

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

Date: 28 November 2018  
My Ref:  
Your Ref:

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

**Date:** Thursday, 6 December 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](mailto:michelle.dulson@shropshire.gov.uk)

# AGENDA

**1 Apologies for Absence / Notification of Substitutes**

**2 Disclosable Pecuniary Interests**

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

**3 Minutes of the previous meeting held on the 13 September 2018 (Pages 1 - 10)**

The Minutes of the meeting held on the 13 September 2018 are attached for confirmation.

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 First line assurance: Estates update**

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

Contact: Tim Smith 01743 258998

**6 Second line assurance: Treasury Strategy Mid-Year Report 2018/19 (Pages 11 - 40)**

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

Contact: James Walton (01743) 258915

**7 Second line assurance: Annual review of Counter Fraud, Bribery and Anti-Corruption Strategy and activities, including an update on the National Fraud Initiative (Pages 41 - 52)**

The report of the Head of Audit is attached.

Contact: Ceri Pilawski (01743) 257739

**8 Governance Assurance: Annual review of Audit Committee Terms of Reference (Pages 53 - 64)**

The report of the S151 Officer is attached.

Contact: James Walton (01743) 258915

**9 Governance Assurance: Annual Audit Committee Self-Assessment (Pages 65 - 90)**

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

**10 Third line assurance: Internal Audit Charter** (Pages 91 - 108)

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

**11 Third line assurance: Internal Audit performance report and revised Annual Audit Plan 2018/19** (Pages 109 - 128)

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

**12 Third line assurance: External Audit, Audit progress report and sector update** (Pages 129 - 144)

The report of the Engagement Lead is attached.  
Contact: Mark Stocks (0121) 232 5437

**13 Third line assurance: External Audit, Certification letter**

The report of the Engagement Lead is attached.  
Contact: Mark Stocks (0121) 232 5357

**14 Date and Time of Next Meeting**

The next meeting of the Audit Committee will be held on Monday 25 February 2019 at 1.30 pm.

**15 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.

**16 Exempt Minutes** (Pages 145 - 146)

The exempt minutes of the meeting held on the 13 September 2018 are attached for confirmation.  
Contact Michelle Dulson (01743) 257719

**17 Third Line Assurance: Fraud, Special Investigation and RIPA Update (Exempted by Categories 2, 3 and 7)** (Pages 147 - 152)

The report of the Principal Auditor is attached.  
Contact: Peter Chadderton (01743) 257727

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## Committee and Date

Audit Committee

6 December 2018

## **MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 13 SEPTEMBER 2018 1.30PM – 4:20PM**

**Responsible Officer:** Michelle Dulson

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

### **Present**

Councillor Peter Adams (Chairman)

Councillors Chris Mellings, Brian Williams (Vice Chairman), Gerald Dakin (substitute for Michael Wood) and Pamela Moseley (substitute for Ioan Jones)

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

31.1 Apologies for absence were received from Councillors Ioan Jones and Michael Wood.

31.2 Councillor Pam Moseley substituted for Councillor Jones and Councillor Gerald Dakin substituted for Councillor Wood.

### **32 Disclosable Pecuniary Interests**

32.1 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.

### **33 Minutes of the previous meetings held on the 28 June and 24 July 2018**

#### **33.1 RESOLVED:**

That the minutes of the meetings held on 28 June and 24 July 2018 be approved and signed by the Chairman as a correct record.

### **34 Public Questions**

34.1 No public questions had been received.

### **35 First line assurance: Digital Transformation Update**

35.1 The Committee received the report of the Head of Workforce and Technology – copy attached to the signed Minutes – which provided Members with an update on each of the Projects within the Digital Transformation Programme.

- 35.2 The Head of Workforce and Technology drew Members attention to the Social Care project which had improved from red to amber with the Adults workstream on track to go live in December and the Children's workstream in February 2019. Turning to the Infrastructure and Architecture Project, the Head of Workforce and Technology reported that work was ongoing in relation to data capture, how to manage data and use it to predict future demand.
- 35.3 Looking at the Customer Experience Project, the Head of Workforce and Technology informed the Committee that Members of the Performance Management Scrutiny Committee had visited the Customer Services section to demonstrate the automation of processes that had been introduced following delivery of the Customer Relationship Management tool.
- 35.4 Finally, it was reported that the status of the ERP project had moved from amber to red, however work was ongoing with the implementation partner and supplier to resolve the issues. In conclusion, the Head of Workforce and Technology assured the Committee that the Project Governance Group had access across all workstreams and that three out of four of the projects were on or ahead of schedule.
- 35.5 Members requested that future reports go out at the same time as the agenda with any updates being reported at the meeting. In response to a query, the Portfolio Holder for Corporate and Commercial Support assured the Committee that he was fully engaged with the process and had monthly meetings with the Head of Workforce and Technology. He explained that oversight of the day to day functions was delegated to the Deputy Portfolio Holder who provided him with monthly updates and informed him of any issues arising.
- 35.6 The Portfolio Holder touched on the changing culture of the organisation and how the Council needed to change how it worked going forward. The Head of Workforce and Technology highlighted the main outstanding strategic and operational risks, including failure to deliver, not being fit for purpose and not delivering the projected savings. However, the indications were that the projects would be delivered.
- 35.7 The Portfolio Holder and the Head of Workforce and Technology answered a number of queries from Members in relation to the cultural changes required within the authority as a result of Digital Transformation, the cashable and non-cashable savings and the limited assurance given to the ERP.
- 35.8 Members requested a follow up report to a future meeting and accepted the invitation from the Head of Workforce and Technology to visit the Customer Service Centre to see some of the new processes in action.

35.9 **RESOLVED:**

To note the progress that each of the projects within the programme is making and the mitigations that are being put in place to address the issues within each work stream.

36 **First line assurance: Information Technology Update**

- 36.1 The Committee received the report of the Head of Workforce and Technology – copy attached to the signed Minutes – which gave an overview of service achievements in the last six months.
- 36.2 The Head of Workforce and Technology expanded on the recent successful full failover and recovery test. The Risk Management Officer explained that the service recovery plan set out certain timescales for recovery and was pleased to report that it only took six hours to completely fail over, recover and be operational.
- 36.3 The Chairman extended the Committee’s congratulations to all involved for this very significant move forward.
- 36.4 **RESOLVED:**
- A. To note that the team has successfully completed a full failover and recovery to the DR site;
  - B. To note the continued progress in the improvement of Shropshire IT function, validated through improved audit report outcomes.

**37 First line assurance: Adult Social Care: Financial Assessments Update**

- 37.1 The Committee received the report of the Director of Adult Services – copy attached to the signed Minutes – which set out the actions taken by the Financial Assessment Team and management following the 2017/18 Final Internal Audit report regarding Adult Social Care Financial Assessments which was issued on the 9th November 2017.
- 37.2 The Benefit Options Team Leader reported that significant progress had been made over the last two months due to the application of the Digital Transformation Programme and he was confident that once implemented all recommendations contained in the Internal Audit report would be completed.
- 37.3 In response to a query, the Benefit Options Team Leader confirmed that the number of assessments being undertaken by the team were increasing and more complex, especially in relation to Universal Credit which affects the way contributions were calculated. In response to a further query, the Benefit Options Team Leader reported that it was hoped to recruit to the team in the next few months.
- 37.4 **RESOLVED:**
- A. To note the progress that has been made to address the recommendations in the 9<sup>th</sup> November Audit Report and that wherever possible improvements are being effectively implemented;
  - B. To note that the change required under recommendation 1 in regards uprating of financial contributions required Cabinet approval and public consultation and that in July 2018 the Cabinet agreed to the recommendation that the Council set the Minimum Income Guarantee for people of pensionable age in line with the Governments Statutory Minimum Income Guarantee level in order for the Council to be seen as consistent in its approach to charging for care;

- C. To note that the main improvements and implementation of the Action Plan associated with the audit which are outstanding are contingent on the Digital Transformation Project which is underway for Adult Social Care and that the recommendations of the audit in regards systems improvement have been fed into the workflow processes to ensure future systems will meet these requirements and will go live on 10<sup>th</sup> December 2018 as a part of wider system change.

### **38 First line assurance: Income Report update**

- 38.1 The Committee received the report of the Section 151 Officer – copy attached to the signed Minutes – which provided an update on the financial controls and monitoring performed on the levels of income generated for the Council in 2018/19, which were previously reported to the Audit Committee in March 2018.
- 38.2 The Section 151 Officer gave a brief update and drew attention to the gross income detailed in Appendix 1 of the report. He explained that the additional column headed Monitoring Process gave the Audit Committee assurance about whether or not the income was being delivered and how it was being monitored.
- 38.3 In response to a query the Section 151 Officer explained that the Revenue Support Grant had reduced from £67m to just £13m. In response to a further query in relation to aged debt, the Section 151 Officer reported that certain types of debt had to be written off if not recovered within certain timescales. These were monitored although not reported upon. He confirmed that there was a bad debt reserve and that levels were reducing.
- 38.4 The Section 151 Officer explained that collection rate levels for Council Tax had been steadily improving and stood at 98.4%. From 1st April 2018 Council Tax support charges were introduced which led to more people paying than had done so previously. The expectation was that the collection rate would fall and then recover over a period of time and that this had been factored in. It would be difficult to see the impact as it was part way through the year.
- 38.5 The Section 151 Officer informed the Committee that from 2013 Local Authorities had been able to retain 50% of all Business Rates subject to any top up/tariff payments. The Council collected £80m so was able to retain £40m plus £10m top up as there was not enough businesses in Shropshire to cover need. By 2020 the Council would be able to retain 75% of its Business Rates due to fair funding,

### **38.6 RESOLVED:**

To note the contents of the report.

### **39 Second line assurance: Risk and Insurance Annual Report 2017/18**

- 39.1 The Committee received the report of the Risk and Insurance Manager – copy attached to the signed Minutes – which set out the challenges and achievements accomplished by the Risk and Insurance Team during 2017/2018, which has again seen an intense and varied workload.



39.2 The Risk and Insurance Manager reported an amendment to paragraph 1.4 of the report which should read 'policy year 2017/2018' and not '2018/19'. The Risk and Insurance Manager informed Members that following an audit of risk management an assurance level of "good" had been identified. She explained that strategic risks were now reviewed on a quarterly basis whilst operational risks had moved to biannual reviews.

39.3 The Risk and Insurance Manager informed the Committee how the reviews of strategic and operational risks were undertaken along with reviews of the Council's Business Continuity Management arrangements to provide assurance that they were robust (set out at paragraph 6.3 of the report). The Risk and Insurance Manager drew attention to the external work undertaken by the team along with the results of the Benchmarking exercise which, in comparison to other authorities, the Council was second overall under 'Enablers' and top in relation to 'Results'. The team had also been shortlisted for two awards for which they were 'highly commended'.

39.4 Turning to Insurance, the Risk and Insurance Manager confirmed that 745 claims had been received which was an increase of 67% on the previous year mostly due to an increase in the number of pothole claims being received. She explained that 55 claims (7%) received in 2017/2018 related to earlier policy years. Of those claims received, 681 related to liability claims, decisions for which had been reached on 197 with 184 being repudiated (93.4%).

39.5 The Risk and Insurance Manager reported that there were currently 418 open claims with reserves of £4.7m attached. A total of three cases had gone to court which were successfully defended saving over £54k. She drew Member's attention to the Municipal Mutual Insurance (MMI) clawback arrangement. In response to a query, the Risk and Insurance Manager explained that most abuse claims were related to child safeguarding however the majority would have been repudiated as the process and policies at that time had been followed correctly.

39.6 In response to a query in relation to the MMI clawback and where the Council would find the funding for a 50% to 100% levy, the Risk and Insurance Manager informed the Committee that it could be funded through the internal insurance fund or through general fund balances.

39.7 **RESOLVED:**

To accept the position as set out in the report.

40 **Second line assurance: Strategic Risks Update**

40.1 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 a strategic workshop with Directors and the July 2018 quarterly review.

40.2 The Risk and Insurance Manager reported that there were currently 16 strategic risks on the register, as detailed in the report. The Risk and Insurance Manager stated that one risk had been added to the strategic risk register and that changes to the scoring for six of the strategic risks had been made, again as detailed in the report..

40.3 The Risk and Insurance Manager reported that it had been agreed to replace the Enterprising Council risk with two risks, firstly the Failure to deliver Economic Growth Strategy and secondly the Failure to deliver the Commercial Strategy. She confirmed that detailed risk profiles were being drawn up with the new risk owners. Members were reminded that if wished they could ask for individual risk profiles to be brought by the risk owner to future meetings for Members to look at in more detail.

40.4 In response to a query in relation to Work Related Stress, the Head of Workforce and Technology explained that only a proportion of staff had time off for work related stress, in the public sector absence for work related stress accounted for 8 lost days (full time equivalent). The Head of Workforce and Technology informed the Committee what was being done to help reduce the number of staff off sick with work related stress, including the feelgood and mindfulness events and physiotherapy clinics.

40.5 In response to further queries, the Head of Workforce and Technology reported that the increase was in part due to the change in the definition of stress as well as reducing staff and increasing workloads.

40.6 Members requested that a report on the Failure to deliver the Commercial Strategy risk be presented to a future meeting of the Committee, once the review had been completed.

40.7 **RESOLVED:**

To note the position as set out in the report.

41 **Second line assurance: Annual Treasury Report 2017/18**

41.1 The Committee received the report of the Head of Finance, Governance and Assurance (Section 151 Officer) – copy attached to the signed Minutes – which informed members of treasury activities for Shropshire Council for 2017/18, including the investment performance of the Internal Treasury Team to 31 March 2018.

41.2 The Head of Finance, Governance and Assurance (Section 151 Officer) reported that the Internal Treasury Team had outperformed their investment benchmark over the last three years delivering an additional income of £1.557 million.

41.3 **RESOLVED:**

To accept the position as set out in the report.

42 **Third line assurance: Internal Audit Performance Report and revised Annual Audit Plan 2018/19**

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

42.2 The Head of Audit advised Members that 29% of the revised Plan had been completed and it was hoped to achieve 90% completion by year end. She reported

that five good, eleven reasonable and five limited assurance opinions had been issued and that the 21 final reports contained 200 recommendations, none of which were fundamental. 36% of the fraud contingency had been used, compared to 22% last year.

42.3 The Head of Audit drew attention to the reduction in the overall audit plan from 2,256 days to 1,911 days to reflect adjustments in risks and a reduction in available resources. Members noted the areas where Audit had added value in the delivery of work and expressed their pleasure that assurance levels had improved.

42.4 **RESOLVED:**

- A. That performance to date against the 2018/19 Audit Plan set out in this report be noted.
- B. That the adjustments required to the 2018/19 plan to take account of changing priorities set out in **Appendix B**, be approved.

43 **Third line assurance: External Audit: 2017-18 Shropshire Council Annual Audit Letter**

43.1 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 2018.

43.2 The Senior Manager introduced the report and drew attention to the unqualified opinion on both the Council's financial statements and those of the Shropshire County Pension Fund. The key issue arising from the audit of the Council's accounts was the purchase of a Jersey Property Unit Trust (the three shopping centres in the centre of Shrewsbury) with a non-material error being identified on the financial statements.

43.3 The Senior Manager drew attention to the key findings from the Value for Money conclusion, set out on pages 10-12 of the report however they were of the view that risks were being managed and prudential decisions being made.

43.4 In response to a query, the Senior Manager explained that the thresholds that determine the levels of materiality were quite significant and were set out in the International Standards of Auditing (UK) (ISAs) using their own methodology. For public sector auditing purposes, a percentage of gross revenue expenditure was used.

43.5 In response to a query, the Section 151 Officer explained that a form designer was crucial in the design of the new system software. The Senior Manager explained what the fees for non-audit services covered.

43.6 **RESOLVED:**

That the contents of the report be noted.

44 **Third line assurance: External Audit: Shropshire County Pension Fund - Audit Findings Report 2017/18**

44.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – which set out the Audit Findings for Shropshire County Pension Fund for the year ending 31 March 2018. The Senior Manager drew attention to the significant audit risks set out on page 6 of the report and explained that there was a risk that the valuation of Level 3 investments was incorrect.

**44.2 RESOLVED:**

That the contents of the report be noted.

**45 Third line of assurance: External Audit: Shropshire Council Audit Committee Progress Report September 2018**

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

45.2 In response to a query, the Engagement Manager reported that they were very happy with the way in which the earlier close down had gone. Communication between the Council and External Audit had been very good and dialogue would continue to be undertaken earlier.

**45.3 RESOLVED:**

That the contents of the report be noted.

**46 Date and Time of Next Meeting**

46.1 Members were reminded that the next meeting of the Audit Committee would be held on the 6 December 2018 at 1.30pm.

**47 Exclusion of Press and Public**

**47.1 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.

**48 Exempt Minutes of the previous meeting held on the 28 June 2018**

48.1 **RESOLVED:** That the exempt minutes of the meeting held on 28 June 2018 be approved and signed by the Chairman as a correct record.

**49 Third Line Assurance: Fraud, Special Investigation and RIPA Update (Exempted by Categories 2, 3 and 7)**

49.1 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.

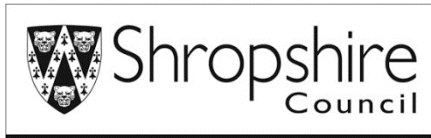
**49.2 RESOLVED:**

That the contents of the report be noted.

Signed ..... (Chairman)

Date: .....

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<u>Committee and Date</u>
Cabinet 28 November 2018
Audit Committee 6 December 2018
Council 13 December 2018

## TREASURY STRATEGY 2018/19 – MID YEAR REVIEW

**Responsible Officer** James Walton

e-mail: james.walton@shropshire.gov.uk

Tel: (01743) 258915

### 1. Summary

1.1 This mid year Treasury Strategy report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management 2017 and covers the following:-

- An economic update for the first six months of 2018/19
- A review of the Treasury Strategy 2018/19 and Annual Investment Strategy
- A review of the Council's investment portfolio for 2018/19
- A review of the Council's borrowing strategy for 2018/19
- A review of any debt rescheduling undertaken
- A review of compliance with Treasury and Prudential limits for 2018/19

1.2 The key points to note are:-

- The internal treasury team achieved a return of 0.72% on the Council's cash balances outperforming the benchmark by 0.28%. This amounts to additional income of £161,320 for the first six months of the year which is included within the Council's projected outturn position.
- In the first six months all treasury management activities have been in accordance with the approved limits and prudential indicators set out in the Council's Treasury Strategy.

### 2. Recommendations

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

2.2 Members note that any 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.

2.3 Members are asked to approve the updated MRP policy at appendix D.

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

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

### 4. Financial Implications

- 4.1 The Council makes assumptions about the levels of borrowing and investment income over the financial year. Reduced borrowing as a result of capital receipt generation or delays in delivery of the capital programme will both have a positive impact of the council's cash position. Similarly, higher than benchmarked returns on available cash will also help the Council's financial position. For monitoring purposes, assumptions are made early in the year about borrowing and returns based on the strategies agreed by Council in the preceding February. Performance outside of these assumptions results in increased or reduced income for the Council.
- 4.2 The six monthly performance is above benchmark and has delivered additional income of £161,320 which will be reflected in the Period 6 Revenue Monitor.
- 4.3 The Council currently has £118m held in investments as detailed in Appendix A and borrowing of £312m at fixed interest rates.

### 5. Background

- 5.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the Treasury Management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.
- 5.2 The second main function of the Treasury Management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 5.3 The Council defines its treasury management activities as "the management of the authority's borrowing, investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with the activities, and the pursuit of optimum performance consistent with those risks". The report informs Members of the treasury activities of the Council for the first six months of the financial year.
- 5.4 In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from



2019/20, all local authorities will be required to prepare a Capital Strategy which is intended to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

A report setting out our Capital Strategy will be taken to the full Council before 31st March 2019

- 5.5 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2017.

## 6. Economic update

- 6.1 **Global Economy** – President Trump's easing of fiscal policy is fuelling a temporary boost in consumption which has generated an upturn in the rate of strong annualised growth which rose from 2.2% in quarter 1 to 4.2% in quarter 2. There was also an upturn in inflationary pressures, with inflation moving towards 3%. On the back of this, the Federal Reserve (Fed) increased rates by another 0.25% in September to between 2.00% and 2.25%, this being four increases in 2018, and indicated they expected to increase rates four more times by the end of 2019. The dilemma, however, is what to do when the temporary boost to consumption wanes, particularly as the recent imposition of tariffs on a number of countries' exports to the US, China in particular, could see a switch to US production of some of those goods, but at higher prices. Such a scenario would invariably make any easing of monetary policy harder for the Fed in the second half of 2019.

- 6.2 Chinese economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

- 6.3 Growth in the Eurozone was unchanged at 0.4% in quarter 2, but has undershot early forecasts for a stronger economic performance in 2018. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of 2% for 2018, the horizon is less clear than it seemed just a short while ago.

- 6.4 **UK Economy** – The first half of 2018/19 has seen UK economic growth post a modest performance, but sufficiently robust for the Monetary Policy Committee (MPC), to unanimously vote 9-0 to increase Bank Rate on 2<sup>nd</sup> August from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019. However, there were several caveats mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

- 6.5 Some MPC members have expressed concerns about a build-up of inflationary pressures, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components, but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to

be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019.

- 6.6 Unemployment has continued at a 43 year low of 4%. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 2.9% and to a one month figure in July of 3.1%. This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 0.4%, near to the joint high of 0.5% since 2009. Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC were right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy. However, the MPC will need to tread cautiously before increasing Bank Rate again, especially given all the uncertainties around Brexit.
- 6.7 There is a risk that the current government may be unable to secure a majority in the Commons over Brexit. However, Link's central position is that the government will endure, despite various setbacks, along the route to Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

## 7 Economic Forecast

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

Link Asset Services Interest Rate View											
	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 Month LIBID	0.75%	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 Month LIBID	0.85%	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 Month LIBID	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

- 7.2. The flow of generally positive economic statistics after the end of the June quarter 2018 meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary or contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast. Link do not think that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Link also feel that the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be

followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

- 7.3. The overall balance of risks to economic growth in the UK is probably neutral. The balance of risks to increases in Bank Rate and shorter term PWLB rates are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.
- 7.4. Long term PWLB rates are expected to rise to 2.9% in June 2019 before steadily increasing over time to reach 3.3% by December 2020.

## **8. Treasury Strategy update**

- 8.1 The Treasury Management Strategy (TMS) for 2018/19 was approved by Full Council on 22 February 2018. This Treasury Strategy does not require updating as there are no policy changes or any changes required to the prudential and treasury indicators previously approved. The details in this report update the position in the light of the updated economic position.

## **9. Annual Investment Strategy**

- 9.1 The Council's Annual Investment Strategy, which is incorporated in the TMS, outlines the Council's investment priorities as the security and liquidity of its capital. As shown by forecasts in section 7.1, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.75% bank rate.
- 9.2 The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.
- 9.3 The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term (up to 1 year), and only invest with highly credit rated financial institutions using Link's suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Link. The Treasury Team continue to take a prudent approach keeping investments short term and with the most highly credit rated organisations.
- 9.3 In the first six months of 2018/19 the internal treasury team outperformed its benchmark by 0.28%. The investment return was 0.72% compared to the benchmark of 0.44%. This amounts to additional income of £161,320 during the first six months which is included within the Council's projected outturn position.
- 9.4 A full list of investments held as at 30 September 2018, compared to Link's counterparty list, and changes to Fitch, Moody's and Standard & Poor's credit ratings are shown in **Appendix A**. None of the approved limits within the Annual Investment Strategy were breached during the first six months of 2018/19 and have not been previously breached. Officers continue to monitor the credit ratings of institutions on a daily basis. Delegated authority has been put in place to make any amendments to the approved lending list.

- 9.5 As illustrated in the economic background section above, investment rates available in the market have increased slightly due to the bank rate increase to 0.75% in August 2018. The average level of funds available for investment purposes in the first six months of 2018/19 was £118 million.
- 9.6 The Council's interest receivable/payable budgets are currently projecting a surplus of £3.35 million as reported in the monthly revenue monitoring reports due to no long term borrowing being undertaken, changes to the Minimum Revenue Provision (MRP) calculation previously approved by Council and investment returns achieved being higher than anticipated.

## 10. Borrowing

- 10.1 It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits". Council's approved Prudential Indicators (affordability limits) are outlined in the TMS. A list of the approved limits is shown in **Appendix B**. The schedule at **Appendix C** details the Prudential Borrowing approved and utilised to date.
- 10.2 Officers can confirm that the Prudential Indicators were not breached during the first six months of 2018/19 and have not been previously breached.
- 10.3 No new external borrowing has currently been undertaken to date in 2018/19, although discussions are currently being held at the Capital Investment Board where outline business cases are being considered. The schemes being considered are already within the current authorised borrowing limits in place. In the event the authorised borrowing limits need to be amended, this will be reported to Council for approval. The table below illustrates the low and high points across different maturity bands for borrowing rates for the first six months of the financial year.

	1 Year	5 Year	10 Year	25 Year	50 Year
3.4.18	1.48%	1.84%	2.22%	2.55%	2.27%
30.9.18	1.55%	1.93%	2.33%	2.74%	2.56%
Low	1.28%	1.67%	2.09%	2.50%	2.25%
Date	01/06/2018	29/05/2018	20/07/2018	20/07/2018	29/05/2018
High	1.57%	1.99%	2.43%	2.83%	2.64%
Date	17/04/2018	25/09/2018	25/04/2018	25/09/2018	25/09/2018
Average	1.46%	1.84%	2.25%	2.64%	2.41%

## 11. Debt Rescheduling

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

## 12 MRP Policy

- 12.1 Members will be aware that a revised minimum revenue provision statement 2018/19 was approved by Council on 20<sup>th</sup> September 2018. This approval was to support the recommendation to amend the supported borrowing MRP calculation to an option 3b method based on an annuity calculation. There are further changes detailing a switch from straight line to annuity payment method for certain new unsupported borrowing approvals from 2018/19. This will provide a consistent approach to calculations on both supported and unsupported borrowing approvals going forward that will link both to the expected asset life. These changes have now been incorporated into the revised MRP statement, attached at appendix D which members are asked to approve.

### 13 UK Banks – Ring Fencing

- 13.1 The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as “ring-fencing”. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.
- 13.2 Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.
- 13.3 While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does with other institutions and selecting only those with sufficiently high ratings for investment purposes.
- 13.4 As outlined in appendix A, the Council currently has investments with HSBC, Barclays & Lloyds. HSBC and Lloyds are classified as ring fenced banks and Barclays as non ring fenced. All these institutions appear on Link Asset Services approved lending list and meet the council’s creditworthiness criteria.

<b>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</b>
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Council, 22 February 2018, Treasury Strategy 2018/19
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Council, 20 September 2018, Revised Minimum Revenue Provision Statement 2018/19
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<b>Cabinet Member:</b>
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David Minnery, Portfolio Holder for Finance
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<b>Local Member</b>
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N/A
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<b>Appendices</b>
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A. Investment Report as at 30th September 2018
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B. Prudential Limits
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C. Prudential Borrowing Schedule
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D. MRP Policy
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# Shropshire Council

## Monthly Investment Analysis Review

September 2018

**General Economy**

The data releases for the month began with August's Markit/CIPS Manufacturing Purchasing Managers Index (PMI) activity survey. This saw a decrease from the previous figure of 53.8, to a weaker 52.8. Construction PMI also took a hit, as it went down to 52.9 from 55.8, a huge fall and far lower than what was predicted. However, Services PMI was a stronger performer, rising from 53.5 to 54.3. GDP figures were stronger than expected; the m/m measure for July came in at 0.3%, an increase from 0.1% previously and above forecasts. The y/y measure was 1.6%, beating both the previous figure and forecasts. Brexit-related uncertainty is still a factor but the data provided a positive sign that growth has improved at the start of the quarter.

In terms of the UK's trade balance, the overall deficit decreased to £9.97bn. This was a drop of nearly £2bn, showing a narrowing of the current account deficit. The non-EU figure also fell to £2.8bn. Both of these figures beat forecasts, and provide evidence of a rebalancing of the UK's trade.

Unemployment remained at 4% for July, in line with forecasts and still at the lowest level since 1975. After a long wait, this continually low level seems to finally be feeding into wage growth, with an increase 2.9% excluding bonuses. The 3M y/y figure is 2.6% including bonuses, both increases from the previous month. Whether the low unemployment rate will have a more sustained impact on wage growth is yet to be seen.

In mid-September, the Bank of England's Monetary Policy Committee chose to hold the base rate at 0.75% following the August hike. Bank Governor Mark Carney reiterated that the Committee is in no rush to raise rates back to more "normal" levels, and with Brexit uncertainty coming to the fore, markets are showing little to no expectation of a further rate hike until Q2/Q3 2019.

The inflation figures for August came out far higher than expected, with Consumer Price Index (CPI) y/y at 2.7%, up from 2.4% in July. The rise in inflation was driven by particularly volatile components so forecasters expect the pickup to be temporary. The monthly CPI figure was 0.7%, up from 0.5%, while Core CPI y/y rose unexpectedly to 2.1% from a previous figure of 1.8%. Despite the increase in price pressures, market participants continued to play down any expectations of a near-term rate hike. Their belief is primarily based on Brexit uncertainty and the fact that inflation is likely to fall towards the Bank's inflation target of 2% through this year and 2019.

Retail sales were expected to show negative growth in August after a strong summer of good weather. However, the figure surprisingly stayed positive at 0.3% m/m, and the y/y figure only fell to 3.3%, well above forecasts of a drop to 2.3%. Within the overall data, food sales did register a small fall, but this was more than offset by the largest monthly increase in sales of household goods since May 2016.



In terms of public finances, the data was disappointing for August. Public sector net borrowing excluding banks rose to £6.753bn, up from £3.4bn, and the figure including banks rose by slightly less, to £5.889bn. There are increasing expectations that the OBR may lower its borrowing forecast in November, which could allow the Chancellor to increase spending in his upcoming budget, without having to raise income from other sources or make cuts elsewhere.

GDP figures at the end of the month were another source of disappointment for the UK. While there was no change to the Q2 q/q figure (0.4%), Q1 was revised down from 0.2% to just 0.1%. Furthermore, the Q2 y/y figure was revised downwards to 1.2% from 1.3%.

The Eurozone's Q2 y/y GDP figure was also revised lower, down from 2.2% to 2.1%. Meanwhile, US y/y GDP remained unchanged, at 4.2% evidencing the effects of President Trump's expansionary fiscal policy, and paved the way for the US Federal Reserve to action a rate rise at the end of September. Accompanying the move, the Fed's "dot plot" of member expectations for future policy rates suggested another rate hike may occur in 2018, and potentially another three in 2019.

### Housing

The Halifax house prices measure showed a 0.1% m/m increase in August, rebounding from a negative value in July. The y/y measure showed a 3.7% increase, an uplift from 3.3% previously but lower than the 3.9% forecast. House.

Nationwide also showed a small rise in m/m house prices, up to 0.3%, whilst the y/y figure also increased by 0.1% to 2%.

### Currency

Sterling opened the month at \$1.29 against the US Dollar and closed at \$1.30, with varied fluctuations throughout the period. Against the Euro, Sterling opened at €1.115 and closed at €1.125.

### Forecast

Link Asset Services suggests that the next interest rate rise will be to 1% in the third quarter of 2019, with further rises of 25 basis points in Q2 2020, and Q4 2020. Capital Economics expect the next rate rise will be Q2 2019, followed by another rise in Q4 2019 and a further change in Q4 2020.

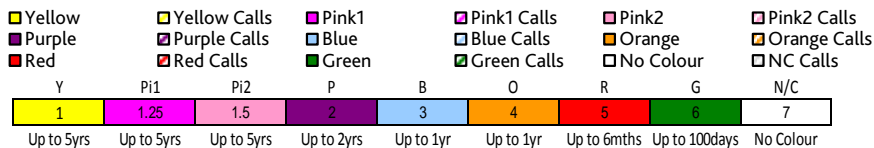
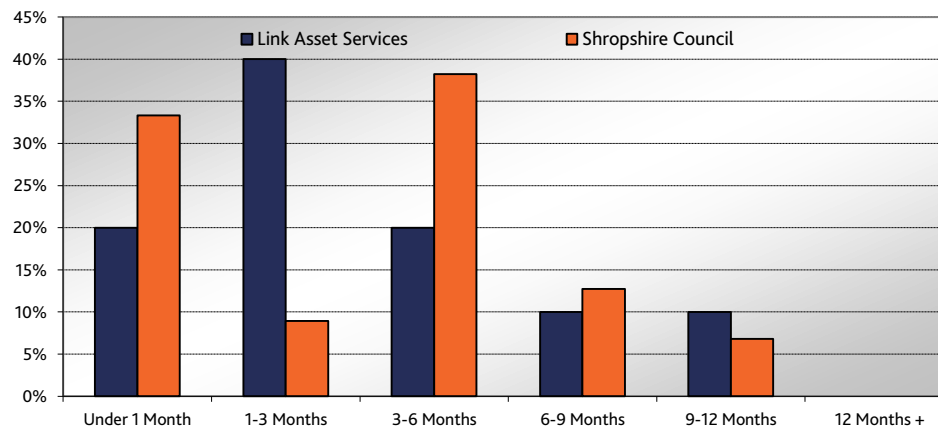
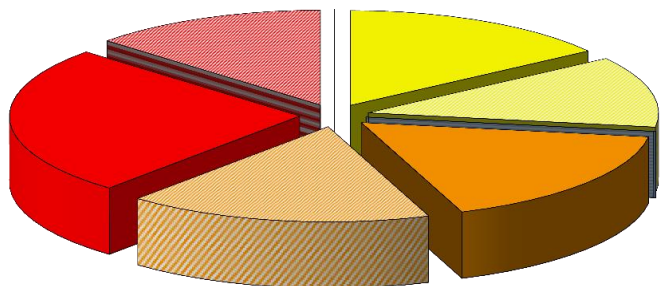
Bank Rate	NOW	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
Capital Economics	0.75%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%	1.75%	-

# Shropshire Council

## Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
HSBC UK Bank Plc (RFB)	20,000,000	1.05%		Call	AA-	0.000%
MMF Standard Life	8,630,000	0.67%		MMF	AAA	0.000%
MMF Insight	5,630,000	0.68%		MMF	AAA	0.000%
Goldman Sachs International Bank	5,000,000	0.96%	03/04/2018	03/10/2018	A	0.000%
Barclays Bank Plc (NRFB)	500,000	0.82%		Call32	A	0.005%
Telford & Wrekin Council	5,000,000	0.75%	22/08/2018	22/11/2018	AA	0.004%
Goldman Sachs International Bank	5,000,000	0.80%	07/06/2018	07/12/2018	A	0.010%
Santander UK Plc	15,000,000	0.85%		Call95	A	0.014%
Barclays Bank Plc (NRFB)	5,450,000	0.76%	16/07/2018	16/01/2019	A	0.016%
Coventry Building Society	5,000,000	0.69%	17/07/2018	17/01/2019	A	0.016%
Barclays Bank Plc (NRFB)	4,550,000	0.77%	17/07/2018	17/01/2019	A	0.016%
Lloyds Bank Plc (RFB)	5,000,000	0.75%	25/07/2018	25/01/2019	A+	0.017%
Nationwide Building Society	5,000,000	0.72%	01/08/2018	31/01/2019	A	0.018%
Slough Borough Council	5,000,000	0.74%	09/08/2018	11/02/2019	AA	0.009%
Lancashire County Council	5,000,000	0.98%	04/05/2018	16/04/2019	AA	0.013%
Lloyds Bank Plc (RFB)	5,000,000	1.00%	05/06/2018	05/06/2019	A+	0.037%
Lloyds Bank Plc (RFB)	5,000,000	1.00%	15/06/2018	14/06/2019	A+	0.038%
Lloyds Bank Plc (RFB)	5,000,000	1.00%	13/07/2018	12/07/2019	A+	0.042%
Bury Metropolitan Borough Council	3,000,000	1.05%	31/08/2018	30/08/2019	AA	0.022%
<b>Total Investments</b>	<b>£117,760,000</b>	<b>0.86%</b>				<b>0.012%</b>

Portfolio Composition by Link Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number = **3.56**

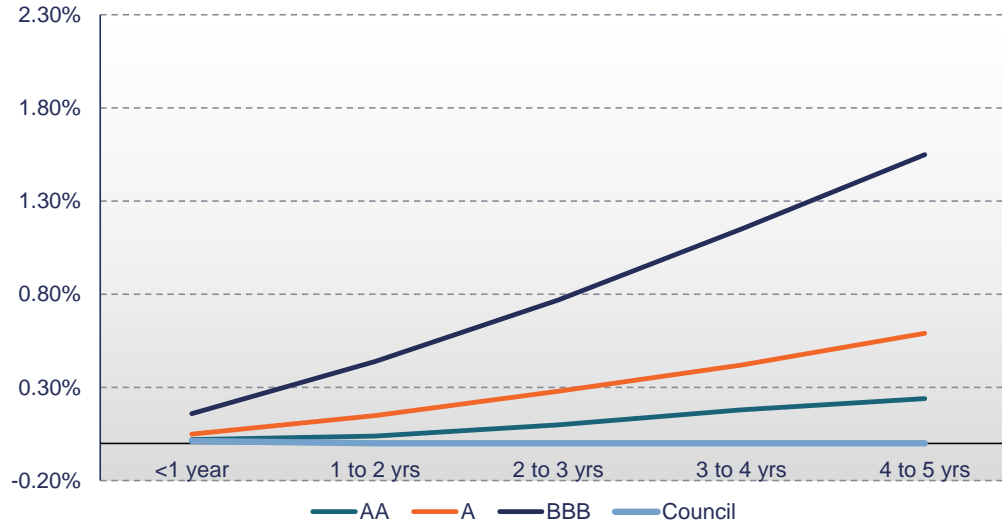
WARoR = Weighted Average Rate of Return  
 WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour		% of Call		Excluding Calls/MMFs/USDBFs			
			in Calls	Amount of Colour in Calls	in Portfolio	WARoR	WAM	WAM at Execution	WAM	WAM at Execution
Yellow	27.39%	£32,260,000	44.20%	£14,260,000	12.11%	0.78%	91	131	163	234
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Orange	33.97%	£40,000,000	50.00%	£20,000,000	16.98%	0.99%	113	160	227	319
Red	38.64%	£45,500,000	34.07%	£15,500,000	13.16%	0.81%	89	153	87	184
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
<b>Total</b>	<b>100.00%</b>	<b>£117,760,000</b>	<b>42.26%</b>	<b>£49,760,000</b>	<b>42.26%</b>	<b>0.86%</b>	<b>98</b>	<b>149</b>	<b>148</b>	<b>237</b>

# Shropshire Council

## Investment Risk and Rating Exposure

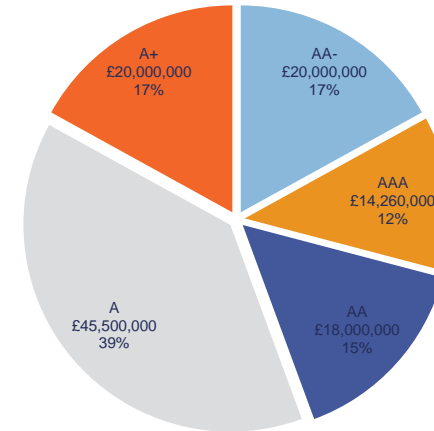
Investment Risk Vs. Rating Categories



Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.02%	0.04%	0.10%	0.18%	0.24%
A	0.05%	0.15%	0.28%	0.42%	0.59%
BBB	0.16%	0.44%	0.77%	1.15%	1.55%
Council	0.012%	0.000%	0.000%	0.000%	0.000%

Rating Exposure



### Historic Risk of Default

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

### Chart Relative Risk

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

### Rating Exposures

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

# Shropshire Council

## Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
25/09/2018	1641	Danske A/S	Denmark	Outlook on the Long Term Rating changed to Negative from Stable

# Shropshire Council

## Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
21/09/2018	1640	Danske A/S	Denmark	Outlook on the Long Term Rating changed to Negative from Stable

## Shropshire Council

### Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
21/09/2018	1639	Australia Sovereign Rating	Australia	Outlook on the Long Term Rating changed to Stable from Negative
26/09/2018	1642	Danske A/S	Denmark	Outlook on the Long Term Rating changed to Negative from Positive

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Appendix B

Prudential Indicators – Quarter 2 2018/19

Prudential Indicator	2018/19 Indicator £m	Quarter 1 – Actual £m	Quarter 2 – Actual £m	Quarter 3 – Actual £m	Quarter 4 – Actual £m
Non HRA Capital Financing Requirement (CFR)	307*	305	305		
HRA CFR	85	85	85		
Gross borrowing	312	318	312		
Investments	100	107	118		
Net borrowing	212	211	194		
Authorised limit for external debt	457	318	312		
Operational boundary for external debt	407	318	312		
Limit of fixed interest rates (borrowing)	457	318	312		
HRA debt Limit	96	85	85		
Limit of variable interest rates (borrowing)	229	0	0		
Internal Team Principal sums invested > 364 days	50	0	0		
Maturity structure of borrowing limits	%	%	%	%	%
Under 12 months	15	2	1		
12 months to 2 years	15	3	1		
2 years to 5 years	45	5	6		
5 years to 10 years	75	0	0		
10 years to 20 years	100	36	37		
20 years to 30 years	100	23	24		
30 years to 40 years	100	15	15		
40 years to 50 years	100	7	7		
50 years and above	100	9	9		

\* Based on period 6 Capital Monitoring report including Shrewsbury Shopping Centres



Capital Financing 2018/19 - Period 6

Prudential Borrowing Approvals	Date Approved	Amount Approved £	Applied (Spent) 2006/07 £	Applied (Spent) 2007/08 £	Applied Outturn 08/09 2008/09 £	Applied Outturn 09/10 2009/10 £	Applied Outturn 10/11 2010/11 £	Applied Outturn 11/12 2011/12 £	Applied Outturn 12/13 2012/13 £	Applied Outturn 13/14 2013/14 £	Applied Outturn 14/15 2014/15 £	Applied Outturn 15/16 2015/16 £	Applied Outturn 16/17 2016/17 £	Applied Outturn 17/18 2017/18 £	Budgeted 2018/19 £	Budgeted 2019/20 £	First year MRP Charged	Asset Life	Final year MRP Charged
Monkmoor Campus	24/02/2006	3,580,000																	
Capital Receipts Shortfall - Cashflow Applied:	24/02/2006	5,000,000																	
Monkmoor Campus			3,000,000		0														
William Brooks					0		3,580,000												
Tem Valley					2,000,000														
		<b>8,580,000</b>	<b>3,000,000</b>	<b>0</b>	<b>2,000,000</b>	<b>0</b>	<b>3,580,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>			
Highways	24/02/2006	2,000,000	2,000,000																
Accommodation Changes	24/02/2006	650,000	410,200	39,800															
Accommodation Changes - Saving	31/03/2007	(200,000)																	
		<b>450,000</b>	<b>410,200</b>	<b>39,800</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>			
The Plarmigan Building	05/11/2009	3,744,000				3,744,000													
The Mount McKinley Building	05/11/2009	2,782,000				2,782,000													
The Mount McKinley Building	05/11/2009	0																	
Capital Strategy Schemes - Potential Capital Receipts shortfall - Desktop Virtualisation	25/02/2010	187,600				187,600				0									
Carbon Efficiency Schemes/Self Financing	25/02/2010	1,512,442					115,656	1,312,810	83,976										
Transformation schemes		92,635						92,635											
Renewables - Biomass - Self Financing	14/09/2011	92,996						82,408	98,258	(87,670)									
Solar PV Council Buildings - Self Financing	11/05/2011	56,342						1,283,959	124,584	(1,352,202)									
Depot Redevelopment - Self Financing	23/02/2012	0																	
Oswestry Leisure Centre Equipment - Self Financing	04/04/2012	124,521						124,521											
Leisure Services - Self Financing	01/08/2012	711,197							711,197										
Mardol House Acquisition	26/02/2015	4,160,000									4,160,000								
Mardol House Adaptation and Refit	26/02/2015	3,340,000									167,640.84	3,172,358.86							
Oswestry Leisure Centre Equipment - Self Financing	01/08/2012	300,000											274,239		25,761				
The Tannery Development		8,020,000													6,020,000	2,000,000			
Car Parking Strategy Implementation		917,000													665,000	252,000			
JPUT - Investment in Units re Shrewsbury Shopping Centres		52,731,922												52,731,922					
Previous NSDC Borrowing		955,595			821,138	134,457													
		<b>90,758,249</b>	<b>5,410,200</b>	<b>39,800</b>	<b>2,821,138</b>	<b>6,848,057</b>	<b>3,895,656</b>	<b>2,896,333</b>	<b>1,018,015</b>	<b>(1,439,872)</b>	<b>4,327,641</b>	<b>3,172,359</b>	<b>0</b>	<b>53,006,161</b>	<b>6,710,761</b>	<b>2,252,000</b>			
								0	0	0	0	0	0	0	0	0			

2007/08	25	2031/32
2011/12	25	2035/36
2010/11	35	2044/45

2007/08	20	2026/27
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2007/08	6	2012/13
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2010/11	25	2034/35
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2011/12	25	2035/36
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2011/12	5	2015/16
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	25	
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2010/11	5	2014/15
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2011/12	5	2017/18
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2012/13	3	2014/15
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2014/15	25	2038/39
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2013/14	25	2038/39
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2014/15	10	2023/24
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2012/13	5	2016/17
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2013/14	5	2016/17
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2015/16	25	2039/40
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2016/17	25	2041/41
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2018/19	5	2022/23
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2020/21	25	2044/45
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2020/21	5	2024/25
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2018/19	25	2042/43
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2009/10	5/25	
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## Appendix D

### 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 D(a) 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 2018/19 the prudent provision for Supported Borrowing has been calculated on the basis of the expected useful life of the asset on an annuity calculation basis.

Option 3a - Asset life method (Unsupported Borrowing)– equal instalment method will continue to be used for unsupported borrowing agreed prior to 2018/19 and specific treatment for PFI Assets and assets held under Finance Leases and long term capital loans. For any approved unsupported borrowing from 2018/19 the prudent provision will be calculated on an annuity basis linked to the expected useful life of the asset for consistency with the Supported Borrowing calculation, Option 3b.

#### Supported Borrowing

From 2016/17 the approach for calculating the MRP was on a straight line (equal instalments) calculation basis on the remaining asset life of the assets linked to the borrowing. 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 was used as the basis of calculation.

From 2018/19 Council approved to adopt the annuity calculation method for supported borrowing whilst retaining the link to the average remaining useful life of the assets it was used to finance. The annuity calculation method results in lower MRP payments in the early years, but higher payments in later years. This method has the advantage of linking MRP to the flow of benefits from an asset where these are expected to increase in later years.

CIPFA puts forward the following reasons for using the annuity method in CIPFA's "The Practitioner's Guide to Capital Finance in Local Government" (2008) which states:

- The annuity method provides a fairer charge than equal instalments as it takes account of the time value of money, whereby paying £100 in 10 year's time, is less of a burden than paying £100 now.
- The schedule of charges produced by the annuity method results in a consistent charge over an asset's life, taking into account the real value of the amounts when they fall due.
- The annuity method is a prudent basis for providing for assets that provide a steady flow of benefits over their useful life.

For 2018/19 and onwards the Council has adopted the annuity based calculation on a 45 year basis.

### **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.

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.

Prior to 2018/19 the Council adopted the Option 3a Straight Line calculation for unsupported borrowing. From 2018/19 Council approved to adopt the Option 3b annuity calculation method for new unsupported borrowing whilst retaining the link to the average remaining useful life of the assets it was used to finance. The annuity calculation method results in lower MRP payments in the early years, but higher payments in later years. This method has the advantage of linking MRP to the flow of benefits from an asset where these are expected to increase in later years.

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

### **Adjustment A**

This is an accounting adjustment to the MRP calculation that ensures consistency with previous capital regulations. Once calculated, the amount remains constant within the MRP calculations.

Between 2016/17 and 2017/18 the adjustment A was not included in the MRP calculation but continues to be a legitimate part of the calculation under the 2003 Regulations (Regulation 28) and can therefore continue to be used to reduce the supported borrowing CFR for MRP purposes. It has been considered to be prudent to include the Adjustment A value from 2018/19 onwards to calculate the CFR value. For Shropshire the fixed Adjustment A calculation is £4,446,483.75

### **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 31/03/18 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 D(b) 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 2017/18, 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 2018 to reduce the CFR will be offset by an increase in the CFR in 2018/19 from capital expenditure incurred in 2018/19. In the event that the level of capital expenditure in 2018/19 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 2019/20. This will be reported for approval as part of the Capital Outturn report 2018/19.



## Appendix D(a): 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) Acquisition of share or loan capital	"C" equals 20 years
Regulation 25(1)(e)	"C" equals the estimated life of the assets

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Expenditure on works to assets not owned by the authority	
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 D(b): 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	(2,486,732)
	<hr/>
	200,857,981

Less LGR (98) Debt	(152,192)
	<hr/>
	<b>200,705,789</b>

Less MRP 2017/18	(4,650,336)
	<hr/>
<b>CFR for Supported Borrowing MRP Calculation</b>	<b>196,055,453</b>

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

<b>Closing CFR 31/03/18 – Supported Borrowing (GF)</b>	<b>196,207,645</b>
	<hr/>

#### **Housing Revenue Account**

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

<b>Closing CFR 31/03/18 – Supported Borrowing (GF&amp;HRA)</b>	<b>280,802,264</b>
	<hr/>

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

Unsupported Borrowing brought forward	19,987,977
Add profiled prudential borrowing 2017/18	53,006,161
Less MRP – 2017/18	(1,155,740)
	<hr/>

<b>Closing CFR 31/03/18 – Unsupported Supported Borrowing</b>	<b>71,838,398</b>
	<hr/>

<b>Closing CFR (GF&amp;HRA) 31/03/18 – Borrowing Requirement</b>	<b>352,640,662</b>
	<hr/>

#### **Additional items included:**

Village Hall Loans	297,763
Housing Association Loans	18,442,160
	<hr/>
	<b>371,380,585</b>
	<hr/>

#### **Summary MRP**

MRP 2018/19 at 45 year annuity from 2018/19	2,537,270
LGR (98) Debt MRP	32,521
Prudential Borrowing MRP	1,717,376
	<hr/>

<b>Total MRP 2018/19</b>	<b>4,287,167</b>
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N.B. The above excludes the CFR and MRP charges in relation to the on-balance sheet PFI schemes and finance leases.



Committee and Date

Audit Committee  
6<sup>th</sup> December 2018  
1:30 pm

Item

Public

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

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

### **1. Summary**

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

### **2. Recommendations**

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

## **REPORT**

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

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

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

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

All revisions can be met from within existing budgets.

#### **5. Background**

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

#### **6. Issues**

##### **Counter Fraud, Bribery and Anti-Corruption Strategy**

- 6.1 CIPFA's Code of practice on managing the risks of fraud and corruption states that an organisation needs a counter fraud strategy which sets out its approach to managing risks and defining responsibilities for action. Shropshire's strategy clearly identifies the Council's commitment to an effective Counter Fraud, Bribery and Anti-Corruption approach as part of its overall Corporate Governance arrangements. The strategy will enable the Council to:
- Acknowledge and understand fraud risks;
  - Prevent and detect more fraud; and
  - Pursue and punish fraud and recover losses.
- 6.2 The strategy reflects best practice from CIPFA's Code of practice on managing the risks of fraud and corruption, the National Fraud Authority (NFA) Fighting

Fraud Strategies and guidance from organisations such as ALARM (the National Forum for Public Sector Risk Management) and the IIA (Institute of Internal Auditors).

- 6.3 It is recognised that to reduce losses to fraud, bribery and corruption to an absolute minimum, a strategic approach with a clear remit covering all areas of fraud, bribery and corruption that may affect the Council is required. There needs to be a clear understanding of the importance of the links between policy work (to develop a counter fraud, bribery and anti-corruption culture, create a strong deterrent effect and prevent fraud, bribery and corruption by designing robust policies and systems) and operational work (to detect and investigate fraud, bribery and corruption and seek to apply sanctions and recover losses where they are found).
- 6.4 The temptation may be to ‘pick and choose’ actions. However, the full range of integrated action must be taken forward with the Council’s focus clearly on outcomes (e.g. reduced losses) and not just activity (i.e. the number of investigations, prosecutions, etc.).
- 6.5 The strategy continues to emphasise the Council’s remit to reduce losses to fraud, bribery and corruption to an absolute minimum. It:
- Demonstrates links between ‘policy’ work and ‘operational’ work.
  - Shows agreement by both the political and executive authority for the Council’s approach.
  - Acknowledges fraud and identifies accurately the risk.
  - Creates and maintains a strong structure to pursue its remit including:
    - Having the necessary authority and support;
    - Providing for specialist training and accreditation;
    - Completing appropriate propriety checks;
    - Developing effective relationships with other organisations.
  - Enables actions to tackle the problem by:
    - Integrating different actions;
    - Building a strong counter fraud and anti-corruption culture;
    - Having clear actions to deter any problem;
    - Acting to prevent fraud and corruption;
    - Early detection of any issues;
    - Investigating appropriately in accordance with clear guidance;
    - Having clear and consistent sanctions where fraud or corruption is proven;
    - Having clear policies on redressing losses.
  - Focuses on outcomes and not merely activity.
- 6.6 No major changes are proposed to the Strategy. Reference to the 2018 Data Protection Act has replaced the previous Act and a change to the Section 151’s contact telephone details has been noted. All other details remain the same.

### **National Picture**

- 6.7 The Annual Fraud Indicator 2017 report by the UK Fraud Costs Measurement Committee estimates public sector fraud losses at £40.4 billion for the UK. In its report it recognises that public sector has some of the best quality fraud

measurements. It reports a £2.8 billion increase (7.5%) increase in estimated fraud since 2016. This sector includes Central Government, the National Health Service and local government.

6.8 Fraud in local government (excluding benefits) increased from an estimated £7.3 billion to £7.8 billion. The report reflects that every £1 lost to fraud is £1 not spent on local services and with shrinking funding from central government it is increasingly important to reduce any fraud losses. Areas identified as high risk are:

- Blue badge scheme
- Housing tenancy
- Procurement
- Payroll
- Grants and
- Pension.

Benefit frauds continue to be considerable and include housing benefit and council tax reduction. Housing benefit fraud is now investigated by the Department of Work and Pensions (DWP) Single Fraud Investigation Service (SFIS), though it is important that it is still considered to ensure that cases are correctly referred for action. All these risks are considered when completing the Council's fraud risk assessment.

6.9 The Fighting Fraud and Corruption Locally Strategy (FFCL) 2016–2019 is England's counter fraud and corruption strategy for local government. It continues to be the definitive guide for council leaders, chief executives, finance directors, and all those with governance responsibilities. The Fighting Fraud and Corruption Locally Companion 2016–2019 is aimed at local authorities who undertake work in the counter fraud area. The Companion contains good practice and a checklist for local authorities to use as part of making sure they have the right processes and resources in place. The Council's Counter Fraud, Bribery and Anti-Corruption Strategy continues to be aligned to this checklist.

6.10 Following review against CIPFA's Code of Practice on managing the risk of fraud and corruption, and the FFCL companion in November 2017, improvements were made to the Council's Counter Fraud, Bribery and Anti-Corruption Strategy and an action plan aligned to the strategy. These improvements built on the principles already adopted and in place.

6.11 The following demonstrates delivery against the agreed Action Plan and new developments the Council proposes over the medium-term future to further improve its resilience to fraud and corruption.

### Action Plan

Action	Implementation Date and Update
To proactively use the results of previous fraud risk assessments and publicly available information from	Spring 2017



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

### CIPFA tracker

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

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

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

6.13 The Council participated in CFaCT, the key results from which are summarised below and a full report is available from the CIPFA website.

- The total estimated value of fraud detected or prevented by local authorities in 2017/18 is £302m, £34m less than last year's total.
- The average value per fraud has also reduced from £4,500 in 2016/17 to £3,600 in 2017/18.
- The number of frauds detected or prevented has risen to 80,000 from the 75,000 cases found in 2016/17.
- The number of serious or organised crime cases doubled to 56 in 2017/18.
- The amount lost to business rates fraud increased significantly to £10.4m in 2017/18 from £4.3m in 2016/17.
- Blue badge fraud also increased by £3m to an estimated value of £7.3m for cases prevented/ detected in 2017/18.
- For 2017/18 the three greatest areas of perceived fraud risk are procurement, council tax single person discount and adult social care.
- For 2017/18 the four main types of fraud by volume that affect local authorities are council tax, housing, blue badge and business rates.

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

6.14 This tool is designed to help councils assess their counter fraud arrangements against the standards set out in CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption, as published and reported to Audit Committee in November 2014. The tool is used as a basis for ongoing improvement and development planning, it also provides a basis for assurance on the adequacy and effectiveness of the Council's counter fraud arrangements. The action plan reported on within this report is reflective of the improvements identified when applying this tool.

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

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

6.16 The National Fraud Initiative (NFI), run by the Cabinet Office, is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. The Council continues to participate in this exercise,

6.17 From the 1 April 2016 to the 31 March 2018, the NFI have identified and prevented in England £275.3m fraud, overpayments and errors. In England the main categories of fraud are:

- Pension fraud and overpayments (£144.8m)
- Fraudulently or wrongly received, council tax single person discount (£32.6m)
- Housing benefit fraud and overpayment (£24.9m)

Further significant results were also produced from the exercise:

- 58 social housing properties recovered
- 7,601 false applications were removed from housing waiting lists
- 234,154 concessionary travel passes were cancelled
- 1,613 cases of incorrect Council Tax reduction were identified
- 31,223 blue badges were revoked or withdrawn and 275 cases where a council continued to make a mistaken payment to private care homes for deceased persons

6.18 The same exercise identified outcomes by risk area in the following order

- Pensions
- Council tax
- Waiting lists
- Housing benefits
- Blue badges
- Concessionary travel
- Tenancy fraud
- Council tax reduction scheme
- Residential care homes
- Trade creditors
- Payroll
- Right to buy
- State benefits and
- Personal budgets

The NFI continue to improve their data matching processes and a copy of their full report can be located here;

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/737146/National-Fraud-Initiative-Report-2018.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/737146/National-Fraud-Initiative-Report-2018.pdf)

6.19 Specific results for Shropshire Council of the 2016/17 data matching exercise were provided to the Committee at your November 2017 meeting. Members will recall that the exercise is undertaken every two years and officers are currently working on the 2018/19 work programme. Data has been submitted, matches are currently underway and the results from these will be available from the 31<sup>st</sup> January for investigation and appropriate action.

## Transparency requirements

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

### **Update on Regulation of Investigatory Powers Act 2018 (RIPA) Activity**

- 6.21 The Council's Regulation of Investigatory Powers Policy ('the Policy') that sets out the Council's position in respect of the use of surveillance techniques was updated with effect from 1 October 2015. New RIPA Codes of Practice dealing with directed surveillance and the use of covert human intelligence sources (CHIS) have been approved by the Government and came into force in August 2018. There has been a considerable number of amendments, which range from minor one letter or word changes to whole new paragraphs on new topics. The changes have been made to provide consistency across the codes and to add further clarity with new and revised examples rather than introducing any fundamental changes to the way in which the Council needs to approach surveillance activities.
- 6.22 There has been a change to the authorisation period for a juvenile covert human intelligence source ('Juvenile CHIS'), i.e. using a child/young person under the age of 18 as an informant, which came into force in July 2018. The authorisation period has been extended from one month to four months. This type of surveillance activity has never been used by the Council and would, in any case, only be authorised in very exceptional circumstances.
- 6.23 The Investigatory Powers Commissioner's Office (IPCO) has taken over responsibility for oversight of investigatory powers from the Interception of Communications Commissioner's Office (IOCCO) and the Office of Surveillance Commissioners (OSC). IPCO has taken over the inspection and audit functions of these bodies; however, the OSC Procedures and Guidance 2016 document remains current and officers continue to operate within the guidelines set out in this guidance.
- 6.24 Minor amendments will be required to the Council's RIPA policy to reflect the changes that have been introduced by the new codes and this work will be undertaken in due course

### **Whistleblowing Policy**

- 6.25 The Council has a whistleblowing policy for the public and one for its employees. Both policies have been reviewed and updated in respect of key contacts and staff information. There have been no changes proposed to the process of 'blowing the whistle'. An annual reminder is circulated to all employees to raise awareness as to the availability of this policy.
- 6.26 The Whistleblowing Policy is available to staff via the Intranet pages and is also available to them, along with members and the public, via the web-site; allowing it to be accessed from any computer. This is particularly important as it allows

staff to access the policy outside of a work environment, where they may be reluctant to be seen accessing the Whistleblowing policy.

### **Anti-Money Laundering (AML) Procedure**

6.27 Both the Council's Anti-Money Laundering procedure and guidance have been updated to reflect The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 and will be reviewed annually. Communication of the changes has been through updated documents on the Council's websites, discussions with Directors and notices on the Intranet alerting employees. The AML Officer and her deputies have received refresher training and are making internal training and awareness sessions available to appropriate employees. In addition, Directors have been asked to spread news of the updates; identify any money laundering risks in their areas to be shared at least annually with the AML Officer and to identify employees who need training.

### **Serious Organised Crime Checklist**

6.28 Local Authority (LA) procurement is at risk of infiltration from serious and organised crime and organised crime groups could be benefitting from public sector contracts. In 2013, it was estimated that £2.1 billion of fraud was perpetrated against local government (National Fraud Authority Annual Fraud Indicator 2013) and the Government's Serious and Organised Crime Strategy published in 2013 reported that it costs the UK more than £24 billion a year.

6.29 Organised crime includes drug trafficking, human trafficking, child sexual exploitation, high value fraud and cyber-crime. Organised crime groups may seek to benefit from public services in different ways, including to raise money through fraudulent activity and to use businesses / services used by LA's to launder criminal proceeds. In this way public money can be lost to LA's and can ultimately fund other illegal activity.

6.30 In 2017, the Home Office provided a Serious and Organised Crime report and checklist which highlighted that assessing the risk from serious and organised crime and corruption is essential in allowing the Council to identify areas of concern, potential vulnerabilities and to act to strengthen processes and structures that safeguard public money. The checklist evaluates our response and activities in relation to:

- Awareness, Strategy, Guidance and Training
- Risk Management
- Communication and Information/ Intelligence Sharing
- Whistleblowing
- Assurance
- Operational controls for
- Licensing
- Planning/ Development management
- Social Housing
- Procurement
- Insider threat

- 6.31 Directors, Heads of Service and key Procurement Officers have completed and evidenced activities in the checklist providing a balanced assessment of the Council's exposure to the risks. In the main, at this high level, risks appear well managed and where improvements can be made, actions have been highlighted as part of an improvement plan.
- 6.32 The Council's Commissioning and Assurance Board is overseeing operational management of these actions and a final review will be conducted in March 2019 at the twelve-month stage, the results of which will be reported to Members.

### **Awareness and training**

- 6.33 New fraud awareness training has been introduced on the Council's eLearning tool, Leap into learning. This has been communicated to Directors and their employees directly.
- 6.34 Staff and members are being surveyed to explore their awareness and opinion on the ethical culture of the Council. Questions in both surveys explore awareness and knowledge of counter fraud procedures including the availability of the whistleblowing policy. Data from both surveys will be collated and considered in the new year.

### **Qualified officers**

- 6.35 Internal Audit continues to have officers trained, up to date and capable of undertaking investigations in a professional manner as the need arises. One officer has the Advanced Professional Certificate in Investigative Practice. Two further officers are accredited CIPFA Counter Fraud Technicians Course. In total over a third of the Audit team have qualifications and/or considerable experience in conducting investigations. Given resource shortages in the overall Audit team in the current year, time has been focused on investigations over proactive prevention work. Balanced against this is that lessons learnt from investigations are used to inform management of control issues and the need for improvements to prevent reoccurrences. These reports are shared with Directors.

### **Shropshire Council counter fraud risks and plans**

- 6.36 In terms of *potential* for fraud, the counter fraud risk assessment has been refreshed and shared across all directorates. There is no change to the high-risk area of housing benefits. Eleven medium risk areas continue to be identified. These are the same as last year. The total list of risks is:

#### **High**

- Housing benefits

#### **Medium**

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

- NDR reliefs
- Disabled parking blue badges
- Direct payments / personal budgets
- Pension abuse individuals and funds

6.37 There are several steps in place, continuing, planned or underway to help to explore, identify and mitigate these fraud risks:

- Housing benefit investigations are referred to the Department of Work and Pensions Single Fraud Investigation Service for action. Housing Benefits, Internal Audit and Human Resources officers continue to jointly risk assess any employees that are suspected of benefit fraud to consider if internal investigations are required or Council assets within the employee's control may be at risk.
- An Internal Audit review of arrears payments to employees is underway. To establish the root cause of any such payments and follow up if any misconduct is suspected.
- The 2017/18 NFI exercise including data matching for payroll, pensions, creditors, housing benefit, council tax, personal budgets, blue badge parking permits is underway. The results of which will be worked through to identify any control risks and deal with any potential fraudsters.
- To reduce the risk of cybercrime and the impact it would have on all areas of the Council, a full IT risk assessment is conducted and audit reviews planned and completed in these specialist areas.
- Internal Audit resources are deployed to provide assurance and advice in respect of the Enterprise Resource Planning system project.

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

- Internet controls
- Website management
- Wide area networking
- Monitoring use of facilities
- Cash offices regularity
- Contracts and tendering
- Debt recovery
- Direct payments children
- Final grant claims
- Housing benefits
- Income collection
- Parking – cash collection
- Payroll
- Pensions

- Personal budgets and direct payments
- Primary school income collection
- Procurement arrangements
- Procurement cards
- Public health contracts
- Purchase ledger
- Sales ledger
- Secondary school income collection
- Sickness management

6.39 In summary, the Audit Committee are asked to consider and take assurances as to the level of counter fraud activity undertaken within the available resources.

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

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

The Bribery Act 2010

NFA Fighting Fraud Together, The strategic plan to reduce fraud

Fighting Fraud Locally: The Local Government Fraud Strategy

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

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

CIPFA Fraud and Corruption Tracker (CFaCT) survey

National Fraud Initiative (NFI) Report 2018

Home Office Serious and Organised Crime report and checklist 2017

Annual Fraud Indicator 2017, UK Fraud Costs Measurement Committee

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

**Local Member** n/a

**Appendices:** Not applicable





<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
6 December 2018	
1:30pm	<u>Public</u>

## ANNUAL REVIEW OF AUDIT COMMITTEE TERMS OF REFERENCE

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

### 1. Summary

Effective audit committees bring many benefits to an organisation, and to ensure that the Council continues to provide an effective Audit Committee, the Committee's Terms of Reference are considered and approved as appropriate by members on an annual basis. The Terms of Reference reflect guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) in their refreshed: Audit Committees, Practical Guidance for Local Authorities and Police 2018 Edition. The revised Terms of Reference are attached as an **Appendix** with proposed changes shown in ***bold, italics and underlined*** and noted in section six of this report.

### 2. Recommendations

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

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

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

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

### 4. Financial Implications

There are no financial implications.

## 5. Background

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

### Issues

- 5.6 Members may recall the training session in September where CIPFA's Audit Committees, Practical Guidance for Local Authorities and Police 2018 Edition was considered. This report now highlights any adjustments the

guidance proposes in respect of the current Terms of Reference. Proposed changes are shown in ***bold, italics and are underlined*** in the attached **Appendix** and are summarised below:

1. The Committee should include an independent member where not already required to do so by legislation.

The Committee considered this last year and had already amended paragraph three under membership to allow consideration of this.

2. In monitoring the effectiveness of the control environment, supporting standards and ethics should be included.

Reflected in paragraph 5, 11 and 12.

3. Members should raise awareness of the need for sound internal controls.

Reflected in paragraph 5 and 43.

4. Reinforce the objectivity, importance and independence of IA and EA and the effectiveness of the audit functions.

Reflected in paragraph 25 and 32.

5. Demonstrate discharged responsibilities in an annual public report.

Already in the Terms of Reference at paragraphs 43 and 44.

6. Improved reference to the Public Sector Internal Audit Standards and the support of the Audit Committee in upholding these.

Reflected in paragraph 20, 23 and 25.

7. Approval for any significant additional consulting services not already included in the approved risk based plan.

Reflected in paragraph 23.

8. External auditors can be appointed through different methods. The Council has decided to appoint through the Public-Sector Audit Appointment model. This is reflected in the Terms of Reference as well as supporting the independence, quality and effectiveness of the process whilst ensuring compliance with ethical standards.

Reflected in paragraph 32 and 35.

9. Where the Council is collaborating or in partnership with others this assurance is more transparently identified in the Terms of Reference

Reflected in paragraph 19.

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

Chartered Institute of Public Finance and Accountancy's (CIPFA), Audit Committees, Practical Guidance for Local Authorities and Police 2018 Edition  
TIS Online CIPFA Audit Committee  
Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards, CIPFA 2013 (to be revised 2018)  
Local Government Act 1972  
Accounts and Audit (England) Regulations 2015

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

**Local Member** N/A

**Appendices:** Audit Committee Terms of Reference

**AUDIT COMMITTEE TERMS OF REFERENCE**

**Membership**

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

**Meetings**

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

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

## **CORE FUNCTIONS**

### **Governance risk and control**

10. To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
11. To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, considering Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control **and assurances on how effectively the Seven Principles of Public Life are supported<sup>1</sup>.**
12. To consider the Council's arrangements for securing value for money, **supporting standards and ethics** and review assurances and assessments on the effectiveness of these arrangements.
13. To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.
14. To monitor the effective development and operation of risk management in the Council.
15. To monitor progress in addressing risk-related issues reported to the committee; Seek assurances that action is taken by management in risk related issues identified by auditors and inspectors; Resolve any outstanding differences between internal and external auditors and management when action or major recommendations have not been agreed.
16. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
17. To review the assessment of fraud risks and potential harm to the Council from fraud, bribery and corruption.
18. To monitor the counter-fraud, bribery and corruption strategy, actions and resources.
19. **To review the governance and assurance arrangements for significant partnerships or collaborations.**

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<sup>1</sup> <https://www.gov.uk/government/publications/the-7-principles-of-public-life/the-7-principles-of-public-life--2>

## **Internal Audit**

20. To approve the Internal Audit Charter **incorporating the mission, code of ethics, definition and core principles of Internal Audit.**
21. To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
22. 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.
23. To approve significant interim changes to the risk based internal audit plan and resource requirements, **including approval of significant additional consulting services.**
24. To make appropriate enquiries of both management and the Head of Audit to determine if there are any inappropriate scope or resource limitations.
25. **To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of Internal Auditing of the Head of Internal Audit. To approve and periodically review safeguards to limit such impairments.**
26. To consider reports from the Head of Audit on Internal Audit's performance during the year, including the performance of external providers of Internal Audit Services. These will include:
  - a) Updates on the work of Internal Audit including key findings, issues of concern and action in hand following Internal Audit work.
  - b) Reports on the results of the Quality Assurance and Improvement Programme.
  - c) Reports on instances where the Internal Audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance should be included in the Annual Governance Statement.
27. To consider the Head of Audit's annual report, specifically:
  - a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of Internal Audit.
  - b) The opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control together with the

summary of the work supporting the opinion – these will assist the committee in reviewing the Annual Governance Statement.

28. To consider summaries of specific internal audit reports as requested.
29. 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 Council or there are concerns about progress with the implementation of agreed actions.
30. To contribute to the Quality Assurance and Improvement Programme and to the external quality assessment of Internal Audit that takes place at least once every five years.
31. To support the development of effective communication with the Head of Audit.

### **External Audit**

32. **To support the independence of the External Auditor through consideration of the External Auditor's annual assessment of its independence and review of any issues raised by the Public-Sector Audit Appointments (PSAA); consider and comment on the selection and rotation of the External Auditor.**
33. To consider the External Auditor's annual letter, relevant reports, and the report to those charged with governance.
34. To consider specific reports as agreed with the External Auditor and other inspection agencies.
35. **To support the quality and effectiveness of the external audit process** and to comment on the scope and depth of external audit work to ensure it gives value for money **and complies with ethical standards.**
36. To commission additional work from external audit as required.
37. To review and advise on the effectiveness of relationships between External and Internal Audit and other inspection agencies or relevant bodies.

### **Financial reporting**

38. 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.
39. To consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.

### **Treasury Management**



40. To consider the robustness of the Council's treasury management strategy, policies and procedures before their submission to Cabinet and Full Council, ensuring that controls are satisfactory.
41. To receive regular reports on activities, issues and trends to support the Committee's understanding of treasury management activities. The Committee is not responsible for the regular monitoring of treasury management activity<sup>2</sup>.
42. To review the treasury risk profile and adequacy of treasury risk management procedures and assurances on treasury management **in accordance with best practice.**

### **Accountability Arrangements**

43. **To publish an annual report on the work of the Committee by** reporting annually to Full Council on the Committee's findings, conclusions and recommendations; providing its opinion on the adequacy and effectiveness of the Council's governance, risk management and internal control frameworks; internal and external audit functions and financial reporting arrangements.
44. To report to Council where the Audit Committee have added value, improved or promoted the control environment and performance in relation to the Terms of Reference and the effectiveness of the Committee in meeting its purpose and functions.

### **Work plan**

45. In carrying out the core functions the Audit Committee will approve an annual work plan. This will enable members to consider, review and, as appropriate, approve: -
  - a) An annual review of the Terms of Reference for the Audit Committee, making any recommendations for significant changes in them to Full Council.
  - b) Any proposals for the revision of the Internal Audit Charter.
  - c) The Head of Audit's Annual Report and opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
  - d) Regular performance reports on the work completed by Internal Audit and the progress made by directorates in implementing recommended actions.
  - e) Revisions to the annual audit plan as advised by the Head of Audit and agreed by the Section 151 Officer.
  - f) The Council's Statement of Accounts before submission to Full Council.

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<sup>2</sup> Clause 3 Treasury Management Code of Practice

- g) A report on the review of the adequacy of the Council's corporate governance arrangements.
- h) A report on the Internal Audit system and ongoing Quality Assurance and Improvement Programme.
- i) A report on the strategic risks of the Council and a review of the adequacy of the Council's risk management arrangements.
- j) The Council's Annual Governance Statement.
- k) The External Auditor's work plan, including comments on the scope and depth of external audit work to ensure it gives value for money.
- l) The External Auditor's Management Letter.
- m) The Annual Governance Report from the External Auditor following completion of the annual audit of the Accounts.
- n) Reports on any joint projects undertaken by Internal and External Audit.
- o) Reports on Internal Audit investigations including frauds and consideration of recommendations for strengthening internal controls.
- p) The annual review and re-affirmation of the Council's Counter Fraud, Bribery and Anti-Corruption Strategy to ensure on-going training and awareness of all staff regarding Counter Fraud and Anti-Corruption measures.
- q) Any issues within the remit of the Audit Committee referred to it by the Head of the Paid Service, the Section 151 Officer, Monitoring Officer or any Council body for determination.
- r) Treasury Strategy Reports including the Annual Investment Strategy and Minimum Revenue Provision Policy before submission to Full Council.
- s) The mid-year Treasury Strategy Report and Annual Treasury Report before submission to Full Council.

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

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

### **Audit Committee Competency Framework**

47. All Members of the Audit Committee should have, or acquire as soon as possible after appointment: -
- a) An understanding of the objectives and current significant issues facing the Council.

- b) An understanding of the Council's structure including key relationships with external partner organisations.
  - c) An understanding of any relevant legislation or other rules governing the operation of the Council.
  - d) A broad understanding of the local government environment, its accountability structures and current, major initiatives.
48. CIPFA recommends that the Audit Committee should corporately possess an appropriate level of knowledge/skills/experience in: -
- a) The Council's governance and regulatory frameworks.
  - b) Understanding of the wider governance environment in which the Council operates and the accountability structures within that environment.
  - c) Financial management and accounting including accounting concepts and standards.
  - d) Risk management.
  - e) Audit.
  - f) Counter fraud.
  - g) Treasury management.

And that the Committee should receive appropriate levels of training.

**Reviewed and updated November 2018.**

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<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
6 <sup>th</sup> December 2018	
13:30 pm	<u>Public</u>

## AUDIT COMMITTEE SELF-ASSESSMENT OF GOOD PRACTICE

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

### 1. Summary

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

### 2. Recommendations

Members are asked to:

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

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

3.1 The Audit Committee has a key function in ensuring effective corporate governance, risk and control arrangements are in place in the Council. The effectiveness of the committee should be judged by the contribution it makes to, and beneficial impact it has on, the Council's business. A good standard of performance against recommended practice, together with a knowledgeable and experienced membership, are essential requirements which empower an effective Audit Committee. By reviewing effectiveness annually using a good practice self-assessment, it can be established that the Committee is demonstrating a high degree of performance, is soundly based, and has a knowledgeable membership unimpaired in any way. Completion of the self-assessment can also be used to support the planning of the Audit Committee work programme and its training plans, and inform the Committee's annual report to Council.

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

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

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

#### **5. Background**

5.1 The Chartered Institute of Public Finance and Accountancy, CIPFA, has produced updated guidance on the function and operation of audit committees; 'Audit Committees in Local Authorities and Police, 2018 edition'. The guidance represents CIPFA's view of best practice for Audit Committees in local authorities throughout the UK.

5.2 In the guidance, CIPFA has built upon the 2013 suggested self-assessment against recommended practice. Authorities are encouraged to use the checklist to determine if they are meeting recommended practice and as an indicator of the Committee's effectiveness; following which any changes or improvements identified to enhance the Committee's performance should be managed.

5.3 The Section 151 Officer and the Head of Audit have completed an initial review of the self-assessment, based on information from previous assessments and with knowledge of the Committee's compliance with recommended practices, for members to consider, discuss and amend as appropriate. Members of the Audit Committee considered the 2013 assessment model in some detail at a training session in October 2017 and an externally facilitated session in March 2018. Annual refreshers are undertaken with Member involvement and reported to this Committee. In preparation for 2018/19, the self-assessment has been updated and circulated to members for consideration prior to this meeting, attached as **Appendix A**.

- 5.4 The refreshed assessment highlights in **bold underlined italics** the changes made by CIPFA in its 2018 edition for members to consider in more detail. There have been no changes to membership since the previous training skills evaluations were completed and therefore no further updates are sought on these.
- 5.5 Continued learning from the original training self-assessments is important and the data extracted continues to be used to inform training sessions and identify areas for continued improvement. Information from self-assessments is considered against ongoing requests from committee members in response to current topics.
- 5.6 Training sessions provided since October 2017 have included:
- Effectiveness of the Audit Committee, facilitated by CIPFA which led to an action plan.
  - A tour for Audit Committee members of the digital transformation improvements in the Customer Relationship Management service.
  - The Committee’s role in governance and an update on the latest guidance.
  - Audit Committee and Risk Management.
  - Audit Committee and VFM.
  - Financial resilience, how can the Committee be assured of this?
  - Commissioning as a strategic risk.
- 5.7 In addition to training sessions the following information has been shared with and between members:
- A councillor’s workbook on bribery and fraud prevention, Local Government Association (LGA).
  - Round-up for Audit Committees, National Audit Office (NAO).
- In addition, some members attended Grant Thornton’s, Midlands Audit Committee Forum.
- 5.8 **Appendix B** provides a summary from the two self-assessments, detailed in 5.3 above, showing the areas members have identified for future focus and refresh sessions and where updated training has been provided.
- 5.9 Following the current review of the Audit Committee self-assessment of good practice, a few areas of partial compliance were identified and question 13 was not currently applicable. These are summarised below with the proposed actions to improve for members to consider as components in an action plan looking forward.

SAR <sup>1</sup>	Partial compliance	Proposed action
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	Members continue to consider areas identified for improvement in the Annual Governance Statement against their work and training plans, to ensure coverage of all

<sup>1</sup> SAR = Self-assessment reference

SAR <sup>1</sup>	Partial compliance	Proposed action
		areas the committee requires assurances from.
12	Has an effective audit committee structure and composition of the committee been selected? <ul style="list-style-type: none"> <li>An appropriate mix of knowledge and skills among the membership</li> </ul>	Consider feedback from skills self-assessment for members, results in <b>Appendix B</b> .
18	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	Committee sees this as an ongoing theme. It has received support from CIPFA on this to help assess its performance.
19	Has the committee evaluated whether and how it is adding value to the organisation?	The proposed action at 5 above, will continue to ensure this in addition to completing the self-assessment: Evaluating the effectiveness of the audit committee.

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

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

<p><b>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</b>                  CIPFA: Audit Committees in Local Authorities and Police, 2018 edition</p>
<p><b>Cabinet Member (Portfolio Holder)</b>                  Peter Nutting (Leader of the Council) and Peter M Adams (Chairman of Audit Committee)</p>
<p><b>Local Member</b> n/a</p>
<p><b>Appendices</b>  <b>A</b> Self-assessment of good practice November 2018  <b>B</b> Analysis of training requirements and the effectiveness of the Audit Committee based on the 2017 self-assessments  <b>C</b> Self-assessment of good practice November 2018 showing evidence</p>



Appendix A: Self-assessment of Good Practice November 2018

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

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

<b>Good practice questions</b>		<b>Yes</b>	<b>Partly</b>	<b>No</b>
	<ul style="list-style-type: none"> <li>Separation from the executive</li> </ul>	✓		
	<ul style="list-style-type: none"> <li>An appropriate mix of knowledge and skills among the membership</li> </ul>		✓	
	<ul style="list-style-type: none"> <li>A size of committee that is not unwieldy</li> </ul>	✓		
	<ul style="list-style-type: none"> <li><b><u>Consideration has been given to the inclusion of at least one independent member (where this is not already a mandatory requirement).</u></b> <del>Where independent members are used, that they have been appointed using an appropriate process.</del></li> </ul>	✓		
13.	<b><u>Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council?</u></b>			N/A
14.	Does the chair of the committee have appropriate knowledge and skills?	✓		
15.	Are arrangements in place to support the committee with briefings and training?	✓		
16.	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?	✓		
17.	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	✓		
18.	Is adequate secretariat and administrative support to the committee provided?	✓		
<b>Effectiveness of the committee</b>				
19.	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?		✓	

<b>Good practice questions</b>		<b>Yes</b>	<b>Partly</b>	<b>No</b>
20.	<b><u>Are meetings effective with a good level of discussion and engagement from all the members?</u></b>	✓		
21.	<b><u>Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?</u></b>	✓		
22.	<b><u>Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?</u></b>	✓		
23.	Has the committee evaluated whether and how it is adding value to the organisation?		✓	
24.	Does the committee have an action plan to improve any areas of weakness?	✓		
25.	<b><u>Does the committee publish an annual report to account for its performance and explain its work?</u></b>	✓		

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

### Training requirements

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

H	High
M	Medium
L	Low

Rank	Skills: Core	Evidence of training since April 2017
H <sup>2</sup>	Organisational knowledge	October 2017 <sup>3</sup>
H	Audit Committee role and functions	June 2017, March and October 2018
H	Governance	June 2017, September 2018
H	Internal Audit	June 2017
H	Financial management and accounting	June 2017, September 2018
H	External Audit	June 2017
H	Risk Management	June and October 2017, September 2018
H	Counter-fraud	December 2017
H	Values of good governance	June 2017
M	Treasury management	June 2017
H	Strategic thinking and understanding of materiality	
H	Questioning and constructive challenge	
H	Focus on improvement	September 2018
H	Able to balance practicality against theory	
H	Clear communication skills and focus on the needs of users	

<sup>2</sup> Based on 4/9 completed

<sup>3</sup> Contract management

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<b>Skills: Specialist</b>		
L	Accountancy	
L	Internal Audit	June 2017
L	Risk Management	June and October 2017, September and November 2018
L	Governance and Legal	October 2017 <sup>4</sup>
M	Service knowledge relevant to the functions of the organisation	
M	Programme and project management	
L	IT system and IT governance	November 2018
<b>Analysis of the effectiveness of Audit Committee based on 2017 self-assessments</b>		
M <sup>5</sup>	Promoting the principles of good governance and their application to decision making.	
M	Contributing to the development of an effective control environment.	
M	Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.	
M	Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	
M	Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence.	
M	Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements.	
M	Supporting the development of robust arrangements for ensuring value for money.	
M	Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risk.	
M	Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.	

<sup>4</sup> Contract management

<sup>5</sup> Based on 3/9 completion

## Appendix B2: Progress to date against the proposed improvement plan for an effective Audit Committee reported June 2018

### Promoting the principles of good governance and their application to decision making

1. Improve engagement with Cabinet members – **Actioned.**

Audit Committee (AC) members considered the rationale against which they require managers, Internal or External Audit to provide assurances on specific matters, and the Portfolio Holder when these need to be escalated. This will be considered at training sessions and meetings in the future as part of a risk based approach.

2. Include AC members on AGS working groups - **Actioned**

As part of the Annual Governance process, in June each year, the AC receive and review a copy of the AGS and are asked to comment on the framework. This is set out as an Annex to the AGS. This demonstrates the process followed in agreeing and compiling the AGS. Members received training on the AGS framework to support their knowledge base further (Sept 2018).

### Contributing to the development of an effective control environment

3. For rejected recommendations and slow implementation, could portfolio holders be more involved? – **Actioned.**

This was considered as part of 1 above.

4. Need to understand how matters are referred to the administration (chief executive, senior management and other members) – **Actioned.**

This was considered as part of the training in Sept. 2018: The Committee's role in governance and an update on the latest guidance

### Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risk

5. Could risk owners be more involved in reporting on risks to the AC? **Actioned.**

Training in Sept. 2018 explored this as part of an Audit Committee and Risk Management session. Members agreed to invite risk owners more frequently to both meetings and training sessions.

6. Need to clarify reporting of concerns up through the organisation (e.g. from departments to senior management to members) – linked to 4? **Actioned.**

This was considered as part of the training in Sept. 2018: The Committee's role in governance and an update on the latest guidance

### **Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively**

7. Develop a more structured understanding of the assurance activities and assurance provided to the AC. **Actioned**  
Agendas have been reformatted to demonstrate more transparently where assurances are being provided from.  
A session on different assurance providers and how they feed into the AGS was provided at the Sept 2018 session on the Committee's role in governance

### **Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence**

8. Audit to provide more explanation regarding the importance and relevance of the items they present. **Actioned and ongoing.**  
Committee reports will be considered by officers and members and where further clarity is required this will be sought and delivered. Training sessions are used to explore issues prior to the formal reporting to committee, examples are governance and risk management frameworks.
9. Audit Committee members to help improve awareness of the assurance framework, including the work of Internal Audit, and governance structures to non-committee members. **Actioned and ongoing.**  
A session on different assurance providers and how they feed into the AGS was provided at the Sept 2018 session on the Committee's role in governance to aid members in their deliver of this.

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

10. Are strategic areas for improvement being reported sufficiently often to the AC? And how is this done? **Actioned.**  
The Sept. 2018 training session showed the relationships between the AGS, strategic risks and the AC work plan. Strategic risks highlight the areas for improvement. Members can and do request subsequent where more information is required. An example of this is the request for the Commercial strategic risk to be explored at an Audit Committee training session in November 2018

### **Supporting the development of robust arrangements for ensuring value for money**

11. Setting of financial strategy and interim budget reports to AC. **Actioned.**  
Financial resilience, how can the committee be assured of this was a session at the Sept 2018 training. Members explored the information they receive and what, if further assurance reports are required on finance strategies and budget reports.
12. Reports to members from officers could state what they are doing to deliver VFM. **Actioned and ongoing.**



This is being trialled in Committee reports where relevant. It is recognised that the improvement of all controls to mitigate and minimise risk, reduces costs and improves efficiencies which leads to better VFM.

13. Need to decide what the authority means by VFM. **Actioned and ongoing.**

The Sept. 2018 training sessions presented members with the findings of a VFM survey and exercise which identified who knew what about VFM.

**Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks**

14. Is the whistleblowing policy public enough? Members receive an annual whistleblowing report on the public agenda and the policy is available to all. The accessibility of this and its communication to be considered at the November 2018 training session of the Committee.

15. Audit Committee access to the fraud risk register. Planned for November 2018.

16. Fraud training for the Audit Committee. Refresh training planned for November 2018.

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

17. Could more use be made of social media? Planned for November 2018.

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

	Good practice questions	Yes/ No/ Partly	Evidence
	<b>Audit Committee purpose and governance</b>		
1.	Does the authority have a dedicated audit committee?	Yes	Constitution/ actual meetings, details on internet.
2.	Does the audit committee report directly to full council?	Yes	ToR <sup>6</sup> paragraph (para) <b>43/44</b> , reviewed, revised and reapproved at December Audit Committees.
3.	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	Yes	ToR from para <b>10</b> reviewed, revised and reapproved at December Audit Committees.
4.	Is this role and purpose of the audit committee understood and accepted across the authority?	Yes	Officers and members are aware of this – there can be some confusion over the scrutiny/ audit committee role at times, this is worked on by key members and officers at every opportunity. Officers and Portfolio Holders are invited to Audit Committee to discuss major risks and control issues, examples can be provided from various agendas. Discussions take place between the Chairman, CEO, senior officers and Portfolio Holders as required.

<sup>6</sup> Terms of reference

	Good practice questions	Yes/ No/ Partly	Evidence
			Member training is sometimes extended to a wider member audience The annual report from Committee to Council informs all members of the Committee's activities.
5.	Does the audit committee provide support to the authority in meeting the requirements of good governance?	Partly	ToR para <b>10-19</b> . ToR Para <b>45</b> , j. The Committee's work plan identifies areas of governance that it provides support on, this can be seen in Committee agendas at March meetings. The Annual Assurance report to Council presented to the June Committee also demonstrates this. Members during November could participate in a survey evaluating ethics and doing the right thing in the Council, the results from which will be fed back to the Committee.  <b>Proposed Action:</b> <i>Members continue to consider areas identified for improvement in the Annual Governance Statements against their work and training plans, to ensure coverage of all areas the committee requires assurances from.</i>
6.	Are the arrangements to hold the committee to account for its performance operating satisfactorily?	Yes	No complaints from Council. Annual report to Council appears on June Audit Committee agenda allows members to comment and challenge the Committee's work. Evidence that the Committee is reviewing issues aligned to the Strategic Risks of the Council and the Annual Governance Statement action plans

	Good practice questions	Yes/ No/ Partly	Evidence
			<b>Proposed Action:</b> <i>An action to review this, to keep it current, is included above.</i>
	<b>Functions of the committee</b>		
7.	Do the committee's terms of reference explicitly address all the core areas identified in CIPFAs 2018 Position Statement?	Yes	
	<ul style="list-style-type: none"> <li>• Good governance</li> </ul>		ToR para <u>10</u> +
	<ul style="list-style-type: none"> <li>• Assurance framework <b><i>including partnerships and collaboration arrangements</i></b></li> </ul>		ToR para <u>10</u> +
	<ul style="list-style-type: none"> <li>• Internal audit (IA)</li> </ul>		ToR para <u>20</u> +
	<ul style="list-style-type: none"> <li>• External audit</li> </ul>		ToR para <u>32</u> +
	<ul style="list-style-type: none"> <li>• Financial reporting</li> </ul>		ToR para <u>38</u> +
	<ul style="list-style-type: none"> <li>• Risk management</li> </ul>		ToR para <u>14</u> +
	<ul style="list-style-type: none"> <li>• Value for money or best value</li> </ul>		ToR para <u>12</u> +
	<ul style="list-style-type: none"> <li>• Counter-fraud and corruption</li> </ul>		ToR para <u>17</u> +

	Good practice questions	Yes/ No/ Partly	Evidence
	<ul style="list-style-type: none"> <li>• <b><u>Supporting the ethical framework</u></b></li> </ul>		<b><u>ToR para 11+</u></b>
8.	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?	Yes	Evaluation is through the: <ul style="list-style-type: none"> <li>• Self-assessment of compliance with this best practice document, reported to December.</li> <li>• Annual report to Committee is written to map back to the terms of reference.</li> <li>• Annual work plan, reported to March_Committee, which maps back to the ToR.</li> <li>• Agendas, minutes and reports of Committee support that all core areas are being reviewed.</li> </ul>
9.	Has the audit committee considered the wider area identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?	Yes	Wider areas are: <ul style="list-style-type: none"> <li>• Matters at the request of Statutory Officers or other committees – if these are brought to the Committee they would be considered in line with the ToR, para <b><u>7</u></b>.</li> <li>• Ethical Values – The Committee does not have responsibility for reviewing ethical standards. A separate Standards Committee which has this responsibility is held as and when required. <b><u>However,</u></b></li> </ul>

	Good practice questions	Yes/ No/ Partly	Evidence
			<p><b><u>the Committee supports standards and ethics, para 11+.</u></b></p> <ul style="list-style-type: none"> <li>• Treasury Management – The Committee covers this responsibility as evidenced by its ToR para <b>40+</b>.</li> </ul>
10.	Where coverage of core areas has been found to be limited, are plans in place to address this?	Yes	<p>No limitations have been found, evidence is demonstrated openly on the Internet in the:</p> <ul style="list-style-type: none"> <li>• Work plan</li> <li>• Regular Committee reports</li> <li>• ToR</li> <li>• Annual report to Council</li> <li>• Lack of negative feedback from Council and statutory officers</li> </ul> <p><b>Proposed Action:</b> <i>The proposed action at 5 above, will continue to ensure this.</i></p>
11.	Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?	Yes	<p>ToR, especially para <b>46</b>, sets out decision making powers. Review of work plans, agendas, reports and minutes demonstrate this, all are available on the Internet.</p>
	<b>Membership and support</b>		

	Good practice questions	Yes/ No/ Partly	Evidence
12.	Has an effective audit committee structure and composition of the committee been selected? This should include:	Partly	
	<ul style="list-style-type: none"> <li>Separation from the executive</li> </ul>	Yes	ToR, para 1 Where it has been recognised that Members have conflicting responsibilities, they have resigned from the Committee.
	<ul style="list-style-type: none"> <li>An appropriate mix of knowledge and skills among the membership</li> </ul>	Partly	ToR, para <b>47+</b> <b><u>This is demonstrated by self-assessments completed by Members in 2017 used to inform</u></b> the training plans covered in publicly available reports on the Committee's work plan (March) and the annual report to Council (June). Members have wide experience and continuity of knowledge, some of which sit on Audit Committee's for other public-sector organisations, members also have private business knowledge, financial, and governance awareness. Where members feel further knowledge or training is required they can and do raise this, demonstrated through work, training plans and self-assessments.  <b>Proposed Action:</b> <i>Consider future training requirements and feed into training plans.</i>
	<ul style="list-style-type: none"> <li>A size of committee that is not unwieldy</li> </ul>	Yes	ToR, para 1
	<ul style="list-style-type: none"> <li><b><u>Consideration has been given to the inclusion of at least one</u></b></li> </ul>	Yes	There are currently no independent members on the Committee. Appointment would follow good recruitment

	Good practice questions	Yes/ No/ Partly	Evidence
	<p><b><u>independent member (where this is not already a mandatory requirement).</u></b></p> <p>Where independent members are used, that they have been appointed using an appropriate process.</p>		<p>processes including evaluation of the skills sets required, advertising, clear job specifications and descriptions, selection and awarding processes.</p> <p><b><u>Consideration has been given to such an appointment and provision is made in the ToR, para 3.</u></b></p>
13.	<p><b><u>Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council?</u></b></p>	N/A	As above.
14.	Does the chair of the committee have appropriate knowledge and skills?	<b>Yes</b>	<p>Completion of self-assessment confirms appropriate knowledge and skills are in place. Evidenced by attendance at Committee and resulting recommendations and minutes, available on public web sites.</p> <p>The Chair also works closely with the S151 Officer and Head of Audit to retain current knowledge and management of risks as they develop.</p> <p><b><u>The Chair can identify and influence future training requirements for himself and other Committee members.</u></b></p>
15.	Are arrangements in place to support the committee with briefings and training?	Yes	<p>Regular training sessions are agreed with the Chair and wider members of the Committee.</p> <p>Demonstrated by:</p>



	Good practice questions	Yes/ No/ Partly	Evidence
			<ul style="list-style-type: none"> <li>• Completion of the skills assessment (completed autumn 2017).</li> <li>• Committee work plan (March Committee agenda)</li> <li>• Evidence of training including agendas, supporting training documents etc. available on request.</li> <li>• CIPFA's Better Governance Framework provides members with up to date briefing papers at least twice a year and all members can access the web site which provides weekly updates. Specialist training sessions are also accessible through this subscription.</li> <li>• External auditors provide training sessions available to members – demonstrated in their updates to the Committee.</li> </ul> <p><b>Proposed Action:</b> <i>The proposed action at 12 above, will continue to ensure this.</i></p>
16.	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?	Yes	Training self-assessments have been shared with members autumn 2017 and are informing the training plan looking forward.

	<b>Good practice questions</b>	Yes/ No/ Partly	<b>Evidence</b>
17.	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	Yes	Demonstrated by regular attendance at all Committees by these key stakeholders and the professional way the meetings are managed. Interviews with all parties would help to support this conclusion.
18.	Is adequate secretariat and administrative support to the committee provided?	Yes	Regular qualified and experienced secretarial support is provided to all Committee meetings.
	<b>Effectiveness of the committee</b>		The Committee evaluated its effectiveness with members working through and completing a self-assessment to feed into this overall assessment, and following workshops internally and externally facilitated. In addition, completion of the skills and training requirements help support this assessment. Results from the externally facilitated self-assessment were fed back to the Committee at the June 2018 meeting.
19.	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	Partly	Committee has received verbal feedback from members, officers and external audit, but no formal feedback. <b><u>The external facilitator in March 2018 did not identify this as an issue.</u></b> <b><u>Members have since received sessions on how the Committee feeds into the governance framework for further assurance.</u></b>
20.	<b><u>Are meetings effective with a good level of discussion and engagement from all the members?</u></b>	<b><u>Yes</u></b>	<b><u>Demonstrated in minutes and by attendees at Committee and by clear requests for further information in a few high-risk areas.</u></b>

	<b>Good practice questions</b>	<b>Yes/ No/ Partly</b>	<b>Evidence</b>
21.	<b><u>Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?</u></b>	<b><u>Yes</u></b>	<b><u>Demonstrated in agendas, minutes and reports of the Committee. All unsatisfactory and limited audit areas are reported to Committee and members invite officers from such areas to provide management updates on progress against agreed control improvements.</u></b>
22.	<b><u>Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?</u></b>	<b><u>Yes</u></b>	<b><u>Where there is a need to escalate such issues further the Committee would do this through known member and officer channels. Clarity has been provided and explored at governance training sessions on how this works in practice.</u></b>
23.	Has the committee evaluated whether and how it is adding value to the organisation?	Partly	Demonstrated by the year-end report sent to Council in September (agreed by Audit Committee in June) which sets out delivery in the following areas: <ul style="list-style-type: none"> <li>• Promoting the principles of good governance and their application to decision making; advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively</li> <li>• Contributing to the development of an effective control environment</li> </ul>

	Good practice questions	Yes/ No/ Partly	Evidence
			<ul style="list-style-type: none"> <li>• Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks</li> <li>• Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence</li> <li>• Aiding the achievement of the authority’s goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements</li> <li>• Supporting the development of robust arrangements for ensuring value for money</li> <li>• Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks</li> <li>• Promoting effective public reporting to the authority’s stakeholders and local community and measures to improve transparency and accountability</li> </ul> <p><b><u>In addition, agendas and work is planned and shows clearly where the levels of assurance are coming from,</u></b></p>

	<b>Good practice questions</b>	Yes/ No/ Partly	<b>Evidence</b>
			<b><u>providing opportunity to challenge and ensure a balanced information base is received by members.</u></b>
24.	Does the committee have an action plan to improve any areas of weakness?	Yes	<b><u>Results from the externally facilitated self-assessment were fed back to the Committee at the June 2018 meeting. This incorporated an action plan. Appendix B2 incorporates an update against agreed activities.</u></b>
25.	<b><u>Does the committee publish an annual report to account for its performance and explain its work?</u></b>	<b><u>Yes</u></b>	<b><u>Annual report to Council appears on June Audit Committee agenda allows members to comment and challenge the Committee's work. This is a public report.</u></b>

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<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
6 <sup>th</sup> December 2018	
1:30 pm	<u>Public</u>

## INTERNAL AUDIT CHARTER

**Responsible Officer** Ceri Pilawski

e-mail: [Ceri.pilawski@shropshire.gov.uk](mailto:Ceri.pilawski@shropshire.gov.uk)

Tel:

01743 257739

### 1. Summary

The Internal Audit Team works to a Charter which complies with the Public Sector Internal Audit Standards (PSIAS) as applied in the UK, based on international standards. The Charter is reviewed and considered by the Audit Committee on an annual basis; for 2018 there are no changes proposed.

### 2. Recommendations

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

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

- 3.1 Audit Committee has a key function in ensuring that effective corporate governance arrangements are maintained in the Council. The Internal Audit Charter provides evidence of such arrangements in respect of the Internal Audit function, and has been updated to reflect the recent refresh of the Public Sector Internal Audit Standards and learning following the external review of Internal Audit.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.

### 4. Financial Implications

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

## 5. Background

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

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

Accounts and Audit Regulations 2015;  
Public Sector Internal Audit Standards 2017



Internal Audit Quality Assurance Improvement Programme – External Assessment, February 2017

**Cabinet Member (Portfolio Holder):**

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

**Local Member:** All

**Appendix A:** Internal Audit Charter with annexes A and B

## Appendix A



# INTERNAL AUDIT CHARTER

## MISSION STATEMENT

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

## INTERNAL AUDIT CHARTER

### INTRODUCTION

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

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

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

<sup>3</sup> Engagement is the term in the PSIAS used to represent audit work.

<sup>4</sup> The Audit Committee is referenced in the PSIAS as the Board.

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

## **INTERNAL AUDIT PURPOSE AND RESPONSIBILITIES**

### **Purpose**

7. Internal Audit led by the Head of Internal Audit<sup>6</sup> is 'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.'<sup>7</sup>

### **Principles**

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

### **Objectives**

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

### **Responsibilities**

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

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

<sup>6</sup> The Head of Audit is the Council's Chief Audit Executive as defined in the PSIAS.

<sup>7</sup> Source Public Sector Internal Audit Standards April 1<sup>st</sup> 2013.

<sup>8</sup> Assurance opinions and recommendation categories are defined in Annex A

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

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

#### **INDEPENDENCE AND OBJECTIVITY**

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

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

## **COMPETENCIES AND STANDARDS**

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

## **INTERNAL AUDIT PLANNING**

27. The Head of Internal Audit produces the Council's annual risk based audit plan, in consultation with the Section 151 Officer, to establish priorities, achieve objectives and ensure the efficient and effective use of audit resources. The plan considers the Accounts and Audit (England) Regulations 2015, the management of risk, previous internal/external audit work, discussions with the Head of the Paid Service and senior managers, external networking intelligence, local and national risks, comments from the Audit Committee and any requirements of the External Auditor.
28. The Plan is subject to regular reviews and revisions as required to reflect changes to the risk environment and these changes are approved when significant. The Plan includes an element of contingency to allow Internal Audit to be responsive to changing risks and requests for assistance from managers. It is the responsibility of the Section 151 Officer to ensure that the budget<sup>9</sup> and resources allocated to Internal Audit are sufficient to ensure delivery of the plan and to report any concerns to the Audit Committee. The Audit Committee agree the annual risk based plan and any significant change to the plan during the year.
29. The Internal Audit team has retained a suitable mix of skills in finance, information technology, contract management, governance, establishments, systems, counter fraud, investigations and project management. To help supplement the internal resources and respond to demand during periods of

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<sup>9</sup> The budget, including the remuneration the Audit Service Manager is approved by Council.

change, additional audit time will be purchased from external contractors to deliver the plan.

## **NATURE OF WORK**

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

### **Governance**

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

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

### **Risk Management**

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

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

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

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

### **Control**



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

#### **INTERNAL AUDIT REPORTING**

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

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

#### **QUALITY ASSURANCE**

40. In order to ensure Internal Audit independence, the audit of any areas managed by the Head of Internal Audit will be carried out by an appropriate auditor and reviewed by an audit senior. The Head of Internal Audit will take no part in the audit or review process other than in the role of auditee. The final report will be issued to the Section 151 Officer as the Head of Internal Audit's line manager.
41. The Head of Internal Audit will develop and maintain a quality assurance and improvement programme covering all aspects of the internal audit activity and conforming to the relevant standards. This will include an on-going internal assessment covering adequate supervision of work performed, an internal review process and the retention of appropriate evidence. In addition, at least once every five years, an external assessment of Internal Audit by an appropriate person<sup>10</sup> external to the Council will be conducted. The timing, form of the assessment, qualifications of any external assessor, results and any improvement plans will be agreed with and reported to the Audit Committee in

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<sup>10</sup> Qualified independent assessor or assessment team

the annual report<sup>11</sup>. Significant deviations will be considered for inclusion in the Annual Governance Statement.

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

### **FRAUD AND CORRUPTION**

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

### **RIGHTS OF ACCESS**

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

Reviewed 1<sup>st</sup> November 2018

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<sup>11</sup> For both internal and external reviews

## Annex A

### Public Sector Internal Audit Standards

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

#### Assurance

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

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

#### Opinions are graded as follows

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

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

Best Practice (BP)	Proposed improvement, rather than addressing a risk.
Requires Attention (RA)	Addressing a minor control weakness or housekeeping issue.
Significant (S)	Addressing a significant control weakness where the system may be working but errors may go undetected.

Fundamental (F)

Immediate action required to address major control weakness that, if not addressed, could lead to material loss.

### **Consultancy Activity**

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

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

The nature and scope of the work may include:

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

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

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

### **Code of Ethics**

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

#### **There are four principles in the code of ethics:**

1. **Integrity** – The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.
2. **Objectivity** – Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

3. **Confidentiality** – Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
  
4. **Competency** – Internal auditors apply the knowledge, skills and experience needed in the performance of internal audit services.

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

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<sup>12</sup> Information can be found at [www.public-standards.gov.uk](http://www.public-standards.gov.uk)

**Annex B**

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

**Shropshire and Wrekin Fire and Rescue Authority**

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

**Oswestry Town Council**

Senior Management	Town Clerk
Board	Town Council

**STaRH**

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

**West Mercia Energy**

Senior Management	Treasurer Managing Director
Board	Joint Committee

**Shropshire County Pension Fund**

Senior Management	Pension Fund Administrator
Board	Pensions Committee

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<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
06 December 2018	
1:30pm	<u>Public</u>

## INTERNAL AUDIT PERFORMANCE AND REVISED ANNUAL AUDIT PLAN 2018/19

**Responsible Officer** Ceri Pilawski  
e-mail: [ceri.pilawski@shropshire.gov.uk](mailto: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 previous Audit Committee. Fifty two percent of the revised plan has been completed (**see Appendix A, Table 1**), which is slightly below previous delivery records. However, the team is on target to achieve 90% delivery by the year end.

One good, two reasonable, five limited and one unsatisfactory assurance opinions have been issued since the last report. The nine final reports contained 112 recommendations, one of which was fundamental.

This report proposes further significant revisions reducing the overall audit plan from 1,911 days, as reported in September 2018, to 1,773 days. Changes to the planned activity reflect adjustments in risks, increased pressures following more complex and sensitive reviews, a continuing reduction in available resources due to recruitment and trainee mentoring. At this stage, the potential impact on the Head of Audit's opinion is unknown but continues to be a concern until further work is completed. 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 2018/19 Audit Plan set out in this report and any action it wishes to take in response to any low assurance levels and the residual control environment, delivery against the fundamental recommendation and where a recommendation has been rejected.
- b) The adjustments required to the 2018/19 plan to take account of changing priorities set out in **Appendix B**.

## REPORT

### 3. Risk assessment and opportunities appraisal

- 3.1 The delivery of a risk based Internal Audit Plan is essential to ensuring the probity and soundness of the Council's control, financial, risk management systems and governance procedures. Areas to be audited are identified following a risk assessment process which considers the Council's risk register information and involves discussions with managers concerning their key risks. These are refreshed throughout the period of the plan as the environment changes. In delivering the Plan, the adequacy of control environments is examined, evaluated and reported on independently and objectively by Internal Audit. This contributes to the proper, economic, efficient and effective use of resources. It provides assurances on the internal control systems, by identifying potential weaknesses and areas for improvement, and engaging with management to address these in respect of current systems and during system design. Without this, failure to maintain robust internal control, risk and governance procedures creates an environment where poor performance, fraud, irregularity and inefficiency can go undetected, leading to financial loss and reputational damage.
- 3.2 Provision of the Internal Audit Annual Plan satisfies the Accounts and Audit Regulations 2015, part 2, section 5(1) in relation to internal audit. These state that:
- 'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
- 3.3 'Proper practices' can be demonstrated through compliance with the Public Sector Internal Audit Standards (PSIAS).
- 3.4 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and there are no direct environmental, equalities or climate change consequences of this proposal.

### 4. Financial implications

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

### 5. Background

- 5.1 Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal Audit reviews, appraises and reports on the efficiency, effectiveness and economy of financial, governance, risk and other management controls. The Audit Committee is the governing body charged with monitoring progress on the work of Internal Audit.
- 5.2 The 2018/19 Internal Audit Plan was presented to, and approved by, members at the 1<sup>st</sup> March 2018 Audit Committee, with adjustments being approved in September 2018. This report provides an update on progress made against the plan up to 11<sup>th</sup> November 2018 and includes revisions to the plan to reflect the ongoing reduction in resources.

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

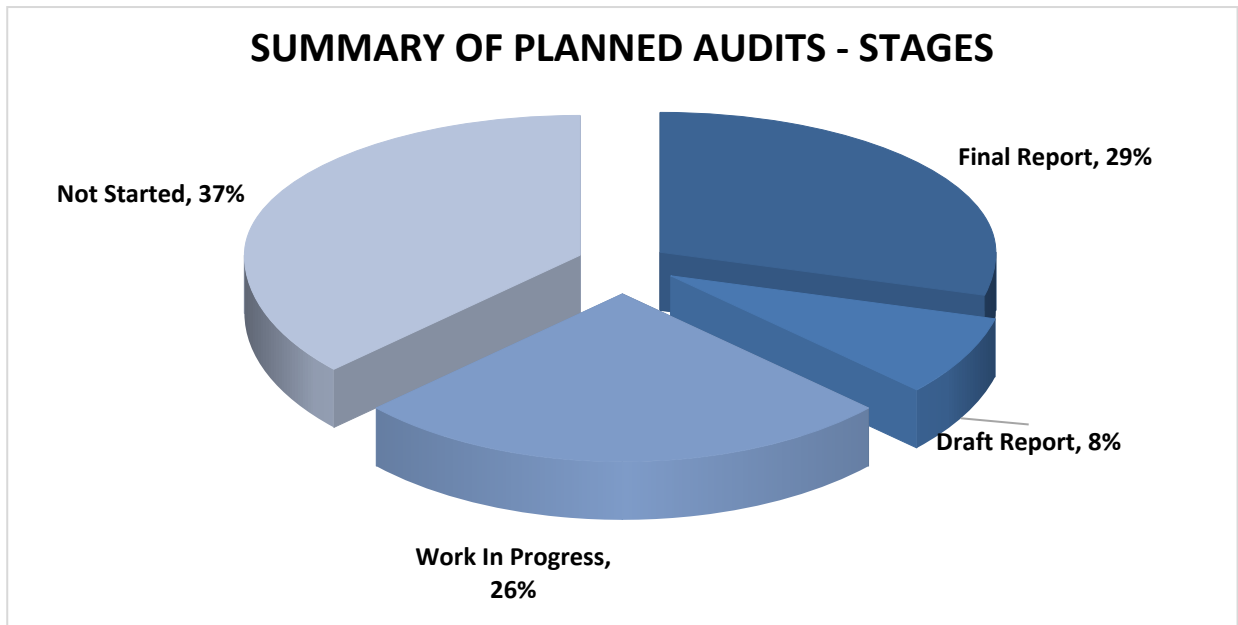
### **Performance against the plan 2018/19**

5.4 Revisions to the 2018/19 plan provide for a total of 1,773 days following further delays in recruitment and an extended period of maternity leave. Performance to date is marginally lower than previous delivery records at 52% (58% 2017/18), however, overall the team is on track to deliver a minimum of 90% of the revised annual plan by year end.

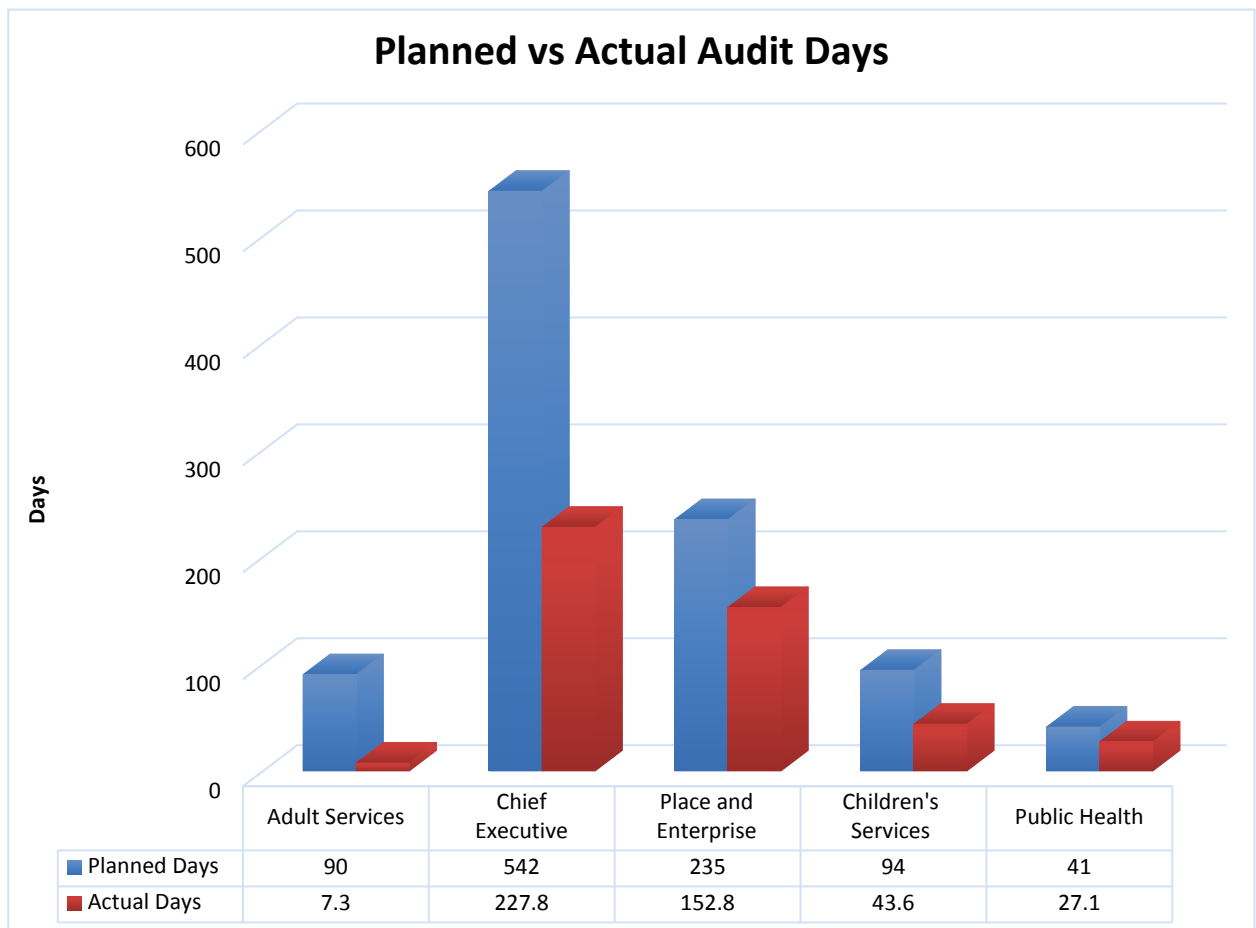
5.5 Resourcing problems have continued to be experienced:

- Work by the Internal Audit contractor has been slow to start but several draft audits are now out for management review;
- Internal Audit has been heavily involved in recruiting Accountancy and Auditor Trainees as well as Auditors to posts. This is ongoing and has taken more resourcing than originally planned in terms of interviews, inductions, HR processes and administration. A trainee is due to start late November and a new Auditor is expected to join the team in January. Further interviews are planned in December. One of the posts will not be recruited to since the team will be supporting three auditors/ trainees new to post who require one to one coaching in the early months and therefore the capacity is not available to provide for another post initially. It is hoped that by investing time and energy in the induction and training of staff, the team will be able to develop auditors to offset the difficulties experienced recruiting qualified auditors to the Council. Changes to the delivery of training where an Apprenticeship scheme is adopted, have also decreased the number of chargeable days a trainee is available to that previously under more traditional day release schemes.
- Delivery of the plan will continue to be impacted on due to the increased number of new Auditors and some adjustments reflect audits where trainees work alongside more experienced staff members.
- There is a spending freeze and Audit have been asked to provide funds toward the budget overspend in the current financial year. £80,000 has been provided from vacancies and buying in budgets.
- An increased number of investigations of a fraud, disciplinary and whistleblowing nature have diverted resources from planned work, better initial management of issues by services would help reduce a number of these. In addition, audits are more complex, sensitive and contentious in terms of the issues being identified and auditees under pressure can sometimes be slow to respond to enquiries, this adds a level of repetition when completing tasks and increased negotiation, both of which add time to the audit area.
- Changes have been made to the plan as business risks have materialised or become more transparent and ongoing is the assurance support on the Digital Transformation Plan which was identified as a large project and is absorbing more resources than originally allocated.

5.6 In total, nine final reports have been issued in the period from 13<sup>th</sup> August to 11<sup>th</sup> November 2018. The following chart shows performance against the approved Internal Audit Plan for 2018/19:



5.7 Audits have been completed over several service areas as planned:

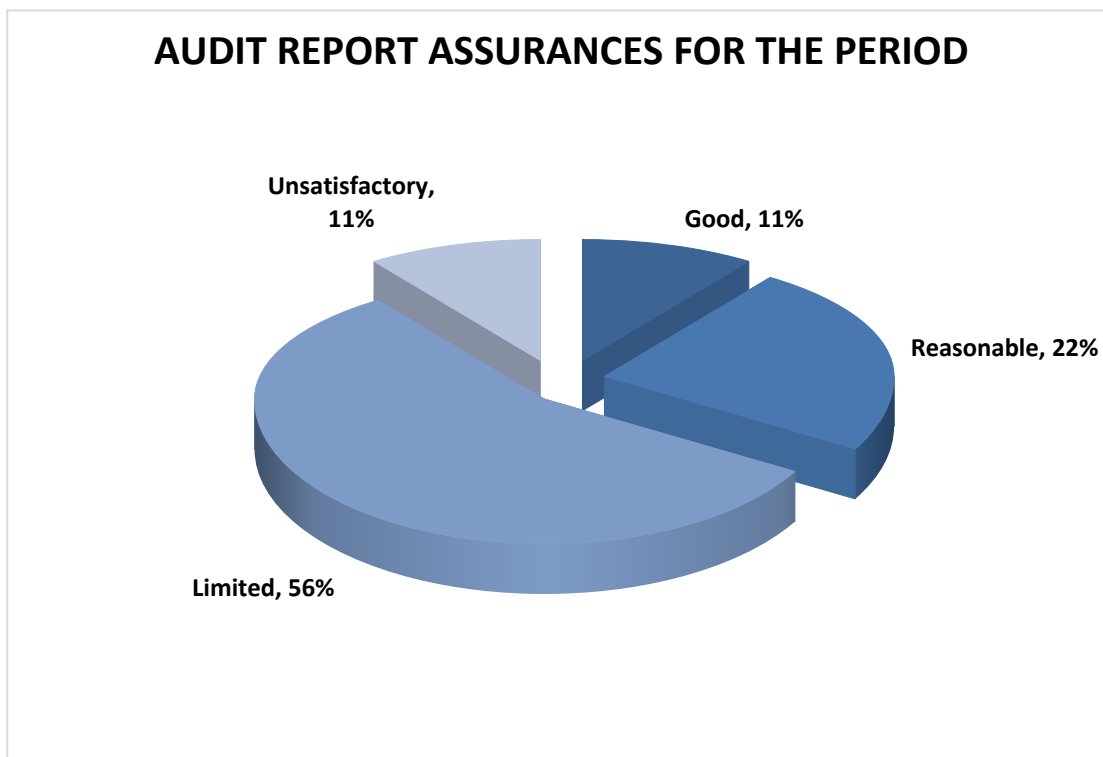


5.8 The following audits have been completed since the 13<sup>th</sup> August 2018:

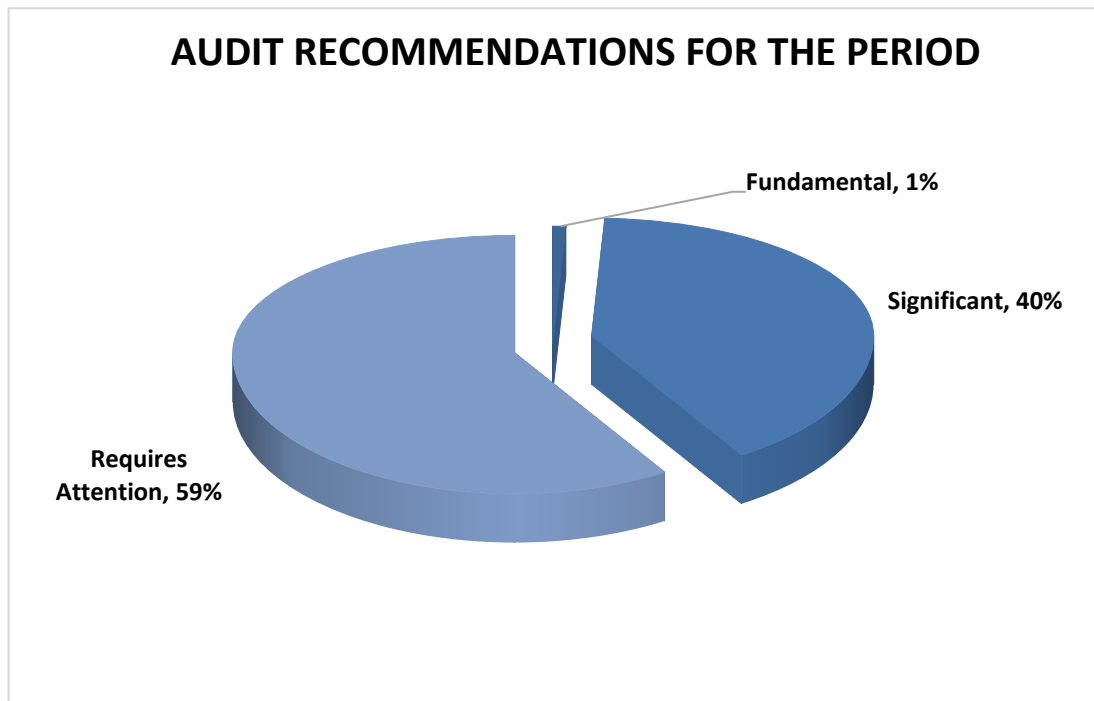
- Community Infrastructure Levy
- Environmental Maintenance Grants

- Section 38 Road Adoption
- Community Car Scheme
- Strengthening Families Grant
- Registrars Service
- Enterprise Resource Planning (ERP) Project Governance Review of the ERP Build Phase
- Customer Service Points
- Flexi/Annualised Hours System

5.9 The assurance levels awarded to each completed audit area appear in the graph below:



5.10 The overall spread of recommendations agreed with management following each audit review are as follows:



- 5.11 Up to the 11<sup>th</sup> November 2018, three reports have been issued, providing good or reasonable assurances, accounting for 33% of the opinions delivered. This represents a decrease in the higher levels of assurance for this period, compared to the previous year outturn of 64%. This is offset by a corresponding increase in limited and unsatisfactory assurances, currently 67% compared to the previous year outturn of 36%.
- 5.12 During this period, it is not clear if there is a strong pattern of areas attracting lower assurance levels given the small report numbers involved. Control objectives evaluated and not found to be in place as part of these audit reviews appear in a summary of the planned audit reviews which resulted in limited assurance in **Appendix A, Table 3**. The appendix also includes descriptions of the levels of assurance used in assessing the control environment and the classification of recommendations, **Tables 4 and 5** and provides a glossary of common terms, **Table 6**.
- 5.13 Eight draft reports, awaiting management responses, will be included in the next quarter results. Work has also been completed for external clients in addition to the drafting and auditing of financial statements in respect of several honorary funds and the certification of grant claims.
- 5.14 A total of 112 recommendations have been made in the nine final audit reports issued in the period 13<sup>th</sup> August to 11<sup>th</sup> November 2018; these are broken down by audit area and appear in **Appendix A, Table 7**.
- 5.15 A fundamental recommendation has been identified in relation to Environmental Maintenance Grants which is detailed below:

**Recommendation**

The findings in the Internal Audit report should be considered and it should be ensured that the revised procedures in respect of the administration of the Environmental

Maintenance Grant address all the issues identified as well as satisfying the requirements agreed by Cabinet. The proposed changes to procedures should be carried out in the 2018/19 budget period. A review should be undertaken to consider what actions would be practical to identify and recover grant monies which have not been spent, which have not been used in accordance with the guidance issued and have not been used in accordance with the agreements made with the Council.

*Findings identified included required improvements to:* eligibility criteria; authorisation processes; application and documentation retention; guidance for applicants; checks on individuals and companies carrying out the works that they are qualified and skilled to do so; clarity of liability the Council may incur should an incident occur in respect of works which have been funded by the grant; grant assessment, monitoring and reconciliation process; provision for the return of any over-subscribed grant; evidence that the funding allocated has been spent in accordance with the approved application; evidence that the grant funding has demonstrated value for money and added value.

### **Management Response**

The review of the Environmental Maintenance Grant has been completed. The revised procedures are a work in progress and will address the previous weaknesses in the administration of the grant.

### **Agreed implementation date**

31/10/18

Since issuing the Audit, management have provided revised procedures to Internal Audit to demonstrate the action taken. An initial, high level review of these appears to provide assurance that they address the issues raised. No formal revised opinion can be issued until a full review of the process has been undertaken.

- 5.16 It is management's responsibility to ensure accepted audit recommendations are implemented within an agreed timescale. **Appendix A, Table 8 sets out the approach adopted to following up recommendations** highlighting Audit Committees involvement.
- 5.17 One significant recommendation has been rejected by management:  
**Section 38 Road Adoptions**  
 Before any further amounts are written off advice should be taken from Legal Services to establish what rights the Council have under the agreements for the bond. If there is no legal solution any further action should be agreed at Director level.

### **Management Response**

It is considered that this already took place and will in the future. When amounts were written off, each payment was rated High, Medium and Low risk and this was signed off at Director level.

### **Audit Comment**

Whilst it is accepted that discussions have taken place at Highways Environment Finance meetings regarding the write off, of low risk amounts in the suspense account, there is no evidence to support confirmation by Legal Services that the Council has the authority to write off the money held.

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?

- 5.18 The following demonstrates areas where Audit have added value with unplanned, project or advisory work, not included in the original plan located at **Appendix A, Table 1**.
- In addition to planned IT Audit work covering aspects of the Digital Transformation Programme, the Principal Auditor (IT) has been actively involved within the Programme Assurance Board. To date, since April 2018 the Programme Assurance team has prepared and issued eight formal reports to the Digital Transformation Programme Board. These reports consider control issues in relation to project and programme delivery and comments from the project Senior Responsible Officers (SRO's) are included. The Principal Auditor (IT) has also responded to the SRO for the Enterprise Resource Planning (ERP) project on several areas on a consultancy basis, providing advice, guidance and insight on options appraisals within the Programme. This work has included assessment of project manager reports and regular updates to the SRO. Reactive work has also been completed where the Principal Auditor (IT) has taken an active role to mitigate immediate project risks, specifically within the ERP project.
  - The team has facilitated and coordinated delivery of the Council's participation in the National Fraud Initiative (NFI) by coordinating data specification requirements and supporting Information Asset Owners in the extraction and uploading of the data for the initiative. Further details of this initiative appear elsewhere on your agenda.
  - An increasing number of financial appraisals are being requested and completed to establish the financial viability of companies providing social care for both adults and children. This information is proactively applied to allow for informed business continuity planning around service delivery. This due diligence approach provided the Council with warning of issues with a supplier in the adult healthcare market, prior to those received directly from the Care Quality Commission (CQC), ensuring that the Council had adequate time to consider appropriate options.
  - Completion of a school fund as part of an Apprentice's training, has produced proposed recommendations to the school to improve on collation and evidencing of the fund accounts.

### Direction of travel

- 5.19 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
<b>2018/19 to date</b>	<b>20%</b>	<b>44%</b>	<b>33%</b>	<b>3%</b>	<b>100%</b>
<b>2017/18</b>	<b>20%</b>	<b>44%</b>	<b>29%</b>	<b>7%</b>	<b>100%</b>
<b>2016/17</b>	<b>7%</b>	<b>45%</b>	<b>31%</b>	<b>17%</b>	<b>100%</b>
<b>2015/16</b>	<b>14%</b>	<b>35%</b>	<b>42%</b>	<b>9%</b>	<b>100%</b>
<b>2014/15</b>	<b>17%</b>	<b>47%</b>	<b>28%</b>	<b>8%</b>	<b>100%</b>
<b>2013/14</b>	<b>30%</b>	<b>45%</b>	<b>15%</b>	<b>10%</b>	<b>100%</b>
<b>2012/13</b>	<b>31%</b>	<b>56%</b>	<b>12%</b>	<b>1%</b>	<b>100%</b>



## Comparison of recommendation by categorisation

Categorisation	Best practice	Requires attention	Significant	Fundamental	Total
<b>2018/19 to date</b>	<b>2%</b>	<b>64%</b>	<b>34%</b>	<b>0%</b>	<b>100%</b>
<b>2017/18</b>	<b>3%</b>	<b>56%</b>	<b>41%</b>	<b>0%</b>	<b>100%</b>
<b>2016/17</b>	<b>4%</b>	<b>50%</b>	<b>46%</b>	<b>0%</b>	<b>100%</b>
<b>2015/16</b>	<b>4%</b>	<b>54%</b>	<b>42%</b>	<b>0%</b>	<b>100%</b>
<b>2014/15</b>	<b>6%</b>	<b>53%</b>	<b>40%</b>	<b>1%</b>	<b>100%</b>
<b>2013/14</b>	<b>15%</b>	<b>57%</b>	<b>27%</b>	<b>1%</b>	<b>100%</b>
<b>2012/13</b>	<b>23%</b>	<b>57%</b>	<b>20%</b>	<b>0%</b>	<b>100%</b>

- 5.20 The number of lower level assurances 36%, at this point in the year, is equal to the outturn for 2017/18 of 36%. **Appendix A, Table 3**, shows a full list of areas that have attracted limited and unsatisfactory assurances to date this year. This does not currently demonstrate any one area of concern however, members should note that only a proportion of the plan has been completed to date and the main financial and governance areas are yet to be completed.

**Performance measures**

- 5.21 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 2018/19 - Audit Committee 1st March 2018

Internal Audit Performance and Revised Annual Audit Plan 2018/19 – Audit Committee 4th September 2018

Public Sector Internal Audit Standards (PSIAS)

Audit Management system

Accounts and Audit Regulations 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 13<sup>th</sup> August to 11<sup>th</sup> November 2018

Table 2: Final audit report assurance opinions issued in the period 13<sup>th</sup> August to 11<sup>th</sup> November 2018

Table 3: Unsatisfactory and limited assurance opinions in the period 13<sup>th</sup> August to 11<sup>th</sup> November 2018

Table 4: Audit assurance opinions

Table 5: Audit recommendation categories

Table 6: Glossary of terms

Table 7: Audit recommendations made in the period 13<sup>th</sup> August to 11<sup>th</sup> November 2018

Table 8: Recommendation follow up process (risk based)

**Appendix B** - Audit plan by service 13<sup>th</sup> August to 11<sup>th</sup> November 2018

**Table 1: Summary of actual audit days delivered and revisions to the audit plan in the period from 13th August to 11th November 2018**

	Original Plan	Revised Plan	11 Nov. 2018 Actual	% of Original Complete	% of Revised Complete
Chief Executive	707	542	227.8	32%	42%
Finance, Governance and Assurance	392	272	110.2	28%	41%
Governance	30	21	9.1	30%	43%
Workforce and Transformation	257	219	108.5	42%	50%
Legal and Democratic	28	30	0.0	0%	0%
Adult Services	172	90	7.3	4%	8%
Place and Enterprise	342	235	152.8	45%	65%
Children's Services	173	94	43.6	25%	46%
Public Health	70	41	27.1	39%	66%
<b>S151 Planned Audit</b>	<b>1,464</b>	<b>1,002</b>	<b>458.6</b>	<b>31%</b>	<b>46%</b>
Contingencies and other chargeable work	566	542	336.2	59%	62%
<b>Total S151 Audit</b>	<b>2,030</b>	<b>1,544</b>	<b>794.8</b>	<b>39%</b>	<b>51%</b>
External Clients	226	229	124.4	55%	54%
<b>Total</b>	<b>2,256</b>	<b>1,773</b>	<b>919.2</b>	<b>41%</b>	<b>52%</b>

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

**Table 2: Final audit report assurance opinions issued in the period from 13th August to 11th November 2018**

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Chief Executive	0	1	2	0	3
Finance, Governance and Assurance	0	0	1	0	1
Governance	0	0	0	0	0
Workforce and Transformation	0	1	1	0	2
Legal and Democratic	0	0	0	0	0
Adult Services	0	0	0	0	0
Place and Enterprise	0	1	2	1	4
Children's Services	1	0	0	0	1
Children's Services: Schools	0	0	0	0	0
Children's Services: Others	1	0	0	0	1
Public Health	0	0	1	0	1

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
<b>Total for period</b>					
➤ Numbers	1	2	5	1	9
➤ Percentage	11%	22%	56%	11%	100%
Percentage 2018/19 to date	20%	44%	33%	3%	100%
Percentage 2017/18	20%	44%	29%	7%	100%
Percentage 2016/17	7%	45%	31%	17%	100%
Percentage 2015/16	14%	35%	42%	9%	100%
Percentage 2014/15	17%	47%	28%	8%	100%
Percentage 2013/14	30%	45%	15%	10%	100%
Percentage 2012/13	31%	56%	12%	1%	100%

**Table 3: Unsatisfactory and limited assurance opinions issued in the period from 13th August to 11th November 2018<sup>1</sup>**

### Unsatisfactory assurance

#### **Place and Enterprise: Environmental Maintenance Grants**

- The provision of the Environmental Maintenance Grant and the criteria associated with the provision of the grant has been scrutinised and agreed.
- There is an appropriate process to invite applications for the grant funding and the applications received have been reviewed and assessed.
- There is an agreed budget for the grant funding and the payments which have been made to the applicants are correct and have been authorised.
- There are appropriate procedures to ensure that the grant funding is used within the specified time and that there is evidence that the funding has been used by the applicant as agreed.

### Limited assurance

#### **Head of Workforce and Transformation: Customer Service Points (Limited 2015/16)**

- The recommendations made in the previous 2014/15 Customer Service Points Audit have been implemented.
- Services are adequately provided as they are required by the service area or organisation and in accordance with procedures.
- There are budgets in place which are regularly monitored to ensure that income and costs are controlled.

#### **Public Health: Registrars (Limited 2015/16)**

The overall objective of the audit was to ensure that the Registrars Service has appropriately addressed the recommendations raised in the 2015/16 audit, in various management reports issued in 2016/17 and 2017/18. These reports covered areas such as income collection, recording and reconciliation, stock control and Imprest accounts.

- To ascertain the extent to which the recommendations made in the 2015/16 audit of the Registrars Service have been implemented.
- To ascertain the extent to which the recommendations made in the 2016/17 audit of the Registrars Imprest Account have been implemented.

<sup>1</sup> 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.

**Finance, Governance and Assurance: Enterprise Resource System (ERP) Project  
Governance – Review of the Build Stage**

- Appropriate management and governance arrangements are in place over the build of the ERP system.
- Shropshire Council has formally accepted the build of the new system based on previously agreed service design documents.
- Segregation of Duties has been included within the build and verified.
- Data Privacy, Security, Business Continuity, Disaster Recovery have been agreed and built into the system.
- Interfaces have been built and responsibilities have been formally defined.

**Place and Enterprise: Community Infrastructure Levy**

- The Community Infrastructure Levy demand notices are issued following the receipt of the commencement notices.
- The applications for relief from payment of the liability are administered and approved appropriately.
- The deductions from the liability for existing buildings are applied and administered correctly.
- The appeals are dealt with promptly through an independent process and the outcomes are communicated to individuals.
- The liability income which is collected is distributed in accordance with the scheme.
- Expenditure is in accordance with legislation.
- Electronically held data is secure and can be restored in the event of system failure.

**Place and Enterprise: Section 38 Road Adoptions**

- There is a system in place to ensure that previous recommendations have been implemented.
- The system is operated in accordance with up to date policies, procedures, Financial Rules, statutory regulations and legislation to which relevant staff have access.
- There are appropriate processes in place to identify and process highways adoptions.
- There are appropriate systems in place to invoke the Advance Payment Code (APC) unless a Section 38 agreement is being entered into.
- Section 38 agreements are prepared by appropriately qualified staff and signed on a timely basis.
- Income received in respect of Section 38 agreements are promptly and accurately accounted for.

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

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

	and there is evidence of non-compliance with some key controls.
<b>Unsatisfactory</b>	Evaluation and testing of the controls that are in place identified that the system of control is weak and there is evidence of non-compliance with the controls that do exist. This exposes the Council to high risks that should have been managed.

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

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

**Table 6: 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 several 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 13th August to 11th November 2018**

Service area	Number of recommendations made				
	Best practice	Requires attention	Significant	Fundamental	Total
Chief Executive	0	23	23	0	46
Finance, Governance and Assurance	0	6	14	0	20
Governance	0	0	0	0	0
Workforce and Transformation	0	17	9	0	26
Legal and Democratic	0	0	0	0	0
Adult Services	0	0	0	0	0
Place and Enterprise	0	37	19	1	57
Children's Services	0	0	0	0	0
Children's Services: Schools	0	0	0	0	0
Children's Services: Others	0	0	0	0	0
Public Health	0	6	3	0	9
<b>Total for period</b>					
➤ <b>Numbers</b>	<b>0</b>	<b>66</b>	<b>45</b>	<b>1</b>	<b>112</b>
<b>Percentage</b>	<b>0%</b>	<b>59%</b>	<b>40%</b>	<b>1%</b>	<b>100%</b>
<b>Percentage 2018/19 to date</b>	<b>2%</b>	<b>64%</b>	<b>34%</b>	<b>0%</b>	<b>100%</b>
<b>Percentage 2017/18</b>	<b>0%</b>	<b>41%</b>	<b>56%</b>	<b>3%</b>	<b>100%</b>
<b>Percentage 2016/17</b>	<b>4%</b>	<b>50%</b>	<b>46%</b>	<b>0%</b>	<b>100%</b>
<b>Percentage 2015/16</b>	<b>4%</b>	<b>54%</b>	<b>42%</b>	<b>0%</b>	<b>100%</b>
<b>Percentage 2014/15</b>	<b>6%</b>	<b>53%</b>	<b>40%</b>	<b>1%</b>	<b>100%</b>
<b>Percentage 2013/14</b>	<b>15%</b>	<b>57%</b>	<b>27%</b>	<b>1%</b>	<b>100%</b>
<b>Percentage 2012/13</b>	<b>23%</b>	<b>57%</b>	<b>20%</b>	<b>0%</b>	<b>100%</b>

**Table 8: Recommendation follow up process (risk based)**

When recommendations are agreed the responsibility for implementation rests with management. There are four categories of recommendation: fundamental, significant, requires attention and best practice and there are four assurance levels given to audits: unsatisfactory, limited, reasonable and good.

The process for *fundamental recommendations* will continue to be progressed within the agreed time frame with the lead Director being asked to confirm implementation. Audit will conduct testing, either specifically on the recommendation or as part of a re-audit of the whole system. Please note that all agreed fundamental recommendations will continue to be reported to Audit Committee. Fundamental recommendations not implemented after the agreed date, plus one revision to that date where required, will in discussion with the Section 151 Officer be reported to Audit Committee for consideration.

## APPENDIX B

AUDIT PLAN BY SERVICE –PERFORMANCE REPORT FROM 13<sup>th</sup> AUGUST to 11<sup>th</sup> NOVEMBER 2018

	Original Plan Days	September Revision	November Revision	Revised Plan Days	11th November 2018 Actual	% Revised Plan Achieved
<b>CHIEF EXECUTIVE Governance</b>	<b>30</b>	<b>-7</b>	<b>-2</b>	<b>21</b>	<b>9.1</b>	<b>43%</b>
<b>Finance Governance &amp; Assurance</b>						
Finance						
Transactions	108	-10	-35	63	0.4	1%
Finance and S151 Officer	101	-27	-22	52	22.6	43%
Financial Management	70	13	-27	56	29.9	53%
Procurement and Contract Management	61	-3	8	66	48.4	73%
Revenues and Benefits	20	-8	0	12	0.1	1%
Risk Management and Insurance	8	-1	0	7	0.0	0%
Treasury	24	-8	0	16	8.8	55%
	<b>392</b>	<b>-44</b>	<b>-76</b>	<b>272</b>	<b>110.2</b>	<b>41%</b>
<b>Workforce and Transformation</b>						
Human Resources	97	-44	3	56	33.7	60%
Customer Services	13	-5	5	13	13.1	101%
ICT	147	12	-9	150	61.7	41%
	<b>257</b>	<b>-37</b>	<b>-1</b>	<b>219</b>	<b>108.5</b>	<b>50%</b>
<b>Legal and Democratic Information</b>						
Governance	8	5	0	13	0.0	0%
Legal Services	20	-3	0	17	0.0	0%
	<b>28</b>	<b>2</b>	<b>0</b>	<b>30</b>	<b>0.0</b>	<b>0%</b>
<b>CHIEF EXECUTIVE</b>	<b>707</b>	<b>-86</b>	<b>-79</b>	<b>542</b>	<b>227.8</b>	<b>42%</b>

	Original Plan Days	September Revision	November Revision	Revised Plan Days	11th November 2018 Actual	% Revised Plan Achieved
<b>ADULT SERVICES</b>						
<b>Social Care Operations</b>						
Long Term Support	96	-42	-11	43	7.1	17%
Assistive Services Provider Services	8	0	0	8	0.0	0%
- Group Homes	8	-1	0	7	0.0	0%
Housing Services	28	-8	0	20	0.2	1%
<b>Social Care Operations</b>	<b>140</b>	<b>-51</b>	<b>-11</b>	<b>78</b>	<b>7.3</b>	<b>9%</b>
<b>Social Care Efficiency and Improvement</b>						
Developmental Support	32	-20	0	12	0.0	0%
<b>ADULT SERVICES</b>	<b>172</b>	<b>-71</b>	<b>-11</b>	<b>90</b>	<b>7.3</b>	<b>8%</b>
<b>PLACE AND ENTERPRISE</b>						
<b>Director of Place and Enterprise</b>						
Corporate Performance Management	0	10	-10	0	1.7	0%
<b>Business, Enterprise and Commercial Services</b>						
Commercial Services	8	0	2	10	9.4	94%
Shire Services	25	-13	0	12	0.0	0%
Strategic Asset Services	64	-26	-6	32	0.0	0%
	<b>97</b>	<b>-39</b>	<b>-4</b>	<b>54</b>	<b>9.4</b>	<b>17%</b>
<b>Economic Development</b>						
Business & Enterprise	29	-12	-6	11	6.6	60%



	Original Plan Days	September Revision	November Revision	Revised Plan Days	11th November 2018 Actual	% Revised Plan Achieved
Development Management Planning & Corporate Policy Project Development	24	-11	0	13	13.2	102%
	16	26	0	42	42.5	101%
	17	-4	-9	4	4.0	100%
	<b>86</b>	<b>-1</b>	<b>-15</b>	<b>70</b>	<b>66.3</b>	<b>95%</b>
<b>Infrastructure and Communities</b>						
Highways	65	6	-6	65	34.7	53%
Environmental Maintenance	0	8	-2	6	5.8	97%
Library Services	4	-4	0	0	0.0	0%
Public Transport	48	-23	1	26	22.1	85%
Waste & Bereavement	24	-24	0	0	0.0	0%
	<b>141</b>	<b>-37</b>	<b>-7</b>	<b>97</b>	<b>62.6</b>	<b>65%</b>
<b>Culture and Heritage</b>						
Theatre Severn and OMH	10	0	4	14	12.8	91%
Leisure Services	8	-8	0	0	0.0	0%
	<b>18</b>	<b>-8</b>	<b>4</b>	<b>14</b>	<b>12.8</b>	<b>91%</b>
<b>PLACE AND ENTERPRISE</b>	<b>342</b>	<b>-75</b>	<b>-32</b>	<b>235</b>	<b>152.8</b>	<b>65%</b>
<b>CHILDREN'S SERVICES</b>						
<b>Safeguarding</b>						
Children's Placement Services & Joint Adoption	36	-5	2	33	16.6	50%
Safeguarding	6	4	5	15	10.8	72%
	<b>42</b>	<b>-1</b>	<b>7</b>	<b>48</b>	<b>27.4</b>	<b>57%</b>
<b>Education, Improvement and Efficiency</b>						
Education Improvements	50	-20	-17	13	6.2	48%
Primary/Special	54	-36	15	33	10.0	30%

	Original Plan Days	September Revision	November Revision	Revised Plan Days	11th November 2018 Actual	% Revised Plan Achieved
Schools						
Secondary Schools	27	-27	0	0	0.0	0%
	<b>131</b>	<b>-83</b>	<b>-2</b>	<b>46</b>	<b>16.2</b>	<b>35%</b>
<b>CHILDREN'S SERVICES</b>	<b>173</b>	<b>-84</b>	<b>5</b>	<b>94</b>	<b>43.6</b>	<b>46%</b>
<b>PUBLIC HEALTH</b>						
Public Health	10	5	0	15	6.1	41%
Community Safety	8	-8	0	0	0.0	0%
	<b>18</b>	<b>-3</b>	<b>0</b>	<b>15</b>	<b>6.1</b>	<b>41%</b>
<b>Public Protection</b>						
Community Safety	24	-10	0	14	8.5	61%
Environmental Protection and Prevention	20	-7	-13	0	0.0	0%
	<b>44</b>	<b>-17</b>	<b>-13</b>	<b>14</b>	<b>8.5</b>	<b>61%</b>
<b>Bereavement</b>	<b>8</b>	<b>3</b>	<b>1</b>	<b>12</b>	<b>12.5</b>	<b>104%</b>
<b>PUBLIC HEALTH</b>	<b>70</b>	<b>-17</b>	<b>-12</b>	<b>41</b>	<b>27.1</b>	<b>66%</b>
<b>Total Shropshire Council Planned Work</b>	<b>1,464</b>	<b>-333</b>	<b>-129</b>	<b>1,002</b>	<b>458.6</b>	<b>46%</b>
<b>CONTINGENCIES</b>						
Advisory Contingency	50	-10	0	40	20.3	51%
Fraud Contingency	200	0	0	200	141.8	71%
Unplanned Audit Contingency	50	4	0	54	20.4	38%
Other non audit Chargeable Work	266	-9	-9	248	153.7	62%
<b>CONTINGENCIES</b>	<b>566</b>	<b>-15</b>	<b>-9</b>	<b>542</b>	<b>336.2</b>	<b>62%</b>
<b>Total for Shropshire</b>	<b>2,030</b>	<b>-348</b>	<b>-138</b>	<b>1,544</b>	<b>794.8</b>	<b>51%</b>
<b>EXTERNAL CLIENTS</b>	<b>226</b>	<b>3</b>	<b>0</b>	<b>229</b>	<b>124.4</b>	<b>54%</b>

	<b>Original Plan Days</b>	<b>September Revision</b>	<b>November Revision</b>	<b>Revised Plan Days</b>	<b>11th November 2018 Actual</b>	<b>% Revised Plan Achieved</b>
<b>Total Chargeable</b>	<b>2,256</b>	<b>-345</b>	<b>-138</b>	<b>1,773</b>	<b>919.2</b>	<b>52%</b>

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# Audit Progress Report and Sector Update

Shropshire Council  
Year ending 31 March 2019  
December 2018

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Agenda Item 12

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# Introduction



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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a Local Authority, and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit Committee can find further useful material on our website where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo to be directed to the website.

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



# Progress to date

## Financial Statements Audit

We have begun our planning processes for the 2018/19 financial year audit.

Our detailed work and audit visits will begin later in the year and we have discussed the timing and desired coverage for these visits with management. In the meantime we will:

- continue to hold regular discussions with management to inform our risk assessment for the 2018/19 financial statements and value for money audits;
- review minutes and papers from key meetings; and
- continue to review relevant sector updates to ensure that we capture any emerging issues and consider these as part of audit plans.

We have discussed and agreed an additional fee with Management relating to the 2017/18 additional work required for the audit of the Shopping Centre acquisitions and Jersey Property Unit Trust. This fee has been agreed at £12,265. We have now made a submission to PSAA who will need to approve the fee prior to us billing the Council.

## Value for Money

The scope of our work to inform the 2018/19 VfM Conclusion requires conclusions on whether:

*"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".*

This change of guidance was issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

We will consider the Council's business and identify the key risks which would impact on the Council delivering value for money. These will be communicated in the Audit Plan in March 2019.

Drawing on our conclusions from 2017/18, we anticipate that financial resilience will continue to present a key challenge for the Council in 2018/19 and beyond.

## Other areas

### Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work has been concluded and will be reported to you in the certification letter.

There are other grant claims which the Council appoints us to complete. Letters of Engagement are confirmed. We have completed the work on the Teachers' Pension and plan to complete the testing for the Pooling of Capital Receipts claim by the January 2019 deadline.

### Meetings

We meet with Senior Officers and Finance staff as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

We also meet with your Chief Executive to discuss the Council's strategic priorities and plans.

### Events

We provide a range of events and publications to support the Council. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.



# Audit Deliverables

2018/19 Deliverables	Planned Date	Status
<b>Fee Letter</b> Confirming audit fee for 2018/19.	April 2018	Complete
<b>Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018/19 financial statements.	February 2019	In progress
<b>Interim Audit Findings</b> We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2019	Not yet due
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the July Audit Committee.	July 2019	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	August 2019	Not yet due
<b>Annual Certification Letter</b> This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2019	Not yet due

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# Sector Update

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Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

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Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

# CIPFA consultation – Financial Resilience Index

The Chartered Institute of Public Finance and Accountancy (CIPFA) has consulted on its plans to provide an authoritative measure of local authority financial resilience via a new index. The index, based on publically available information, will provide an assessment of the relative financial health of each English council.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector's views, CIPFA invited all interested parties to respond to questions it has put forward in the consultation by the 24 August.

The decision to develop an index is driven by CIPFA's desire to support the local government sector as it faces a continued financial challenge. The index will not be a predictive model but a diagnostic tool – designed to identify those councils displaying consistent and comparable features that will highlight good practice, but crucially, also point to areas which are associated with financial failure. The information for each council will show their relative position to other councils of the same type. Use of the index will support councils in identifying areas of weakness and enable them to take action to reduce the risk of financial failure. The index will also provide a transparent and independent analysis based on a sound evidence base.

The proposed approach draws on CIPFA's evidence of the factors associated with financial stress, including:

- running down reserves
- failure to plan and deliver savings in service provision
- shortening medium-term financial planning horizons.
- gaps in saving plans
- departments having unplanned overspends and/or undelivered savings.

Conversations with senior practitioners and sector experts have elicited a number of additional potential factors, including:

- the dependency on external central financing
- the proportion of non-discretionary spending – e.g. social care and capital financing - as a proportion of total expenditure
- an adverse (inadequate) judgement by Ofsted on Children's services
- changes in accounting policies (including a change by the council of their minimum revenue provision)
- poor returns on investments
- low level of confidence in financial management.

The consultation document proposes scoring six key indicators:

1. The level of total reserves excluding schools and public health as a proportion of net revenue expenditure.
2. The percentage change in reserves, excluding schools and public health, over the past three years.
3. The ratio of government grants to net revenue expenditure.
4. Proportion of net revenue expenditure accounted for by children's social care, adult social care and debt interest payments.
5. Ofsted overall rating for children's social care.
6. Auditor's VFM judgement.

## CIPFA Consultation

### Challenge question:

Has your Head of Finance, Governance and Assurance briefed members on the Council's response to the Financial Resilience Index consultation?



# MHCLG – Social Housing Green Paper

The Ministry of Housing, Communities and Local Government (MHCLG) published the Social Housing Green Paper, which seeks views on government's new vision for social housing providing safe, secure homes that help people get on with their lives.

With 4 million households living in social housing and projections for this to rise annually, it is crucial that MHCLG tackle the issues facing both residents and landlords in social housing.

The Green Paper aims to rebalance the relationship between residents and landlords, tackle stigma and ensure that social housing can be both a stable base that supports people when they need it and also support social mobility. The paper proposes fundamental reform to ensure social homes provide an essential, safe, well managed service for all those who need it.

To shape this Green Paper, residents across the country were asked for their views on social housing. Almost 1,000 tenants shared their views with ministers at 14 events across the country, and over 7,000 people contributed their opinions, issues and concerns online; sharing their thoughts and ideas about social housing,

The Green Paper outlines five principles which will underpin a new, fairer deal for social housing residents:

- Tackling stigma and celebrating thriving communities
- Expanding supply and supporting home ownership
- Effective resolution of complaints
- Empowering residents and strengthening the regulator
- Ensuring homes are safe and decent

Consultation on the Green Paper is now underway, which seeks to provide everyone with an opportunity to submit views on proposals for the future of social housing and will run until 6 November 2018.

The Green Paper presents the opportunity to look afresh at the regulatory framework (which was last reviewed nearly eight years ago). Alongside this, MHCLG have published a Call for Evidence which seeks views on how the current regulatory framework is operating and will inform what regulatory changes are required to deliver regulation that is fit for purpose.

The Green Paper acknowledges that to deliver the social homes required, local authorities will need support to build by:

- allowing them to borrow
- exploring new flexibilities over how to spend Right to Buy receipts
- not requiring them to make a payment in respect of their vacant higher value council homes

As a result of concerns raised by residents, MHCLG has decided not to implement at this time the provisions in the Housing and Planning Act to make fixed term tenancies mandatory for local authority tenants.

The Green Paper is available on the MHCLG's website at:

<https://www.gov.uk/government/consultations/a-new-deal-for-social-housing>

## Social Housing Green Paper Consultation



### Challenge question:

What does the Social Housing Green Paper mean for your local authority?



# MHCLG – Business rate pilots

The Secretary of State has invited more councils to apply for powers to retain the growth in their business rates under the new pilots. The pilots will see councils rewarded for supporting local firms and local jobs and ensure they benefit directly from the proceeds of economic growth.

From April 2019, selected pilot areas will be able to retain 75% of the growth in income raised through business rates, incentivising councils to encourage growth in business and on the high street in their areas. This will allow money to stay in communities and be spent on local priorities - including more funding to support frontline services.

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This follows the success of previous waves of business rates retention pilots, launched in a wide range of areas across country in 2017 and 2018.

The current 50% business rates retention scheme is yielding strong results and in 2018 to 2019 it is estimated that local authorities will keep around £2.4 billion in business rates growth.

Findings from the new round of pilots will help the government understand how local authorities can smoothly transition into the proposed system in 2020.

Proposals will need to show how local authorities would 'pool' their business rates and work collaboratively to promote financial sustainability, growth or a combination of these.

Alongside the pilots, the government will continue to work with local authorities, the Local Government Association, and others on reform options that give local authorities more control over the money they raise and are sustainable in the long term.

The invitation is addressed to all authorities in England, excluding those with ongoing business rates retention pilots in devolution areas and London. Due to affordability constraints, it may be necessary to assess applications against selection criteria, which will include:

- Proposed pooling arrangements operate across a functional economic area
- Proposal demonstrates how pooled income from growth will be used across the pilot area to either boost further growth, promote financial sustainability or a combination of these
- Proposal sets out robust governance arrangements for strategic decision-making around management of risk and reward and outlines how these support the participating authorities' proposed pooling arrangements

Any proposals will need to show that all participating authorities have agreed to become part of the suggested pool and share additional growth as outlined in the bid. The Section 151 officer of each authority will need to sign off the proposal before submission.

Proposal for new pilots must be received the MHCLG by midnight on Tuesday 25<sup>th</sup> September 2018.

## Business Rates pilots 2019/20

### Challenge question:

Has your authority considered applying to be a Business Rates pilot?



# Institute of Fiscal Studies: Impact of ‘Fair Funding Review’

The IFS has published a paper that focuses on the issues arising in assessing the spending needs of different councils. The government’s ‘Fair Funding Review’ is aimed at designing a new system for allocating funding between councils. It will update and improve methods for estimating councils’ differing abilities to raise revenues and their differing spending needs. The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.

## Accounting for councils’ spending needs

The IFS note that the Review is seeking a less subjective and more transparent approach which is focused on the relationship between spending and needs indicators. However, like any funding system, there will be limitations, for example, any attempt to assess needs will be affected by the MHCLG’s funding policies adopted in the year of data used to estimate the spending needs formula. A key consideration will be the inherently subjective nature of ‘spending needs’ and ‘needs indicators’, and how this will be dealt with under any new funding approach. Whilst no assessment of spending needs can be truly objective, the IFS state it can and should be evidence based.

The IFS also note that transparency will be critical, particularly in relation to the impact that different choices will have for different councils, such as the year of data used and the needs indicators selected. These differentiating factors and their consequences will need to be understood and debated.

## Accounting for councils’ revenues

The biggest source of locally-raised revenue for councils is and will continue to be council tax. However, there is significant variation between councils in the amount of council tax raised per person. The IFS identify that a key decision for the Fair Funding Review is the extent to which tax bases or actual revenues should be used for determining funding levels going forward.

Councils also raise significant sums of money from levying fees and charges, although this varies dramatically across the country. The IFS note that it is difficult to take account of these differences in a new funding system as there is no well-defined measure of revenue raising capacity from sales, fees and charges, unlike council tax where the tax base can be used.

## The overall system: redistribution, incentives and transparency

The IFS also identify that an important policy decision for the new system is the extent to which it prioritises redistribution between councils, compared to financial incentives for councils to improve their own socio-economic lot. A system that fully and immediately equalises for differences in assessed spending needs and revenue-raising capacity will help ensure different councils can provide similar standards of public services. However, it would provide little financial incentive for councils to tackle the drivers of spending needs and boost local economics and tax bases.

Further detail on the impact of the fair funding review can be found in the full report <https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>.



# National Audit Office – The health and social care interface

The NAO has published its latest ‘think piece on the barriers that prevent health and social care services working together effectively, examples of joint working in a ‘whole system’ sense and the move towards services centred on the needs of the individual. The report aims to inform the ongoing debate about the future of health and social care in England. It anticipates the upcoming green paper on the future funding of adult social care, and the planned 2019 Spending Review, which will set out the funding needs of both local government and the NHS.

The report discusses 16 challenges to improved joint working. It also highlights some of the work being carried out nationally and locally to overcome these challenges and the progress that has been made. The NAO draw out the risks presented by inherent differences between the health and social care systems and how national and local bodies are managing these.

**Financial challenges** – include financial pressures, future funding uncertainties, focus on short-term funding issues in the acute sector, the accountability of individual organisations to balance the books, and differing eligibility criteria for access to health and social care services.

**Culture and structure** – include organisational boundaries impacting on service management and regulation, poor understanding between the NHS and local government of their respective decision-making frameworks, complex governance arrangements hindering decision-making, problems with local leadership holding back improvements or de-stabilising joint working, a lack of co-terminus geographic areas over which health and local government services are planned and delivered, problems with sharing data across health and social care, and difficulties developing person-centred care.

**Strategic issues** – include differences in national influence and status contributing to social care not being as well represented as the NHS, strategic misalignment of organisations across local systems inhibiting joint local planning, and central government’s unrealistic expectations of the pace at which the required change in working practices can progress..

This ‘think piece’ draws on the NAO’s past work and draws on recent research and reviews by other organisations, most notably the Care Quality Commission’s review of health and social care systems in 20 local authority areas, which it carried out between August 2017 and May 2018. The NAO note that there is a lot of good work being done nationally and locally to overcome the barriers to joint working, but often this is not happening at the scale and pace needed.

The report is available to download from the NAO’s website at:  
<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

## The health and social care interface

### Challenge question:

Has the Audit Committee considered the 16 challenges to joint working and what can be done to mitigate these?



# A Caring Society – bringing together innovative thinking, people and practice

The Adult Social Care sector is at a crossroads. We have yet to find a sustainable system of care that is truly fit for purpose and for people. Our Caring Society programme takes a step back and creates a space to think, explore new ideas and draw on the most powerful and fresh influences we can find, as well as accelerate the innovative social care work already taking place.

We are bringing together a community of influencers, academics, investors, private care providers, charities and social housing providers and individuals who are committed to shaping the future of adult social care.

At the heart of the community are adult social care directors and this programme aims to provide them with space to think about, and design, a care system that meets the needs of the 21st Century, taking into account ethics, technology, governance and funding.

We are doing this by:

- hosting a 'scoping sprint' to determine the specific themes we should focus on
- running three sprints focused on the themes affecting the future of care provision
- publishing a series of articles drawing on opinion, innovative best practices and research to stimulate fresh thinking.

Our aim is to reach a consensus, that transcends party politics, about what future care should be for the good of society and for the individual. This will be presented to directors of adult social care in Spring 2019, to decide how to take forward the resulting recommendations and policy changes.

## Scoping Sprint

This took place in October. Following opening remarks by Hilary Cottam (social entrepreneur and author of Radical Help) and Cllr Georgia Gould (Leader of Camden Council), the subsequent discussion brought many perspectives but there was a strong agreement about the need to do things differently that would create and support a caring society. Grant Thornton will now take forward further discussions around three particular themes:

1. Ethics and philosophy: What is meant by care? Should the state love?
2. Care in a place: Where should the power lie? How are local power relationships different in a local place?
3. Promoting and upscaling effective programmes and innovation

## Sprint 1 – What do we really mean by 'care'?

This will take place on 4 December. Julia Unwin, Chair of the Civil Societies Futures Project, former CEO of the Joseph Rowntree Association and author on kindness will provide her insight to spark the debate on what we really mean by 'care'

## Find out more and get involved

- To read the sprint write-ups and opinion pieces visit: [grantthornton.co.uk/acaringsociety](http://grantthornton.co.uk/acaringsociety)
- Join the conversation at #acaringsociety

### Challenge question:

How is your authority engaging in the debate about the future of social care?





# Care Homes for the Elderly – Where are we now?

It is a pivotal moment for the UK care homes market. In the next few months the government is to reveal the contents of its much-vaunted plans for the long-term funding of care for older people.

Our latest Grant Thornton report draws together the most recent and relevant research, including our own sizeable market knowledge and expertise, to determine where the sector is now and understand where it is heading in the future. We have spoken to investors, providers and market consultants to showcase the diversity and innovation that care homes can offer.

Thriving communities are not a 'nice to have' but an essential part of our purpose of shaping a vibrant economy. Growth simply cannot happen sustainably if business is disconnected from society. That is why social care needs a positive growth framing. Far from being a burden, the sector employs more people than the NHS, is a crucible for technological innovation, and is a vital connector in community life. We need to think about social care as an asset and invest and nurture it accordingly.

There are opportunities to further invest to create innovative solutions that deliver improved tailored care packages to meet the needs of our ageing population.

The report considers a number of aspects in the social care agenda

- market structure, sustainability, quality and evolution
- future funding changes and the political agenda
- the investment, capital and financing landscape
- new funds and methods of finance
- future outlook.

The decline in the number of public-sector focused care home beds is a trend that looks set to continue in the medium-term. However, it cannot continue indefinitely as Grant Thornton's research points to a significant rise in demand for elderly care beds over the coming decade and beyond.

A strategic approach will also be needed to recruit and retain the large number of workers needed to care for the ageing population in the future. Efforts have already begun through education programmes such as Skills for Care's 'Care Ambassadors' to promote social care as an attractive profession. But with the number of nurses falling across the NHS as well, the Government will need to address the current crisis.

But the most important conversation that needs to be had is with the public around what kind of care services they would like to have and, crucially, how much they would be prepared to pay for them. Most solutions for sustainable funding for social care point towards increased taxation, which will generate significant political and public debate. With Brexit dominating the political agenda, and the government holding a precarious position in Parliament, shorter-term funding interventions by government over the medium-term look more likely than a root-and-branch reform of the current system. The sector, however, needs to know what choices politicians, and society as a whole, are prepared to make in order to plan for the future.

Copies of our report can be requested on our website



Grant Thornton

Challenge question:

How effective is the Council's engagement with the social care sector?



# In good company: Latest trends in local authority trading companies

Our recent report looks at trends in LATC's (Local Government Authority Trading Companies). These deliver a wide range of services across the country and range from wholly owned companies to joint ventures, all within the public and private sector.

## Outsourcing versus local authority trading companies

The rise of trading companies is, in part, due to the decline in popularity of outsourcing. The majority of outsourced contracts operate successfully, and continue to deliver significant savings. But recent high profile failures, problems with inflexible contracts and poor contract management mean that outsourcing has fallen out of favour. The days of large scale outsourcing of council services has gone.

## Advantages of local authority trading companies

- Authorities can keep direct control over their providers
- Opportunities for any profits to be returned to the council
- Provides suitable opportunity to change the local authority terms and conditions, particularly with regard to pensions, can also bring significant reductions in the cost base of the service
- Having a separate company allows the authority to move away from the constraints of the councils decision making processes, becoming more agile and responsive to changes in demand or funding
- Wider powers to trade through the Localism act provide the company with the opportunity to win contracts elsewhere

## Choosing the right company model

The most common company models adopted by councils are:

Wholly  
owned

Joint  
Ventures

Social  
Enterprise

Wholly owned companies are common because they allow local authorities to retain the risk and reward. And governance is less complicated. Direct labour organisations such as Cormac and Oxford Direct Services have both transferred out in this way.

JVs have become increasingly popular as a means of leveraging growth. Pioneered by Norse, Corserv and Vertas organisations are developing the model. Alternatively, if there is a social motive rather than a profit one, the social enterprise model is the best option, as it can enable access to grant funding to drive growth.

## Getting it right through effective governance

While there are pitfalls in establishing these companies, those that have got it right are: seizing the advantages of a more commercial mind-set, generating revenue, driving efficiencies and improving the quality of services. By developing effective governance they can be more flexible and grow business without micromanagement from the council.

## LATC's need to adapt for the future

- LATC's must adapt to developments in the external environment
  - These include possible changes to the public procurement rules after Brexit and new local authority structures. Also responding to an increasingly crowded and competitive market where there could be more mergers and insolvencies.
- Authorities need to be open to different ways of doing things, driving further developments of new trading companies. Relieving pressures on councils to find the most efficient ways of doing more with less in today's austere climate.

Overall, joint ventures can be a viable alternative delivery model for local authorities. Our research indicates that the numbers of joint ventures will continue to rise, and in particular we expect to see others follow examples of successful public-public partnerships.



[Download the report here](#)

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## National Audit Office link

<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

## Ministry of Housing, Communities and Local Government links

<https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/728722/BRR\\_Pilots\\_19-20\\_Prospectus.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf)

## Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>





**Grant Thornton**

An instinct for growth™

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## **Certification work for Shropshire Council for year ended 31 March 2018**

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

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) took on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015.

We have certified the Housing Benefit subsidy claim for the financial year 2017/18 relating to subsidy claimed of £63.2 million. Further details are set out in Appendix A.

We identified two issues from our certification work which we wish to highlight for your attention. These are detailed in Appendix A. As a result of the errors identified, the claim was qualified, and we reported our findings to the DWP. The DWP may require the Council to undertake further work or provide assurances on the errors we have identified.

The indicative fee for 2017/18 for the Council was based on the final 2015/16 certification fees, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year. The indicative scale fee set by PSAA for the Council for 2017/18 was £13,445. This is set out in more detail in Appendix B.

Yours sincerely

Grant Thornton UK LLP

## Appendix A - Details of claims and returns certified for 2017/18

Claim or return	Value	Amended?	Qualified?	Comments
Housing benefits subsidy claim	£63,274,975	Yes	Yes	See below

### Findings from certification of housing benefits subsidy claim

#### **No proof of National Insurance Number**

Testing of an initial sample of 20 rent rebate cases identified 1 case (total value £627.93) where the authority could not provide evidence of the claimant's National Insurance number. Multiple workbooks were produced during the course of my certification work and I noted no other instances where this was the case, which led us to believe that this was an isolated occurrence. Furthermore, the authority were able to provide subsequent confirmation that the correct NINO had been used which led me to conclude that this issue had not led to a miscalculation of subsidy claimed.

In light of the above, we will not perform specific testing in respect of this issue as part of our certification work on the 2018/19 housing benefits subsidy claim.

#### **Use of incorrect earnings figures to calculate benefit entitlement (Rent Rebates)**

Testing of an initial sample of 20 rent rebate cases identified one case (total value £1,902) where the Authority had overpaid benefit as a result of miscalculating the claimant's weekly income.

We therefore performed testing on an additional 40 cases from the sub population of rent rebates cases. This work identified;

- two cases where the Council had incorrectly input earnings resulting in either no impact on subsidy claimed or an underpayment of subsidy. As there is no eligibility to subsidy for benefit which has not been paid, these issues do not affect subsidy and have not, therefore, been classified as an error for subsidy purposes.
- five cases, from a sample of 40 cases, where the Council had incorrectly input earnings resulting in overpayments totalling £308. These findings, in conjunction with the results of our initial sample, resulted in an extrapolated error of £3,003.

We will have to perform specific testing in respect of this issue as part of our certification work on the 2018/19 housing benefits subsidy claim.

#### **Misapplication of capital tariff**

We identified one case from an initial sample of 20 rent allowance cases where the Council had incorrectly applied a capital tariff resulting in an underpayment of benefit. However, owing to the nature of the error identified (which could possibly result in either an under or over payment of subsidy) it was agreed with the Council that a random sample of 40 further cases from the sub-population of rent allowance cases where capital was present would be performed in order to assess the impact on the claim.

From our additional testing we identified;

- five cases where the incorrect application of a capital tariff had resulted in either nil impact or an underpayment of benefit. As there is no eligibility to subsidy for benefit which has not been paid, these issues do not affect subsidy and have not, therefore, been classified as an error for subsidy purposes.
- two cases (total value £4,398) where the Council had incorrectly applied a capital tariff resulting in overpayment of benefits of £43. These findings, in conjunction with the results of our initial sample, resulted in an extrapolated error of £331.

We will have to perform specific testing in respect of this issue as part of our certification work on the 2018/19 housing benefits subsidy claim.

#### **Use of incorrect earnings figures to calculate benefit entitlement (Rent Allowances)**

Testing of an initial sample of 20 rent allowances cases identified one case (total value £2,989) where the Council had incorrectly input earnings resulting in an overpayment of benefit of £98. This issue was also present in the prior period claim and was reported on in the 2016/17 qualification letter.

We therefore tested an additional sample of 40 cases from the sub-population of rent allowances cases where earnings were present in order to assess the impact on subsidy. This testing identified a further;

- five cases where the authority had incorrectly input earnings resulting in an underpayment of subsidy. As there is no subsidy payable on cases where benefit has been underpaid these are not considered errors for subsidy purposes; and
- six cases (total value £22,267) where the Council had incorrectly input earnings resulting in an overpayment of benefit totalling £113. When considered in conjunction with the results of our initial sample, this resulted in an extrapolated error of £12,885.

We will have to perform specific testing in respect of this issue as part of our certification work on the 2018/19 housing benefits subsidy.

#### **Use of incorrect occupational pension figures to calculate benefit entitlement**

An issue was identified and reported on in the 2016/17 qualification letter affecting this element of the claim. We therefore performed testing on a random sample of 40 cases from the sub-population of rent allowance cases where an occupational pension was present.

This testing identified a further;

- one case where the incorrect rate of occupational pension income was applied resulting in an underpayment of benefit. As there is no subsidy payable on underpaid benefit, this is not considered an error for subsidy purposes;
- three cases (total value £6,998) where the incorrect rate of occupational pension income was applied resulting in an overpayment of £58. This resulted in an extrapolated error of £1,733.

We will have to perform specific testing in respect of this issue as part of our certification work on the 2018/19 housing benefits subsidy.

**Recommended actions for officers**

We recommend that the Council, as part of its internal quality assurance process, increase its focus or level of testing in respect of the areas where we identified errors from our testing.

**Appendix B: Fees for 2017/18 certification work**

Claim or return	2015/16 fee (£)	2016/17 fee (£)	2017/18 indicative fee (£)	2017/18 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	£13,945	£10,620	£13,445	£13,445	£0	n/a
Total	£13,945	£10,620	£13,445	£13,445	£0	n/a



By virtue of paragraph(s) 2, 3, 7 of Part 1 of Schedule 12A  
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