and banked in accordance with procedures.
3. Purchases are appropriate, authorised, recorded correctly and comply with Financial Regulations and Contract Procedure Rules.
4. 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.

Children's Services: Inspire to Learn

1. An approved business case/ service plan is in place.
2. Resources are available to ensure that services can meet their objectives as set out in the business case/ service plan.
3. Risks to services, the Council and the customers have been identified.
4. Reporting arrangements and performance measurements are in place.

LIMITED ASSURANCE

Adult Services: Financial Assessments (2016/17 and 2014/15 limited audit).

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. Previous audit recommendations have been implemented.
2. Written procedures and policies are in place in relation to financial assessments.
3. Financial assessments are completed in a timely manner and decisions notified to applicants.
4. A process exists to ensure that clients are regularly reviewed and that a change in circumstances prompts a reassessment.
5. There are processes in place to prevent, detect and investigate fraud.
6. Electronically held data is secure and can be restored in the event of IT failure.

Adult Services: Deprivation of Liberty Safeguards (DoLS) (2016/17 unsatisfactory audit).

1. The Deprivation of Liberty Safeguard (DoLS) requirements for the Authority have been set up and agreed.
2. Accountability and governance arrangements have been put in place.
3. Reporting and Monitoring of DoLS cases and assessments is completed on a regular basis.

Commissioning: Local Enterprise Partnership

1. The recommendations made and agreed in the previous audit have been implemented.
2. There are adequate performance and project management arrangements.

Commissioning: Shrewsbury Library

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. Payment is made to bona fide employees only for the work performed through the Payroll system.
4. Assets held are recorded, can be accounted for and are safeguarded against loss.

Commissioning: Shire Services Menu Planning System - Saffron

1. The application is secure.
2. There are continuity processes are in place to ensure system availability.

Commissioning: Theatre Ticketing and Online Booking System - Spektrix

1. The System complies with all external legislation and policies.
2. The application is secure.
3. Users have received the required training.
4. Parameter Data is correct, updated in a timely manner and access is restricted.
5. Data is processed in a timely manner and validated.
6. There are continuity processes in place to ensure system availability.
7. Management/Audit trails are in place.
8. Interfaces with the system are secure, efficient and effective

Children's Services: Education Management System – One (2015 limited audit).

1. To follow up the previous recommendations.
2. The application is secure.
3. Users have received the required training.
4. There are continuity processes are in place to ensure system availability.
5. Changes to the system are managed effectively.

Children's Services Schools: St Giles CE Primary School (2016/17 unsatisfactory audit).

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.
3. The school fund is operated in accordance with the school fund notes of guidance.
4. Electronically held data is secure and can be restored in the event of IT failure.

Human Resources: Corporate Networking – Active Directory (2015 audit limited).

1. Follow-up of previous recommendations
2. Windows was deployed in a controlled manner.
3. Users and groups are managed proactively.
4. Event logs are appropriately defined and monitored on an ongoing basis.

Human Resources: Electronic Data Records Management (EDRM) – Sharepoint (2015 audit limited).

1. To follow up the recommendations made in the 2015/16 audit.
2. Users have received the required training.
3. There are continuity processes are in place to ensure system availability.

Human Resources: Digital Transformation Programme: Governance and Pre contract stage assurance follow up (2016/17 audit reasonable).

1. To ensure that recommendations made in previous audits in relation to the following areas have been implemented as per the original management responses:
 - a. Adequate governance arrangements are in place to ensure that the outcomes are adequately defined and approved by senior management and members.
 - b. The project management activity should provide appropriate oversight and process to ensure the timely execution of the plan, mitigation of risks as they are identified, issues are resolved or escalated to the appropriate management level, quality of process is maintained, costs are monitored and minimised, and a go/no-go decision is made at each critical milestone.

Public Health: Private Water Supplies

1. A prioritised programme of private water sampling inspections is maintained.
2. Adequate documentation is maintained relating to private water inspections carried out.
3. Income due in respect of private water supply sampling is received.

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

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

Table 6: Glossary of terms

Significance

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

Head of Internal Audit Annual Opinion

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

Governance

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

Risk

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

Control

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

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

Impairment

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

Table 7: Audit recommendations made in the period from the 1st November 2017 to 31st January 2018

Service area	Number of recommendations made				
	Best practice	Requires attention	Significant	Fundamental	Total
Chief Executive	8	36	15	0	59
Finance, Governance and Assurance	6	19	0	0	25
Governance	0	0	0	0	0
Human Resources	2	13	15	0	30
Legal and Democratic	0	4	0	0	4
Adult Services	1	13	22	0	36
Commissioning	0	53	36	0	89
Children's Services	2	92	65	1	160
Children's Services: Schools	2	85	56	1	144
Children's Services: Others	0	7	9	0	16
Public Health	1	5	7	0	13
Total for the period					
➤ Numbers	12	199	145	1	357
➤ Percentage	3%	56%	41%	0%	100%
Percentage 2017/18 YTD	3%	56%	41%	0%	100%
Percentage 2016/17	4%	50%	46%	0%	100%
Percentage 2015/16	4%	54%	42%	0%	100%
Percentage 2014/15	6%	53%	40%	1%	100%
Percentage 2013/14	15%	57%	27%	1%	100%
Percentage 2012/13	23%	57%	20%	0%	100%

AUDIT PLAN BY SERVICE –PERFORMANCE REPORT FROM 1st APRIL TO 31st JANUARY 2018

	Original Plan Days	September Revision	November Revision	February Revision	Revised Plan Days	31 January 2018 Actual	% Revised Plan
CHIEF EXECUTIVE							
Governance	18	7	0	0	25	13.5	54%
Finance Governance & Assurance							
Finance Transactions and S151 Officer	37	-8	6	7	42	40.1	95%
Financial Management Revenues and Benefits	73	-23	0	0	50	50.1	100%
Risk Management and Business Continuity	31	-8	0	2	25	18.4	74%
Treasury	35	-15	2	0	22	12.4	56%
	5	2	0	1	8	7.7	96%
	23	2	12	2	39	38.5	99%
	204	-50	20	12	186	167.2	90%
Human Resources							
Human Resources	104	-17	2	-4	85	71.1	84%
Customer Services	15	-2	0	0	13	12.6	97%
ICT	186	21	23	-12	218	157.9	72%
	305	2	25	-16	316	241.6	76%
Legal and Democratic Information Governance							
	21	-5	3	2	21	20.7	99%
CHIEF EXECUTIVE	548	-46	48	-2	548	443.0	81%
ADULT SERVICES							
Social Care Operations							
Long Term Support Provider Services - Establishments	86	-11	11	21	107	95.7	89%
Provider Services - Group Homes	0	7	0	0	7	7.1	101%
Provider Services - Trading Accounts	8	0	0	-8	0	0.5	0%
Housing Services	4	11	0	0	15	15.0	100%
	43	4	8	-5	50	49.8	100%
	141	11	19	8	179	168.1	94%

	Original Plan Days	September Revision	November Revision	February Revision	Revised Plan Days	31 January 2018 Actual	% Revised Plan
Social Care Efficiency and Improvement							
Developmental Support	15	9	-7	-6	11	10.8	98%
ADULT SERVICES	156	20	12	2	190	178.9	94%
COMMISSIONING							
Places and Enterprise	10	0	0	0	10	0.0	0%
Business, Enterprise and Commercial Services							
Commercial Services	5	0	0	0	5	1.0	20%
Property Services	8	0	0	4	12	12.2	102%
Estates & Facilities	5	0	2	-5	2	1.4	70%
Shire Services	12	6	0	-5	13	13.3	102%
	30	6	2	-6	32	27.9	87%
Economic Growth							
Business & Enterprise Development	19	0	0	-1	18	13.0	72%
Management Planning & Corporate Policy	18	-5	5	0	18	17.7	98%
Project Development	8	-8	0	0	0	0.0	0%
	8	-3	0	0	5	0.1	2%
	53	-16	5	-1	41	30.8	75%
Infrastructure and Communities							
Public Transport	10	-10	0	0	0	0.0	0%
Highways	60	19	3	2	84	62.0	74%
Library Services	12	0	3	-1	14	14.1	101%
Public Transport Theatre Severn and OMH	26	9	1	1	37	36.7	99%
Visitor Economy	13	8	2	1	24	24.0	100%
Waste & Bereavement	7	-7	0	0	0	0.0	0%
	10	0	0	0	10	10.3	103%
	138	19	9	3	169	147.1	87%
Procurement	30	0	-5	0	25	22.7	91%
COMMISSIONING	261	9	11	-4	277	228.5	82%

	Original Plan Days	September Revision	November Revision	February Revision	Revised Plan Days	31 January 2018 Actual	% Revised Plan
CHILDREN'S SERVICES							
Safeguarding							
Children's Placement Services & Joint Adoption	29	-5	-5	0	19	8.1	43%
Safeguarding	6	4	0	9	19	15.4	81%
	35	-1	-5	9	38	23.5	62%
Education, Improvement and Efficiency							
Business Support	7	0	0	0	7	7.0	100%
Education Improvements	31	0	-14	-14	3	3.5	117%
Primary/Special Schools	112	44	-21	-13	122	112.2	92%
Secondary Schools	0	10	0	0	10	0.0	0%
	150	54	-35	-27	142	122.7	86%
CHILDREN'S SERVICES	185	53	-40	-18	180	146.2	81%
PUBLIC HEALTH							
Environmental Protection and Prevention	10	0	0	1	11	11.0	100%
Public Health	37	0	-9	-10	18	0.1	1%
	47	0	-9	-9	29	11.1	38%
Public Protection							
Community Safety	8	0	0	-8	0	0.0	0%
Environmental Health	15	-13	0	0	2	1.6	80%
Environmental Protection and Prevention	20	16	3	0	39	33.8	87%
Health Protection and Prevention	15	-3	0	0	12	11.8	98%
	58	0	3	-8	53	47.2	89%
Bereavement	5	0	0	0	5	5.4	108%
PUBLIC HEALTH	110	0	-6	-17	87	63.7	73%

	Original Plan Days	September Revision	November Revision	February Revision	Revised Plan Days	31 January 2018 Actual	% Revised Plan
Total Shropshire Council Planned Work	1,260	36	25	-39	1,282	1,060.3	83%
CONTINGENCIES							
Advisory Contingency	40	0	0	0	40	33.4	84%
Fraud Contingency	200	-55	-37	17	125	96.8	77%
Unplanned Audit Contingency	47	-35	0	0	12	12.2	102%
Other non audit Chargeable Work	276	39	7	13	335	280.7	84%
CONTINGENCIES	563	-51	-30	30	512	423.1	83%
Total for Shropshire	1,823	-15	-5	-9	1,794	1,483.4	83%
EXTERNAL CLIENTS	223	13	0	2	238	207.2	87%
Total Chargeable	2,046	-2	-5	-7	2,032	1,690.6	83%

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<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
1st March 2018	
1:30 pm	<u>Public</u>

DRAFT INTERNAL AUDIT ANNUAL PLAN 2018/19

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

Tel: 01743 257739

1. Summary

This report provides Members with the proposed risk based Internal Audit Plan for 2018/19. The annual plan will provide coverage across all Council services and deliver internal audit services to a range of external clients. It takes account of issues identified by the clients' risk management frameworks, including the risk appetite levels set by management for the different activities or parts of the organisations audited. The proposed plan takes into account the requirement to produce an annual internal audit opinion and assurance framework. Some minor adjustments may be needed before the plan is finalised; if significant, these will be agreed by the Section 151 Officer and reported to the next Audit Committee.

2. Recommendations

The Committee are asked to consider and endorse, with appropriate comment, the approach taken to create the proposed Internal Audit Plan for 2018/19 and approve its adoption.

REPORT

3. Risk Assessment and Opportunities Appraisal

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

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

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

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

4. Financial Implications

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

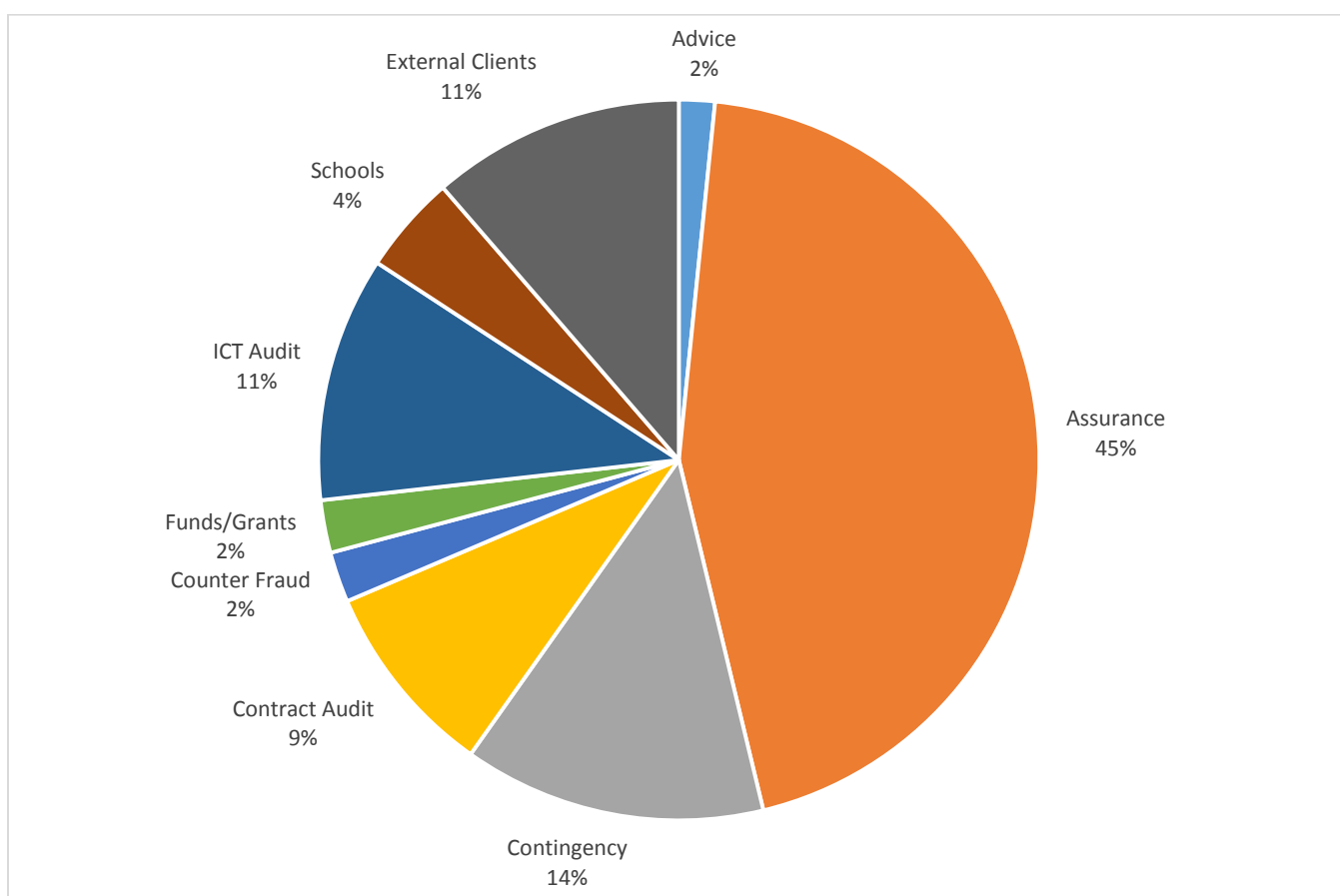
5. Background

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

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

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

5.5 **Appendix A** provides the summarised Internal Audit plan and identifies a planned day requirement of 1,764 days for Shropshire Council audit work and 226 days of work for external clients. These days are broken down by type in the chart below.



Resources

- 5.6 The Internal Audit service has continued to see a rationalisation of resources at a time of significant increase in demand. The Council continues to go through a period of unprecedented change which is impacting on a high number of service areas, processes, risks and therefore controls. Whilst over time the Council will be reducing in size in terms of the services it delivers directly, the interim period continues to see the associated risks, and therefore areas requiring audit review, continue to increase. In addition, as a result of the changing control environment, areas reviewed are attracting lower assurance levels than previously. This has resulted in the need for an increased level of follow up audits, a must do in respect of unsatisfactory audits, with only a proportion of limited assurance audits being revisited within current resources.
- 5.7 The team has 9.9 full time equivalents and has retained a rich mix of skills in finance, information technology, contract management, governance, job evaluation, establishments, systems, counter fraud, investigations and project management (**Appendix B**). There is presently a vacancy and a maternity leave post. Recruitment for the vacancy is ongoing. In addition the team is supporting a finance trainee, shared with Financial Services, and a relatively new member of the team. Skills continue to be developed across the wider team and, to help supplement the internal resources and to respond to demand during this period of change, additional audit time will be purchased from external contractors. A procurement exercise this year has concluded and four contractors are now identified on the framework contract with Staffordshire County Council. The plan provides for a mixed provision to continue going forward into 2018/19.
- 5.8 The Audit Plan for 2018/19 based on a risk analysis identified approximately 2,480 days to review all high risk areas. Review areas attracting a lower risk have not been considered in this year's planning process. Resources available after deducting allowances for non-chargeable time (leave, management meetings, administration, etc.); and chargeable time (attendance at corporate officer and member meetings, responding to legislation, s151 officer work requests, training etc.) amount to 1,990 days of which 226 are to be used on providing services to customers other than Shropshire Council leaving a balance of 1,764 days.
- 5.9 In order to match the plan to resources, it has been necessary to take out a number of reviews identified as high priority, details of which appear at **Appendix C**. Contingencies for fraud, unplanned audits and advice, if not required in full this year, can be re-allocated and these higher priority reviews brought back into the plan.
- 5.10 In considering the plan for 2018/19 the key items to note are:
- Included in the plan are a number of fundamental systems expected to change with the introduction of the Enterprise Resource Planning (ERP) system. The Payroll system, which is of a high material value to the Council's operations, continues to be reviewed every year.
 - A separate risk based analysis of the IT audit areas has been conducted and assessments of applications, projects, developmental changes, new technology and follow ups in areas requiring improvements are planned. IT continues to form a

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

- The fraud contingency is being maintained at 200 days; with ongoing changes to controls, management structures and job responsibilities, this is not considered to be an area of reducing risk.
- The auditing of schools is to be revised further. Internal Audit will request schools complete a self-assessment process on a three (rather than the current five) year basis. The Headteacher will be asked to share it with both the Chair of Finance and Governors and seek their sign off to it. To date the assessment has been completed by the school and returned by the Head. Use of the wider governance framework will enable provision of a more rounded assessment of processes to support the s151 Officer's wider assurance of the schools environment.

Establishment audits of schools will be based on the responses within self-assessments; follow a direct request from the Director of Children's Service or their nominated representative where there are known specific issues; where there is suspicion of wrong doing; where there are known concerns around the financial management of the school; or where a senior statutory officer raises concerns in respect of processes that need to be reviewed. Issues such as deficits; changes to the risk environment; non return of SVFS or self-assessments may also instigate a review.

In addition cross cutting audits, that would have traditionally excluded schools data, will in future include such data in their sampling process. For example, payroll, creditors, imprest.

Therefore with a mix of self-assessments, cross cutting reviews and targeted school audits, the necessary assurances can be demonstrated to satisfy the Section 151 Officer's requirements.

- Resources are allocated to provide internal audit services to external clients: Shropshire Fire and Rescue, Shropshire Towns and Rural Housing, Shropshire Pension Fund, West Mercia Energy, Oswestry Town Council and various honorary, voluntary and grant funds. In addition, discussions are planned with the Chief Executive, Director of Place and Enterprise and Section 151 Officer to firm up proposals to review any areas of significant risk which are being transferred to other delivery models. Time has been included in the proposed plan to cover known activities that are currently under review.
- Procurement and commissioning continue to be priority areas and, as such, there are planned initiatives in these areas. Work is planned on financial evaluations of companies tendering for work and reviews of governance processes on the client side. In addition, where services are moving to new delivery models, exit reviews will be conducted to ensure that transfers are conducted appropriately and at minimum risk to the Council. A number of these will be met from the unplanned contingency as the specific business areas and timings become known.
- Discussions with senior managers have identified a number of areas considered low risk, from an internal controls/ materiality perspective, where managers are receiving

a mix of assurances from their systems, personnel and/or third parties on which they can place reliance. These areas are identified in **Appendix D** and will not be considered for review by Internal Audit on a rolling risk basis. Members may wish to ask senior managers to provide assurance directly (first line of assurance) to Committee on these areas as appropriate.

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

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

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

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

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

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

Local Member n/a

Appendices

Appendix A: Summary of Draft Internal Audit Plan by Service
 Appendix B: IA structure
 Appendix C: 2018/19 Audit areas of high priority for which no provision is made in this year's Internal Audit plan
 Appendix D: 2018/19 De Minimis Audit areas where managers will seek and provide any necessary assurance

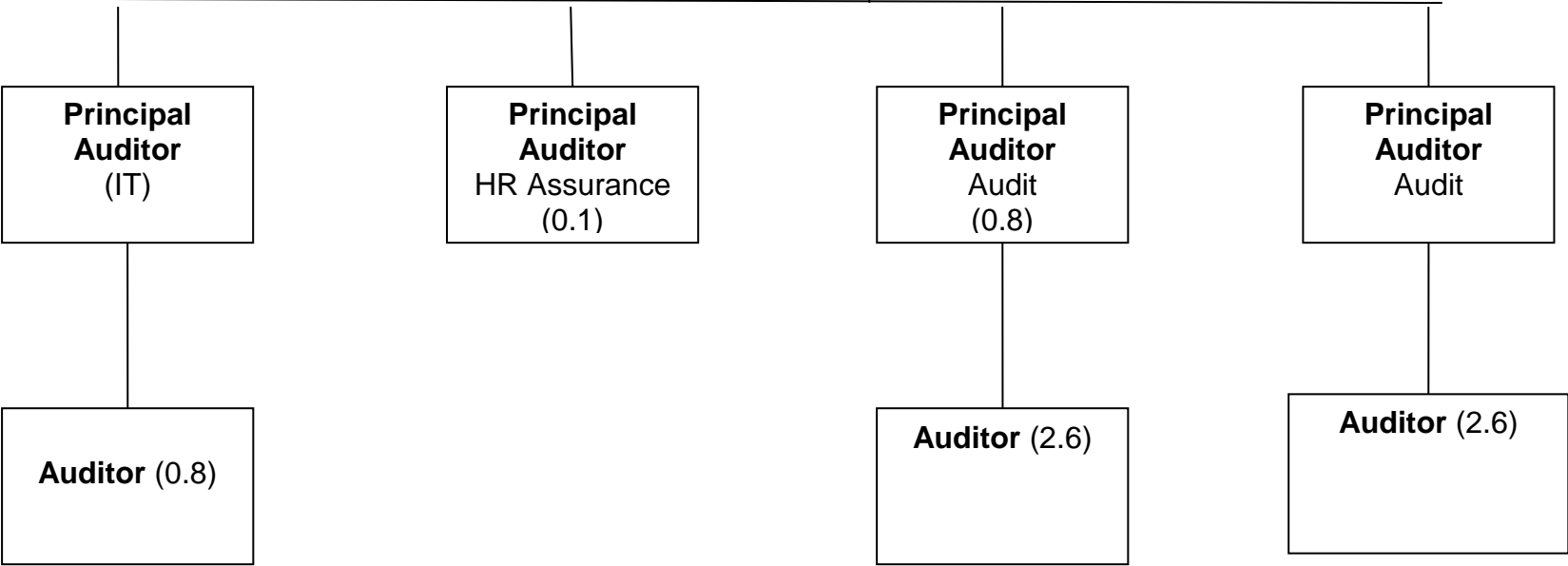
APPENDIX A

2018/19 SUMMARY OF DRAFT INTERNAL AUDIT PLAN BY SERVICE

	Days
CHIEF EXECUTIVE	
Governance	30
Finance, Governance and Assurance	323
Workforce and Transformation	265
Legal and Democratic	28
Total Chief Executive	646
ADULT SERVICES	
Social Care Operations	140
Social Care Efficiency and Improvement	32
Total Adult Services	172
COMMISSIONING	
Infrastructure and Communities	159
Business Enterprise and Commercial Services	97
Economic Growth	86
Procurement	61
Total Commissioning	403
CHILDREN'S SERVICES	
Safeguarding	42
Learning and Skills	131
Total Children's Services	173
PUBLIC HEALTH	
Public Health	18
Public Protection	44
Bereavement	8
Total Public Health	70
CONTINGENCIES	
ICT Contingency	20
Advisory Contingency	30
Fraud Contingency	200
Unplanned Audit Contingency	50
Other non-audit chargeable work	266
Total Contingencies	566
Total Shropshire Council	2030
External Clients	226
Total Audit Plan	2256

Head of Audit

Structure 2018
9.9 FTE



Bought in IA services

2018/19 Audit areas of high priority for which no provision is made in this year's Internal Audit plan – management assurances may be sought by the Committee

Chief Executive	Director of Place and Enterprise	Director of Children's Services
<p>Finance, Governance and Assurance</p> <p>Benefit Options Team Comino Document Management System Application Single Person Discount Counter Fraud Business Continuity and Disaster Recovery - non IT Online Bankline</p> <p>Human Resources</p> <p>Communications Credit Union Client ViceVersa Pro (Backup for Digital Images) Human Resources / Workforce Planning Mobile Working HR Policies Application Development Management Arrangements Bacstel-IP BT Contract Monitoring CALM CASPAR Data Centres and Infrastructure Database Access / Admin / Management Education Technology Services (ETS) e-Forms & search engine Encryption End User Computing - Mgt Arrangements Hardware Inventories Home and Flexible Working Arrangements ICT Project Financing and Recharges Intranet and Website ISO 27001 IT Security IT Code of Practice Networks and Connectivity Oracle Privileged User Security Telecommunications - Contracts, Procurement and Monitoring UNIX Virtual Desktop BluPrint - Equitrac Survey Monkey</p> <p>Legal Services</p> <p>Members Allowances Modern.Gov</p>	<p>Director of Place and Enterprise</p> <p>Host Operator Processing System (HOPS) Arcview GIS Application Highways Maintenance - Roads & Bridges Highways Transfer of Maintenance Contracts to Town and Parishes TOMS-ITU Waste - Bulky Waste e-Procurement Procurement Strategy Corporate Landlord External Catering Contracts</p>	<p>Director of Children's Services</p> <p>CHARMS Adoption Service (IT) Safeguarding Support Service - Administration & Monitoring Section 11 Agreements Respite Care SIMS - Schools Use & Control Arrangements Education Welfare Service Albrighton Primary School Broseley CE Primary School Harlescott Junior School St Martin's Long Mountain Primary School Longnor C E Primary School Market Drayton Infant and Nursery School Market Drayton Junior School Martin Wilson School Mereside Primary School Shawbury Primary School St George's Junior School, Shrewsbury St John's Catholic Primary School St Laurence CE Primary School, Ludlow St Peter's CE (Controlled) Primary School Sundorne Infant School Whitchurch C E Infant School Woodfield Primary School Worfield Endowed C E Primary School Belvidere School - A Technology College Meole Brace School Science College</p>

2018/19 Audit areas of high priority for which no provision is made in this year's Internal Audit plan – management assurances may be sought by the Committee

Case management IKEN court bundling Information Governance Arrangements IT Security Management Review Transparency Agenda		
Director of Adult Services Counter Fraud Work Housing Tenancy Homepoint Contract Personal Budgets / Care Assessments START Sustainability and Transformation Plan (STP) Transforming Care Partnerships (TCP) Four Rivers Nursing Home	Director of Public Health Drug and Alcohol Misuse Contract Public Health Projects Review of funding/cross over & supporting processes School Nursing Service ShropDoc Services Registrars Booking System Zipporah Application	

2018/19 De Minimis Audit areas where managers will seek and provide any necessary assurance

Chief Executive	Director of Place and Enterprise	Director of Place and Enterprise
<p>Inventories Management Benefits Administration Grant Employee Authentication Service Tell Us Once Processes Asbestos Health & Safety Legionella Job Evaluation ARIS Register of Electors Security Management and Cyber Response</p>	<p>Performance Management & PI's Performance Plus Online Register Datawright Planning Development One App Online Planning Portal Application PLUMS - Planning Policy Control Public access mapping server/e-planning Ecology & Biodiversity Historic Environment & Listed Buildings Tree Safety AONB (Areas of Outstanding Natural Beauty) - Craven Arms Arts Developments & Grants Community Working Flood Risk Management Arrangements Highways Development Control Highways Land Search Land Drainage NRSWA - Road Openings & S278 Bishops Castle SpArC Centre - Joint Use Idsall Sports Centre - Joint Use Joint Use Leisure Facilities Positive Activities Projects - Youth Service Rhyn Park School Sports Centre Roman Road Sports Centre - Joint Use Albrighton Library Bayston Hill Library Bishops Castle Library Bridgnorth Library Broseley Library Church Stretton Library Cleobury Mortimer Library Craven Arms Library Ellesmere Library Gobowen Library Highley Library Libraries General Library Fines & Charges Library HQ Library Procurement through WM Consortium Library Stock Management & Control Ludlow Library Market Drayton Library Much Wenlock Library Oswestry Library</p>	<p>Pontesbury Library Schools Library service Shifnal Library Wem Library Whitchurch Library Countryside Access General Parks & Countryside Sites General Severn Valley Park North Shropshire Countryside Rangers Community Transport Initiatives (SCOTI, OCTI ect) Local Bus Network Passenger Transport Efficiency Operations Public Transport - Publicity Special Transport/ Routing Arrangements Surplus Seats Traffic Management & Regulation Acton Scott Working Farm Museum Arts Festivals & Events Culture & Leisure Business Development Culture & Leisure Grants Culture & Leisure Marketing and Performance Ludlow Museum & Resource Centre Museum on the Move Museums & Audience Development Grant Arrangements Records Management Recruitment & Management of Volunteers Shropshire Archives Bio Digester Waste - Statistics & Administration Fishing and Sporting Rights Shirehall Lettings SLA's & Invoicing Arrangements Smallholdings Estate SMR - Sites & Monuments Record Carbon Management Plan Furniture Design Group & County Furniture Group Pump House Sustainability Cleaning DSO General Systems Cleaning Equipment Maintenance Internal Catering arrangements Shirehall Restaurant</p>

2018/19 De Minimis Audit areas where managers will seek and provide any necessary assurance

Director of Public Health	Director of Adult Services	Director of Children's Services
<p>Regulation of Investigatory Powers Act (RIPA) Fair Trading & Education Management & Control of CCTV Operations Road Safety Contaminated Land Environmental Enforcement & Byelaws Pest Control Street Scene - Dog Wardens Animal Health & Welfare Coroners</p>	<p>Occupational Therapy Personal Allowances Shropshire Partners in Care (SPIC) Social Care & Health Training Abbots Wood Comforts Fund Albert Road Day Centre Comforts Fund Aquamira Comforts Fund Avalon Comforts Fund Four Rivers Nursing Home Comforts Fund Greenacres Rural Unit Comforts Fund Helena Lane / Friars Walk Day Centre Comforts Fund Wayfarers Comforts Fund Abbots Wood Day Opportunities Helena Lane Day Centre Wayfarers Day Opportunities Greenacres Rural Unit Trading Account</p>	<p>Shropshire Youth - Central Administration The Gateway Education & Arts Centre Whitchurch Training Centre Chelmaren Comforts Fund Haven Brook Comfort Fund Shropshire Children's Trust Multi Agency Teams School Census Schools Advisory Service - Administration Shrewsbury Training & Development Centre Shropshire Music Service Surestart</p>

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

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