

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

Date: 15 February 2019  
My Ref:  
Your Ref:

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

**Date:** Monday, 25 February 2019  
**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  
Director 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 6 December 2018 (Pages 1 - 10)**

The Minutes of the meeting held on the 6 December 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: Digital Transformation Programme update (Pages 11 - 14)**

The report of the Director of Workforce and Transformation is attached.

Contact: Michele Leith 01743 254402

**6 Second line assurance: Treasury Strategy (Pages 15 - 66)**

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

Contact: James Walton (01743) 258915

**7 Second line assurance: Strategic Risks Update (Pages 67 - 70)**

The report of the Risk and Insurance Manager is attached.

Contact: Angela Beechey (01743) 252073

**8 Governance Assurance: Draft Audit Committee annual work plan and future training requirements (Pages 71 - 98)**

The report of the Head of Audit is attached.

Contact: Ceri Pilawski (01743) 257739

**9 Third line assurance: Report of the Audit Review of Risk Management**  
(Pages 99 - 102)

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

**10 Third line assurance: Internal Audit performance report and revised Annual Audit Plan 2018/19** (Pages 103 - 120)

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

**11 Third Line Assurance: Draft Annual Internal Audit risk based plan 2018/19**  
(Pages 121 - 130)

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 131 - 146)

The report of the Engagement Lead is attached.  
Contact: Richard Percival (0121) 232 5434

**13 Third line assurance: External Audit, Audit plan** (Pages 147 - 164)

The report of the Engagement Lead is attached.  
Contact: Richard Percival (0121) 232 5434

**14 Third line assurance: External Audit, Follow up of Recommendations**  
(Pages 165 - 168)

The report of the Engagement Lead is attached.  
Contact: Richard Percival (0121) 232 5434

**15 Third line assurance: External Audit, Informing the risk assessment** (Pages 169 - 194)

The report of the Engagement Lead is attached.  
Contact: Richard Percival (0121) 232 5434

**16 Date and Time of Next Meeting**

The next meeting of the Audit Committee will be held on the 27 June 2019 at 1.30 pm.

**17 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.

**18 Exempt Minutes of the previous meeting held on the 6 December 2018**  
(Pages 195 - 196)

The Exempt Minutes of the meeting held on 6 December 2018 are attached for confirmation.

Contact: Michelle Dulson (01743) 257719

**19 Third Line Assurance: Fraud and Special Investigation Update (Exempted by Categories 1, 2, 3, 5 and 7) (Pages 197 - 202)**

The exempt report of the Principal Auditor is attached.

Contact: Peter Chadderton (01743) 257727



## Committee and Date

Audit Committee

25 February 2019

## **MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 6 DECEMBER 2018**

**1.30 - 3.00 PM**

**Responsible Officer:** Michelle Dulson

Email: [michelle.dulson@shropshire.gov.uk](mailto:michelle.dulson@shropshire.gov.uk) Tel: 01743 257719

### **Present**

Councillor Peter Adams (Chairman)

Councillors Brian Williams (Vice Chairman), Michael Wood and Roger Evans (Substitute)  
(substitute for Chris Mellings)

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

50.1 Apologies for absence were received from Councillors Ioan Jones and Chris Mellings.

50.2 Councillor Roger Evans substituted for Councillor Chris Mellings.

### **51 Disclosable Pecuniary Interests**

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

### **52 Minutes of the previous meeting held on the 13 September 2018**

#### **52.1 RESOLVED:**

That the Minutes of the meeting held on 13 September 2018 be approved and signed by the Chairman as a correct record.

52.2 The Head of Finance, Governance and Assurance (Section 151 Officer) reported that a series of responses to the management recommendations had been completed and would be circulated.

### **53 Public Questions**

53.1 A public question was received from Mr S Mulloy, local resident (copy attached to the signed Minutes). The following response was provided by Ceri Pilawski, the Head of Audit:

*The Audit Commission was disbanded in August 2010 and the work transferred to the private sector, and at the same time the Standard Board regime was abolished with responsibility for ethical standards handed back to local authorities.*

*Although the audit committee might not agree, the standards committee process is considered 'not fit for purpose' by many who have referred matters for consideration, but what is more of a concern is that, under the former regime, the Audit Commission had special powers and responsibilities to investigate financial misconduct and illegality including the right to require and seize records even from third parties and demand explanations from officers, councillors and even contractors and those working alongside local authorities.*

*Under the new regime of audit by the private sector, there is no such powers and a variation fee needs to be negotiated by the auditor for any investigation that might take place. This brings the inherent risk that a private sector auditor may feel less able to act without fear or favour, and moderate their professional scepticism with a view to having their contract renewed.*

*The police have neither the resources or expertise to investigate so essentially, with the greatest of respect to the internal audit team, there is a vacuum of ownership of local government fraud. This is demonstrated by the loophole whereby any complaints that allege criminal behaviour must be referred to the police, but when they are subsequently 'dropped' by the police, the council's standards committee is not permitted to consider the allegations further, thereby natural justice is not seen to be done.*

*This is sadly lacking in any democratic accountability, and corrosive to public trust in the police and local authority.*

### **Question 1**

*In the light of the recent well publicised events relating to the lack of oversight of grants made from public funds, council assets being sold and the valuations not being recorded, abuse of covenants, abuse of LJC financial rules, and councillors failing to declare pecuniary interests with apparent immunity, will this audit committee act before the next crisis hits the public domain, because whatever is being done now, no matter how robust it is claimed to be, it is clearly not working?*

### **Response**

*Where issues have been brought to light outside the scope of the risk based plan these have and will continue to be reviewed against the evidence provided and within available resources and appropriate action taken. Where necessary recommendations are made to Service Areas to improve the control environment and these are followed up.*

### **Question 2**

*In light of the succession of recent adverse reports about Grant Thornton (see below), how does Shropshire Council justify its continued use of Grant Thornton as its external auditor and will this relationship be reviewed?*

**April 2017 - <https://www.bbc.co.uk/news/business-39693134>**

**August 2018 - <https://www.bbc.co.uk/news/uk-england-manchester-45341315>**

**November 2018 -Accountancy watchdog to probe Grant Thornton over Patisserie Valerie audits**

**Response**

*The Council will not be commenting on the press articles which are unrelated to the work of this Committee.*

*The appointment of Grant Thornton as External Auditor to Shropshire Council is undertaken by Public Sector Audit Appointments Limited, a national body under the Local Government Association, who act as the appointing person under the provision of the Local Audit and Accountability Act 2014 and regulation 3 of the Local Government (Appointing Persons) Regulations 2015. Grant Thornton have been awarded the contract covering the financial periods 2018/19 to 2022/23. The Council does not have any concerns with this appointment process.*

A brief discussion ensued in relation to the Full Council's decision to no longer allow supplementary questions, and it was agreed for the Chairman to raise this issue with the Leader of the Council.

**54 First line assurance: Estates update**

- 54.1 The Committee received the report of the Head of Business Enterprise and Commercial Services – copy attached to the signed Minutes – which provided a further update following the report provided in June 2018 which set out the management action undertaken to address the recommendations in the internal audit report dated 21 April 2017.
- 54.2 It was confirmed that all 19 recommendations had now been addressed and management action taken across a number of areas, including the roll out of Tech Forge and a further audit was awaited to test the new systems that had been put in place. The additional staff resources that had been appointed have proved to be very successful and would be incorporated into the permanent structure through a pending restructure of the Assets and Estates area to ensure a more commercial / economic development focus.
- 54.3 The Head of Audit reported that a further audit would be undertaken during the next quarter, results of which would be reported back to the Audit Committee. Members expressed their pleasure that managers reported that all the recommendations had been implemented and hoped the service would be successful going forward.
- 54.4 In response to a query, it was confirmed that Sharepoint would provide a more consistent approach to file sharing across the Council. It was explained that the TF Cloud system was a central electronic database of all the Council owned property, captured in one system. In response to a query it was confirmed that the mapping system could be used to signpost Town and Parish Council's to information relevant to their local plans.
- 54.5 **RESOLVED:**
- A. To note the progress that has been made to address the recommendations in the 21 April 2017 Audit Report to ensure that all improvements are effectively implemented and monitored via the action plan for estate management.

- B. To note that the further improvements and implementation of the action plan associated with the audit have been progressed in line with the corporate landlord model.

**55 Second line assurance: Treasury Strategy Mid-Year Report 2018/19**

- 55.1 The Committee received the report of the Head of Finance, Assurance and Governance (Section 151 Officer) – copy attached to the signed Minutes – which provided an economic update for the first six months of 2018/19; including a review of the Treasury Strategy; Annual Investment Strategy, the Council's investment portfolio; the Council's borrowing strategy; any debt rescheduling undertaken and compliance with Treasury and Prudential limits all for 2018/19
- 55.2 The Head of Finance, Assurance and Governance (Section 151 Officer) highlighted the pleasing performance of the Internal Treasury Management Team which had outperformed its benchmark by 0.28% delivering additional income of £161,320 for the first six months of the year. He drew attention to Section 5 of the report which set out the Council's approach to Treasury Management which looked at risk, security, liquidity, yield and capital plans and how these were managed.
- 55.3 The Head of Finance, Assurance and Governance (Section 151 Officer) explained that as from 2019/20 all local authorities are required to prepare a Capital Strategy and that a report setting out Shropshire Council's Capital Strategy would be taken to Full Council in February 2019.
- 55.4 Members were comforted that the Internal Treasury Management Team always outperformed their benchmark and the Head of Finance, Assurance and Governance (Section 151 Officer) informed the Committee that Shropshire did very well in relation to relative risk to relative reward and were one of, it not the highest return for the lowest risk.
- 55.5 **RESOLVED:**
  - A. That the position as set out in the report be noted.
  - B. To note that any changes required to the Treasury Strategy including the Annual Investment Strategy or prudential and treasury indicators as a result of decisions made by the Capital Investment Board will be reported to Council for approval.
  - C. That the updated MRP Policy set out at Appendix D be approved.

**56 Second line assurance: Annual review of Counter Fraud, Bribery and Anti-Corruption Strategy and activities, including an update on the National Fraud Initiative**

- 56.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which outlined the measures undertaken to evaluate the potential for the occurrence of fraud, and how the Council managed these risks with the aim of prevention, detection and subsequent reporting of fraud, bribery and corruption. It also provided an update on the action plan to ensure continuous improvement and



provided an update to Members in response to national and local issues. It was confirmed that no major changes were being proposed to the existing strategy.

56.2 The Head of Audit reported that the Council's Anti-Money Laundering procedure and guidance had been updated to reflect The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017. In relation to the National Fraud Initiative, the Head of Audit explained that the results from the data matching exercise were currently being investigated to see whether they were the result of fraud or data errors and would be reported to the Audit Committee at a future meeting.

56.3 In response to a query the Head of Audit reported that Shropshire did not see much fraud in relation to blue badges.

56.4 **RESOLVED:**

To note the measures undertaken and detailed in the report to monitor systems to manage associated risks with the aim of prevention, detection and subsequent reporting of fraud, bribery and corruption.

57 **Governance Assurance: Annual review of Audit Committee Terms of Reference**

57.1 The Committee received the report of the S151 Officer – copy attached to the signed Minutes – which set out minor changes being proposed to the Audit Committee Terms of Reference shown in bold, italics and underlined in Appendix A and section six of the report.

57.2 **RESOLVED:**

That the revised Audit Committee Terms of Reference be endorsed.

58 **Governance Assurance: Annual Audit Committee Self-Assessment**

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

58.2 The Section 151 Officer confirmed that high levels of compliance had been identified along with a few areas of partial compliance. He explained that the Self-Assessment had been updated in accordance with CIPFAs 2018 guidance and it was confirmed that the Committee had considered the assessment model in some detail at a training session in October 2017 and an externally facilitated session in March 2018.

58.3 The Section 151 Officer drew attention to Appendix B which set out the areas that Members have identified for future focus and refresh sessions and where updated training had been provided, whilst Appendix A set out those areas of partial compliance and the proposed actions to address improvement, which Members were happy with.

58.4 Members commented on the usefulness of the externally facilitated session.

**58.5 RESOLVED:**

- A. That the self-assessment of good practice attached at Appendix A be endorsed.
- B. That the analysis of training requirements attached at Appendix B be endorsed.
- C. That the action plan be reviewed and revised in order to improve areas of weakness.

**59 Third line assurance: Internal Audit Charter**

59.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which proposed no changes to the Internal Audit Charter for 2018.

**59.2 RESOLVED:**

That the Internal Audit Charter be endorsed.

**60 Third line assurance: Internal Audit performance report and revised Annual Audit Plan 2018/19**

60.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which provided Members with an update of the work undertaken by Internal Audit in the three months since the previous Audit Committee.

60.2 The Head of Audit informed the meeting that 52% of the revised plan had been completed and although slightly down on previous delivery records, the team were still on target to achieve 90% delivery by year end. She reported that one good and two reasonable assurance opinions had been issued together with five limited and one unsatisfactory assurance opinions. She went on to say that nine final reports had been issued which contained 112 recommendations, one of which was fundamental.

60.3 The Head of Audit reported that there had been significant revisions reducing the overall audit plan from 1,911 days to 1,773 days due to adjustments in risk, more complex and sensitive reviews and a continuing reduction in resources. The impact of this on the Head of Audit's opinion was not yet known but was a concern.

60.4 The Head of Audit drew attention to the audits that had been completed and the assurance levels awarded (Paragraphs 5.8 and 5.9). Turning to the fundamental recommendation that had been identified in relation to Environmental Maintenance Grants, the Head of Audit reported that the management of grants had needed improving and management had responded agreeing on actions taken to address the recommendations.

60.5 The one significant recommendation that had been rejected by management was in relation to Section 38 Road Adoptions. There was no evidence of confirmation by legal services that the Council had the right to write off certain amounts of funding under the bond agreements. Management felt that this had been done and sums of money had been signed off at Director level.

60.6 Members expressed concern at the level of assurance that the Head of Audit was able to give considering the current level of staff reduction and she was asked to

highlight in her Annual Report to Council the resourcing issues being experienced together with the knock on effect on the team's ability to carry out the function.

**60.7 RESOLVED:**

- a) That performance to date against the 2018/19 Audit Plan as set out in the report be noted;
- b) That the actions to be taken in relation to any low assurance levels, the residual control environment, delivery against the fundamental recommendation and where a recommendation had been rejected, be noted.
- c) That the adjustments required to the 2018/19 plan to take account of changing priorities, as set out in Appendix B of the report, be endorsed.

**61 Third line assurance: External Audit, Audit progress report and sector update**

- 61.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – which provided the Audit Committee with a report on progress together with a summary of emerging national issues and developments which may be of relevance to the Council.
- 61.2 The External Engagement Lead reported that the work for 2017/18 had been completed and that work had begun on the 2018/19 audit. He informed the meeting that the Audit Plan would be presented to the Committee at its next meeting which would contain more detail about their approach and timings.
- 61.3 Turning to the Sector update, the External Audit Lead drew attention to the CIPFA Consultation on Financial Resilience Index which would provide an assessment of the relative financial health of each local authority including its level of reserves. He reported that the Institute of Fiscal Studies: Impact of 'Fair Funding Review' had been published in the summer the impact of which was not yet know.
- 61.4 The External Audit Lead highlighted the Caring Society programme which they were doing work on to facilitate thinking about what social care would look like in the future and how it needed to change. In response to a query it was confirmed that a lot of work had been done on Adult Social Care to get an accurate prediction of need. Shropshire had a high level of older people and out of 550 Local Authorities, Shropshire was 167th and it was felt there was a high risk that funding could not be matched to need. Members expressed concern at the inadequate number of residential home places available in the future. Concern was also raised in relation to Children's Social Care which was harder to predict and it was reported that the number of children that the Council were responsible for had increased from 289 to 369 (80%) this year alone.
- 61.5 In response to a query the External Audit Lead confirmed that financial resilience was a common thread impacting on all councils as their level of reserves were getting increasingly lower.

**61.6 RESOLVED:**

That the contents of the report be noted.

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

62.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – detailing the Certification Work for 2017/18 relating to the Housing Benefit subsidy claim. It was explained that due to two issues that had been identified the claim had been qualified. Details of the errors were set out in Appendix A. The costs for the Council were set out in Appendix B.

**62.2 RESOLVED:**

That the contents of the report be noted.

**63 Date and Time of Next Meeting**

63.1 Members were reminded that the next meeting of the Audit Committee would be held on Monday 25 February 2019 at 1.30pm.

**64 Exclusion of Press and Public**

**64.1 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.

**65 Exempt Minutes**

**65.1 RESOLVED:**

That the exempt minutes of the meeting held on 13 September 2018 be approved and signed by the Chairman as a correct record.

**66 Third Line Assurance: Fraud, Special Investigation and RIPA Update  
(Exempted by Categories 1, 2, 3, 5 and 7)**

66.1 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.

**66.2 RESOLVED**

That the contents of the report be noted.

Signed ..... (Chairman)

Date: .....



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| <u>Committee and Date</u> |
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| Audit Committee |
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| 25 February 2019 |
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| <u>Item</u> |
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| <u>Public</u> |
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## Digital Transformation Programme Update

**Responsible Officer** Michele Leith, Director of Workforce and Transformation  
**e-mail:** michele.leith@shropshire.gov.uk **Tel:** 01743 254402

### 1.0 Summary

This report will provide updates on the following:

- 1.1 Digital Transformation Programme
- 1.2 Social Care Project
- 1.5 Customer Experience Project
- 1.3 Infrastructure and Architecture Project
- 1.4 Business Transformation Project

### 2.0 Recommendations

- 2.1 The recommendations are that:
- 2.2 The Committee notes 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.

## REPORT

### 3.0 Social Care Project

- 3.1 The adults modules in Liquidlogic went live as planned on 10<sup>th</sup> Dec and system is working well, staff are getting to grips with a different system. Additional resource is being directed to developing the suite of reports from the system, which hasn't been straight forward but progress is being made.

- 3.2 Children's modules are still scheduled to go live 18<sup>th</sup> Feb, Social Care Project Board gave go live approval, there will be a final check on Sunday evening and launch on Monday.

#### **4.0 Customer Experience Project**

- 4.1 Telephony and Contact Centre Software has been rolled out across the council CRM modules are working well, the first iteration of My Shropshire will be launched at the end of this month. Cabinet saw a demonstration on 28<sup>th</sup> January 2019. A portal for Members is being built, we will be asking members to come along and comment on the build and requirements with a view to having the portal live from October.
- 4.2 Customer Services Centre have gone live with Web Chat and we are seeing positive impact from its use.
- 4.3 Work with the DEG and STP is progressing well, this will be helpful to facilitate the work on an enhanced single patient record.
- 4.4 Broseley Project on assisted digital health progressing well.

#### **5.0 Infrastructure and Architecture Project**

- 5.1 The team has started to procure a provider to implement the Gov- Roam wifi solution which will allow staff from NHS and Local Authority access their respective systems from the same/shared locations.
- 5.2 Master Data Management Proof of Concept is progressing well and the servers to support MDA have been built.
- 5.3 Dashboard for reporting data sets are being developed – Highways, Food Hygiene, Housing, communications, comments complements and complaints.
- 5.4 Print Solution and 365 fax rollout phase one is complete.

#### **6.0 Business Transformation**

- 6.1 Go live remains scheduled for 1<sup>st</sup> April 2019, level of defects has been high throughout this project and whilst reducing there still some to fix. The team are working hard resolve them.
- 6.2 Staff training has been developed and will begin mid Feb, and initially last for 6 weeks, this is an estimate as all Council staff are likely to need some training on the new system.



- 6.3 System security and multi factor identification a solution to this has now been found.

## **7.0 Budget**

- 7.1 The programme is still projected to underspend.
- 7.2 We continue to scope the post implementation phase including the decommissioning of legacy systems & new ways of working, productivity on front line as the mechanism to realise the savings.

## **8.0 Governance**

- 8.1 The Assurance team are still engaged with each project board and report to overarching programme board. We have introduced a feedback/completion loop to ensure items raised by Assurance team are resolved.

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| <u>Committee and Date</u>           | <u>Item</u> |
|-------------------------------------|-------------|
| Cabinet<br>13 February 2019         |             |
| Council<br>28 February 2019         |             |
| Audit Committee<br>25 February 2019 |             |
|                                     | Public      |

## TREASURY STRATEGY 2019/20

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

Tel: (01743) 258915

### 1. Summary

1.1 The report proposes the Treasury Strategy for 2019/20 and recommends Prudential and Treasury Indicators for 2019/20 to 2021/22. The report is technical in nature but the key points to note are:-

- Borrowing is largely driven by the requirements of the approved Capital Programme. From 2011/12 the Council's borrowing requirement has been significantly reduced due to the Government changing the way in which it funds the Council's capital expenditure and providing capital grants rather than supported borrowing approval with on-going (as it was defined at the time) revenue support grant to meet the financing costs of the borrowing. Currently the only approved borrowing requirement identified within the Capital Programme 2019/20 to 2021/22 is self-financing prudential borrowing of £6.030m.
- In late December 2017, CIPFA issued revised Prudential and Treasury Management Codes. As from 2019/20 all local authorities will be required to prepare an additional report, a Capital Strategy report. The Council is developing both the Capital Strategy report and business cases for a number of large schemes linked to proposals set out in the Council's Finance Strategy. Any updates required as a result of future decisions will be reported accordingly.
- The Council's lending continues to be restricted to highly credit rated Banks, three Building Societies, Money Market Funds and Part Nationalised Institutions which meet Link Asset Services creditworthiness policy, other Local Authorities and the UK Government.
- The internal Treasury Team will continue to look for opportunities to make savings by actively managing the cash and debt portfolio in accordance with the Treasury Strategy.
- The bank rate was increased to 0.75% in August 2018, only the second increase since 2009. We are unlikely to see any further action from The

Monetary Policy Committee (MPC) until the uncertainties over Brexit clear. Every 0.25% increase in the bank rate equates to around £250,000 of additional interest receivable per annum on the Council's current average investment balances.

- Long term borrowing rates are expected to be higher than investment rates during 2018/19 therefore long term borrowing may be postponed in order to maximise savings in the short term. Currently the only borrowing requirement identified within the Capital Programme 2018/19 to 2020/21 is self-financing prudential borrowing of £6.030m. Any changes to this requirement as a result of future decisions will be reported accordingly.
- The Council has agreed to offer to lend funds to Shropshire Housing Ltd (which incorporates both South Shropshire Housing Association and the Meres & Mosses Housing Association) and Severnside Housing at an agreed rate. It has previously been agreed to offer to lend up to £10 million to each of these Housing Associations in order to support the building of affordable housing and shared office accommodation in Shropshire. For security purposes, each loan has been secured against existing assets held by or owned by the Housing Association. To date £9,770,000 has been drawn down by Shropshire Housing Ltd and £10,000,000 by Severnside Housing.
- In December 2017, Cabinet & Council approved the purchase of units held in a Jersey Property Unit Trust (JPOT) for the acquisition of 100% of the units for the Shrewsbury Shopping Centres. This has reduced cash balances available for investment in 2018/19 by £52.6m which represents the actual payment made on 23 January 2018. This investment will be classified as a short term capital investment and has been financed from internal cash balances in the short to medium term.

## **2. Recommendations**

### **2.1. Recommendations to Cabinet**

Cabinet recommend that Council:-

- a) Approve, with any comments, the Treasury Strategy for 2019/20.
- b) Approve, with any comments, the Prudential Indicators, set out in Appendix 1, in accordance with the Local Government Act 2003.
- c) Approve, with any comments, the Investment Strategy, set out in Appendix 2 in accordance with the CLG Guidance on Local Government Investments.
- d) Approve, with any comments, the Minimum Revenue Provision (MRP) Policy Statement, set out in Appendix 3.
- e) Authorise the Section 151 Officer to exercise the borrowing powers contained in Section 3 of the Local Government Act 2003 and to manage the Council's debt portfolio in accordance with the Treasury Strategy.
- f) Authorise the Section 151 Officer to use other Foreign Banks which meet Link's creditworthiness policy as required.

## **2.2. Recommendations to Audit Committee**

- g) Audit Committee are asked to consider and endorse, with appropriate comment, the Treasury Strategy 2019/20.

## **2.3. Recommendations to the Council**

- h) Approve, with any comments, the Treasury Strategy for 2019/20.
- i) Approve, with any comments, the Prudential Indicators, set out in Appendix 1, in accordance with the Local Government Act 2003.
- j) Approve, with any comments, the Investment Strategy, set out in Appendix 2 in accordance with the CLG Guidance on Local Government Investments.
- k) Approve, with any comments, the Minimum Revenue Provision (MRP) Policy Statement, set out in Appendix 3.
- l) Authorise the Section 151 Officer to exercise the borrowing powers contained in Section 3 of the Local Government Act 2003 and to manage the Council's debt portfolio in accordance with the Treasury Strategy.
- m) Authorise the Section 151 Officer to use other Foreign Banks which meet Link's creditworthiness policy as required.

# **REPORT**

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

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

## **4. Financial Implications**

- 4.1 The financial implications arising from the Treasury Strategy are detailed in this report. The Council makes assumptions about the levels of borrowing and investment income over the financial year. Reduced borrowing as a result of capital receipt generation or delays in delivery of the capital programme will both have a positive impact of the council's cash position. Similarly, higher than

benchmarked returns on available cash will also help the Council's financial position. For monitoring purposes, assumptions are made early in the year about borrowing and returns based on the strategies agreed by Council in the preceding February. Performance outside of these assumptions results in increased or reduced income for the Council.

- 4.2 As at 31 December 2018 the Council held £130 million in investments and borrowing of £312 million at fixed interest rates. The amount held in investments has reduced by £52.6m following the purchase of units held in a Jersey Property Unit Trust (JPOT) for the acquisition of 100% of the units for the Shrewsbury Shopping Centres on 23 January 2018.

## 5. Background

- 5.1. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering 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 that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 5.3. The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.
- 5.4. Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.
- 5.5. 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 those activities, and the pursuit of optimum performance consistent with those risks".
- 5.6. Revised reporting is required for the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately.
- 5.7. This strategy statement has been prepared in accordance with CIPFA's revised

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

5.8. In late December 2017, CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code. These revisions particularly focused on non-treasury investments and the requirement for all local authorities to produce a detailed Capital Strategy as from 2019/20. The majority of these requirements are already included in an appendix to the Council's Financial Strategy but this will be included as a separate Capital Strategy report from 2019/20. This report will provide the following:-

- a high-level long term 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

5.9. The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

5.10. This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

5.11. Attached in appendix 2 is the Council's Annual Investment Strategy which includes a list of additional responsibilities for the Section 151 Officer role following the issue of the revised Treasury Management Code of Practice and Prudential Code.

5.12. The revised codes have clarified CIPFA's position that there is a clear separation between treasury and non-treasury investments and on the role of the treasury management team. Accordingly, periodic reporting by the treasury management team to members will focus solely on treasury investments. If non treasury

investments are considered, such as the acquisition of units in relation to the Shrewsbury Shopping Centres, a separate report will be presented for approval and any changes required to Prudential indicators incorporated within an updated Treasury Strategy if necessary.

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

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

## 6. Treasury Strategy 2019/20

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



given when determining the Council's Treasury Management Strategy for the next financial year.

- 6.2. As the Council is responsible for housing, Prudential Indicators relating to Capital Expenditure, financing costs and the Capital Financing Requirement will be split between the Housing Revenue Account (HRA) and the General Fund.
- 6.3. The Act also requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
- 6.4. The proposed Strategy for 2019/20 in respect of the following aspects of the treasury management function is based upon the Section 151 Officer's view on interest rates, supplemented with leading market forecasts provided by the Council's Treasury Advisor, Link Asset Services.
- 6.5. The proposed strategy will focus on the following areas of treasury activity:-
  - Treasury limits in force which will limit the treasury risk and activities of the Council.
  - The determination of Prudential and Treasury Indicators.
  - The current treasury position.
  - Prospects for interest rates.
  - Capital borrowing strategy.
  - Policy on borrowing in advance of need.
  - Debt rescheduling.
  - Investment strategy.
  - Capital plans.
  - Creditworthiness policy.
  - Policy on use of external service providers.
  - The MRP strategy.
  - Leasing.
- 6.6. It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This therefore means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:-
  - increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
  - any increase in running costs from new capital projects

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

## **7. Treasury Limits for 2019/20 to 2021/22**

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

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

## 8. Prudential & Treasury Indicators for 2019/20 to 2021/22

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

| Prudential Indicator No. 1  | 2018/19<br>Estimate | 2019/20<br>Estimate | 2020/21<br>Estimate | 2021/22<br>Estimate |
|---|---------------------|---------------------|---------------------|---------------------|
|   | %                   | %                   | %                   | %                   |
| Non HRA ratio of financing costs (gross of investment income) to net revenue stream | 8.8                 | 9.3                 | 8.9                 | 9.3                 |
| Non HRA ratio of financing costs (net of investment income) to net revenue stream   | 8.2                 | 8.6                 | 8.3                 | 8.8                 |
| HRA Ratio of financing costs to HRA net revenue stream                              | 38.8                | 38.8                | 37.4                | 36.1                |

**8.4. Prudential Indicator 2** - A key indicator of prudence is that gross external borrowing should not, except in the short term, exceed the capital financing requirement (CFR). The capital financing requirement is the maximum we would expect to borrow based on the current capital programme. Compliance with the indicator will mean that this limit has not been breached. Gross borrowing includes debt administered on behalf of Telford and Wrekin Council, Magistrates Courts and Probation Service. It also includes the debt transferred from Oswestry Borough Council and North Shropshire District Council on the 1st April 2009. In accordance with the Code the HRA Capital Financing requirement has been calculated separately and has been updated due to the HRA reform which took place on the 28 March 2012. The 2017/18 Non HRA Capital Financing Requirement includes £53.1 million (which represents the gross capital cost of the acquisition of £52.6m net payment plus £0.5m capitalised rental top ups) in relation to the Shrewsbury Shopping Centres.

| <b>Prudential Indicator No. 2</b>   | <b>2017/18 Actual</b> | <b>2018/19 Estimate</b> | <b>2019/20 Estimate</b> | <b>2020/21 Estimate</b> | <b>2021/22 Estimate</b> |
|---|-----------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Net Borrowing &amp; Capital Financing Requirement:</b>                     | <b>£ m</b>            | <b>£ m</b>              | <b>£ m</b>              | <b>£ m</b>              | <b>£ m</b>              |
| Non HRA Capital Financing Requirement   | 287                   | 287                     | 289                     | 280                     | 270                     |
| HRA Capital Financing Requirement   | 84                    | 85                      | 85                      | 85                      | 85                      |
| Commercial activities/non-financial investments Capital Financing Requirement | 0                     | 6                       | 10                      | 11                      | 11                      |
| <b>Total CFR</b>  | <b>371</b>            | <b>378</b>              | <b>384</b>              | <b>376</b>              | <b>366</b>              |
| <b>Movement in CFR</b>  | <b>44</b>             | <b>7</b>                | <b>6</b>                | <b>-8</b>               | <b>-10</b>              |
| <b>Movement in CFR represented by</b>   |                       |                         |                         |                         |                         |
| Net financing need for the year (above)                                       | 53.0                  | 6.7                     | 4.3                     | 1.7                     | 0.1                     |
| Less MRP/VRP and other financing movements                                    | -9.0                  | 0.3                     | 1.7                     | -9.7                    | -10.1                   |
| <b>Movement in CFR</b>  | <b>44.0</b>           | <b>7.0</b>              | <b>6.0</b>              | <b>-8.0</b>             | <b>-10.0</b>            |
| Gross Borrowing including HRA   | 318                   | 319                     | 312                     | 306                     | 292                     |
| Investments   | 92                    | 100                     | 100                     | 100                     | 100                     |
| <b>Net Borrowing</b>  | <b>226</b>            | <b>219</b>              | <b>212</b>              | <b>206</b>              | <b>192</b>              |

**8.5. Prudential Indicator 3** - The estimated capital expenditure has been split between Non HRA and HRA and represents commitments from previous years to complete ongoing schemes, the expenditure arising from the proposed new schemes within the capital programme for 2018/19, and the estimated expenditure for 2019/20, 2020/21 and 2021/22. This indicator also includes details on the financing of capital expenditure. In 2017/18 the net financing need for the year includes £53.1m gross cost invested in the acquisition of units in relation to the Shopping Centres. This has been funded in the short to medium term by the use

of cash balances therefore there is no requirement to borrow at the current time but this will be reviewed going forward.

| <b>Prudential Indicator No. 3</b>                      | <b>2017/18 Actual</b> | <b>2018/19 Estimate</b> | <b>2019/20 Estimate</b> | <b>2020/21 Estimate</b> | <b>2021/22 Estimate</b> |
|--|-----------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|  | <b>£ m</b>            | <b>£ m</b>              | <b>£ m</b>              | <b>£ m</b>              | <b>£ m</b>              |
| Non HRA Capital expenditure                            | 95.4                  | 51.9                    | 56.7                    | 20.5                    | 15.9                    |
| HRA Capital expenditure                                | 6.9                   | 8.0                     | 7.6                     | 0.0                     | 0.0                     |
| Commercial activities/non-financial investments        | 0.0                   | 6.0                     | 4.0                     | 1.7                     | 0.1                     |
| <b>Total Capital expenditure</b>                       | <b>102.3</b>          | <b>65.9</b>             | <b>68.3</b>             | <b>22.2</b>             | <b>16.0</b>             |
| <b>Financing of capital expenditure</b>                |                       |                         |                         |                         |                         |
| Capital receipts                                       | 4.5                   | 7.3                     | 14.7                    | 0.1                     | 0.0                     |
| Capital grants   | 38.5                  | 41.4                    | 38.3                    | 20.4                    | 15.9                    |
| Other Contributions                                    | 0.8                   | 3.2                     | 2.9                     | 0.0                     | 0.0                     |
| Major Repairs Allowance                                | 1.8                   | 6.4                     | 3.9                     | 0.0                     | 0.0                     |
| Revenue  | 3.7                   | 0.9                     | 4.2                     | 0.0                     | 0.0                     |
| <b>Net financing need for the year</b>                 | <b>53.0</b>           | <b>6.7</b>              | <b>4.3</b>              | <b>1.7</b>              | <b>0.1</b>              |
| <b>Commercial activities/non-financial investments</b> | <b>2017/18 Actual</b> | <b>2018/19 Estimate</b> | <b>2019/20 Estimate</b> | <b>2020/21 Estimate</b> | <b>2021/22 Estimate</b> |
|  | <b>£ m</b>            | <b>£ m</b>              | <b>£ m</b>              | <b>£ m</b>              | <b>£ m</b>              |
| Capital expenditure                                    | 0.0                   | 6.0                     | 4.0                     | 1.7                     | 0.1                     |
| Financing Costs  | 0.0                   | 0.3                     | 0.0                     | 0.0                     | 0.0                     |
| <b>Net financing need for the year</b>                 | <b>0.0</b>            | <b>5.7</b>              | <b>4.0</b>              | <b>1.7</b>              | <b>0.1</b>              |
| Percentage of total net financing need                 | 0%                    | 95%                     | 100%                    | 100%                    | 100%                    |

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

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

| <b>Prudential Indicator No. 4</b>                    | <b>2019/20</b> | <b>2020/21</b> | <b>2021/22</b> |
|--|----------------|----------------|----------------|
| <b>External Debt</b>                                 | <b>£ m</b>     | <b>£ m</b>     | <b>£ m</b>     |
| <b>Authorised Limit for External Debt: Borrowing</b> | 442            | 444            | 436            |

|  |            |            |            |
|--|------------|------------|------------|
| Other long term liabilities                      | 101        | 103        | 101        |
| Commercial activities/ non-financial investments | 4          | 2          | 0          |
| <b>Total</b>                                     | <b>547</b> | <b>549</b> | <b>537</b> |

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

| <b>*Abolition of HRA debt</b> | <b>Prudential Indicator</b> | <b>2018/19</b> | <b>2019/20</b> | <b>2020/21</b> | <b>2021/22</b> |
|-------------------------------|-----------------------------|----------------|----------------|----------------|----------------|
|                               |                             | <b>£ m</b>     | <b>£ m</b>     | <b>£ m</b>     | <b>£ m</b>     |
|                               | HRA Debt Limit*             | 96             | 96             | 96             | 96             |
|                               | HRA CFR                     | 85             | 85             | 85             | 85             |
|                               | HRA Headroom                | 11             | 11             | 11             | 11             |

**cap.** In October 2018, Prime Minister Theresa May announced a policy change of abolition of the HRA debt cap. The Chancellor announced in the Budget that the applicable date was 29.10.18.

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

| <b>Prudential Indicator No. 5</b>                | <b>2019/20</b> | <b>2020/21</b> | <b>2021/22</b> |
|--|----------------|----------------|----------------|
| <b>External Debt</b>                             | <b>£ m</b>     | <b>£ m</b>     | <b>£ m</b>     |
| <b>Operational Boundary:</b>                     |                |                |                |
| Borrowing  | 400            | 392            | 403            |
| Other long term liabilities                      | 101            | 103            | 101            |
| Commercial activities/ non-financial investments | 4              | 2              | 0              |
| <b>Total</b>                                     | <b>505</b>     | <b>497</b>     | <b>504</b>     |

- 8.9. **Prudential Indicator 6** - The estimated external debt is based on the capital programme for 2018/19.

| <b>Prudential Indicator No. 6</b> | <b>2017/18 Actual</b> | <b>2018/19 Estimate</b> |
|-----------------------------------|-----------------------|-------------------------|
| <b>Actual External Debt</b>       | <b>£ m</b>            | <b>£ m</b>              |
| Borrowing                         | 318                   | 312                     |
| Other long term liabilities       | 105                   | 104                     |
| <b>Total</b>                      | <b>423</b>            | <b>416</b>              |

- 8.10. **Prudential Indicator 6** - Within the above figures the level of debt relating to commercial activities / non-financial investment is £6 million.

| <b>Prudential Indicator No. 6</b> | <b>2017/18 Actual</b> | <b>2018/19 Estimate</b> |
|-----------------------------------|-----------------------|-------------------------|
| <b>Actual External Debt</b>       | <b>£ m</b>            | <b>£ m</b>              |
| Borrowing                         | 318                   | 318                     |
| Other long term liabilities       | 105                   | 104                     |
| <b>Total</b>                      | <b>423</b>            | <b>422</b>              |

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

| Prudential Indicator<br>No. 7*<br>Internal Indicator No. 1 **<br>No. 7^<br>Internal Indicator No. 2 ^^ | 2019/20    | 2020/21    | 2021/20<br>22 |
|--|------------|------------|---------------|
| <b>Borrowing Limits</b>  |            |            |               |
|  | <b>£ m</b> | <b>£ m</b> | <b>£ m</b>    |
| Upper Limit for Fixed Interest Rate Exposure *   | 446        | 446        | 436           |
| Upper Limit for Variable Interest Rate Exposure ^  | 223        | 223        | 218           |
| Lower Limit for Fixed Interest Rate Exposure **  | 223        | 223        | 218           |
| Lower Limit on Variable Interest Rate Exposure ^^  | 0          | 0          | 0             |

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

Upper limit for fixed rate exposure

**Calculation:**

A maximum of 100% of the Authorised Limit (£446m in 2019/20) exposed to fixed rates is consistent with the Authority's objective to have a long term stable debt portfolio.

Upper limit for variable rate exposure

**Calculation:**

For efficient management of the debt portfolio it is considered prudent by Link to permit up to 50% (£223m in 2019/20) of the Authorised Limit to be borrowed at variable interest rates.

Lower limit for fixed rate exposure

**Calculation:**

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

Lower limit for variable rate exposure

**Calculation:**

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

| Prudential Indicator<br>No. 8*<br>Internal Indicator No. 3 **<br>No. 8^<br>Internal Indicator No. 4 ^^ | 2019/20 | 2020/21 | 2021/22 |
|--|---------|---------|---------|
|--|---------|---------|---------|

| <b>Investment Limits</b>                          |            |            |            |
|---|------------|------------|------------|
|   | <b>£ m</b> | <b>£ m</b> | <b>£ m</b> |
| Upper Limit for Fixed Interest Rate Exposure *    | 220        | 220        | 220        |
| Upper Limit for Variable Interest Rate Exposure ^ | 220        | 220        | 220        |
| Lower Limit for Fixed Interest Rate Exposure **   | 0          | 0          | 0          |
| Lower Limit on Variable Interest Rate Exposure ^^ | 0          | 0          | 0          |

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

Upper limit for fixed rate exposure

**Calculation:**

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

Upper limit for variable rate exposure

**Calculation:**

For the purposes of efficient portfolio management in response to interest rate conditions a maximum potential exposure to variable rates of £220m in 2019/20 is recommended.

Lower limit for fixed rate exposure

**Calculation:**

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

Lower limit for variable rate exposure

**Calculation:**

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

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

| <b>Prudential Indicator No. 9</b> | <b>Upper Limit</b> | <b>Lower Limit</b> |
|-----------------------------------|--------------------|--------------------|
|-----------------------------------|--------------------|--------------------|

| <b>Maturity Structure of Fixed/Variable Rate Borrowing 2019/20*</b> | <b>%</b> | <b>%</b> |
|---|----------|----------|
| Under 12 months   | 15       | 0        |
| 12 months & within 24 months  | 15       | 0        |
| 24 months & within 5 years  | 45       | 0        |
| 5 years to 10 years   | 75       | 0        |
| 10 years to 20 years  | 100      | 0        |
| 20 years to 30 years  | 100      | 0        |
| 30 years to 40 years  | 100      | 0        |
| 40 years to 50 years  | 100      | 0        |
| 50 years and above  | 100      | 0        |

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

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

| <b>Prudential Indicator No. 10</b>                               | <b>2019/20</b> | <b>2020/21</b> | <b>2022/22</b> |
|--|----------------|----------------|----------------|
| <b>Investment Limits</b>   |                |                |                |
|  | £m             | £m             | £m             |
| Upper Limit for Total Principal Sums Invested for over 365 days: |                |                |                |
| Externally Managed (if appointed)                                | 30             | 30             | 30             |
| Internally Managed   | 50             | 50             | 50             |
| Shrewsbury Shopping Centres                                      | 70             | 70             | 70             |

**Rationale:** The limit for the external cash fund manager has been set at £30 million in the event that an external manager is appointed. The limit for the internal treasury team has been set in order for the authority to potentially take advantage of more stable returns going forward. This includes the lending to date to local housing associations. A separate limit of £70 million is included for the investment in units held within the JPUT for the Shrewsbury Shopping Centres. This limit is higher than the gross capital investment cost of £53.1m as it includes headroom for any future capital investment requirements.

## 9. Current Treasury Position

9.1. The Council's treasury position at 31 December 2018 is set out below:-

**Outstanding debt for capital purposes**

**Actual  
£m**



|                               |              |
|-------------------------------|--------------|
| Long-term fixed rate PWLB     | 262.8        |
| Long term fixed rate – Market | 49.2         |
| <b>Total</b>                  | <b>312.0</b> |

## Investments

£m

|   |              |
|---|--------------|
| Internally managed - long term (1 Year) | 18.0         |
| - short term cash flow                  | 112.0        |
| <b>Total</b>                            | <b>130.0</b> |

## 10. Prospects for Interest Rates

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

### Link's interest rate forecast as at December 2018

| Link Asset Services Interest Rate View |        |        |        |        |        |        |        |        |        |        |        |        |        |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|  | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 |
| Bank Rate View                         | 0.75%  | 1.00%  | 1.00%  | 1.00%  | 1.25%  | 1.25%  | 1.25%  | 1.50%  | 1.50%  | 1.75%  | 1.75%  | 1.75%  | 2.00%  |
| 3 Month LIBID                          | 0.90%  | 1.00%  | 1.10%  | 1.20%  | 1.30%  | 1.40%  | 1.50%  | 1.50%  | 1.60%  | 1.70%  | 1.80%  | 1.90%  | 2.00%  |
| 6 Month LIBID                          | 1.00%  | 1.20%  | 1.30%  | 1.40%  | 1.50%  | 1.60%  | 1.70%  | 1.70%  | 1.80%  | 1.90%  | 2.00%  | 2.10%  | 2.20%  |
| 12 Month LIBID                         | 1.20%  | 1.30%  | 1.40%  | 1.50%  | 1.60%  | 1.70%  | 1.80%  | 1.90%  | 2.00%  | 2.10%  | 2.20%  | 2.30%  | 2.40%  |
| 5yr PWLB Rate                          | 2.10%  | 2.20%  | 2.20%  | 2.30%  | 2.30%  | 2.40%  | 2.50%  | 2.50%  | 2.60%  | 2.60%  | 2.70%  | 2.80%  | 2.80%  |
| 10yr PWLB Rate                         | 2.50%  | 2.60%  | 2.60%  | 2.70%  | 2.80%  | 2.90%  | 2.90%  | 3.00%  | 3.00%  | 3.10%  | 3.10%  | 3.20%  | 3.20%  |
| 25yr PWLB Rate                         | 2.90%  | 3.00%  | 3.10%  | 3.10%  | 3.20%  | 3.30%  | 3.30%  | 3.40%  | 3.40%  | 3.50%  | 3.50%  | 3.60%  | 3.60%  |
| 50yr PWLB Rate                         | 2.70%  | 2.80%  | 2.90%  | 2.90%  | 3.00%  | 3.10%  | 3.10%  | 3.20%  | 3.20%  | 3.30%  | 3.30%  | 3.40%  | 3.40%  |

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

- remain at its current level of 0.75% until June 2019 when it is expected to rise to 1.00%.
- reach 1.25% by March 2020 and 1.50% by December 2020.

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

### Short-term interest rates (investments)

10.2. The flow of generally positive economic statistics after the quarter ended 30 June 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, from 0.5% to 0.75%. Growth became increasingly strong during 2018 until slowing significantly during the last quarter. At their November meeting, the MPC left Bank Rate unchanged, but expressed some concern at the Chancellor's fiscal stimulus in his Budget, which could increase inflationary pressures. However, it is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. On a major assumption that Parliament and the EU agree a Brexit deal in the first quarter of 2019, then the next increase in Bank Rate is forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

## Long-term interest rates (borrowing)

10.3. The 50 year PWLB rate is expected to rise gradually to reach 3.0% by the end of March 2020. It is expected to continue rising gradually to reach 3.4% by the end of December 2021. There is scope for it to move around the central forecast by + or – 0.25%. The 25 year PWLB rate is also expected to rise slightly to reach 3.2% by the end of March 2020 and 3.6% by the end of December 2020. The 10 year PWLB rate is expected to rise gradually to 2.8% by the end of March 2020. Again further gradual rises are expected in 2020/21 & 2021/22. The 5 year PWLB rate is also expected to rise gradually from 2.0% to 2.3% by the end of March 2020 and to 2.8% by the end of December 2021. The PWLB rates and forecasts shown above take into account the 0.2% certainty rate reduction effective as of the 1 November 2012.

## 11. Borrowing Strategy

11.1. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

11.2. The only approved external borrowing requirement for 2019/20 to 2021/22 within the Capital Programme is £6.030m self-financing prudential borrowing. The Council will adopt a pragmatic approach to changing circumstances when considering new borrowing if required in the future. Consideration will be given to the following:-

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

portfolio position would be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

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

## **12. External versus internal borrowing**

- 12.1. The Prudential Code requires the Council to explain its policy on gross and net debt. The Council currently has gross debt of £312 million and net debt (after deducting cash balances) of £182 million. The next financial year is expected to see the Bank Rate increase by 0.5% to reach 1.25%. As borrowing rates are expected to be higher than investment rates this would indicate that value could best be obtained by avoiding new external borrowing and using internal cash balances to finance new capital expenditure. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. This is referred to as internal borrowing and maximises short term savings. This is subject to change as the Brexit negotiations are yet to be finalised.
- 12.2. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.
- 12.3. The Council has examined the potential for undertaking early repayment of some external debt in order to reduce the difference between its gross and net debt positions. However, the introduction by the PWLB of significantly lower rates for repayments than for new borrowing means that large premiums would be incurred and such levels of premiums cannot be justified on value for money grounds.
- 12.4. Against this background caution will be adopted with the 2019/20 treasury operations. The Section 151 Officer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to Members at the next available opportunity.

## **13. Policy on borrowing in advance of need**

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

- Consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balance and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

#### **14. Debt Rescheduling**

14.1. Consideration will be given to the potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates currently paid on debt. However, this will need careful consideration in the light of premiums that may be incurred by such a course of action. The proposals for debt rescheduling are a continuation of the existing policy and such transactions will only be undertaken:-

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

#### **15. Investment Strategy**

15.1. The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy.

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

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

15.3. The Council's investment priorities are the security of capital and the liquidity of its investments. The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk as outlined in the Annual Investment Strategy.

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

#### **16. Minimum Revenue Provision (MRP) Statement**

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

Council are asked to approve the Minimum Revenue Provision Statement set out in Appendix 3.

## 17. Leasing

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

## 18. Lending to Housing Associations

- 18.1. As previously approved by full Council, the Council has offered to lend funds to Shropshire Housing Ltd (which incorporates South Shropshire Housing Association and the Meres & Mosses Housing Association) and Severnside Housing at an agreed rate.
- 18.2. It has been agreed that the interest rate charged will depend on the period over which the loan is to be taken and that it will be linked to the applicable PWLB rate plus an administration fee. It has been agreed to offer to lend up to £10 million to each of these Housing Associations in order to support the building of affordable housing and shared office accommodation in Shropshire. For security purposes, each loan has been secured against existing assets held by or owned by the Housing Association.
- 18.3. Officers have sought advice from Wragge & Co who have confirmed that the Council has the power to lend funds to Housing Associations under the Housing Act 1996 and have drawn up the legal documentation relating to the loan agreement. To date £9,770,000 has been drawn down by Shropshire Housing Ltd and £10,000,000 by Severnside Housing.

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

Treasury Management Practices

Treasury Strategy 2018/19 (Council 22 February 2018)

Treasury Strategy 2018/19 Mid-Year Review (Council 13 December 2018)

Financial Strategy Report 2019/20 to 2021/22 (Cabinet 13 February 2019)

Shrewsbury Shopping Centres Report (Council 14 December 2017)

**Cabinet Member** : David Minnery, Portfolio Holder for Finance

**Local Member**

N/A

**Appendices:**

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

## Prudential Indicators

| Prudential Indicator                                   | 2018/19<br>Estimate | 2019/20<br>Estimate | 2020/21<br>Estimate | 2021/22<br>Estimate |
|--|---------------------|---------------------|---------------------|---------------------|
|  | %                   | %                   | %                   | %                   |
| Non HRA ratio of financing costs to net revenue stream | 8.8                 | 9.3                 | 8.9                 | 9.3                 |
| HRA ratio of financing costs to HRA net revenue stream | 38.8                | 38.8                | 37.4                | 36.1                |

| Prudential Indicator  | 2018/19<br>Estimate | 2019/20<br>Estimate | 2020/21<br>Estimate | 2021/22<br>Estimate |
|---|---------------------|---------------------|---------------------|---------------------|
|   | %                   | %                   | %                   | %                   |
| Non HRA ratio of financing costs (net of investment income) to net revenue stream | 8.2                 | 8.6                 | 8.3                 | 8.8                 |

| Prudential Indicator  | 2017/18<br>Actual | 2018/19<br>Estimate | 2019/20<br>Estimate | 2020/21<br>Estimate | 2021/22<br>Estimate |
|---|-------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Net Borrowing &amp; Capital Financing Requirement:</b>                     | <b>£ m</b>        | <b>£ m</b>          | <b>£ m</b>          | <b>£ m</b>          | <b>£ m</b>          |
| Non HRA Capital Financing Requirement   | 287               | 287                 | 289                 | 280                 | 270                 |
| HRA Capital Financing Requirement   | 84                | 85                  | 85                  | 85                  | 85                  |
| Commercial activities/non-financial investments Capital Financing Requirement | 0                 | 6                   | 10                  | 11                  | 11                  |
| <b>Total CFR</b>  | <b>371</b>        | <b>378</b>          | <b>384</b>          | <b>376</b>          | <b>366</b>          |
| <b>Movement in CFR</b>  | <b>44</b>         | <b>7</b>            | <b>6</b>            | <b>-8</b>           | <b>-10</b>          |
|   |                   |                     |                     |                     |                     |
| <b>Movement in CFR represented by</b>   |                   |                     |                     |                     |                     |
| Net financing need for the year (above)                                       | 53.0              | 6.7                 | 4.3                 | 1.7                 | 0.1                 |
| Less MRP/VRP and other financing movements                                    | -9.0              | 0.3                 | 1.7                 | -9.7                | -10.1               |
| <b>Movement in CFR</b>  | <b>44.0</b>       | <b>7.0</b>          | <b>6.0</b>          | <b>-8.0</b>         | <b>-10.0</b>        |
|   |                   |                     |                     |                     |                     |
| Gross Borrowing (including HRA)   | 318               | 319                 | 312                 | 306                 | 292                 |
| Investments   | 92                | 100                 | 100                 | 100                 | 100                 |
| <b>Net Borrowing</b>  | <b>226</b>        | <b>219</b>          | <b>212</b>          | <b>206</b>          | <b>192</b>          |
|   |                   |                     |                     |                     |                     |

| Prudential Indicator                                   | 2017/18<br>Actual         | 2018/19<br>Estimate         | 2019/20<br>Estimate         | 2020/21<br>Estimate         | 2021/22<br>Estimate         |
|--|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|  | £ m                       | £ m                         | £ m                         | £ m                         | £ m                         |
| Non HRA Capital expenditure                            | 95.4                      | 51.9                        | 56.7                        | 20.5                        | 15.9                        |
| HRA Capital expenditure                                | 6.9                       | 8.0                         | 7.6                         | 0.0                         | 0.0                         |
| Commercial activities/non-financial investments        | 0.0                       | 6.0                         | 4.0                         | 1.7                         | 0.1                         |
| <b>Total Capital expenditure</b>                       | <b>102.3</b>              | <b>65.9</b>                 | <b>68.3</b>                 | <b>22.2</b>                 | <b>16.0</b>                 |
| <b>Financing of capital expenditure</b>                |                           |                             |                             |                             |                             |
| Capital receipts                                       | 4.5                       | 7.3                         | 14.7                        | 0.1                         | 0.0                         |
| Capital grants   | 38.5                      | 41.4                        | 38.3                        | 20.4                        | 15.9                        |
| Other Contributions                                    | 0.8                       | 3.2                         | 2.9                         | 0.0                         | 0.0                         |
| Major Repairs Allowance                                | 1.8                       | 6.4                         | 3.9                         | 0.0                         | 0.0                         |
| Revenue  | 3.7                       | 0.9                         | 4.2                         | 0.0                         | 0.0                         |
| <b>Net financing need for the year</b>                 | <b>53.0</b>               | <b>6.7</b>                  | <b>4.3</b>                  | <b>1.7</b>                  | <b>0.1</b>                  |
| <b>Commercial activities/non-financial investments</b> | <b>2017/18<br/>Actual</b> | <b>2018/19<br/>Estimate</b> | <b>2019/20<br/>Estimate</b> | <b>2020/21<br/>Estimate</b> | <b>2021/22<br/>Estimate</b> |
|  | £ m                       | £ m                         | £ m                         | £ m                         | £ m                         |
| Capital expenditure                                    | 0.0                       | 6.0                         | 4.0                         | 1.7                         | 0.1                         |
| Financing Costs  | 0.0                       | 0.3                         | 0.0                         | 0.0                         | 0.0                         |
| <b>Net financing need for the year</b>                 | <b>0.0</b>                | <b>5.7</b>                  | <b>4.0</b>                  | <b>1.7</b>                  | <b>0.1</b>                  |
| Percentage of total net financing need                 | 0%                        | 95%                         | 100%                        | 100%                        | 100%                        |

| Prudential Indicator                             | 2019/20    | 2020/21    | 2021/22    |
|--|------------|------------|------------|
| <b>External Debt</b>                             | <b>£ m</b> | <b>£ m</b> | <b>£ m</b> |
| <b>Authorised Limit for External Debt:</b>       |            |            |            |
| Borrowing  | 442        | 444        | 436        |
| Other long term liabilities (PFI)                | 101        | 103        | 101        |
| Commercial activities/ non-financial investments | 4          | 2          | 0          |
| <b>Total</b>                                     | <b>547</b> | <b>549</b> | <b>537</b> |

| Prudential Indicator | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|----------------------|---------|---------|---------|---------|
|                      | £ m     | £ m     | £ m     | £ m     |
| HRA Debt Limit*      | 96      | 96      | 96      | 96      |
| HRA CFR              | 85      | 85      | 85      | 85      |
| HRA Headroom         | 11      | 11      | 11      | 11      |

**\*Abolition of HRA debt cap.** In October 2018, Prime Minister Theresa May announced a policy change of abolition of the HRA debt cap. The Chancellor announced in the Budget that the applicable date was 29.10.18

| Prudential Indicator                             | 2019/20    | 2020/21    | 2021/22    |
|--|------------|------------|------------|
| <b>External Debt</b>                             | <b>£ m</b> | <b>£ m</b> | <b>£ m</b> |
| <b>Operational Boundary:</b>                     |            |            |            |
| Borrowing  | 400        | 392        | 403        |
| Other long term liabilities (PFI)                | 101        | 103        | 101        |
| Commercial activities/ non-financial investments | 4          | 2          | 0          |
| <b>Total</b>                                     | <b>505</b> | <b>497</b> | <b>504</b> |



| Prudential Indicator              | 2017/18<br>Actual | 2018/19<br>Estimate |
|-----------------------------------|-------------------|---------------------|
| External Debt                     | £ m               | £ m                 |
| Borrowing                         | 318               | 312                 |
| Other long term liabilities (PFI) | 105               | 104                 |
| <b>Total</b>                      | <b>423</b>        | <b>416</b>          |

Within the above figures the level of debt relating to commercial activities / non-financial investment is £6 million.

| Prudential Indicator              | 2017/18<br>Actual | 2018/19<br>Estimate |
|-----------------------------------|-------------------|---------------------|
| External Debt                     | £ m               | £ m                 |
| Borrowing                         | 318               | 318                 |
| Other long term liabilities (PFI) | 105               | 104                 |
| <b>Total</b>                      | <b>423</b>        | <b>422</b>          |

| Prudential Indicator                            | 2019/20 | 2020/21 | 2021/22 |
|---|---------|---------|---------|
| Borrowing Limits                                | £ m     | £ m     | £ m     |
|   |         |         |         |
| Upper Limit for Fixed Interest Rate Exposure    | 446     | 446     | 436     |
| Upper Limit for Variable Interest Rate Exposure | 223     | 223     | 218     |
| Lower Limit for Fixed Interest Rate Exposure    | 223     | 223     | 218     |
| Lower Limit on Variable Interest Rate Exposure  | 0       | 0       | 0       |

| Prudential Indicator                            | 2019/20 | 2020/21 | 2021/22 |
|---|---------|---------|---------|
| Investment Limits                               | £ m     | £ m     | £ m     |
|   |         |         |         |
| Upper Limit for Fixed Interest Rate Exposure    | 220     | 220     | 220     |
| Upper Limit for Variable Interest Rate Exposure | 220     | 220     | 220     |
| Lower Limit for Fixed Interest Rate Exposure    | 0       | 0       | 0       |
| Lower Limit on Variable Interest Rate Exposure  | 0       | 0       | 0       |

| Prudential Indicator   | Upper<br>Limit | Lower<br>Limit |
|--|----------------|----------------|
| <b>Maturity Structure of Fixed/Variable Rate Borrowing During 2019/20 **</b> | <b>%</b>       | <b>%</b>       |
| Under 12 months  | 15             | 0              |
| 12 months & within 24 months   | 15             | 0              |
| 24 months & within 5 years   | 45             | 0              |
| 5 years & within 10 years  | 75             | 0              |
| 10 years & within 20 years   | 100            | 0              |
| 20 years & within 30 years   | 100            | 0              |
| 30 years & within 40 years   | 100            | 0              |
| 40 years & within 50 years   | 100            | 0              |
| 50 years and above   | 100            | 0              |

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

| Prudential Indicator   | 2018/19 | 2019/20 | 2020/21 |
|--|---------|---------|---------|
| <b>Investment Limits</b>   |         |         |         |
|  | £m      | £m      | £m      |
| Upper Limit for Total Principal Sums Invested for over 365 days: |         |         |         |
| Externally Managed (if appointed)                                | 30      | 30      | 30      |
| Internally Managed   | 50      | 50      | 50      |
| Shrewsbury Shopping Centres                                      | 70      | 70      | 70      |

### The Council's Annual Investment Strategy

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

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

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

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

#### Creditworthiness Policy

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

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

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

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

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

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

### **Monitoring of Credit Ratings**

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

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

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

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

### **UK banks – ring fencing**

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.

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 and “riskier” 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.

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 others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

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.

### **Country Limits**

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

### **Security of Capital**

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

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

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

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

The total permitted investment in any one organisation at any one time varies with the strength of the individual credit rating. For the highest rated and Part

Nationalised Institutions the maximum amount is currently limited to £20m. Any changes to the maximum limit must be approved by the S151 Officer.

## **MHCLG Investment Guidance**

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

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

### **(i) Specified Investments**

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

- be denominated in sterling
- have less than 12 months duration
- not constitute the acquisition of share or loan capital
- either:            be invested in the UK government or a local authority  
                         or a body or investment scheme with a "high" credit quality.

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

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

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

### **(ii) Non Specified Investments**

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

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

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

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

- the Cabinet/Council should approve categories on an annual basis
- advice should be provided by the S151 Officer

- priority should be given to security and portfolio liquidity ahead of yield

It is recommended that for specified investments the range of maximum limits is set between £5m and £20m for the internal treasury team. For non specified investments it is recommended that the limit for the internal treasury team should be restricted to £50m of the total investment portfolio (excluding the Shrewsbury Shopping Centre acquisition). Any changes to the maximum limits must be approved by the S151 Officer.

### **Temporary Investment Strategy**

The Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank rate to 0.75% in August 2018. It is felt that the bank rate will remain at its current level of 0.75% until June 2019 when it is expected to rise to 1.00%. The Bank rate is then expected to rise to 1.5% by December 2020 and 2.00% by March 2022. This view is based on the latest forecasts obtained by the Authority's treasury advisor, Link Asset Services.

If an external fund manager is appointed in 2019/20 they would also have to adhere to the authorised specified and non-specified investments on the attached table. They would also have to comply with the Council's Annual Investment Strategy and their agreement must stipulate guidelines and other limits in order to contain and control risk.

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

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

The present strategy is to diversify investments so as to spread risk over a range of investment types and periods and provide the opportunity to enhance returns. Due to the current lending restrictions in place diversification has been somewhat reduced due to the reduction in the number of institutions which we can lend to, however, by taking this course of action the credit risk has been reduced. The portfolio as at 31 December 2018 is set out in paragraph 9.1 of the Treasury Strategy 2019/20 report. The amount held in investments has reduced by £52.6m following the purchase of units held in a Jersey Property Unit Trust (JPUT) for the acquisition of 100% of the units for the Shrewsbury Shopping Centres on 23 January 2018. Performance of the in-house operation will continue to be monitored on a monthly basis by your officers in conjunction with the treasury advisor.

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

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

## **Policy on the use of external service providers**

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



## **Scheme of Delegation**

### **Full Council**

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

### **Cabinet**

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

### **Audit Committee**

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

## **Role of the Section 151 Officer**

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

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

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

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe.
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority

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

## **Pension Fund Cash**

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

**LOCAL GOVERNMENT INVESTMENTS (England)**

**SPECIFIED INVESTMENTS**

*All investments listed below must be sterling-denominated.*

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



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



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

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#### Monitoring of credit ratings:

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

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





## LOCAL GOVERNMENT INVESTMENT (England)

### NON-SPECIFIED INVESTMENTS

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

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



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

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

|  |  |  |  |  |  |  |  |  |
|--|--|--|--|--|--|--|--|--|
|  | exposure to movements in the exchange rate and guaranteeing a known cashflow for West Mercia Energy. The account is only to be used for this purpose and not for the purpose of speculative or trading transactions. |  |  |  |  |  |  |  |
|--|--|--|--|--|--|--|--|--|

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## Appendix 3

### 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 3(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 31/03/19 the HRA CFR is £84.8m, 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.

### **2019/20 Annual MRP Statement**

Appendix 3(b) provides the MRP statement for the 2019/20 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 2019/20 MRP Statement it has been assumed all the capital receipts retained as set aside as at 31 March 2019 to reduce the CFR will be offset by an increase in the CFR in 2019/20 from capital expenditure incurred in 2019/20. In the event that the level of capital expenditure in 2019/20 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 2020/21. This will be reported for approval as part of the Capital Outturn report 2018/19.

## Appendix 3(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)<br>Expenditure on computer programs                              | "C" equals the value it would have for computer hardware   |
| Regulation 25(1)(b)<br>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)<br>Repayment of grants and loans for capital expenditure         | "C" equals 25 years, or the period of the loan, if longer  |
| Regulation 25(1)(d)<br>Acquisition of share or loan capital                          | "C" equals 20 years  |
| Regulation 25(1)(e)  | "C" equals the estimated life of the assets  |

|  |
|--|
|  |
|--|

|  |   |
|--|---|
| Expenditure on works to assets not owned by the authority                                      |   |
| Regulation 25(1)(ea)<br>Expenditure on assets for use by others                                | "C" equals the estimated life of the assets |
| Regulation 25(1)(f)<br>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 3(b): Minimum Revenue Provision Statement 2019/20

£

#### **Supported Borrowing – Asset Life (45 years)**

##### **General Fund**

|   |             |
|---|-------------|
| Closing CFR 2017/18   | 196,207,645 |
| Proposed use of capital receipts voluntarily set aside to be applied in 2018/19 | 9,420,712   |
| Adjustment A  | (4,446,484) |
| Less transfer of asset from GF to HRA   | (210,000)   |

**200,971,873**

|                    |           |
|--------------------|-----------|
| Less LGR (98) Debt | (119,671) |
|--------------------|-----------|

**200,852,202**

|                  |             |
|------------------|-------------|
| Less MRP 2018/19 | (2,490,631) |
|------------------|-------------|

##### **CFR for Supported Borrowing MRP Calculation**

**198,361,571**

|                        |         |
|------------------------|---------|
| Add back LGR (98) Debt | 119,671 |
|------------------------|---------|

##### **Closing CFR 31/03/19 – Supported Borrowing (GF)**

**198,481,242**

|  |                   |
|--|-------------------|
| Housing Revenue Account                                |                   |
| Closing CFR 2017/18                                    | 84,594,619        |
| Add transfer of asset from GF to HRA                   | 210,000           |
| Less MRP 2016/17 (none budgeted as per HRA MRP policy) | 0                 |
|  | <b>84,804,619</b> |

##### **Closing CFR 31/03/19 – Supported Borrowing (GF&HRA)**

**283,285,861**

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

|   |                   |
|---|-------------------|
| Unsupported Borrowing brought forward                         | <b>71,838,398</b> |
| Add profiled prudential borrowing 2018/19                     | 6,710,761         |
| Less MRP – 2018/19  | (1,717,376)       |
| <b>Closing CFR 31/03/19 – Unsupported Supported Borrowing</b> | <b>76,831,783</b> |

##### **Closing CFR (GF&HRA) 31/03/19 – Borrowing Requirement**

**360,117,644**

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

|                           |            |
|---------------------------|------------|
| Village Hall Loans        | 291,406    |
| Housing Association Loans | 17,858,687 |

|  |  |
|--|--|
|  |  |
|--|--|

**378,267,737**

Summary MRP

MRP 2019/20 at on Annuity Basis at 45 year  
life from 2018/19 2,613,724

LGR (98) Debt MRP 32,012

Prudential Borrowing MRP 1,908,154

**Total MRP 2019/20 4,553,890**

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



| <u>Committee and Date</u>                           | <u>Item</u> | <u>Paper</u> |
|---|-------------|--------------|
| Audit Committee – 25 <sup>th</sup><br>February 2019 |             |              |

## STRATEGIC RISK REPORT FEBRUARY 2019

**Responsible Officer** Angela Beechey

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Tel: (01743)  
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252858

### 1. Summary

- 1.1 This report sets out the current strategic risk exposure following the December 2018/January 2019 quarterly review.

### 2. Recommendations

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

## REPORT

### 3. Current Strategic Risk Exposure

- 3.1 The management of strategic risk is a key process which underpins the successful achievement of our priorities and outcomes. Strategic risks are linked, where appropriate, with the Annual Governance Statement Targeted Outcomes.
- 3.2 Our strategic risks are reviewed on a quarterly basis ensuring that the level of risk exposure is monitored regularly in our rapidly changing environment.
- 3.3 The review was achieved through scheduled meetings with key officers, Directors, Chief Executive and Portfolio Holder. The outcome of each review is then reported to Directors and Informal Cabinet.
- 3.4 The Risk Profile & Action Plans for managing our strategic risks are completed and fully embedded. These detail the direction of travel for each strategic risk over the year and clearly articulate the current controls in place and the additional controls required to mitigate and manage our strategic risk exposure effectively. Any slippage on outstanding actions is also identified and challenged.
- 3.5 The Risk Profile & Action Plan also includes target scores for each strategic risk to be achieved by the end of the current financial year.
- 3.6 As at the December 2018/January 2019 review there were 16 strategic risks on the strategic risk register and these are each managed by specific Directors. These are detailed as follows:

| Risk                                     | Risk Owner     | L | I | Status |
|--|----------------|---|---|--------|
| Staffing                                 | Michele Leith  | 5 | 4 | 20     |
| Work Related Stress                      | Michele Leith  | 5 | 4 | 20     |
| Reputation                               | Michele Leith  | 5 | 4 | 20     |
| Sustainable Budget                       | James Walton   | 4 | 5 | 20     |
| Commercial Strategy                      | Mark Barrow    | 4 | 5 | 20     |
| Future Funding Levels                    | James Walton   | 4 | 5 | 20     |
| Failure to Safeguard Vulnerable Children | Karen Bradshaw | 4 | 4 | 16     |
| Digital Transformation Programme         | Michele Leith  | 3 | 5 | 15     |
| Economic Impact of Brexit                | Clive Wright   | 4 | 3 | 12     |
| Strategic Vision and Strategy            | Clive Wright   | 2 | 4 | 8      |
| Health & Social Care                     | Andy Begley    | 4 | 2 | 8      |
| Governance                               | Claire Porter  | 3 | 2 | 6      |
| ICT Provision                            | Michele Leith  | 2 | 3 | 6      |
| Failure to Safeguard Vulnerable Adults   | Andy Begley    | 2 | 3 | 6      |
| Contract Management                      | James Walton   | 2 | 3 | 6      |
| Economic Growth Strategy                 | Mark Barrow    | 2 | 3 | 6      |

|              |
|--------------|
| High Risks   |
| Medium Risks |
| Low Risks    |

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

3.7.1 **Sustainable Budget** – Risk increased due to the funding gap and inability to deliver Stage 3 of the Financial Strategy. Score increased from a  $3 \times 5 = 15$  to a  $4 \times 5 = 20$ . Remains a high risk.

3.7.2 **Future Funding** – Risk increased as this is based around government funding. We have now received the last provisional settlement of the multi-year settlement period and have not been given indications of what fair funding will look like for April 2020 and are now in the final stages of setting the 2019/20 budget. Score increased from a  $3 \times 5 = 15$  to a  $4 \times 5 = 20$ . Remains a high risk.

3.7.3 **Health & Social Care** – Risk reduced due to managing demand and cost. Score reduced from a  $5 \times 2 = 10$  to a  $4 \times 2 = 8$ . Remains a medium risk.

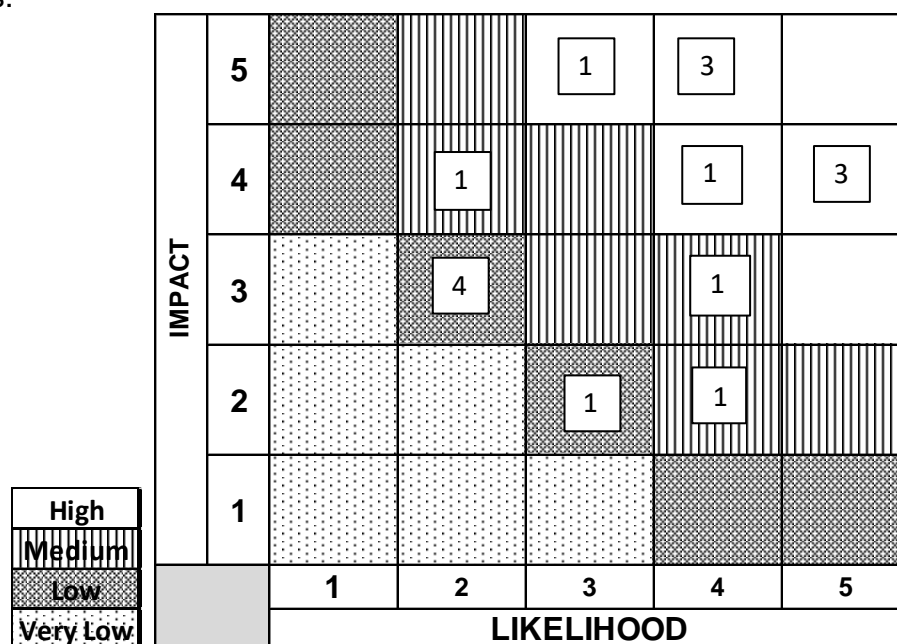
3.7.4 **Safeguarding Children** – Risk reduced due to an increase in capacity in safeguarding teams. Score reduced from a  $5 \times 4 = 20$  to a  $4 \times 4 = 16$ . Remains a high risk.

3.7.5 **ICT Provision** – Risk reduced due to the outcomes of audits improving significantly, we are in control of it, we can failover and we are clearer on future budget prediction. Score reduced from a  $3 \times 3 = 9$  medium risk to a  $2 \times 3 = 6$  low risk.

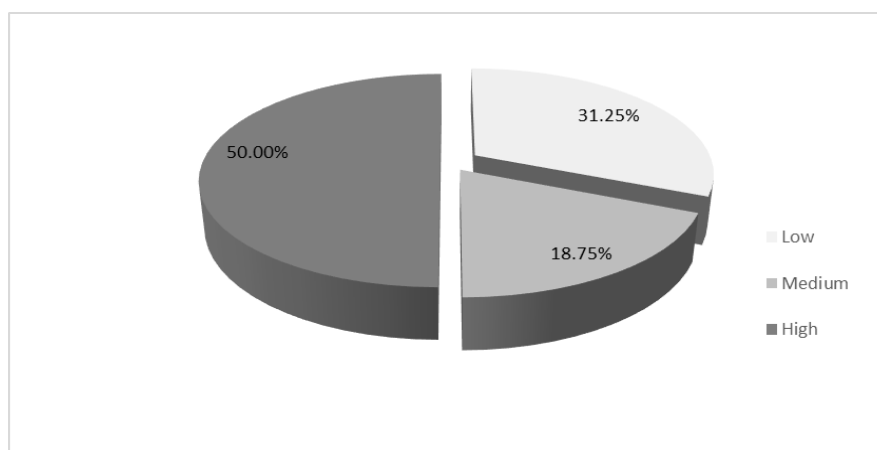


3.7.6 **Strategic Vision & Strategy** – Risk reduced as the Corporate Plan has now been produced.  $3 \times 4 = 12$  to a  $2 \times 4 = 8$ . Remains a medium risk.

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



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



3.10 As mentioned above the risk profile and action plans detail the target scores that have been allocated to the strategic risks to be achieved by the end of the financial year. During the next quarterly review an analysis will be undertaken cross referencing current scores with year end target scores and the rationale to be understood where year end targets have not been met.

#### 4. Assurance

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

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

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

- Unsatisfactory
- Limited
- Reasonable
- Good

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

## 5. Monitoring

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

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

Annual Governance Statement  
Opportunity Risk Management Strategy

#### Cabinet Member

David Minnery, Portfolio Holder Resources & Support

#### Local Member

N/A

#### Appendices



## Committee and Date

Audit Committee

25<sup>th</sup> February 2019

1:30 pm

## Item

Public

## **REVIEW OF THE AUDIT COMMITTEE'S ANNUAL WORK PLAN AND FUTURE LEARNING AND DEVELOPMENT REQUIREMENTS 2019/20**

**Responsible Officer** Ceri Pilawski

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Tel: 01743 257739

### **1. Summary**

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

### **2. Recommendations**

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

- a) The Audit Committee work plan for 2019/20, **Appendix A**;
- b) A learning and development plan for Members of the committee taking in to account information in **Appendices A and B**.

## **REPORT**

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

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

- the integrity of the financial reporting and annual governance of the Council.

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

#### 4. Financial Implications

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

#### 5 Background

5.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) identifies the purpose of an Audit Committee, in its Practical Guidance for Local Authorities and Police 2018 Edition, as providing those charged with governance, independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. In local authorities, audit committees are necessary to satisfy the wider requirements for sound financial and internal control. Accounts and Audit (England) Regulations 2015 state 'the relevant authority must ensure that it has a sound system of internal control which; facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective; and includes effective arrangements for the management of risk'. With a known work plan, and appropriate and timely learning and development for Members, the committee will be well prepared and members will gain the knowledge and experience needed to carry out their role effectively.

##### **Work Plan**

5.2 The work plan in **Appendix A** continues to be presented in a format which demonstrates how reports to Audit Committee contribute to the delivery of the Committee's Terms of Reference and what assurances they provide.

5.3 In addition, any proposals for changes for which member approval is sought are highlighted in **bold and underlined** in **Appendix A**. In considering the amendments the following information may be useful:

- a) Following the addition of a July Audit Committee to allow members the opportunity to consider and feedback on the External Auditor's annual report prior to Council receiving it, alongside the Statement of Accounts. There are some changes to timings of reports from the External Auditor, the Annual Audit Letter is in September not December and the Certification Summary Report in December not February. The audited Annual Statement of Accounts no longer goes to the September Audit Committee meeting, having being considered at the June meeting.
- b) The revenue and capital outturn reports are amalgamated into one Financial Outturn Report in June.

- c) The Council Tax and NNDR Performance Monitoring Reports and the Housing Benefit Overpayment Performance Monitoring reports have been removed from the work plan following discussions in 2018/19 with the Chairman and reflecting the lower risk status of these elements when compared to other activities that require the Committee's attention.
- d) A few areas that attracted low assurance levels in the previous year have reported a positive direction of travel. Management assurance on Estates reported good progress at the December meeting and this will be followed up by an Internal Audit review in March 2019, therefore this has been removed from the plan. Management and Audit assurances on IT Business Continuity processes demonstrated sound progress too. Where other areas report unsatisfactory assurance levels, these will be picked up by the Committee for a more detailed challenge going forward.

### **Learning and Development**

- 5.4 CIPFA identify a key characteristic of an effective Audit Committee as having a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. There is a range of knowledge and experience that audit committee members can bring to the committee which will enable it to perform effectively. No one committee member is expected to be an expert in all areas. There are however some core areas of knowledge which committee members need to acquire in addition to the need for regular briefings and training.
- 5.5 Members need to consider annually their learning and development plan to support them in delivery of their roles. During 2018/19 the June session was cancelled due to conflicting priorities for Members who have since received two half day sessions covering several topics in detail, and a third session is arranged for March 2019. Training delivered included presentations and workshops on:
  - 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?
  - Strategic Risk - Commissioning;
  - Could more use be made of social media in improving communications?
  - Fraud risk assessments, organised crime, money laundering and other fraud, bribery and corruption activities aimed at prevention;
  - Audit Committee self-assessment feedback.
- 5.6 It is proposed that training is again provided in three half day sessions over the next twelve months. There is a session planned for the 7<sup>th</sup> March. Then the 13<sup>th</sup> June 2019, 8<sup>th</sup> October 2019 and 25<sup>th</sup> February 2020.
- 5.7 Arrangements for training on March the 7<sup>th</sup> are underway and focus will be on Cyber Fraud prevention and management of the risks, following Members earlier requests.

- 5.8 **Appendix B** identifies training topics for Audit Committee Members to consider. Training topics are identified as core areas of knowledge that all Audit Committee Members should seek to acquire plus specialisms that can add value to the committee. Members may also want to hear from key officers of the Council where new or changing activities and risks are emerging and can request this as part of their training.
- 5.9 Whilst members are asked to endorse the initial sessions for learning and development, this will not prevent any additional items being added during the year or changes being made if these are felt to be of value.

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

Previous training session records

CIPFA's Audit Committees Practical Guidance for Local Authorities and Police 2018 Edition

Accounts and Audit Regulations 2015

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

**Local Member** n/a

**Appendices**

**Appendix A** – Audit Committee Work Plan 2019/20 and Summary

**Appendix B** – Audit Committee Members development topics

## Appendix A: Audit Committee Work Plan – 2019/20

| Report   | Assurances Required / Being Sought  | Relevancy – Terms of Reference  |
|--|---|---|
| <b>Core business 27 June 2019</b>  |   |   |
| 1. Internal Audit: Annual Report.  | <p>Head of Audit's overall opinion on the Council's internal control environment.</p> <p>Performance against the revised internal audit plan.</p> <p>Provides a review of the effectiveness of the systems of internal control.</p>         | <p>To consider the Head of Audit's annual report, specifically:</p> <p>a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of Internal Audit.</p> <p>b) The opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the Annual Governance Statement.</p> |
| 2. Section 151 Officer: Approval of the Council's Statement of Accounts. | <p>Ensure that the narrative report to the accounts help the public understand the authority's financial management of public funds.</p> <p>Consider the outcome of the External Audit and the appropriateness of management responses.</p> | <p>To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need</p>  |

**Appendix A: Audit Committee Work Plan – 2019/20**

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



**Appendix A: Audit Committee Work Plan – 2019/20**

| Report  | Assurances Required / Being Sought   | Relevancy – Terms of Reference  |
|---|--|---|
|   | That there is an improvement programme in place to ensure that any identified gaps are addressed.  | <p>reports on:</p> <ul style="list-style-type: none"> <li>the results of the Quality Assurance and Improvement Programme; and</li> <li>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.</li> </ul> <p>To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of Internal Audit that takes place at least once every five years.</p> |
| 5. Internal audit: Annual assurance report of Audit Committee to Council. | <p>Provide assurance that the Committee has adequately discharged its terms of reference and has positively contributed to how well the Council is run.</p> <p>Provides Council with an independent assurance report that the Council has in place adequate and effective risk management and internal control systems that can be relied upon and which</p> | To report annually to Full Council on the Committee's findings, conclusions and recommendations; providing its opinion on the adequacy and effectiveness of the Council's governance, risk management and internal control frameworks; internal and external audit functions and financial reporting arrangements.  |

## Appendix A: Audit Committee Work Plan – 2019/20

| Report   | Assurances Required / Being Sought  | Relevancy – Terms of Reference   |
|--|---|--|
|  | contribute to the high corporate governance standards that this Council expects and has consistently maintained.  | 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.   |
| 6. Section 151 Officer: Financial Outturn report.                      | <p>Provides the financial outturn of the Council's revenue budget for the year and therefore considers the effect that any over/underspend has on the Council's balances.</p> <p>Provides details of the potential risks affecting the balances and financial health of the Council.</p> <p>Provides the financial outturn of the Council's capital budget for the year and therefore considers the impact that slippage within the programme will have on the financing of the capital programme in the future, including any future revenue implications.</p> | <p>To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.</p> <p>To consider the Council's arrangements for securing value for money and review assurances and assessments on the effectiveness of these arrangements.</p> |
| 7. Director of Workforce and Technology: Annual Whistleblowing report. | Assurance that as part of the Counter Fraud, Bribery and Anti-Corruption Strategy the Whistleblowing policy contributes to our zero   | To review the assessment of fraud risks and potential harm to the Council from fraud, bribery and corruption.  |

**Appendix A: Audit Committee Work Plan – 2019/20**

| Report  | Assurances Required / Being Sought  | Relevancy – Terms of Reference  |
|---|---|---|
|   | tolerance of fraud, bribery and corruption.   |   |
| 8. External Audit: Fee Letter.                              | To provide a clear indication as to the external Auditor's fees for the year.   | To consider the External Auditor's annual letter, relevant reports, and the report to those charged with governance.  |
| 9. External Audit: Audit progress report and sector update. | <p>Seek assurance over progress and delivery of the external audit plan and that any risks to successful production of the financial statements and audit are being managed.</p> <p>The paper also includes:</p> <ul style="list-style-type: none"> <li>•a summary of emerging national issues and developments that may be relevant to the Council; and</li> <li>•a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.</li> </ul> | <p>To consider specific reports as agreed with the External Auditor and other inspection agencies.</p> <p>To comment on the scope and depth of external audit work and to ensure it gives value for money.</p>    |
| 10. Internal Audit: Fraud, investigations and RIPA update.  | Provide assurances and an update on current fraud and investigations undertaken by Internal Audit and the impact these have on the internal control environment together with an update on activity under the Regulation of Investigatory Powers Act (RIPA).  | <p>To review the assessment of fraud risks and potential harm to the Council from fraud, bribery and corruption.</p> <p>To monitor the counter-fraud, bribery and corruption strategy, actions and resources.</p> |

**Appendix A: Audit Committee Work Plan – 2019/20**

| <b>Report</b>   | <b>Assurances Required / Being Sought</b>   | <b>Relevancy – Terms of Reference</b>  |
|---|---|--|
| <b>Other assurance</b>  |   |  |
| 11. External Audit: Pension Fund Audit Plan (information).                              | Evidence that the External Auditor understands the Council's business, risk, challenges and opportunities it is facing. Explanation of its audit approach and the scope of its plans for the Pension Fund.            | To consider specific reports as agreed with the External Auditor and other inspection agencies.                              |
| 12. Director of Workforce and Technology: Digital Transformation Programme (DTP) update | Provide management assurance on the direction of travel and robustness of the internal control arrangements for delivery of the DTP.  | To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.              |
| <b>Core business: 23 July 2019</b>  |   |  |
| 13. External Audit: Audit Findings report Shropshire Council                            | Seek assurance over the adequacy of the External Audit opinion on the financial statements and the Council's value for money arrangements.<br><br>Ensure any issues / risks identified are being effectively managed. | To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts. |
| <b>Core business: 12 September 2019</b>   |   |  |
| 14. Risk and Insurance Manager: Risk and Insurance Annual report                        | To understand the current strategic risk exposure together with recent modifications and planned changes to strategic risk management within the authority.   | To monitor the effective development and operation of risk management in the Council.  |

**Appendix A: Audit Committee Work Plan – 2019/20**

| Report   | Assurances Required / Being Sought   | Relevancy – Terms of Reference   |
|--|--|--|
|  | Gain assurance that the Council is effectively managing its key risks – has good risk management systems / processes in place that enable decision makers to understand the level of risk being taken and the Council is prepared to accept.   |  |
| 15. Risk and Insurance Manager: Strategic Risks update | <p>Assurances that the management of strategic risks, a key process that underpins the successful achievement of the Council's priorities and outcomes, is robust. Strategic risks are a key aspect of the Annual Governance Statement.</p> <p>Provide information to confirm to the Audit Committee that they are receiving assurances on the key risk areas within the Council and how these are being managed through the internal controls and governance processes.</p> | To monitor the effective development and operation of risk management in the Council.  |
| 16. Section 151 Officer; Annual Treasury report        | Provide assurance on the treasury activities for Shropshire Council, including the investment performance of the internal Treasury team.   | 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. |

**Appendix A: Audit Committee Work Plan – 2019/20**

| Report   | Assurances Required / Being Sought   | Relevancy – Terms of Reference   |
|--|--|--|
|  |  | To review the treasury risk profile and adequacy of treasury risk management procedures and assurances on treasury management.   |
| 17. Internal Audit: Performance report and revised Annual Audit Plan | <p>Understand the level of assurances being given because of audit work and their impact on the Council's governance, risk and control environment.</p> <p>Ensure management action is taken to improve controls / manage risks identified.</p> <p>Encouraging ownership of the internal control framework by appropriate managers</p> <p>Confirm appropriate progress being made on the delivery of the audit plan and performance targets.</p> <p>Understand any resourcing issues because of changes to the plan.</p> | <p>To consider reports from the Head of Audit on Internal Audit's performance during the year, including the performance of external providers of Internal Audit Services. These will include updates on the work of Internal Audit including key findings, issues of concern and action in hand as a result of Internal Audit work.</p> <p>To consider summaries of specific internal audit reports as requested.</p> <p>To receive reports outlining the action taken where the Head of Audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.</p> <p>To approve significant interim changes</p> |

**Appendix A: Audit Committee Work Plan – 2019/20**

| Report   | Assurances Required / Being Sought  | Relevancy – Terms of Reference  |
|--|---|---|
|  |   | to the risk based internal audit plan and resource requirements.  |
| 18. External Audit: Audit progress report and sector update.       | <p>Seek assurance over progress and delivery of the external audit plan and that any risks to successful production of the financial statements and audit are being managed.</p> <p>The paper also includes:</p> <ul style="list-style-type: none"> <li>•a summary of emerging national issues and developments that may be relevant to the Council; and</li> <li>•a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.</li> </ul> | <p>To consider specific reports as agreed with the External Auditor and other inspection agencies.</p> <p>To comment on the scope and depth of external audit work and to ensure it gives value for money.</p>    |
| 19. External Audit: Annual Audit Letter                            | Provides assurances on the key findings arising from the work that External Audit have carried out at the Council.  | To consider the External Auditor's annual letter, relevant reports, and the report to those charged with governance.  |
| 20. Internal Audit: Fraud, special investigations and RIPA update. | Provide assurances and an update on current fraud and special investigations undertaken by Internal Audit and the impact these have on the internal control environment together with an update on current Regulation of Investigatory Powers Act (RIPA) activity.  | <p>To review the assessment of fraud risks and potential harm to the Council from fraud, bribery and corruption.</p> <p>To monitor the counter-fraud, bribery and corruption strategy, actions and resources.</p> |

**Appendix A: Audit Committee Work Plan – 2019/20**

| <b>Report</b>   | <b>Assurances Required / Being Sought</b>   | <b>Relevancy – Terms of Reference</b>   |
|---|---|---|
| <b>Other assurance</b>  |   |   |
| 21. External Audit: Audit Findings report Shropshire County Pension Fund (information)  | Seek assurance over the adequacy of the External Audit opinion on the financial statements and the Council's value for money arrangements.<br><br>Ensure any issues / risks identified are being effectively managed. | To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.      |
| <b>Core business: 5 December 2019</b>   |   |   |
| 22. Internal Audit: Annual review of Audit Committee Terms of Reference   | Ensures the Audit Committees continues to benefit the Council by continuing to provide an effective service assessed against current best practice.   | To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council. |
| 23. Internal Audit: Annual review of Internal Audit Charter   | Assurance that effective corporate governance arrangements are maintained in the Council part of which is evidenced by a current Internal Audit Charter.  | To approve the Internal Audit Charter.  |
| 24. Internal Audit: Annual review of Counter Fraud, Bribery and Anti-Corruption Strategy and activities; including an update on the National Fraud Initiative (NFI) | Confirm that the Council's counter fraud activity is targeted and effective.<br><br>Ensure that appropriate progress is being made on the delivery of the Counter Fraud plan.   | To monitor the counter-fraud, bribery and corruption strategy, actions and resources.   |



**Appendix A: Audit Committee Work Plan – 2019/20**

| Report   | Assurances Required / Being Sought   | Relevancy – Terms of Reference  |
|--|--|---|
|  | <p>Ensure that lessons have been learnt – understand fraud risks facing the Council and actions being taken to reduce the risk</p> <p>Provides confirmation that the Counter Fraud, Bribery and Anti-Corruption Strategy has been reviewed in line with best practice and continues to underpin the Council's commitment to prevent all forms of fraud, bribery and corruption whether it be attempted on, or from within, the Council, thus demonstrating the strategy's continuing and important role in the corporate governance and internal control framework.</p> <p>Provides an update and assurances on the outcomes of the National Fraud Initiative.</p> |   |
| 25. Internal Audit: Performance report and revised Annual Audit Plan | <p>Understand the level of assurances being given because of audit work and their impact on the Council's governance, risk and control environment.</p> <p>Ensure management action is taken to improve controls / manage risks identified.</p> <p>Encouraging ownership of the internal control</p>   | To consider reports from the Head of Audit on Internal Audit's performance during the year, including the performance of external providers of Internal Audit Services. These will include updates on the work of Internal Audit including key findings, issues of concern and action in hand as a result of Internal Audit work. |

**Appendix A: Audit Committee Work Plan – 2019/20**

| Report   | Assurances Required / Being Sought   | Relevancy – Terms of Reference   |
|--|--|--|
|  | <p>framework by appropriate managers</p> <p>Confirm appropriate progress being made on the delivery of the audit plan and performance targets.</p> <p>Understand any resourcing issues because of changes to the plan.</p> | <p>To consider summaries of specific internal audit reports as requested.</p> <p>To receive reports outlining the action taken where the Head of Audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.</p> <p>To approve significant interim changes to the risk based internal audit plan and resource requirements.</p> |
| 26. Section 151 Officer: Treasury Strategy Mid-Year report | Provide assurance on the treasury activities for Shropshire Council, including the investment performance of the internal Treasury team.   | <p>To receive regular reports on activities, issues and trends to support the Committee's understanding of treasury management activities. The Committee is not responsible for the regular monitoring of treasury management activity.</p> <p>To review the treasury risk profile and adequacy of treasury risk management procedures and assurances on treasury</p>  |

**Appendix A: Audit Committee Work Plan – 2019/20**

| <b>Report</b>   | <b>Assurances Required / Being Sought</b>   | <b>Relevancy – Terms of Reference</b>  |
|---|---|--|
|   |   | management.  |
| 27. Section 151 Officer: Annual Audit Committee self-assessment | Confirmation that the Audit Committee is working effectively and where any further improvements are identified to improve its overall effectiveness, there are plans to implement these.  | To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.   |
| 28. External Audit: Audit progress report and sector update     | <p>Seek assurance over progress and delivery of the external audit plan and that any risks to successful production of the financial statements and audit are being managed.</p> <p>The paper also includes:</p> <ul style="list-style-type: none"> <li>•a summary of emerging national issues and developments that may be relevant to the Council; and</li> <li>•a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.</li> </ul> | <p>To consider specific reports as agreed with the External Auditor and other inspection agencies.</p> <p>To comment on the scope and depth of external audit work and to ensure it gives value for money.</p> |
| 29. External Audit: Certification Summary report                | Seek assurances that claims and returns have been managed appropriately and that there are no significant errors that would result in loss of funding.  | To consider the External Auditor's annual letter, relevant reports, and the report to those charged with governance.   |
| 30. Internal Audit: Fraud, special investigations               | Provide assurances and an update on current   | To review the assessment of fraud risks  |

**Appendix A: Audit Committee Work Plan – 2019/20**

| <b>Report</b>  | <b>Assurances Required / Being Sought</b>  | <b>Relevancy – Terms of Reference</b>  |
|--|--|--|
| and RIPA update  | fraud and special investigations undertaken by Internal Audit and the impact these have on the internal control environment together with an update on current Regulation of Investigatory Powers Act (RIPA) activity.   | and potential harm to the Council from fraud, bribery and corruption.<br>To monitor the counter-fraud, bribery and corruption strategy, actions and resources. |
| <b>Other assurance</b>                                 |  |  |
| 31. None planned                                       |  |  |
| <b>Core business: 24 February 2020</b>                 |  |  |
| 32. Risk and Insurance Manager: Strategic Risks update | Assurances that the management of strategic risks which is a key process that underpins the successful achievement of the Council's priorities and outcomes is robust. Strategic risks are a key aspect of the Annual Governance Statement.<br><br>Provide information to confirm to the Audit Committee that they are receiving assurances on the key risk areas within the Council and how these are being managed through the internal controls and governance processes. | To monitor the effective development and operation of risk management in the Council.  |
| 33. Section 151 Officer: Treasury Strategy             | Provides assurances that the Council's Treasury Management practice complies with CIPFA's Code of Practice on Treasury Management, the   | To consider the robustness of the authority's treasury management strategy, policies and procedures before   |

**Appendix A: Audit Committee Work Plan – 2019/20**

| Report   | Assurances Required / Being Sought   | Relevancy – Terms of Reference  |
|--|--|---|
|  | Council's Treasury Policy Statement, Treasury Management Practices and the Prudential Code for Capital Finance and together with the rigorous internal controls will enable the Council to manage the risk associated with Treasury Management activities and reduce any potential for financial loss.                                 | their submission to Cabinet and Full Council, ensuring that controls are satisfactory.  |
| 34. Internal Audit: Report of the audit review of Risk Management    | Provides independent assurance on the overall control environment for the Risk Management system that the Council is effectively managing its key risks – has good risk management systems / processes in place that enable decision makers to understand the level of risk being taken and the Council is prepared to accept.         | To monitor the effective development and operation of risk management in the Council.   |
| 35. Internal Audit: Performance report and revised Annual Audit Plan | <p>Understand the level of assurances being given because of audit work and their impact on the Council's governance, risk and control environment.</p> <p>Ensure management action is taken to improve controls / manage risks identified.</p> <p>Encouraging ownership of the internal control framework by appropriate managers</p> | <p>To consider reports from the Head of Audit on Internal Audit's performance during the year, including the performance of external providers of Internal Audit Services. These will include updates on the work of Internal Audit including key findings, issues of concern and action in hand as a result of Internal Audit work.</p> <p>To consider summaries of specific</p> |

**Appendix A: Audit Committee Work Plan – 2019/20**

| Report  | Assurances Required / Being Sought   | Relevancy – Terms of Reference   |
|---|--|--|
|   | <p>Confirm appropriate progress being made on the delivery of the audit plan and performance targets.</p> <p>Understand any resourcing issues because of changes to the plan.</p>  | <p>internal audit reports as requested.</p> <p>To receive reports outlining the action taken where the Head of Audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.</p> <p>To approve significant interim changes to the risk based internal audit plan and resource requirements.</p> |
| 36. Internal Audit: Draft Annual Internal Audit risk based plan | <p>That the Internal Audit Plan focuses on the key risks facing the Council and is adequate to support the Head of Audit opinion.</p> <p>Confirm that the plan achieves a balance between setting out the planned work for the year and retaining flexibility to changing risks and priorities during the year.</p> <p>Ensure that the Internal Audit Resource has sufficiently capacity and capability to deliver the plan.</p> | <p>To approve, but not direct, the risk-based internal audit plan, including internal audit resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.</p> <p>To make appropriate enquiries of both management and the Head of Audit to determine if there are any inappropriate scope or resource limitations.</p>                           |

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| Report  | Assurances Required / Being Sought  | Relevancy – Terms of Reference   |
|---|---|--|
|   | <p>Seek an understanding of what assurances Internal Audit will be providing the Committee to help it discharge its terms of reference.</p> <p>Gain assurance that the Council has effective arrangements in place to fight fraud locally and that counter fraud resources are targeted to the Council's key fraud risks.</p> |  |
| 37. Internal Audit: Draft Audit Committee annual work plan and future training requirements | Assurance that the agreed plan of work for the year ahead will deliver against the terms of reference of the Audit Committee and that Members will receive appropriate learning and development in order to deliver their responsibilities effectively.   | To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.  |
| 38. Internal Audit: Fraud, special investigations and RIPA update                           | Provide assurances and an update on current fraud and special investigations undertaken by Internal Audit and the impact these have on the internal control environment together with an update on current Regulation of Investigatory Powers Act (RIPA) activity.  | To review the assessment of fraud risks and potential harm to the Council from fraud, bribery and corruption.<br>To monitor the counter-fraud, bribery and corruption strategy, actions and resources. |
| 39. External Audit: Annual Plan   | Evidence that the External Auditor understands the Council's business, risk, challenges and opportunities it is facing. Explanation of its audit approach and the scope of its plans.   | To comment on the scope and depth of external audit work and to ensure it gives value for money.   |

**Appendix A: Audit Committee Work Plan – 2019/20**

| Report  | Assurances Required / Being Sought  | Relevancy – Terms of Reference   |
|---|---|--|
| 40. External Audit: Informing the risk assessment           | <p>As part of External Audit's risk assessment procedures, they obtain an understanding of management processes and the Audit Committee's oversight of the following areas:</p> <ul style="list-style-type: none"> <li>• Fraud</li> <li>• Laws and regulations</li> <li>• Going concern</li> <li>• Related party transactions</li> <li>• Accounting estimates</li> </ul> <p>This report includes a series of questions on each of these areas and the response we have received from the Council's management for Audit Committee to consider whether the responses are consistent with the its understanding and whether there are any further comments it wishes to make.</p> | To comment on the scope and depth of external audit work and to ensure it gives value for money.   |
| 41. External Audit: Audit progress report and sector update | <p>Seek assurance over progress and delivery of the external audit plan and that any risks to successful production of the financial statements and audit are being managed.</p> <p>The paper also includes:</p> <ul style="list-style-type: none"> <li>• a summary of emerging national issues and developments that may be relevant to the Council; and</li> <li>• a number of challenge questions in respect of</li> </ul>   | <p>To consider specific reports as agreed with the External Auditor and other inspection agencies.</p> <p>To comment on the scope and depth of external audit work and to ensure it gives value for money.</p> |



**Appendix A: Audit Committee Work Plan – 2019/20**

| <b>Report</b>          | <b>Assurances Required / Being Sought</b>                       | <b>Relevancy – Terms of Reference</b> |
|------------------------|---|---------------------------------------|
|                        | these emerging issues which the Committee may wish to consider. |                                       |
| <b>Other assurance</b> |   |                                       |
| 42. None planned       |   |                                       |

# APPENDIX A

## Audit Committee Work Plan 2019/20 Summary

| Audit Committee Work Plan 2019/20   | 13<br>June<br>2019 | 27<br>June<br>2019 | 23<br>July<br>2019 | 12<br>Sept<br>2019 | 8<br>Oct<br>2019 | 5<br>Dec<br>2019 | 25<br>Feb<br>2020 | 24<br>Feb<br>2020 | Report<br>originator                                   |
|---|--------------------|--------------------|--------------------|--------------------|------------------|------------------|-------------------|-------------------|--|
| <b>Special Committee</b>  |                    |                    |                    |                    |                  |                  |                   |                   |  |
| <b>Audit</b> Findings Report Shropshire Council as part of faster closedown processes   |                    |                    | ✓                  |                    |                  |                  |                   |                   | External<br>Audit                                      |
| <b><u>Training Sessions</u></b>   | ✓                  |                    |                    |                    | ✓                |                  | ✓                 |                   |  |
|   |                    |                    |                    |                    |                  |                  |                   |                   |  |
| <b>Regular Committees</b>   |                    |                    |                    |                    |                  |                  |                   |                   |  |
| Internal Audit Annual Report  |                    | ✓                  |                    |                    |                  |                  |                   |                   | Internal<br>Audit                                      |
| <del>Approval of the Council's</del> Statement of Accounts  |                    | ✓                  |                    |                    |                  |                  |                   |                   | Section 151<br>Officer                                 |
| Annual Governance Statement (AGS) and review of the effectiveness of the Council's internal controls and Shropshire Council's Code of Corporate Governance. |                    | ✓                  |                    |                    |                  |                  |                   |                   | Section 151<br>Officer                                 |
| Annual review of Internal Audit: Quality Assurance and Improvement Programme (QAIP)   |                    | ✓                  |                    |                    |                  |                  |                   |                   | Section 151<br>Officer                                 |
| Annual Assurance Report of Audit Committee to Council   |                    | ✓                  |                    |                    |                  |                  |                   |                   | Internal<br>Audit                                      |
| <del>Financial Revenue</del> Outturn Report   |                    | ✓                  |                    |                    |                  |                  |                   |                   | Section 151<br>Officer                                 |
| <b><u>Capital Outturn Report</u></b>  |                    | ✓                  |                    |                    |                  |                  |                   |                   | <del>Section-<br/>151 Officer</del>                    |
| Annual Whistleblowing report  |                    | ✓                  |                    |                    |                  |                  |                   |                   | <b><u>Director<br/>Head</u></b> of<br>Workforce<br>and |

| Audit Committee Work Plan 2019/20                                | 13<br>June<br>2019 | 27<br>June<br>2019 | 23<br>July<br>2019 | 12<br>Sept<br>2019 | 8<br>Oct<br>2019 | 5<br>Dec<br>2019 | 25<br>Feb<br>2020 | 24<br>Feb<br>2020 | Report<br>originator  |
|--|--------------------|--------------------|--------------------|--------------------|------------------|------------------|-------------------|-------------------|---|
|  |                    |                    |                    |                    |                  |                  |                   |                   | Technology  |
| Audit Fee Letter   |                    | ✓                  |                    |                    |                  |                  |                   |                   | External<br>Audit   |
| Audit <b><u>Progress Report and Sector Committee</u></b> Update  |                    | ✓                  |                    | ✓                  |                  | ✓                |                   | ✓                 | External<br>Audit   |
| Fraud, special investigations and RIPA Updates (part 2)          |                    | ✓                  |                    | ✓                  |                  | ✓                |                   | ✓                 | Internal<br>Audit   |
| <b><u>Council Tax and NNDR Performance Monitoring Report</u></b> |                    | ✓                  |                    |                    |                  | ✓                |                   |                   | <b><u>Revenues<br/>and<br/>Benefits<br/>Service<br/>Manager</u></b>                   |
| Pension Fund Audit Plan (information)                            |                    | ✓                  |                    |                    |                  |                  |                   |                   | External<br>Audit   |
| <b><u>Management Report: Estates Update</u></b>                  |                    | ✓                  |                    |                    |                  |                  |                   |                   | <b><u>Head of<br/>Business<br/>Enterprise<br/>and<br/>Commercial<br/>Services</u></b> |
| Management Report: Digital Transformation Programme Update       |                    | ✓                  |                    |                    |                  |                  |                   |                   | <b><u>Director<br/>Head of<br/>Workforce<br/>and<br/>Technology</u></b>               |
|  |                    |                    |                    |                    |                  |                  |                   |                   |   |
| Risk and Insurance Annual Report                                 |                    |                    |                    | ✓                  |                  |                  |                   |                   | Risk and<br>Insurance<br>Manager  |
| Strategic Risks update   |                    |                    |                    | ✓                  |                  |                  |                   | ✓                 | Risk and<br>Insurance<br>Manager  |

| Audit Committee Work Plan 2019/20   | 13<br>June<br>2019 | 27<br>June<br>2019 | 23<br>July<br>2019 | 12<br>Sept<br>2019 | 8<br>Oct<br>2019 | 5<br>Dec<br>2019 | 25<br>Feb<br>2020 | 24<br>Feb<br>2020 | Report<br>originator  |
|---|--------------------|--------------------|--------------------|--------------------|------------------|------------------|-------------------|-------------------|---|
| <b><u>Audited Annual Statement of Accounts</u></b>  |                    |                    |                    | ✓                  |                  |                  |                   |                   | <b><u>Section-<br/>151 Officer</u></b>                                |
| Annual Treasury Report  |                    |                    |                    | ✓                  |                  |                  |                   |                   | Section 151<br>Officer  |
| Performance Report and revised Annual Audit Plan  |                    |                    |                    | ✓                  |                  | ✓                |                   | ✓                 | Internal<br>Audit   |
| <b><u>IT Update</u></b>   |                    | ✓                  |                    | ✓                  |                  | ✓                |                   | ✓                 | <b><u>Technolog<br/>y and<br/>Communica<br/>tions<br/>Manager</u></b> |
| <b><u>Housing Benefit Overpayment Performance Monitoring Report</u></b>   |                    |                    |                    | ✓                  |                  |                  |                   |                   | <b><u>Revenues<br/>and<br/>Benefits<br/>Service<br/>Manager</u></b>   |
| Audit Findings: Shropshire County Pension Fund (Information)  |                    |                    |                    | ✓                  |                  |                  |                   |                   | External<br>Audit   |
| Annual review of Audit Committee Terms of Reference   |                    |                    |                    |                    |                  | ✓                |                   |                   | Internal<br>Audit   |
| Annual review of Internal Audit Charter   |                    |                    |                    |                    |                  | ✓                |                   |                   | Internal<br>Audit   |
| Annual review of Counter Fraud, Bribery and Anti-Corruption Strategy and activities; including an update on the National Fraud Initiative (NFI) |                    |                    |                    |                    |                  | ✓                |                   |                   | Internal<br>Audit   |
| Treasury Strategy Mid-Year Report   |                    |                    |                    |                    |                  | ✓                |                   |                   | Section 151<br>Officer  |
| Annual Audit Committee Self-Assessment  |                    |                    |                    |                    |                  | ✓                |                   |                   | Section 151<br>Officer  |
| Annual Audit Letter   |                    |                    |                    | ✓                  |                  | ✓                |                   |                   | External<br>Audit   |

| <b>Audit Committee Work Plan 2019/20</b>                                | <b>13<br/>June<br/>2019</b> | <b>27<br/>June<br/>2019</b> | <b>23<br/>July<br/>2019</b> | <b>12<br/>Sept<br/>2019</b> | <b>8<br/>Oct<br/>2019</b> | <b>5<br/>Dec<br/>2019</b> | <b>25<br/>Feb<br/>2020</b> | <b>24<br/>Feb<br/>2020</b> | <b>Report<br/>originator</b> |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|---------------------------|---------------------------|----------------------------|----------------------------|------------------------------|
| Treasury Strategy   |                             |                             |                             |                             |                           |                           |                            | ✓                          | Section 151<br>Officer       |
| Report of the Audit Review of Risk Management                           |                             |                             |                             |                             |                           |                           |                            | ✓                          | Internal<br>Audit            |
| Draft Annual Internal Audit Risk Based Plan                             |                             |                             |                             |                             |                           |                           |                            | ✓                          | Internal<br>Audit            |
| Draft Audit Committee annual work plan and future training requirements |                             |                             |                             |                             |                           |                           |                            | ✓                          | Internal<br>Audit            |
| Audit Plan  |                             |                             |                             |                             |                           |                           |                            | ✓                          | External<br>Audit            |
| Certification Summary Report  |                             |                             |                             |                             |                           | ✓                         |                            | ✓                          | External<br>Audit            |
| Informing the risk assessment   |                             |                             |                             |                             |                           |                           |                            | ✓                          | External<br>Audit            |

## **Appendix B**

### **Audit Committee Members development topics**

#### **Core areas of knowledge**

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

#### **Specialist knowledge that adds value to the Audit Committee**

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

#### **Core skills**

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



## Committee and Date

Audit Committee

25<sup>th</sup> February 2019

1:30 pm

## Item

Public

## INTERNAL AUDIT RISK MANAGEMENT REPORT 2018/19

**Responsible Officer** Peter Chadderton

e-mail: [peter.chadderton@shropshire.gov.uk](mailto:peter.chadderton@shropshire.gov.uk)

Tel: 07990 086399

### 1. Summary

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

### 2. Recommendations

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

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

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

## 4. Financial Implications

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

## 5. Background

- 5.1 As part of the Public Sector Internal Audit Standards (PSIAS 2120), Internal Audit is required to evaluate the effectiveness, and contribute to the improvement, of the risk management process. Information gathered during the course of audit reviews provides an understanding of the Council's risk management processes and their effectiveness. Internal Audit evaluates the Council's risks relating to governance, operations and information systems. It does this in respect of:
- the achievement of the strategic objectives,
  - reliability and integrity of financial and operational information,
  - efficiency and effectiveness of operations and programmes,
  - safeguarding of assets and,
  - compliance with laws, regulations, policies, procedures and contracts.
- 5.2 To support the PSIAS, the Audit Committee's Terms of Reference include a requirement to review annually the adequacy of the Council's Risk Management arrangements. The last such review was undertaken in March 2018.

## Internal Audit Risk Management Report – Executive Summary

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

## Control Objective: Conclusion and Summary of Findings

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

|    | AUDIT OBJECTIVE   | CONCLUSION AND SUMMARY OF FINDINGS  |
|----|---|---|
| 1. | Risks arising from business strategies and activities are identified and prioritised and management have determined the level of risk acceptable to the organisation. | <b>This control objective is achieved.</b><br>There are robust procedures in place for the identification and assessment of current and emerging strategic and operational risks. The Opportunity Risk Management Strategy (ORMS) is in place and a framework, and appropriate structure, embeds this within the Council. The Strategy was updated in September 2018. |



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

5.6 The audit did not identify any control weaknesses and no recommendations have been raised as a result of the review undertaken.

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

Risk Internal Audit Review

**Cabinet Member (Portfolio Holder)**

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

**Local Member:** N/A

**Appendices** - None

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| <u>Committee and Date</u> | <u>Item</u>   |
|---------------------------|---------------|
| Audit Committee           |               |
| 25 February 2019          |               |
| 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 report. Seventy seven 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.

Four good, 11 reasonable, three limited and two unsatisfactory assurance opinions have been issued since the last report. The 20 final reports contained 130 recommendations, one of which was fundamental.

This report proposes further revisions reducing the overall audit plan from 1,773 days, as reported in December 2018, to 1,710 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. 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;

- 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.
- 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 and December 2018. This report provides an update on progress made against the plan up

to 31<sup>st</sup> January 2019 and includes revisions to the plan to reflect the ongoing reduction in resources, a total of 564 days to date (2.16 FTE<sup>1</sup>).

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 1,710 days reflecting delays in recruitment and an extended period of maternity leave. Performance to date is marginally lower than previous delivery records at 77% (83% 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:

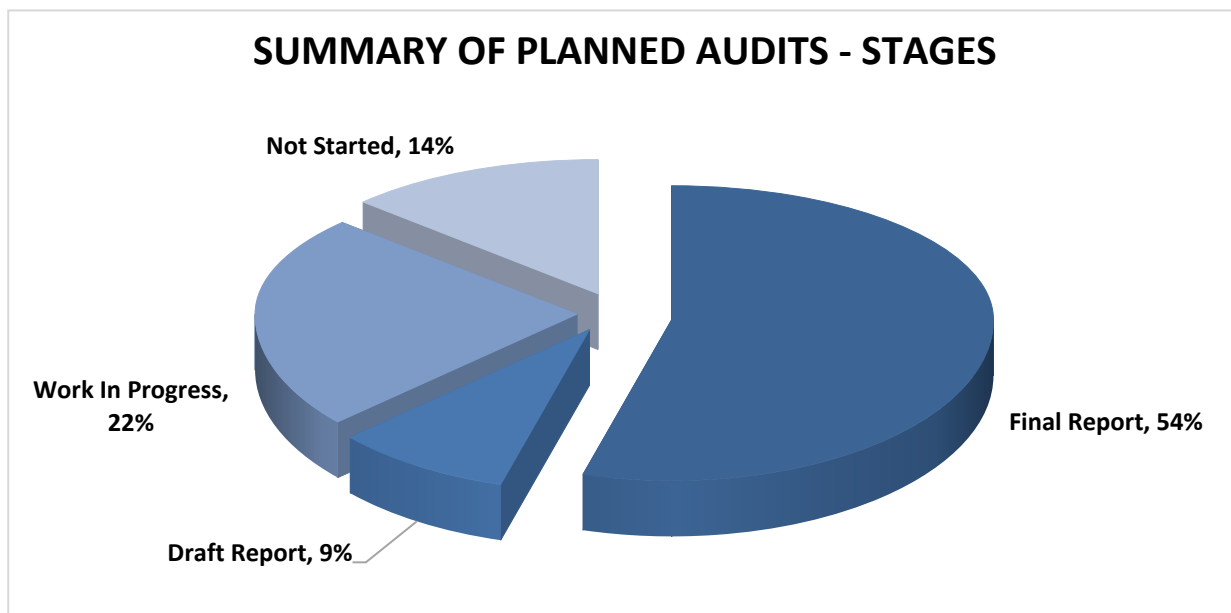
- In respect of chargeable time not allocated to the plan; Additional time has been required for compulsory corporate training including the latest Corporate Induction and IT literacy courses; The Principal IT Auditor has taken up a role chairing a sub group for the Midlands Heads of Internal Audit Group; and increased calls to the Whistleblowing hotline have required increased activity and support. MKInsight, the Audit Management software tool has undergone some development to provide better management reporting and the team has designed and launched a new look audit report.
- Non- chargeable time has seen an increase in general administration completing recruitment processes and forms has increased in line with the recruitment of six staff; Time has been spent ensuring connection to the Network for both laptops and mobile telephones for the whole team and in sourcing equipment when faulty and for new recruits; Increased team members at a junior level have required greater coaching, training and management, not only increasing non-chargeable time for the trainees, but also for the qualified auditors working as trainers alongside them; Staff have requested and been entitled to increased levels of special leave; The external contractor was due to complete all work by the beginning of December, there are still some audits outstanding / not started that have impacted on administration, management and audit delivery.
- In terms of the plan, increased demand has been met for advice on specialist projects, software and systems changes; Work on the digital transformation programme (DTP) continues with input to the assurance group and changes have been made to the audit approach as digital projects progress to ensure the flexibility of approach matches the business need; There has been a need to take several areas out of the audit plan to reconcile resources, the majority of which will be built into the 2019/20 plan where risk demands; A number of reviews have also been built into the plan to allow trainees adequate coverage for learning and additional time has been required to discuss and finalise some of the more contentious areas reviewed.

Overall planned changes to the available resources and plan should not affect the overall coverage required of the plan if delivery can be sustained to the year end.

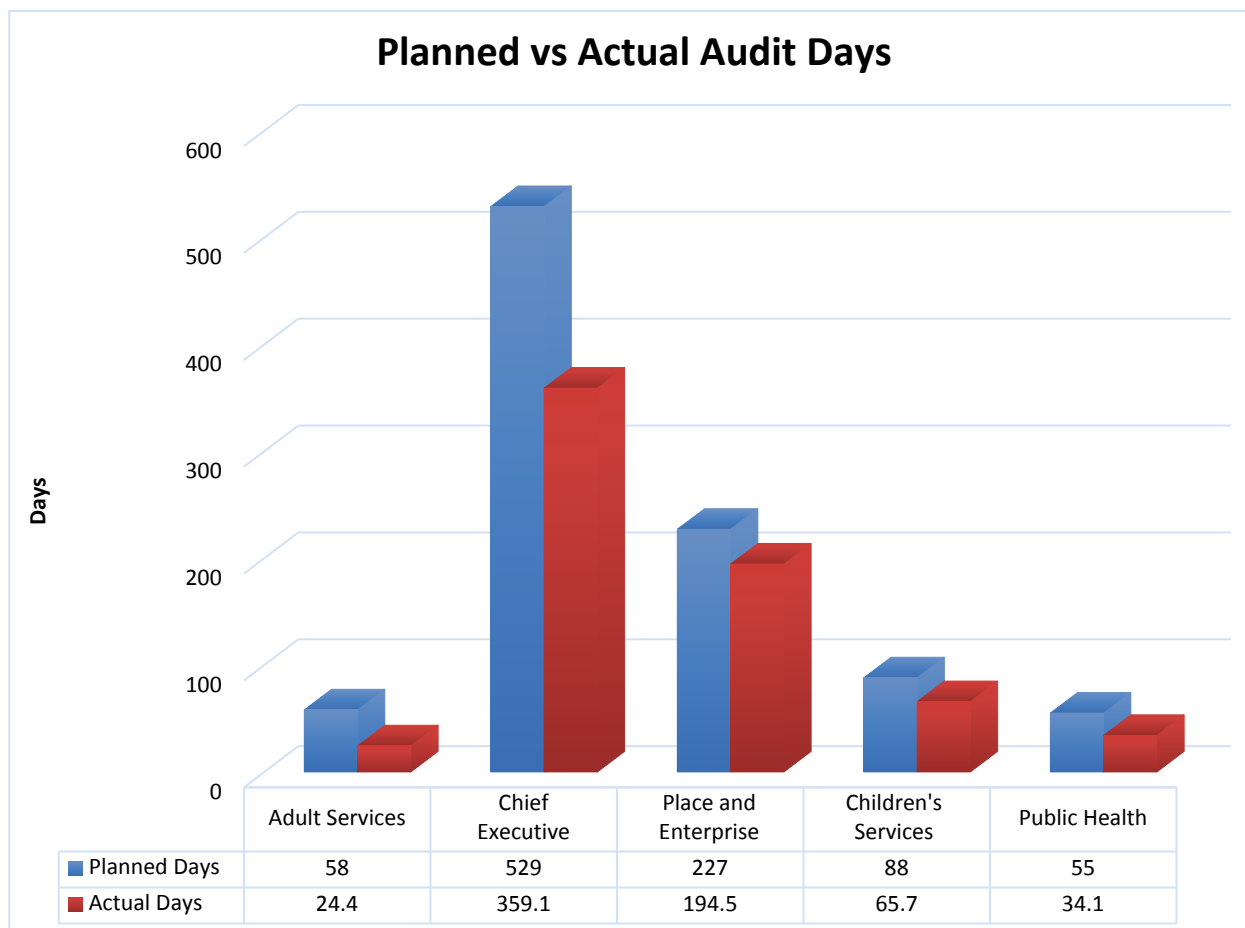
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<sup>1</sup> Full time equivalent

5.6 In total, 20 final reports have been issued in the period from 12<sup>th</sup> November 2018 to 31<sup>st</sup> January 2019. The following chart shows performance against the approved Internal Audit Plan for 2018/19:



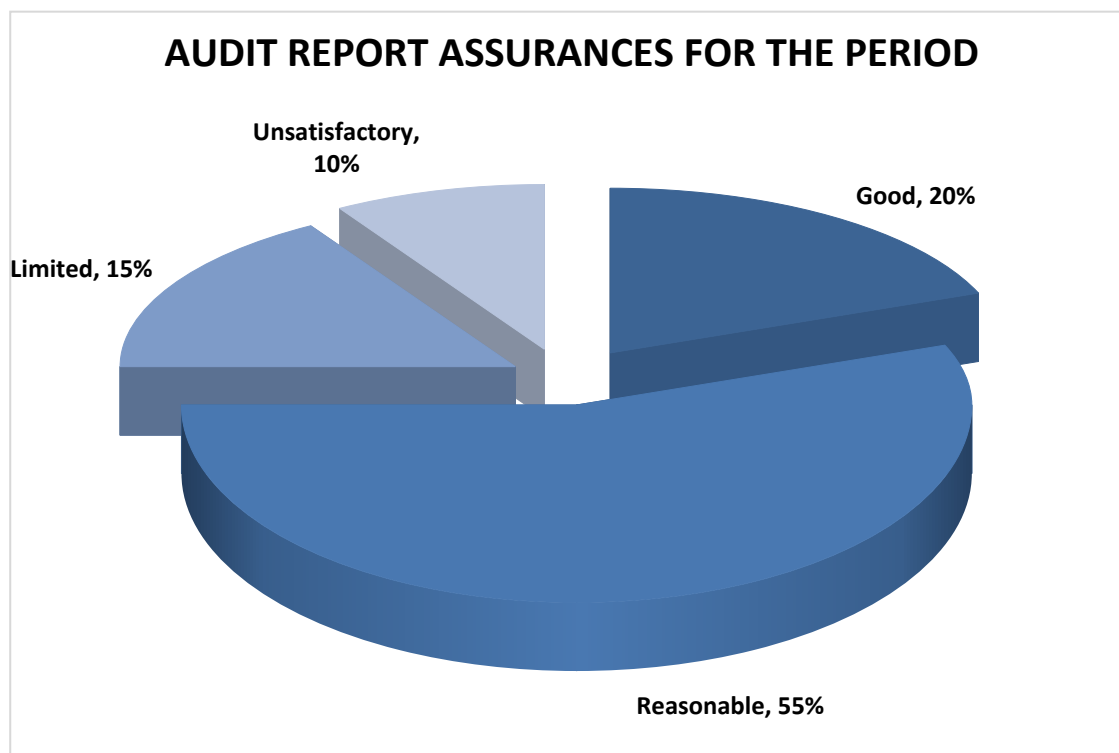
5.7 Audits have been completed over several service areas as planned:



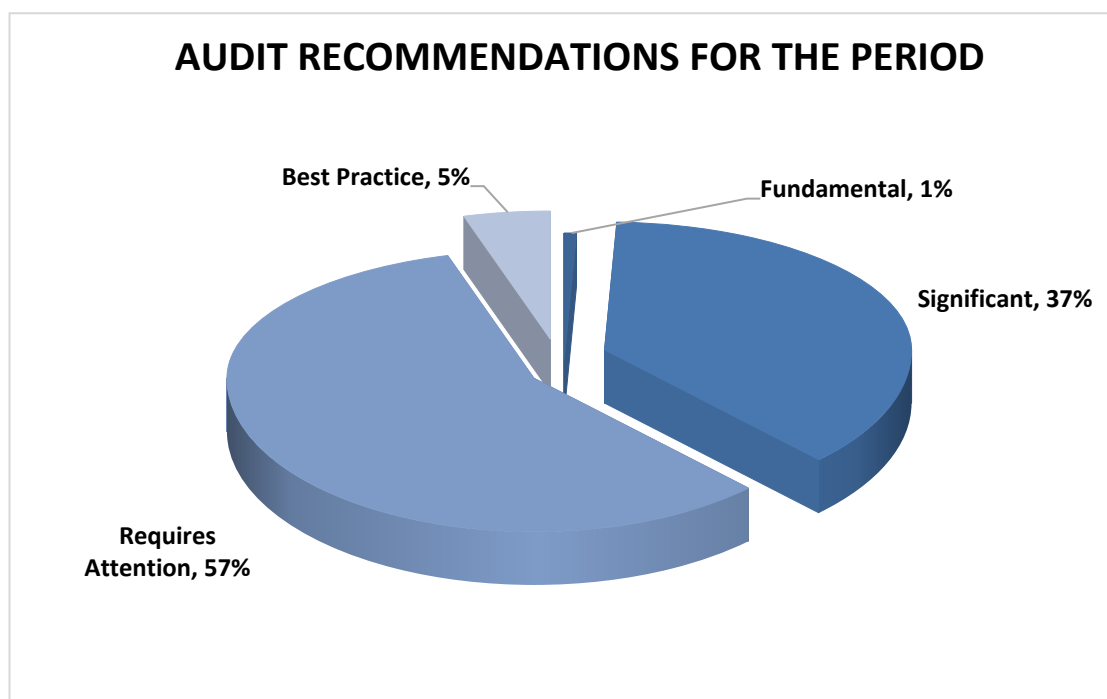
5.8 The following audits have been completed since the 11<sup>th</sup> November 2018:

- Perthyn Contract for Supported Living
- Commercial Strategy and Plans
- Highways Permits
- Primary School Income Collection
- Secondary School Income Collection
- Transport Operations Group
- Strengthening Families Grant - July Claim
- Strengthening Families Grant – October Claim
- Strengthening Families Grant - December Claim
- Risk Management
- VAT
- Customer First Points (IT)
- ICT Governance / Approvals
- ICT Procurement / Contracts Manager
- Internet Security Follow up
- IT Change Management
- Ivanti Service Desk IT application
- System Centre Configuration Manager (SCCM) for network security
- Wireless Networking
- Theatre Severn Chip and Pin Machines

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 31<sup>st</sup> January 2019, 15 reports have been issued, providing good or reasonable assurances, accounting for 75% of the opinions delivered. This represents an increase in the higher levels of assurance for this period, compared to the previous year outturn of 64%. This is offset by a corresponding decrease in limited and unsatisfactory assurances, 25% for the period compared to the previous year outturn of 36%.
- 5.12 Comparisons between years are currently difficult given the reduction in the number of audits completed this year, 63% (20 in this period 2018/19; 30 in 2019/20), when compared to the same time last year.
- 5.13 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 and unsatisfactory assurances 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**.
- 5.14 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.
- 5.15 A total of 130 recommendations have been made in the 19 final audit reports issued in the period 12<sup>th</sup> November 2018 to 31<sup>st</sup> January 2019; these are broken down by audit area and appear in **Appendix A, Table 7**.
- 5.16 A fundamental recommendation has been identified in relation to the Commercial Strategy and Plans audit which is detailed below:



## Recommendation

To ensure that the Commercial Strategies goals and objectives to increase income from investment are clear and given the following:

- the recent review undertaken by Risk and the addition of the new strategic risk which is the failure to deliver the Commercial Strategy and the Council being unable to meet the corporate outcomes;
- lack of an investment fund to help deliver the £10m to £15m of additional revenue;
- revision of the target to deliver a minimum of £5m of new revenue income by the 31.03.2020 down to £2m.

A full review of the Commercial Strategy should be undertaken. This review should ensure that targets are achievable, up to date and that the Strategy fully supports the corporate outcomes and the Financial Strategy's aims and objectives. Any changes to the Strategy should be approved by Cabinet.

## Management Response

A full review of the commercial strategy will be undertaken to reflect changes in corporate outcomes, the revisions to the financial strategy and the proposed budget for 2019/20 when approved in February 2019. Targets will be revised accordingly. The refresh of the commercial strategy will be presented to Cabinet prior to the start of financial year 2019/20.

## Agreed implementation date

March 2019

- 5.17 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.
- 5.18 No recommendations have been rejected by management. Due to staff changes at senior level, consideration of the Theatre Severn's management responses to the Chip and PIN review are explored in the exempt part of the agenda.

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?

- 5.19 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**.
- Advice to teams looking to change their procedures following increased home working and the introduction of environment days.
  - There have been several new software changes the timing of which were unknown when the audit plan was initiated. The IT Principal Auditor alongside other Auditors has provided advice and guidance on the governance of projects and introduction of internal controls for the following areas:
    - Hosting advice on the BACS<sup>2</sup> replacement system;
    - Education's ONE Procurement system controls;

<sup>2</sup> BACS. This is an electronic system to make payments directly from one bank account to another. They're mainly used for Direct Debits and direct credits from organisations.

- Increased advice and support on the ICT Governance Approvals Board;
- Security in relation to the usage of WhatsApp;
- Controc SAMIS Interface;
- Recruitment to the Data Protection Officer post, and
- Authorisation advice on the Property Services Group TechForge system.
- Several projects have been built into the plan to enable a new Auditor to learn and apply the skill sets required. This has included a review of User Access Controls.
- Advice has been provided to schools regarding potential fraudulent payments, imprest and purchase ledger controls; and school fund closure processes
- Anti-Money Laundering training has been devised and provided both face to face in a few targeted sessions to key officers and electronically to raise awareness to a wider audience.
- Several whistle-blower calls have required referring to the correct service area to address callers' concerns, where these are not fraudulent or of concern to Audit.
- Controls in respect of returning residents cash to next of kin have been considered and advised on to ensure due diligence is completed prior to any payments or redirection of funds.

## Direction of travel

- 5.20 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>48%</b> | <b>26%</b> | <b>6%</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>3%</b>     | <b>62%</b>         | <b>35%</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> |

- 5.21 The number of lower level assurances 32%, at this point in the year, slightly lower than the outturn for 2017/18 of 36%. **Appendix A, Table 3**, shows a full list of areas that have attracted limited and unsatisfactory assurances in the period. 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

- 5.22 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 1<sup>st</sup> March 2018  
 Internal Audit Performance and Revised Annual Audit Plan 2018/19 – Audit Committee 4<sup>th</sup> September 2018  
 Internal Audit Performance and Revised Annual Audit Plan 2018/19 – Audit Committee 6<sup>th</sup> December 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 12<sup>th</sup> November 2018 to 31<sup>st</sup> January 2019  
 Table 2: Final audit report assurance opinions issued in the period 12<sup>th</sup> November 2018 to 31<sup>st</sup> January 2019  
 Table 3: Unsatisfactory and limited assurance opinions in the period 12<sup>th</sup> November 2018 to 31<sup>st</sup> January 2019  
 Table 4: Audit assurance opinions  
 Table 5: Audit recommendation categories  
 Table 6: Glossary of terms  
 Table 7: Audit recommendations made in the period 12<sup>th</sup> November 2018 to 31<sup>st</sup> January 2019  
 Table 8: Recommendation follow up process (risk based)

#### Appendix B - Audit plan by service 12<sup>th</sup> November 2018 to 31<sup>st</sup> January 2019

**APPENDIX A****Table 1: Summary of actual audit days delivered and revisions to the audit plan in the period from 12th November 2018 to 31st January 2019**

|   | Original Plan | Revised Plan | 31 Jan. 2019 Actual | % of Original Complete | % of Revised Complete |
|---|---------------|--------------|---------------------|------------------------|-----------------------|
| Chief Executive                         | 707           | 529          | 359.1               | 51%                    | 68%                   |
| Finance, Governance and Assurance       | 392           | 264          | 172.0               | 44%                    | 65%                   |
| Governance                              | 30            | 20           | 9.6                 | 32%                    | 48%                   |
| Workforce and Transformation            | 257           | 209          | 165.0               | 64%                    | 79%                   |
| Legal and Democratic                    | 28            | 36           | 12.5                | 45%                    | 35%                   |
| Adult Services                          | 172           | 58           | 24.4                | 14%                    | 42%                   |
| Place and Enterprise                    | 342           | 227          | 194.5               | 57%                    | 86%                   |
| Children's Services                     | 173           | 88           | 65.7                | 38%                    | 75%                   |
| Public Health                           | 70            | 55           | 34.1                | 49%                    | 62%                   |
| <b>S151 Planned Audit</b>               | <b>1,464</b>  | <b>957</b>   | <b>677.8</b>        | <b>46%</b>             | <b>71%</b>            |
| Contingencies and other chargeable work | 566           | 524          | 471.2               | 83%                    | 90%                   |
| <b>Total S151 Audit</b>                 | <b>2,030</b>  | <b>1,481</b> | <b>1,149.0</b>      | <b>57%</b>             | <b>78%</b>            |
| External Clients                        | 226           | 229          | 169.0               | 75%                    | 74%                   |
| <b>Total</b>                            | <b>2,256</b>  | <b>1,710</b> | <b>1,318.0</b>      | <b>58%</b>             | <b>77%</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 12th November 2018 to 31st January 2019**

| Service area                      | Good     | Reasonable | Limited  | Unsatisfactory | Total     |
|-----------------------------------|----------|------------|----------|----------------|-----------|
| Chief Executive                   | 3        | 6          | 1        | 0              | 10        |
| Finance, Governance and Assurance | 1        | 1          | 0        | 0              | 2         |
| Governance                        | 0        | 0          | 0        | 0              | 0         |
| Workforce and Transformation      | 2        | 5          | 1        | 0              | 8         |
| Legal and Democratic              | 0        | 0          | 0        | 0              | 0         |
| Adult Services                    | 0        | 0          | 1        | 0              | 1         |
| Place and Enterprise              | 0        | 3          | 1        | 2              | 6         |
| Children's Services               | 1        | 2          | 0        | 0              | 3         |
| Children's Services: Schools      | 0        | 0          | 0        | 0              | 0         |
| Children's Services: Others       | 1        | 2          | 0        | 0              | 3         |
| Public Health                     | 0        | 0          | 0        | 0              | 0         |
| <b>Total for period</b>           | <b>4</b> | <b>11</b>  | <b>3</b> | <b>2</b>       | <b>20</b> |

| Service area               | Good | Reasonable | Limited | Unsatisfactory | Total |
|----------------------------|------|------------|---------|----------------|-------|
| ➤ Numbers                  |      |            |         |                |       |
| ➤ Percentage               | 20%  | 55%        | 15%     | 10%            | 100%  |
| Percentage 2018/19 to date | 20%  | 49%        | 27%     | 4%             | 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 12th November 2018 to 31st January 2019<sup>3</sup>**

### Unsatisfactory assurance

#### **Place and Enterprise: Commercial Strategy and Plans**

- An appropriate governance structure is in place.
- Risks are identified and addressed.
- Commercial projects are generating a financial return for the Council.
- Performance reports are produced and disseminated appropriately.

#### **Place and Enterprise: Theatre Severn Chip and Pin Machines**

- Procurement of the chip and PIN terminals were made in line with the Council's Financial Rules, Contract Procedure Rules and the ICT Systems and Software Procurement Process.
- Implications of entering into an agreement with the contractor were evaluated and in line with the Council's ongoing Digital Transformation Programme and the Enterprise Resource Planning (ERP) Project.

### Limited assurance

#### **Head of Workforce and Transformation: Internet Security Follow Up (Reasonable 2017/18)**

- To ensure that the recommendations made in the 2017/18 audit have been implemented as per the original management responses in relation to the following areas:
  - a) An appropriate Security policy built on good practices, using recognised standards is in place and clearly defines requirements for Network Security.
  - b) External perimeter control through the use of firewalls to protect the internal network from external intrusion.
  - c) Virtual private networks (VPNs) to allow authorised traffic through the firewall, using encryption techniques to prevent eavesdropping, and physical devices (tokens) of which the user must have custody to further enhance authentication.
  - d) Intrusion detection tools to identify suspect network activity and issue alerts.

#### **Adult Services: Perthyn Contract**

- There is a contract in place and variations / extensions to the contract have been authorised correctly.

<sup>3</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.

- There are suitable arrangements in place to verify that payments are valid and accurate.
- There are suitable arrangements in place to provide assurance that the performance of Key Performance Indicators (KPIs) are monitored in accordance with the Contract.
- Electronically held data is secure and can be restored in the event of IT failure.

#### **Place and Enterprise: Transport Operations Group (Unsatisfactory 2017/18)**

To ensure that the recommendations made in the previous Transport Operations Group audit have been implemented as agreed. The recommendations made in the previous audit related to the following management control objectives:

- There are procedures and policies available which provide advice and instruction with regard to the operation and administration of vehicles.
- The vehicle fleet is subject to management to ensure that all vehicles are operated in accordance with legislation and are maintained to an acceptable standard.
- Vehicle procurement and administration is suitably carried out in accordance with procedures and the Council Contract Rules.
- The procurement and administration of the fuel supply is carried out in accordance with procedures and the Council Contract Rules.
- The financial administration of the service including the monitoring of performance is carried out accurately and in accordance with procedures.

**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</b>             | Immediate action required to address major control weakness that, if not                                |

|            |   |
|------------|---|
| <b>(F)</b> | 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 12th November 2018 to 31st January 2019**

| Service area                      | Number of recommendations made |                    |             |             |       |
|-----------------------------------|--------------------------------|--------------------|-------------|-------------|-------|
|                                   | Best practice                  | Requires attention | Significant | Fundamental | Total |
| Chief Executive                   | 4                              | 41                 | 10          | 0           | 55    |
| Finance, Governance and Assurance | 0                              | 6                  | 3           | 0           | 9     |
| Governance                        | 0                              | 0                  | 0           | 0           | 0     |
| Workforce and Transformation      | 4                              | 35                 | 7           | 0           | 46    |
| Legal and Democratic              | 0                              | 0                  | 0           | 0           | 0     |

| Service area                                | Number of recommendations made |                    |             |             |             |
|---|--------------------------------|--------------------|-------------|-------------|-------------|
|   | Best practice                  | Requires attention | Significant | Fundamental | Total       |
| Adult Services                              | 2                              | 0                  | 5           | 0           | 7           |
| Place and Enterprise                        | 1                              | 33                 | 31          | 1           | 66          |
| Children's Services                         | 0                              | 0                  | 2           | 0           | 2           |
| Children's Services: Schools                | 0                              | 0                  | 0           | 0           | 0           |
| Children's Services: Others                 | 0                              | 0                  | 2           | 0           | 2           |
| Public Health                               | 0                              | 0                  | 0           | 0           | 0           |
| <b>Total for period</b><br>➤ <b>Numbers</b> | <b>7</b>                       | <b>74</b>          | <b>48</b>   | <b>1</b>    | <b>130</b>  |
| <b>Percentage</b>                           | <b>5%</b>                      | <b>57%</b>         | <b>37%</b>  | <b>1%</b>   | <b>100%</b> |
| <b>Percentage 2018/19 to date</b>           | <b>3%</b>                      | <b>62%</b>         | <b>35%</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 12<sup>th</sup> NOVEMBER 2018 TO 31<sup>st</sup> JANUARY 2019

|   | Original<br>Plan<br>Days | September<br>Revision | November<br>Revision | February<br>Revision | Revised<br>Plan<br>Days | 31st<br>January<br>2019<br>Actual | %<br>Revised<br>Plan<br>Achieved |
|---|--------------------------|-----------------------|----------------------|----------------------|-------------------------|-----------------------------------|----------------------------------|
| <b>CHIEF EXECUTIVE</b>                    |                          |                       |                      |                      |                         |                                   |                                  |
| <b>Governance</b>                         | <b>30</b>                | <b>-7</b>             | <b>-2</b>            | <b>-1</b>            | <b>20</b>               | <b>9.6</b>                        | <b>48%</b>                       |
| <b>Finance Governance &amp; Assurance</b> |                          |                       |                      |                      |                         |                                   |                                  |
| Finance Transactions                      | 108                      | -10                   | -35                  | 0                    | 63                      | 16.5                              | 26%                              |
| Finance and S151 Officer                  | 101                      | -27                   | -22                  | 0                    | 52                      | 27.2                              | 52%                              |
| Financial Management                      | 70                       | 13                    | -27                  | 0                    | 56                      | 38.2                              | 68%                              |
| Procurement and Contract Management       | 61                       | -3                    | 8                    | -8                   | 58                      | 54.6                              | 94%                              |
| Revenues and Benefits                     | 20                       | -8                    | 0                    | 0                    | 12                      | 12.2                              | 102%                             |
| Risk Management and Insurance             | 8                        | -1                    | 0                    | 0                    | 7                       | 7.2                               | 103%                             |
| Treasury                                  | 24                       | -8                    | 0                    | 0                    | 16                      | 16.1                              | 101%                             |
|   | <b>392</b>               | <b>-44</b>            | <b>-76</b>           | <b>-8</b>            | <b>264</b>              | <b>172.0</b>                      | <b>65%</b>                       |
| <b>Workforce and Transformation</b>       |                          |                       |                      |                      |                         |                                   |                                  |
| Human Resources                           | 97                       | -44                   | 3                    | 0                    | 56                      | 49.8                              | 89%                              |
| Customer Services                         | 13                       | -5                    | 5                    | 0                    | 13                      | 13.1                              | 101%                             |
| ICT                                       | 147                      | 12                    | -9                   | -10                  | 140                     | 102.1                             | 73%                              |
|   | <b>257</b>               | <b>-37</b>            | <b>-1</b>            | <b>-10</b>           | <b>209</b>              | <b>165.0</b>                      | <b>79%</b>                       |
| <b>Legal and Democratic</b>               |                          |                       |                      |                      |                         |                                   |                                  |
| Information Governance                    | 8                        | 5                     | 0                    | 13                   | 26                      | 12.5                              | 48%                              |
| Legal Services                            | 20                       | -3                    | 0                    | -7                   | 10                      | 0.0                               | 0%                               |
|   | <b>28</b>                | <b>2</b>              | <b>0</b>             | <b>6</b>             | <b>36</b>               | <b>12.5</b>                       | <b>35%</b>                       |
| <b>CHIEF EXECUTIVE</b>                    | <b>707</b>               | <b>-86</b>            | <b>-79</b>           | <b>-13</b>           | <b>529</b>              | <b>359.1</b>                      | <b>68%</b>                       |
| <b>ADULT SERVICES</b>                     |                          |                       |                      |                      |                         |                                   |                                  |
| <b>Social Care Operations</b>             |                          |                       |                      |                      |                         |                                   |                                  |
| Long Term Support                         | 96                       | -42                   | -11                  | 4                    | 47                      | 16.8                              | 36%                              |
| Assistive Services                        | 8                        | 0                     | 0                    | -8                   | 0                       | 0.0                               | 0%                               |
| Provider Services - Group Homes           | 8                        | -1                    | 0                    | 0                    | 7                       | 7.4                               | 106%                             |
| Housing Services                          | 28                       | -8                    | 0                    | -16                  | 4                       | 0.2                               | 5%                               |
|   | <b>140</b>               | <b>-51</b>            | <b>-11</b>           | <b>-20</b>           | <b>58</b>               | <b>24.4</b>                       | <b>42%</b>                       |

|   | Original<br>Plan<br>Days | September<br>Revision | November<br>Revision | February<br>Revision | Revised<br>Plan<br>Days | 31st<br>January<br>2019<br>Actual | %<br>Revised<br>Plan<br>Achieved |
|---|--------------------------|-----------------------|----------------------|----------------------|-------------------------|-----------------------------------|----------------------------------|
| <b>Social Care Efficiency<br/>and Improvement</b>       |                          |                       |                      |                      |                         |                                   |                                  |
| Developmental Support                                   | 32                       | -20                   | 0                    | -12                  | 0                       | 0.0                               | 0%                               |
| <b>ADULT SERVICES</b>                                   | <b>172</b>               | <b>-71</b>            | <b>-11</b>           | <b>-32</b>           | <b>58</b>               | <b>24.4</b>                       | <b>42%</b>                       |
| <b>PLACE AND<br/>ENTERPRISE</b>                         |                          |                       |                      |                      |                         |                                   |                                  |
| <b>Director of Place and<br/>Enterprise</b>             |                          |                       |                      |                      |                         |                                   |                                  |
| Corporate Performance<br>Management                     | 0                        | 10                    | -10                  | 2                    | 2                       | 1.7                               | 85%                              |
| <b>Business, Enterprise and<br/>Commercial Services</b> |                          |                       |                      |                      |                         |                                   |                                  |
| Commercial Services                                     | 8                        | 0                     | 2                    | 1                    | 11                      | 11.3                              | 103%                             |
| Shire Services  | 25                       | -13                   | 0                    | 0                    | 12                      | 12.0                              | 100%                             |
| Strategic Asset Services                                | 64                       | -26                   | -6                   | -6                   | 26                      | 0.0                               | 0%                               |
|   | <b>97</b>                | <b>-39</b>            | <b>-4</b>            | <b>-5</b>            | <b>49</b>               | <b>23.3</b>                       | <b>48%</b>                       |
| <b>Economic<br/>Development</b>                         |                          |                       |                      |                      |                         |                                   |                                  |
| Business & Enterprise<br>Development                    | 29                       | -12                   | -6                   | 4                    | 15                      | 14.3                              | 95%                              |
| Management  | 24                       | -11                   | 0                    | 0                    | 13                      | 13.2                              | 102%                             |
| Planning & Corporate<br>Policy                          | 16                       | 26                    | 0                    | 0                    | 42                      | 42.5                              | 101%                             |
| Project Development                                     | 17                       | -4                    | -9                   | 0                    | 4                       | 4.0                               | 100%                             |
|   | <b>86</b>                | <b>-1</b>             | <b>-15</b>           | <b>4</b>             | <b>74</b>               | <b>74.0</b>                       | <b>100%</b>                      |
| <b>Infrastructure and<br/>Communities</b>               |                          |                       |                      |                      |                         |                                   |                                  |
| Highways  | 65                       | 6                     | -6                   | -16                  | 49                      | 43.3                              | 88%                              |
| Environmental<br>Maintenance                            | 0                        | 8                     | -2                   | 0                    | 6                       | 5.8                               | 97%                              |
| Library Services  | 4                        | -4                    | 0                    | 0                    | 0                       | 0.0                               | 0%                               |
| Public Transport  | 48                       | -23                   | 1                    | 4                    | 30                      | 29.5                              | 98%                              |
| Waste & Bereavement                                     | 24                       | -24                   | 0                    | 0                    | 0                       | 0.0                               | 0%                               |
|   | <b>141</b>               | <b>-37</b>            | <b>-7</b>            | <b>-12</b>           | <b>85</b>               | <b>78.6</b>                       | <b>92%</b>                       |
| <b>Culture and Heritage</b>                             |                          |                       |                      |                      |                         |                                   |                                  |
| Theatre Severn and<br>OMH                               | 10                       | 0                     | 4                    | 3                    | 17                      | 16.9                              | 99%                              |
| Leisure Services  | 8                        | -8                    | 0                    | 0                    | 0                       | 0.0                               | 0%                               |
|   | <b>18</b>                | <b>-8</b>             | <b>4</b>             | <b>3</b>             | <b>17</b>               | <b>16.9</b>                       | <b>99%</b>                       |
| <b>PLACE AND</b>  | <b>342</b>               | <b>-75</b>            | <b>-32</b>           | <b>-8</b>            | <b>227</b>              | <b>194.5</b>                      | <b>86%</b>                       |

|  | Original<br>Plan<br>Days | September<br>Revision | November<br>Revision | February<br>Revision | Revised<br>Plan<br>Days | 31st<br>January<br>2019<br>Actual | %<br>Revised<br>Plan<br>Achieved |
|--|--------------------------|-----------------------|----------------------|----------------------|-------------------------|-----------------------------------|----------------------------------|
| <b>ENTERPRISE</b>                              |                          |                       |                      |                      |                         |                                   |                                  |
| <b>CHILDREN'S SERVICES</b>                     |                          |                       |                      |                      |                         |                                   |                                  |
| <b>Safeguarding</b>                            |                          |                       |                      |                      |                         |                                   |                                  |
| Children's Placement Services & Joint Adoption | 36                       | -5                    | 2                    | -13                  | 20                      | 17.4                              | 87%                              |
| Safeguarding                                   | 6                        | 4                     | 5                    | 1                    | 16                      | 14.3                              | 89%                              |
|  | <b>42</b>                | <b>-1</b>             | <b>7</b>             | <b>-12</b>           | <b>36</b>               | <b>31.7</b>                       | <b>88%</b>                       |
| <b>Education, Improvement and Efficiency</b>   |                          |                       |                      |                      |                         |                                   |                                  |
| Education Improvements                         | 50                       | -20                   | -17                  | -1                   | 12                      | 6.2                               | 52%                              |
| Primary/Special Schools                        | 54                       | -36                   | 15                   | 7                    | 40                      | 27.8                              | 70%                              |
| Secondary Schools                              | 27                       | -27                   | 0                    | 0                    | 0                       | 0.0                               | 0%                               |
|  | <b>131</b>               | <b>-83</b>            | <b>-2</b>            | <b>6</b>             | <b>52</b>               | <b>34.0</b>                       | <b>65%</b>                       |
| <b>CHILDREN'S SERVICES</b>                     | <b>173</b>               | <b>-84</b>            | <b>5</b>             | <b>-6</b>            | <b>88</b>               | <b>65.7</b>                       | <b>75%</b>                       |
| <b>PUBLIC HEALTH</b>                           |                          |                       |                      |                      |                         |                                   |                                  |
| Public Health                                  | 10                       | 5                     | 0                    | 0                    | 15                      | 6.1                               | 41%                              |
| Community Safety                               | 8                        | -8                    | 0                    | 0                    | 0                       | 0.0                               | 0%                               |
|  | <b>18</b>                | <b>-3</b>             | <b>0</b>             | <b>0</b>             | <b>15</b>               | <b>6.1</b>                        | <b>41%</b>                       |
| <b>Public Protection</b>                       |                          |                       |                      |                      |                         |                                   |                                  |
| Community Safety                               | 24                       | -10                   | 0                    | 1                    | 15                      | 15.4                              | 103%                             |
| Environmental Protection and Prevention        | 20                       | -7                    | 0                    | 0                    | 13                      | 0.1                               | 1%                               |
|  | <b>44</b>                | <b>-17</b>            | <b>0</b>             | <b>1</b>             | <b>28</b>               | <b>15.5</b>                       | <b>55%</b>                       |
| <b>Bereavement</b>                             | <b>8</b>                 | <b>3</b>              | <b>1</b>             | <b>0</b>             | <b>12</b>               | <b>12.5</b>                       | <b>104%</b>                      |
| <b>PUBLIC HEALTH</b>                           | <b>70</b>                | <b>-17</b>            | <b>1</b>             | <b>1</b>             | <b>55</b>               | <b>34.1</b>                       | <b>62%</b>                       |
| <b>Total Shropshire Council Planned Work</b>   | <b>1,464</b>             | <b>-333</b>           | <b>-116</b>          | <b>-58</b>           | <b>957</b>              | <b>677.8</b>                      | <b>71%</b>                       |
| <b>CONTINGENCIES</b>                           |                          |                       |                      |                      |                         |                                   |                                  |
| Advisory Contingency                           | 50                       | -10                   | 0                    | -8                   | 32                      | 27.3                              | 85%                              |
| Fraud Contingency                              | 200                      | 0                     | 0                    | 0                    | 200                     | 176.1                             | 88%                              |
| Unplanned Audit Contingency                    | 50                       | 4                     | 0                    | -10                  | 44                      | 44.7                              | 102%                             |

|                                    | Original<br>Plan<br>Days | September<br>Revision | November<br>Revision | February<br>Revision | Revised<br>Plan<br>Days | 31st<br>January<br>2019<br>Actual | %<br>Revised<br>Plan<br>Achieved |
|------------------------------------|--------------------------|-----------------------|----------------------|----------------------|-------------------------|-----------------------------------|----------------------------------|
| Other non audit<br>Chargeable Work | 266                      | -9                    | -9                   | 0                    | 248                     | 223.1                             | 90%                              |
| <b>CONTINGENCIES</b>               | <b>566</b>               | <b>-15</b>            | <b>-9</b>            | <b>-18</b>           | <b>524</b>              | <b>471.2</b>                      | <b>90%</b>                       |
| <b>Total for Shropshire</b>        | <b>2,030</b>             | <b>-348</b>           | <b>-125</b>          | <b>-76</b>           | <b>1,481</b>            | <b>1,149.0</b>                    | <b>78%</b>                       |
| <b>EXTERNAL CLIENTS</b>            | <b>226</b>               | <b>3</b>              | <b>0</b>             | <b>0</b>             | <b>229</b>              | <b>169.0</b>                      | <b>74%</b>                       |
| <b>Total Chargeable</b>            | <b>2,256</b>             | <b>-345</b>           | <b>-125</b>          | <b>-76</b>           | <b>1,710</b>            | <b>1,318.0</b>                    | <b>77%</b>                       |



| <u>Committee and Date</u>      | <u>Item</u>   |
|--------------------------------|---------------|
| Audit Committee                |               |
| 25 <sup>th</sup> February 2019 |               |
| 1:30 pm                        | <u>Public</u> |

## DRAFT INTERNAL AUDIT ANNUAL PLAN 2019/20

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

### 1. Summary

This report provides Members with the proposed risk based Internal Audit Plan for 2019/20. The annual plan will provide coverage across all Council services and deliver internal audit services to a range of external clients. It takes account of issues identified by the clients' risk management frameworks, including the risk appetite levels set by management for the different activities or parts of the organisations audited. The proposed plan considers the requirement to produce an annual internal audit opinion and assurance framework. Some minor adjustments may be needed before the plan is finalised; if significant, these will be agreed by the Section 151 Officer and reported to a future Audit Committee.

### 2. Recommendations

The Committee are asked to consider and endorse, with appropriate comment, the approach taken to create the proposed Internal Audit Plan for 2019/20 and approve its adoption.

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

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

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

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

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

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

- 4.1 Costs associated with the proposed plan will be met from within the approved Internal Audit budget. The budget has been reduced to contribute savings to the Council and the impact of this has been considered when identifying audits for inclusion in the plan.

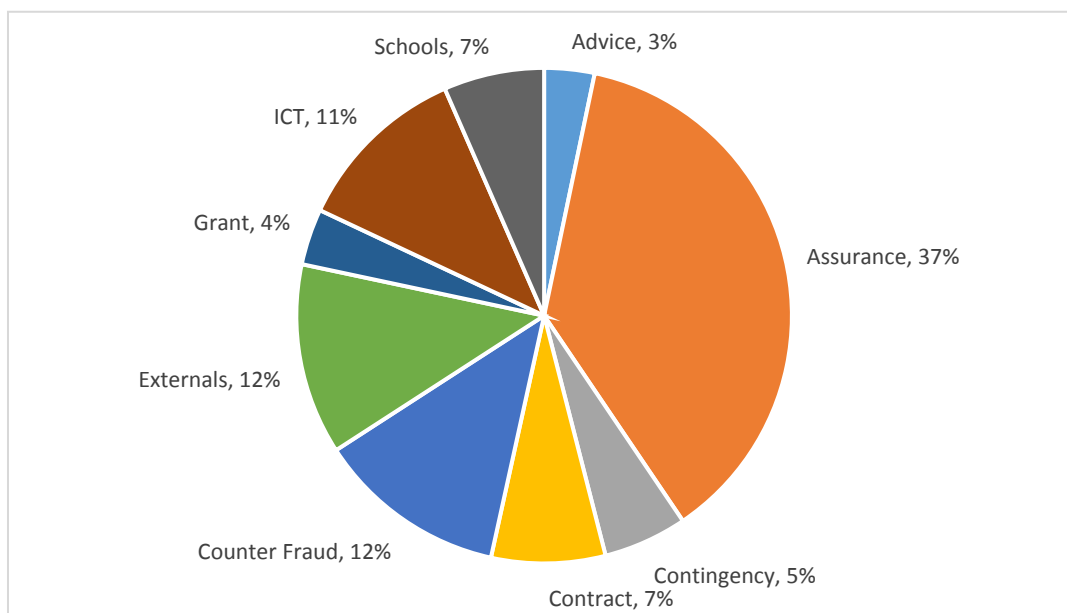
#### **5. Background**

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

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

5.4 Top risks facing councils continue to include pressures on finances and increasing demand on services; demands on social care functions continue to grow and with losing staff and experience elsewhere there is a risk that controls are cut increasing the risk of waste, losses and inefficiencies. Risks to be considered include: financial resilience; adult and children's social care funding gaps; workforce retention and stress management; alternative delivery models; supplier resilience and risk; cyber security; deprivation of liberty safeguards; affordable new homes; crime; fraud and business as usual. all of which have been considered when formulating the plan.

5.5 **Appendix A** provides the summarised Internal Audit plan and identifies a planned day requirement of 1,600 days for Shropshire Council audit work and 228 days of work for external clients. These days are broken down by type in the chart below.



## Resources

5.6 The Internal Audit service has continued to see a rationalisation of resources at a time of significant increase in demand. The Council continues to go through a period of unprecedented change which is impacting on a high number of service areas, processes, risks and therefore controls. Whilst over time the Council will be reducing in size in terms of the services it delivers directly, the interim period continues to see the associated risks, and therefore areas requiring audit review, continue to increase. In

addition, because of the changing control environment, areas reviewed continue in part to attract lower assurance levels than previously. Follow up of these is a must do in respect of unsatisfactory audits, with only a proportion of limited assurance audits being revisited within current resources.

- 5.7 The team has 12.7 full time equivalents and has retained a rich mix of skills in finance, information technology, contract management, governance, establishments, systems, counter fraud, investigations and project management. However, the capacity of the team is restricted given that 4.6 FTE<sup>1</sup> post holders (36%) are new, vacant, trainees or yet to be in place. This has an impact on the remaining auditors in mentoring, coaching and supervising these staff, but the intention is to invest now for future succession planning of the team. Skills continue to be developed across the wider team and following budget cuts the ability to respond to demand during this period of change has been reduced by removing funding for external contractors. If demands require and funds are made available, the framework contract with Staffordshire County Council remains in place to accommodate such events.
- 5.8 The Audit Plan for 2019/20 based on a risk analysis identified approximately 1,705 days to review all high-risk areas. Review areas attracting a lower risk have not been considered in this year's planning process but if they were an estimated 4,304 days would be required. Resources available after deducting allowances for non-chargeable time (leave, management meetings, administration, etc.); and chargeable time (attendance at corporate officer and member meetings, responding to legislation, s151 officer work requests, training etc.) amount to 1,828 days (162 days less than 2018/19) of which 228 are to be used on providing services to customers other than Shropshire Council leaving a balance of 1,600 days.
- 5.9 To match the plan to resources, it has been necessary to take out a few reviews identified as high priority, details of which appear at **Appendix B**. This appendix also includes areas highlighted by managers for inclusion in the plan that cannot be resourced in the current year. Contingencies for fraud, unplanned audits and advice, if not required in full this year, can be re-allocated and these higher priority reviews brought back into the plan.
- 5.10 In considering the plan for 2019/20 the key items to note are:
- Included in the plan are several fundamental systems expected to change with the introduction of the Enterprise Resource Planning (ERP) system. The Payroll system, which is of a high material value to the Council's operations, continues to be reviewed every year.
  - A separate risk based analysis of the IT audit areas has been conducted and assessments of applications, projects, developmental changes, new technology and follow ups in areas requiring improvements are planned. IT continues to form a significant part of the internal audit plan reflecting the Council's continuing reliance on technology and digital transformation requirements as services are redesigned.

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<sup>1</sup> Full time equivalent



- The fraud contingency is being maintained at 200 days; based on the current year experience and with ongoing changes to controls, management structures and job responsibilities, this is not considered to be an area of reducing risk.
- Internal Audit will continue to request schools to complete a self-assessment process on a three-year basis. The Headteacher will be asked to share the self-assessment with both the Chair of Finance and Governors and seek their sign off to it. This approach will enable provision of a more rounded assessment of processes to support the s151 Officer's wider assurance of the school environment.

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

In addition, a few school audits will be completed to verify the contents of the self-assessment returns. Cross cutting audits will also include school data in their sampling process. For example, payroll, creditors, imprest. to build upon the assurance process.

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

- Resources are allocated to provide internal audit services to external clients: Shropshire Fire and Rescue Service, Shropshire Towns and Rural Housing, Shropshire Pension Fund, West Mercia Energy, Oswestry Town Council and various honorary, voluntary and grant funds. In addition, audit time is allocated to review areas of significant risk which are being considered for transfer to other delivery models.
- Procurement and commissioning continue to be priority areas and, as such, there are planned initiatives in these areas. Work is planned on financial evaluations of companies tendering for work and reviews of governance processes on the client side. In addition, where services are moving to new delivery models, exit reviews will be conducted to ensure that transfers are conducted appropriately and at minimum risk to the Council. A number of these will be met from the unplanned contingency as the specific business areas and timings become known.
- Discussions with senior managers have identified a few areas considered low risk, from an internal controls/ materiality perspective, where managers are receiving a mix of assurances from their systems, personnel and/or third parties on which they can place reliance. These areas are identified as part of **Appendix C** and will not be considered for review by Internal Audit on a rolling risk basis. Members may wish to ask senior managers to provide assurance directly (first line of assurance) to Committee on these areas as appropriate.

- The plan provides continual professional development and training for auditors during the year. This helps to retain staff, future proof the skills of team members and build skills in areas where updated knowledge is required for the benefit of the Council, external clients and the auditors. To reflect the number of Auditors new to the Council and in some cases Audit, the plan also allows for inclusion of review areas to support professional training course that based on risk alone would not be covered in the plan.

- 5.11 A copy of the draft plan for Shropshire Council and those of our external clients will be forwarded to the appropriate external auditors inviting their comments on coverage and to maximise any shared learning from each other's work.
- 5.12 Every effort has been made to include all key audit areas required in the plan. If other items are identified from discussions with colleagues from External Audit, or as knowledge becomes available from other sources, these will be agreed with the Section 151 Officer and reported to a future Audit Committee.

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

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

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

**Local Member** n/a

**Appendices**

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

**APPENDIX A****2019/20 SUMMARY OF DRAFT INTERNAL AUDIT PLAN BY SERVICE**

|   | <b>Days</b>  |
|---|--------------|
| <b>CHIEF EXECUTIVE</b>                      |              |
| Governance                                  | 14           |
| Finance, Governance and Assurance           | 293          |
| Workforce and Transformation                | 213          |
| Legal and Democratic                        | 0            |
| <b>Total Chief Executive</b>                | <b>520</b>   |
| <b>ADULT SERVICES</b>                       |              |
| Social Care Operations                      | 96           |
| Social Care Efficiency and Improvement      | 0            |
| Public Health                               | 42           |
| Public Protection                           | 20           |
| <b>Total Adult Services</b>                 | <b>158</b>   |
| <b>PLACE AND ENTERPRISE</b>                 |              |
| Culture and Heritage                        | 79           |
| Business Enterprise and Commercial Services | 55           |
| Economic Development                        | 65           |
| Infrastructure and Communities              | 111          |
| <b>Total Commissioning</b>                  | <b>310</b>   |
| <b>CHILDREN'S SERVICES</b>                  |              |
| Safeguarding                                | 85           |
| Learning and Skills                         | 167          |
| <b>Total Children's Services</b>            | <b>252</b>   |
| <b>CONTINGENCIES</b>                        |              |
| ICT Contingency                             | 20           |
| Advisory Contingency                        | 40           |
| Fraud Contingency                           | 200          |
| Unplanned Audit Contingency                 | 100          |
| Other non-audit chargeable work             | 534          |
| <b>Total Contingencies</b>                  | <b>894</b>   |
| <b>Total Shropshire Council</b>             | <b>2,134</b> |
| <b>External Clients</b>                     | <b>228</b>   |
| <b>Total Audit Plan</b>                     | <b>2,362</b> |

**2019/20 Audit areas of high priority for which no provision is made in this year's Internal Audit plan and areas requested by managers for which no provision is made – management assurances may be sought by the Committee**

|   |   |  |
|---|---|--|
| <p><b>Chief Executive</b><br/><b>Corporate Programme and Project mgt</b></p> <p><b><u>Finance, Governance and Assurance</u></b><br/>Income Collection<br/>PCI Compliance<br/>Budget Management and Control - Corporate<br/>Procurement Arrangements<br/>Social Enterprises<br/>Benefits Administration Grant<br/>Comino Document Management System Application<br/>Council Tax Collection<br/>Housing Benefits<br/>National Non-Domestic Rates (NNDR)<br/>Business Continuity and Disaster Recovery - non- IT<br/>Insurance<br/>Cash Offices - Regularity Audits<br/>Treasury Management</p> <p><b><u>Workforce and Development</u></b><br/>Communications<br/>Complaints and Compliments<br/>Credit Union Client<br/>Customer Service Points<br/>Apprenticeship Levy<br/>Diversity Arrangements<br/>Flexi/ Annualised Time System<br/>Holiday Pay HR<br/>Human Resources - JD's, PS's and Contracts, Leavers<br/>Guidance for PT Workers<br/>Human Resources / Workforce Planning<br/>Job Evaluation<br/>Lone Working Arrangements<br/>Mobile Working HR Policies<br/>Recruitment / redeployment arrangements<br/>Redundancy Process CR<br/>Salary Sacrifice Schemes (Childcare, AL etc)<br/>Sickness Management<br/>Teachers Pension Scheme<br/>Travel and Subsistence<br/>Database Access / Admin / Management<br/>Internet Controls</p> | <p><b>Chief Executive (cont.)</b></p> <p><b><u>Workforce and Development (cont.)</u></b><br/>Payroll - Self Service Facility<br/>Occupational Health</p> <p><b><u>Legal and Democratic</u></b><br/>Members Allowances</p> <p><b>Strategic Director of Place</b><br/>Arts Developments &amp; Grants<br/>Sports Development<br/>Recruitment &amp; Management of Volunteers<br/>Budget Management and Control - Shire Services<br/>External Catering Contracts<br/>Primary School Income Collection<br/>Secondary School Income Collection<br/>Corporate Landlord (Estate Management)<br/>Rent of Council Owned Property<br/>Smallholdings Estate<br/>Funding &amp; Programmes<br/>Management of Workshops &amp; Industrial Units<br/>Building Control<br/>Land Charges<br/>Planning<br/>Section 106 Agreements<br/>Historic Environment &amp; Listed Buildings<br/>Community Infrastructure Levy<br/>Flood Risk Management Arrangements<br/>Highways Development Control<br/>Highways Maintenance - Northern Area<br/>Highways Maintenance - Southern Area<br/>Highways Permits<br/>Highways Specialist Contracts<br/>Public Transport - Concession Fares<br/>NRSWA - Road Openings &amp; S278<br/>Section 38 Road Adoption<br/>Grey Fleet<br/>TOMS-ITU<br/>Property Repair and Maintenance<br/>Economic Growth Projects<br/>Economic Growth Strategy</p> | <p><b>Strategic Director of Children's Services</b><br/>Nursery Grants 3 to 5 years<br/>Monitoring of Schools Deficit/Surplus Budgets<br/>Sixth Form Schools Calculation<br/>Standards Fund<br/>Albrighton Primary School<br/>Inspire to Learn<br/>Assessments and looked after children</p> <p><b>Strategic Director of Adult Services</b><br/>Coroners and Mortuary Service<br/>Registrars Service<br/>Counter Terrorism Prevent Duty<br/>Drug and Alcohol Misuse Contract<br/>NHS Joint Funding Arrangements<br/>Contaminated Land<br/>Environmental Service<br/>Parking - Cash Collection<br/>Private Water Supplies<br/>Food Safety<br/>Refugee Action Grant<br/>Housing Rents Client Side<br/>Care assessments Adults and Children's<br/>Continuing Health Care Funding<br/>Greenacres Rural Unit<br/>Energy Grants<br/>Housing Strategy<br/>Purchasing Domiciliary, Residential and Nursing Care:<br/>Adults, ALD, Mental Health<br/>Sustainability and Transformation Plan (STP)</p> |
|---|---|--|

## 2019/20 De Minimis Audit areas where managers may be requested by members to provide any necessary assurances

**Chief Executive**

**Finance, Governance and Assurance**  
**Inventories Management**  
**Benefits Administration Grant**  
**Employee Authentication Service**

**Leal and Democratic**  
**Register of Electors**

**Workforce and Development**  
**Performance Management & PI's**  
**Performance Plus Online Register**  
**Design Team**  
**Tell Us Once Processes**  
**Payroll - Self Service Facility**  
**ARIS**  
**Security Management and Cyber Response**

**Strategic Director of Place**

Arts Developments & Grants  
 Idsall Sports Centre - Joint Use  
 Positive Activities Projects - Youth Service  
 Roman Road Sports Centre - Joint Use  
 Countryside Access General  
 Parks & Countryside Sites General  
 North Shropshire Countryside Rangers  
 Arts Festivals & Events  
 Culture & Leisure Business Development  
 Culture & Leisure Marketing and Performance  
 Ludlow Museum & Resource Centre  
 Museum on the Move  
 Museums & Audience Development Grant  
 Arrangements  
 Records Management  
 Shropshire Archives  
 Cleaning DSO General Systems  
 Cleaning Equipment Maintenance  
 Internal Catering arrangements  
 Shirehall Restaurant  
 Carbon Management Plan  
 Fishing and Sporting Rights  
 Pump House  
 Shirehall Lettings  
 SLA's & Invoicing Arrangements  
 SMR - Sites & Monuments Record  
 Sustainability  
 Economic Growth Strategy  
 Datawright Planning Development  
 One App Online Planning Portal Application  
 PLUMS - Planning Policy Control  
 Public access mapping server/e-planning  
 Ecology & Biodiversity  
 Tree Safety  
 AONB (Areas of Outstanding Natural Beauty) - Craven Arms  
 Community Working  
 Highways Land Search  
 Land Drainage

**Strategic Director of Place**

Albrighton Library  
 Bayston Hill Library  
 Bishops Castle Library  
 Bridgnorth Library  
 Broseley Library  
 Church Stretton Library  
 Cleobury Mortimer Library  
 Craven Arms Library  
 Ellesmere Library  
 Gobowen Library  
 Highley Library  
 Libraries General  
 Library Fines & Charges  
 Library HQ  
 Library Procurement through WM Consortium  
 Library Stock Management & Control  
 Ludlow Library  
 Market Drayton Library  
 Much Wenlock Library  
 Oswestry Library  
 Pontesbury Library  
 Schools Library service  
 Shifnal Library  
 Wem Library  
 Whitchurch Library  
 Community Transport Initiatives (SCOTI, OCTI ect)  
 Local Bus Network  
 Passenger Transport Efficiency Operations  
 Public Transport - Publicity  
 Surplus Seats  
 Bio Digester  
 Waste - Statistics & Administration

**2019/20 De Minimis Audit areas where managers may be requested by members to provide any necessary assurances**

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

# Audit Progress Report and Sector Update

Shropshire Council  
Year ending 31 March 2019

February 2019

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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 finalised our planning processes for the 2018/19 financial year audit although we will ensure that we refresh this at key stages of the 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 followed up progress against the recommendations made in the previous audit year and have reported this to you for completeness.

We have also documented Management's view of the controls in place and seek your agreement that this is in line with your understanding as 'Those Charged with Governance'.

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 now been agreed by PSAA at £12,265 and was billed in January 2019.

## 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 have considered the Council's business and identified the key risks which would impact on the Council delivering value for money. There is only one, financial resilience over the medium to long term, which is communicated in the Audit Plan. We have not identified the replacement of IT infrastructure / business continuity as a risk for 2018/19 due to progress made by the Council in this area.

## Other areas

### Certification of claims and returns

Since the last Audit Committee we have certified the Teachers' Pension claim and the Pooling of Capital Receipts claim. Both were certified ahead of the deadlines. We will now bill the Council for this additional work.

### 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><br>Confirming audit fee for 2018/19.  | April 2018    | Complete    |
| <b>Accounts Audit Plan</b><br>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 | Complete    |
| <b>Interim Audit Findings</b><br>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><br>The Audit Findings Report will be reported to the July Audit Committee.   | July 2019     | Not yet due |
| <b>Auditors Report</b><br>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><br>This letter communicates the key issues arising from our work.  | August 2019   | Not yet due |
| <b>Annual Certification Letter</b><br>This letter reports any matters arising from our certification work carried out under the PSAA contract.  | December 2019 | Not yet due |

# Sector Update

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.

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

# Public Sector Audit Appointments – Report on the results of auditors' work 2017/18

This is the fourth report published by Public Sector Audit Appointments (PSAA) and summarises the results of auditors' work at 495 principal local government and police bodies for 2017/18. This will be the final report under the statutory functions from the Audit Commission Act 1998 that were delegated to PSAA on a transitional basis.

The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors used their statutory reporting powers.

For 2017/18, the statutory accounts publication deadline came forward by two months to 31 July 2018. This was challenging for bodies and auditors and it is encouraging that 431 (87 per cent) audited bodies received an audit opinion by the new deadline.

The most common reasons for delays in issuing the opinion on the 2017/18 accounts were:

- technical accounting/audit issues;
- various errors identified during the audit;
- insufficient availability of staff at the audited body to support the audit;
- problems with the quality of supporting working papers; and
- draft accounts submitted late for audit.

All the opinions issued to date in relation to bodies' financial statements are unqualified, as was the case for the 2016/17 accounts. Auditors have made statutory recommendations to three bodies, compared to two such cases in respect of 2016/17, and issued an advisory notice to one body.

The number of qualified conclusions on value for money arrangements looks set to remain relatively constant. It currently stands at 7 per cent (32 councils, 1 fire and rescue authority, 1 police body and 2 other local government bodies) compared to 8 per cent for 2016/17, with a further 30 conclusions for 2017/18 still to be issued.

The most common reasons for auditors issuing qualified VFM conclusions for 2017/18 were:

- the impact of issues identified in the reports of statutory inspectorates, for example Ofsted;
- corporate governance issues;
- financial sustainability concerns; and
- procurement/contract management issues.

All the opinions issued to date in relation to bodies' financial statements are unqualified, as was the case for the 2016/17 accounts.

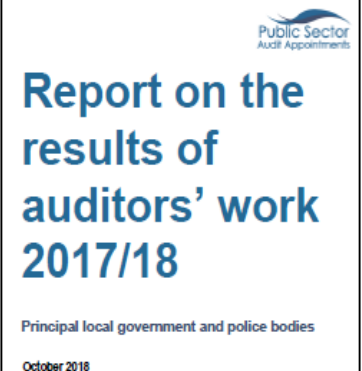
The report is available on the PSAA website:

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

## PSAA Report

### Challenge question:

Has your Authority identified improvements to be made to the 2018/19 financial statements audit and Value for Money Conclusion?



# National Audit Office – Local auditor reporting in England 2018

The report describes the roles and responsibilities of local auditors and relevant national bodies in relation to the local audit framework and summarises the main findings reported by local auditors in 2017-18. It also considers how the quantity and nature of the issues reported have changed since the Comptroller & Auditor General (C&AG) took up his new responsibilities in 2015, and highlights differences between the local government and NHS sectors.

Given increasing financial and demand pressures on local bodies, they need strong arrangements to manage finances and secure value for money. External auditors have a key role in determining whether these arrangements are strong enough. The fact that only three of the bodies (5%) the NAO contacted in connection with this study were able to confirm that they had fully implemented their plans to address the weaknesses reported suggests that while auditors are increasingly raising red flags, some of these are met with inadequate or complacent responses.

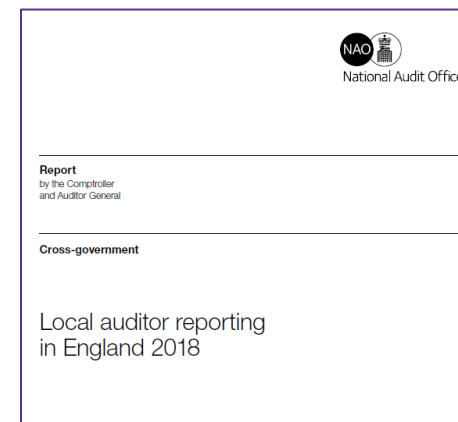
Qualified conclusions on arrangements to secure value for money locally are both unacceptably high and increasing. Auditors qualified their conclusions on arrangements to secure value for money at an increasing number of local public bodies: up from 170 (18%) in 2015-16 to 208 (22%) in 2017-18. As at 17 December 2018, auditors have yet to issue 20 conclusions on arrangements to secure value for money, so this number may increase further for 2017-18.

The proportion of local public bodies whose plans for keeping spending within budget are not fit-for-purpose, or who have significant weaknesses in their governance, is too high. This is a risk to public money and undermines confidence in how well local services are managed. Local bodies need to demonstrate to the wider public that they are managing their organisations effectively, and take local auditor reports seriously. Those charged with governance need to hold their executives to account for taking prompt and effective action. Local public bodies need to do more to strengthen their arrangements and improve their performance.

Local auditors need to exercise the full range of their additional reporting powers, where this is the most effective way of highlighting concerns, especially where they consider that local bodies are not taking sufficient action. Departments need to continue monitoring the level and nature of non-standard reporting, and formalise their processes where informal arrangements are in place. The current situation is serious, with trend lines pointing downwards.

The report is available on the NAO website:

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>



## NAO Report

### Challenge question:

Has your Authority responded appropriately to any concerns or issued raised in the External Auditor's report for 2017/18?



# National Audit Office – Local authority governance

The report examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially sustainable.

Local government has faced considerable funding and demand challenges since 2010-11. This raises questions as to whether the local government governance system remains effective. As demonstrated by Northamptonshire County Council, poor governance can make the difference between coping and not coping with financial and service pressures. The Department (Ministry of Housing, Communities and Local Government) places great weight on local arrangements in relation to value for money and financial sustainability, with limited engagement expected from government. For this to be effective, the Department needs to know that the governance arrangements that support local decision-making function as intended. In order to mitigate the growing risks to value for money in the sector the Department needs to improve its system-wide oversight, be more transparent in its engagement with the sector, and adopt a stronger leadership role across the governance network

Not only are the risks from poor governance greater in the current context as the stakes are higher, but the process of governance itself is more challenging and complex. Governance arrangements have to be effective in a riskier, more time-pressured and less well-resourced context. For instance, authorities need to:

- maintain tight budgetary control and scrutiny to ensure overall financial sustainability at a time when potentially contentious savings decisions have to be taken and resources for corporate support are more limited; and
- ensure that they have robust risk management arrangements in place when making commercial investments to generate new income, and that oversight and accountability is clear when entering into shared service or outsourced arrangements in order to deliver savings.

Risk profiles have increased in many local authorities as they have reduced spending and sought to generate new income in response to funding and demand pressures. Local authorities have seen a real-terms reduction in spending power (government grant and council tax) of 28.6% between 2010-11 and 2017-18. Demand in key service areas has also increased, including a 15.1% increase in the number of looked after children from 2010-11 to 2017-18. These pressures create risks to authorities' core objectives of remaining financially sustainable and meeting statutory service obligations. Furthermore, to mitigate these fundamental risks, many authorities have pursued strategies such as large-scale transformations or commercial investments that in themselves carry a risk of failure or under-performance.

The report is available on the NAO website:

<https://www.nao.org.uk/report/local-authority-governance-2/>

## NAO Report

### Challenge question:

Has your Authority got appropriate governance and risk management arrangements in place to address the risks and challenges identified in the NAO report?





# CIPFA – Financial Resilience Index plans revised

The Chartered Institute of Public Finance and Accountancy (CIPFA) has refined its plans for a financial resilience index for councils and is poised to rate bodies on a “suite of indicators” following a consultation with the sector.

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 put forward in the consultation by the 20 August.

CIPFA has also responded to concerns about the initial choice of indicators, updating the selection and will offer authorities an advanced viewing of results.

Plans for a financial resilience index were put forward by CIPFA in the summer. It is being designed to offer the sector some external guidance on their financial position.

CIPFA hailed the “unprecedented level of interest” in the consultation.

Responses were received from 189 parties, including individual local authorities, umbrella groups and auditors. Some respondents called for a more “forward-looking” assessment and raised fears over the possibility of “naming and shaming” councils.

CIPFA chief executive Rob Whiteman said with local government facing “unprecedented financial challenges” and weaknesses in public audit systems, the institute was stepping in to provide a leadership role in the public interest.

“Following the feedback we have received, we have modified and strengthened the tool so it will be even more helpful for local authorities with deteriorating financial positions,” he said.

“The tool will sit alongside CIPFA’s planned Financial Management Code, which aims to support good practice in the planning and execution of sustainable finances.”

CIPFA is now planning to introduce a “reserves depletion time” category as one of the indicators. This shows the length of time a council’s reserves will last if they deplete their reserves at the same rate as over the past three years.

The consultation response document said this new category showed that “generally most councils have either not depleted their reserves or their depletion has been low”.

“The tool will not now provide, as originally envisaged, a composite weighted index but within the suite of indicators it will include a red, amber, green (RAG) alert of specific proximity to insufficient reserve given recent trajectories,” it said.

It also highlighted the broad support from the sector for the creation of the index. “There was little dissent over the fact that CIPFA is doing the right thing in drawing attention to a matter of high national concern,” it said.

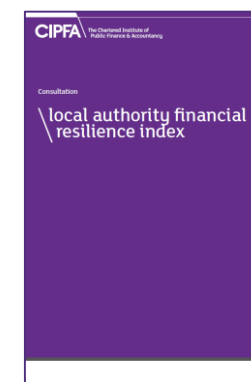
“Most respondents agreed to the need for transparency – but a sizable number had concerns over the possibly negative impacts of adverse indicators and many councils wanted to see their results prior to publication.”

As such, CIPFA plans to provide resilience measurements first to the local authorities and their auditors via the section 151 officer rather than publishing openly.

## CIPFA Consultation

### Challenge question:

Has your **Head of Finance** briefed members on the Council’s response to the Financial Resilience Index consultation?





# ICEAW Report: expectations gap

The Institute of Chartered Accountants in England and Wales (ICEAW) has published a paper on the 'expectation gap' in the external audit of public bodies.

## Context:

The expectation gap is the difference between what an auditor actually does, and what stakeholders and commentators think the auditors obligations might be and what they might do. Greater debate being whether greater education and communication between auditors and stakeholders should occur rather than substantial changes in role and remit of audit.

## What's the problem?

- **Short-term solvency vs. Longer-term value:**
  - LG & NHS: Facing financial pressures, oversight & governance pressures
- **Limited usefulness of auditors reports:** 'The VFM conclusion is helpful, but it is more about the system/arrangements in place rather than the actual effectiveness of value for money'
- **Other powers and duties:** implementing public interest reports in addition to VFM
- **Restricted role of questions and objections:** Misunderstanding over any objections/and or question should be resolved by the local public auditor. Lack of understanding that auditors have discretion in the use of their powers.
- **Audit qualification not always acted on by those charged with governance:** 'if independent public audit is to have the impact that it needs, it has to be taken seriously by those charged with governance'
- **Audit committees not consistently effective:** Local government struggles to recruit external members for their audit committees, they do not always have the required competencies and independence.
- **Decreased audit fees:** firms choose not to participate because considered that the margins were too tight to enable them to carry out a sufficient amount of work within the fee scales.
- **Impact of audit independence rules:** new independence rules don't allow for external auditors to take on additional work that could compromise their external audit role
- **Other stakeholders expectations not aligned with audit standards**

- **Increased auditor liability:** an auditor considering reporting outside of the main audit engagement would need to bill their client separately and expect the client to pay.

## Future financial viability of local public bodies

Local public bodies are being asked to deliver more with less and be more innovative and commercial. CFOs are, of course, nervous at taking risks in the current environment and therefore would like more involvement by their auditors. They want auditors to challenge their forward-looking plans and assumptions and comment on the financial resilience of the organisation..

## The ICAEW puts forward two solutions:

**Solution a)** If CFO's want additional advisory work, rather than just the audit, they can separately hire consultants (either accountancy firms not providing the statutory audit or other business advisory organisations with the required competencies) to work alongside them in their financial resilience work and challenging budget assumptions.

**Solution b)** Wider profession (IFAC, IAASB, accountancy bodies) should consider whether audit, in its current form, is sustainable and fit for purpose. Stakeholders want greater assurance, through greater depth of testing, analysis and more detailed reporting of financial matters. It is perhaps, time to look at the wider scope of audit. For example, could there be more value in auditors providing assurance reports on key risk indicators which have a greater future-looking focus, albeit focused on historic data?

More information can be found in the link below (click on the cover page)



## The expectations gap

### Challenge question:

How effectively is the audit meeting client expectations?



# Financial Foresight: Our sustainable solution for cash-strapped councils

Grant Thornton's new Financial Foresight platform helps provide local councils with financial sustainability.

Launched in early January, Financial Foresight is a unique platform that can help us provide financial sustainability to under-pressure local councils, using a combination of data, statistics and our expertise.

In December 2018, the Chartered Institute of Public Finance and Accountancy (CIPFA) estimated that 15% of councils are showing signs of financial distress. If the rate at which these councils are dipping into their financial reserves continues, the National Audit Office estimates that 10% of councils will have depleted their reserves by 2021. The latest figures from our Insights and Analytics team suggest this could be closer to 20%.

Alarm bells started to chime at Somerset, Surrey, Lancashire and Birmingham councils last year. Yet it was the catastrophic near-collapse of Northamptonshire County Council - after it chose for five years not to raise council tax to cover its spiralling costs - that shone the spotlight on this widespread problem.

Unless local councils can get to grips with the situation, we'll all feel the effects of deeper cutbacks in public spending.

## What's causing the problem?

After eight years of government austerity which followed the financial crash of 2008, many councils are now digging deep into their financial reserves in order to provide public services to their communities – from social care to fixing potholes in the road.

Pressure on funding is further impacted by rapidly rising costs – especially for demand-led services as populations grow and age. Within just a few years, many councils will not have any reserves left to fall back on, and some have already said they will be unable to provide any non-statutory services at this time. Overlay Brexit onto this situation, along with the anticipated financial pressures this will bring, and the outlook for local authorities is extremely challenging.

## How can we help?

The investments we have made in analytics coupled with the commercial success of our CFO Insights tool has enabled us to develop credible financial forecasts for every local authority in the country. From this platform we developed Financial Foresight; a unique, forward-looking financial analytics and forecasting platform designed to support financial sustainability in local government.

Financial Foresight takes account of factors such as population growth, development forecasts and demand drivers to project local authority spend, income and operating costs. It provides a baseline view on the financial sustainability of every local authority in England and allows leaders in each authority to benchmark their own outlook against others. This will help councils move on from resilience – or just getting by – to financial sustainability.

Head of Local Government Paul Dossett said: "Through Financial Foresight and our associated strategy workshops, we can support local authorities to test and appraise a range of financial strategies and levers to develop a plan for a sustainable future. The critical importance of authorities understanding their financial resilience is only going to increase, so we're proud to be leading the market with this offering."

For more information, follow the links below:

<https://www.grantthornton.co.uk/en/insights/councils-are-at-risk-but-do-they-really-know-why/>

<https://www.grantthornton.co.uk/en/insights/from-resilience-to-financial-sustainability/>

# Brexit Room - Increasing readiness and resilience within your locality

Local authorities have always navigated uncertainty and faced challenges on behalf of communities and this role has never been more important than now. Whilst the outcome of Brexit remains uncertain at a national level, it is essential for councils to set a path to ensure the continued delivery of vital services and the best possible outcomes for their local communities and economies.

Whatever happens over the coming weeks and months, it is important that councils identify key Brexit scenarios and use these to frame robust local contingency plans.

From our conversations with the sector we know that local authorities are at different stages in their preparation for this big change.

Here's a brief summary of the issues that we are seeing:

## Organisations

- Engaging non-EEA nationals within the workforce to ensure they understand their residency rights and are not receiving incorrect information from other sources
- Loss of access to key EU databases on policing and trading standards and changes to data sharing arrangements
- Uncertainty around continuation of EU funding beyond 2020 and the implementation of the UK Shared Prosperity Fund.

## Services and suppliers

- Engaging with key suppliers to assess their risk profiles and resilience
- Dealing with the immediate strain on key services such as social care and trading standards
- Potential disruption to live procurement activities and uncertainty around the national procurement rulebook post OJEU.

## Place

- Considering scenarios for economic shock, the associated social impact in the short, medium and long-term and the potential impact on local authority financial resilience
- Potential impacts on major local employers, key infrastructure investment programmes and transport improvements
- Civil contingencies and providing reassurance and support to residents and businesses.

## Our approach

The Brexit Room is a flexible and interactive half-day workshop designed to sharpen your thinking on the impact Brexit could have on:

**Your organisation** – including considerations on workforce, funding, and changes to legislation

**Your services and suppliers** – ensuring that critical services are protected and building resilience within supply chains

**Your place** – using our proprietary Place Analytics tools we will help you to understand potential impacts on your local communities and economy and develop a place-based response, working with partners where appropriate.

We can work with you to identify key risks and opportunities in each of these areas whilst building consensus on the priority actions to be taken forward. You will receive a concise and focused write-up of the discussion and action plan to help shape the next stages of your work on Brexit.

For more information, follow the link below:

<https://www.grantthornton.co.uk/insights/brexit-local-leadership-on-the-front-line/>

## Brexit

### Challenge question:

How well advanced are your authority's plans for Brexit?



# 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 (Oct 2018)

Following opening remarks by Hilary Cottam (social entrepreneur and author of Radical Help) and Cllr Georgia Gould (Leader of Camden Council) the subsequent debate identified three themes for Grant Thornton to take forward:

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'? (Dec 2018)

Julia Unwin, Chair of the Civil Societies Futures Project, and Sam Newman of Partners4Change sparked debate on why we need society to be brave enough to talk about care and the different levels at which 'care' can be applied to create a Caring Society.

## Sprint 2 – A new role for the state? (7 Feb 2019)

Donna Hall, CEO of Wigan Council and Andrew of Reform, will start the debate on how can the state – nationally and locally – develop and adapt itself to be in service to a caring society.

### To find out more or get involved:

- Join the conversation at #acaringociety
- [Why we need to create a caring society](#)
- [Creating a caring society – the start of the debate](#) – the key themes from our first round table
- [Social care must take the starring role in its own story](#) – why the definition of social care is so important if the system is to change
- [Markets, trust & governance](#) – how social care can evolve to become a driver of local care economies
- [The future care leader](#) – Fiona Connolly, director of adult social care at Lambeth, discusses the importance of local care leaders working across the entire health system

### Challenge question:

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



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# Links

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## Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<https://www.grantthornton.co.uk/en/insights/a-caring-society/>

<https://www.grantthornton.co.uk/en/insights/care-homes-where-are-we-now/>

<https://www.grantthornton.co.uk/en/insights/the-rise-of-local-authority-trading-companies/>

## National Audit Office link

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

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>

<https://www.nao.org.uk/report/local-authority-governance-2/>

## 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>

## Public Sector Audit Appointments

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>



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# External Audit Plan

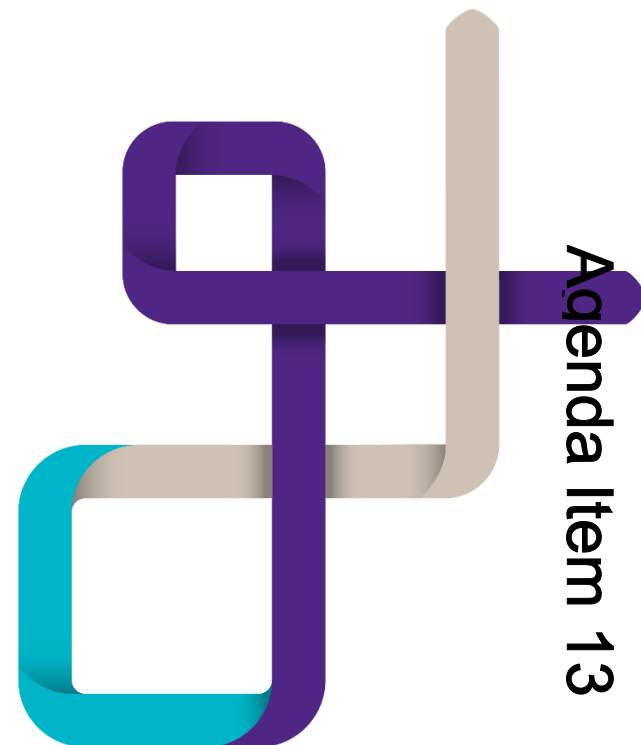
*Year ending 31 March 2019*

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

Shropshire Council

February 2019

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

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# Introduction & headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Shropshire Council ('the Council') for those charged with governance.

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Shropshire Council. We draw your attention to both of these documents on the [PSAA website](#).

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council's and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit Committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based. We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. It will enable us to be more responsive to changes that may occur in your organisation.

## Group Accounts

The Council is required to prepare group financial statements that consolidate the financial information of STAR Housing Ltd., West Mercia Energy, IP&E Limited and SSC No 1 Limited.

## Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls – Under ISA 240, there is a presumed risk of management override of controls present in all entities;
- Valuation of property, plant and equipment – The Council's revaluation of its assets in line with its rolling plan may lead to a material misstatement;
- Valuation of the pension fund net liability – The estimate of the valuation of the pension fund's net liability may be materially misstated.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

## Materiality

We have determined group planning materiality to be £11.0 million (PY £11.4m), which equates to approximately 2% of your forecast gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £550,000 (PY £570,000). A specific materiality of £100,000 has been set for senior officer remuneration.

# Introduction & headlines (continued)

## Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified only one VFM significant risk, that being:

- Financial resilience over the medium to long term.

The Council continues to experience significant financial challenge. The 2018/19 budget identified a funding gap of £59 million by 2022/23, driven predominantly by cuts in government funding. This is on top of the previous cuts of £54 million to the Revenue Support Grant over the past five years. Cost reductions of this scale require significant changes to service delivery. The Council plans to partially close this gap through saving proposals across three main pillars of delivery; innovation, income generation and service cuts. The Council is satisfied that it will remain in financial balance in 2018/19 and 2019/20. However, achieving the required savings will be extremely challenging.

We will review the Council's Financial Strategy and financial reports to Cabinet, assessing the assumptions used. We will also consider the Council's financial delivery and key variances from the Financial Strategy.

This work will also inform our assessment of the Council's ability to continue as a going concern.

## Audit logistics

Our interim visit will take place in early 2019 and our final visit in June and July 2019. Our key deliverables are this Audit Plan, our Audit Findings Report and our Annual Audit Letter. We will provide the Council with an opinion on its financial statements and a conclusion on its value for money arrangements. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £103,061 (PY: £133,845), subject to the Council meeting our requirements set out on page 14.

## Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

# Key matters impacting our audit

## Key Matters

### The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For Shropshire Council, as at Q2 an £8 million overspend against budget is forecast. This reflects the challenging financial outlook for the Council.

At a national level, the Government continues to consider the timing and form of Brexit. Future arrangements remain uncertain. The Council will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

There is also continuing uncertainty about the Local Government funding framework from 2020/21. The outcomes of the Fair Funding Review and the potential Business Rate Reset could have a major financial impact on the Council.

### Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.
- IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.

Given the nature of the entity, we expect the impact of these changes on the Council to be minor. However, we will be obtaining and assessing management's assessment of that impact during our audit.

### Shopping Centre Investment

During 2017/18, the Council purchased several shopping centres in Shrewsbury town centre via a Jersey property Unit Trust of which the Council and its subsidiary SSC No 1 are now 100% shareholders. Given the challenging retail outlook and the likely revaluation of assets in year we will closely monitor the performance of these investments and the role they will play in the Council's future strategy.

### New ERP System

The Council has postponed the introduction of its new ledger system until the beginning of the new financial year (19/20). We will consider the impact of this on the Council's savings targets and overall arrangements to secure Value for Money for the local community.

## Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the Council and will review related disclosures in the financial statements.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.

- We will review the Council's arrangements for ensuring the shopping centre assets are appropriately valued and disclosed in the financial statement. We will consider the impact of these investments on the Council's future outlook.
- We will conduct interviews with key staff around delivery of the ERP project and carefully consider the impact on our Value for Money opinion.

# Group audit scope and risk assessment

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

| Component                                     | Individually Significant? | Audit Scope | Risks identified  | Planned audit approach   |
|---|---------------------------|-------------|---|--|
| Shropshire Council                            | Yes                       |             | See pages 7 to 9  | Full scope UK statutory audit performed by Grant Thornton UK LLP   |
| Shropshire Towns and Rural (STaR) Housing Ltd | Yes                       |             | Risk of material misstatement due to errors in STaR Housing accounts or consolidation errors. | Full scope UK statutory audit performed by Grant Thornton UK LLP.<br>The nature, time and extent of our involvement in the work of Grant Thornton UK LLP will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the Grant Thornton UK LLP audit documentation and meeting with appropriate members of management. |
| West Mercia Energy                            | No                        |             | None  | Analytical review performed by Grant Thornton UK LLP   |
| IP&E Limited                                  | No                        |             | None  | Analytical review performed by Grant Thornton UK LLP   |
| SSC No 1 Limited                              | No                        |             | None  | Analytical review performed by Grant Thornton UK LLP   |

## Key changes within the group:

- No significant changes during 2018/19

## Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

# Significant risks identified

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

| Risk  | Reason for risk identification  | Key aspects of our proposed response to the risk   |
|---|---|--|
| <b>The revenue cycle includes fraudulent transactions</b> | <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>   | <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Shropshire Council, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we do not consider this to be a significant risk for Shropshire Council.</p>                                       |
| <b>Management over-ride of controls</b>                   | <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. .</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> | <p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul> |

# Significant risks identified (continued)

| Risk   | Reason for risk identification  | Key aspects of our proposed response to the risk   |
|--|---|--|
| <b>Valuation of the pension fund net liability</b> | <p>The Council's pension fund net liability represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the value involved (£420 million in the Council's balance sheet as at 31 March 2018) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We have therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p> | <p>We will:</p> <ul style="list-style-type: none"> <li>• update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation</li> <li>• assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability</li> <li>• test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary</li> <li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report</li> <li>• obtain assurances from the auditor of Shropshire County Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements</li> </ul> |

# Significant risks identified (continued)

| Risk                            | Reason for risk identification  | Key aspects of our proposed response to the risk   |
|---------------------------------|---|--|
| Valuation of land and buildings | <p>The Council revalues its land and buildings on a five-yearly basis.</p> <p>To ensure the carrying value in the Council and group financial statements is not materially different from the current value at the financial statements date, the Council requests a desktop valuation from its valuation expert. This valuation represents a significant estimate by management in the financial statements due to the value involved (£1.1 billion) and the sensitivity of this estimate to changes in key assumptions.</p> <p>We have therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p> | <p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• discuss with the valuer the basis on which the valuation was carried out to ensure that the requirements of the Code are met</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>• test revaluations made during the year to see if they had been input correctly into the Council's asset register</li> </ul> |

# Other matters

## Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
  - issue of a report in the public interest or written recommendations to the Council under section 24 of the Act, copied to the Secretary of State.
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
  - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

## Other material balances and transactions

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

## Going concern

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



# Materiality

## The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Materiality for planning purposes

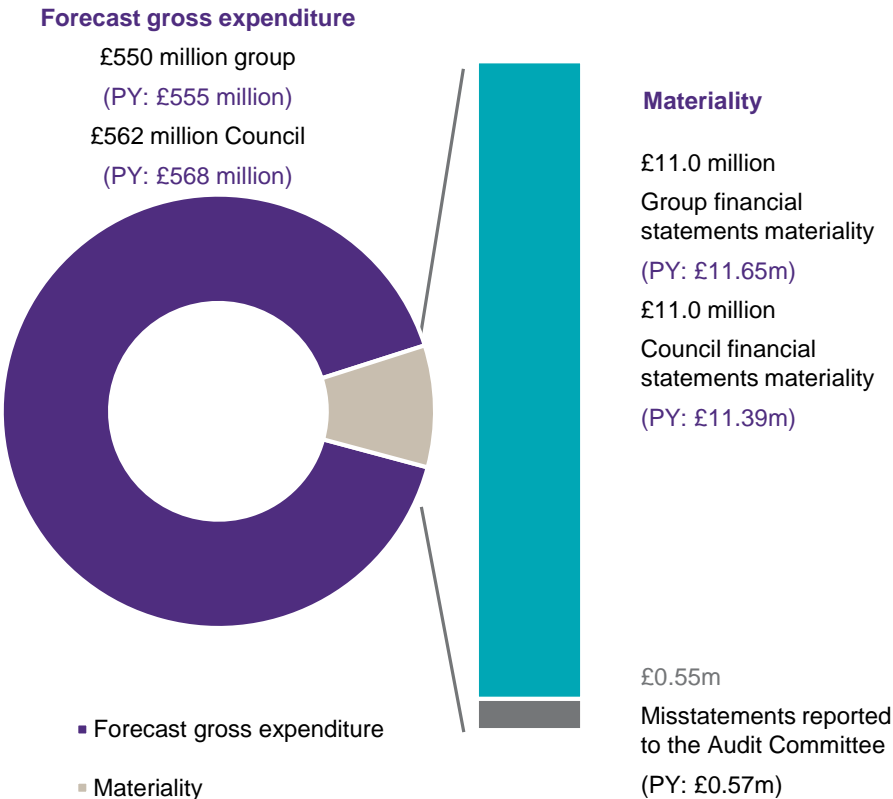
We have determined financial statement materiality based on a proportion of the gross expenditure of the Group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £11.0 million for the group and the Council (PY group £11.65 million and Council £11.39 million). This equates to approximately 2% of your forecast gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £100,000 for disclosures of senior officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

## Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £550,000 (PY £570,000).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



# Value for Money arrangements

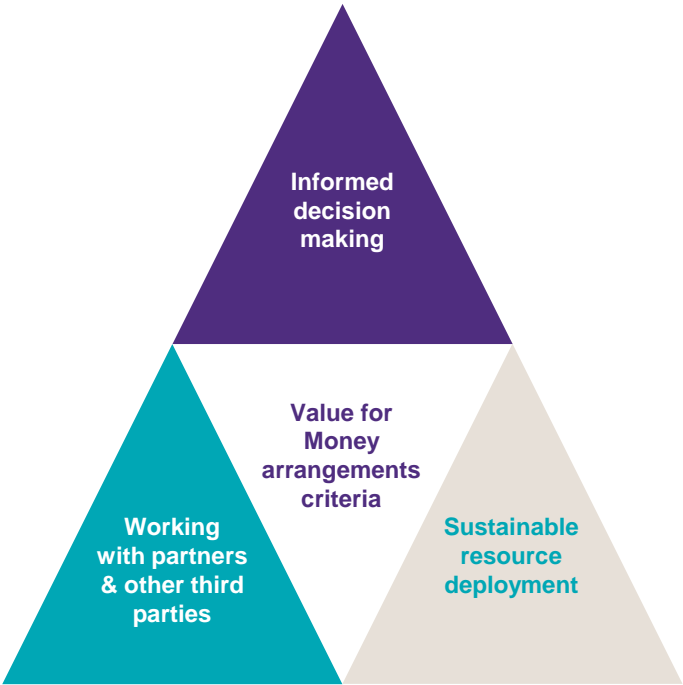
## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

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

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



## Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.



### Financial resilience over the medium to long term.

The Financial Strategy 2018/19 to 2022/23 identifies a funding gap of £59 million by 2022/23 driven predominantly by cuts in government funding. This funding gap could be partially closed through savings proposals identified across three main pillars of delivery; innovation, income generation and service cuts. Gross saving proposals of almost £43 million were identified, front-loaded to 2018/19 and 2019/20 with £29.2 million of gross revenue savings to be identified by 2019/20. This is a significant challenge for the Council.

2018/19 in-year financial monitoring reports have identified growth in demand for key services increasing cost pressures. The 2018/19 budget includes unbudgeted pressures of £8.2 million with much of this pressure expected to impact on 2019/20 and beyond.

The Council approved a revised pay structure in May 2018 adding a further £5.3 million to the budget by 2019/20 with additional savings proposals identified to cover this cost.

In total, £14.2 million of the original 2018/19 savings proposals have been removed or re-phased to later years and replaced by £8.3 million of new, alternative savings proposals supplemented by additional one-off funding and resources.

### Response to the risk

We will review the Council's Financial Strategy and financial reports to Cabinet, assessing the assumptions used. We will also consider the Council's delivery and any reported key variances from the Financial Strategy.

# Audit logistics, team & fees



## Richard Percival, Engagement Lead

Richard will be the main point of contact for the Chair, s151 Officer and Committee members. He will share his wealth of knowledge and experience across the sector providing challenge and sharing good practice. Richard will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit. Richard will sign your audit opinion.



## Emily Mayne, Audit Manager

Emily will work with senior members of the Head of Finance, Governance and Assurance and senior finance team ensuring audit work is delivered and any accounting issues are addressed on a timely basis. She will attend Audit Committee with Richard and supervise Siobhan in leading the on-site team. Emily will undertake reviews of the team's work and draft clear, concise and understandable reports as well as completing the work for the value for money conclusion.



## Siobhan Barnard, Audit Incharge

Siobhan will be the day to day contact for the audit, organising our visits and liaising with Council staff. She will lead the on-site team and will monitor deliverables, manage our query log ensuring that any significant issues and adjustments are highlighted to management as soon as possible.

## Audit fees

The planned audit fees are £103,061 + VAT (PY: £133,845 + VAT) for the financial statements audit completed under the Code, which are in line with the scale fee published by PSAA. In setting your fee, we have assumed that the scope of the audit, and the Council and its activities, do not significantly change.

Where additional audit work is required to address risks we will consider the need to charge fees in addition to the audit fee on a case by case basis. Any additional fees will be discussed and agreed with management and require PSAA approval.

## Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

# Early close

## Meeting the 31 July audit timeframe

In the prior year, the statutory date for publication of audited local government accounts was brought forward to 31 July, across the whole sector. This was a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts was curtailed, while, as auditors we had a shorter period to complete our work and faced an even more significant peak in our workload than previously.

Our experiences working with your team during the 17/18 audit were largely positive and we were able to deliver our opinion within the deadline.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

## Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 12). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

# Independence & non-audit services

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

## Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following other services were identified.

| Service   | £      | Threats   | Safeguards  |
|---|--------|---|---|
| <b>Audit related</b>                            |        |   |   |
| Certification of Housing capital receipts grant | 13,445 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £13,445 in comparison to the total fee for the audit of £103,061 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |
| Certification of Teachers' pension Return       | 4,800  | Self-Interest (because this is a recurring fee) | See above   |
| Certification of Housing capital receipts grant | 3,000  | Self-Interest (because this is a recurring fee) | See above   |
| <b>Non-audit related</b>                        |        |   |   |
| CFO Insights licence                            | 10,000 | Self-Interest (because this is a recurring fee) | See above   |

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

## Appendices

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A. Audit Approach

# Audit approach

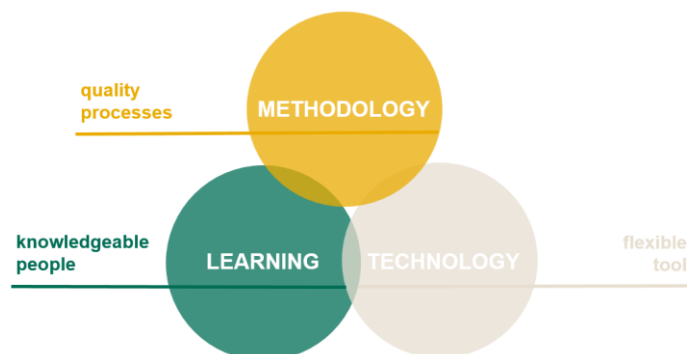
## Use of audit, data interrogation and analytics software

### LEAP



#### Audit software

- A globally developed ISA-aligned methodology and software tool that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- A cloud-based industry-leading audit tool developed in partnership with Microsoft



### Inflo



Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.



#### REQUEST & SHARE

- Communicate & transfer documents securely
- Extract data directly from client systems
- Work flow assignment & progress monitoring



#### ASSESS & SCOPE

- Compare balances & visualise trends
- Understand trends and perform more granular risk assessment



#### VERIFY & REVIEW

- Automate sampling requests
- Download automated work papers



#### INTERROGATE & EVALUATE

- Analyse 100% of transactions quickly & easily
- Identify high risk transactions for investigation & testing
- Provide client reports & relevant benchmarking KPIs



#### FOCUS & ASSURE

- Visualise relationships impacting core business cycles
- Analyse 100% of transactions to focus audit on unusual items
- Combine business process analytics with related testing to provide greater audit and process assurance



#### INSIGHTS

- Detailed visualisations to add value to meetings and reports
- Demonstrates own performance and benchmark comparisons

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### IDEA



- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively

### Appian



#### Business process management

- Clear timeline for account review:
  - disclosure dealing
  - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on





# Post-audit Action Plan for Shropshire Council

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**Relating to Audit Findings for the year ended 31 March 2018**

November 2018

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Agenda Item 14

# Action plan

## Priority

| Rec no. | Recommendation   | Priority | Management response   | Implementation date and responsibility                                |
|---------|--|----------|---|---|
| 1       | Review the accounting treatment of the JPUT in order to determine whether a different treatment may be more appropriate.   |          | The Council will re-consider the accounting treatment of the JPUT and consider obtaining a second opinion on the accounting treatment used that can then be applied in the 2018/19 financial accounts.  | C Sedgley, Head of Finance<br>31 March 2019                           |
| 2       | Obtain formal valuations for its shopping centre assets in the 2018/19 financial year.   |          | Plans have already been put in place to obtain a formal valuation for the shopping centre assets for 2018/19.   | C Sedgley, Head of Finance<br>31 March 2019                           |
| 3       | Review its accounting policies and disclosures around the JPUT, pension guarantees, schools, reserves and financial instruments (as set out in our 17/18 audit findings report). A number of non-material disclosure issues were noted in the prior period; in order to ensure best practice and full Code compliance, these should be reviewed.   |          | Agreed that the Council will work with Grant Thornton in reviewing any non-material disclosures that could be disclosed in the 2018/19 financial accounts.  | N Higgins, Strategic Financial Accountant<br>31 January 2019          |
| 4       | Monitor decisions from the Government with regard to funding and respond accordingly as well as: <ul style="list-style-type: none"> <li>making appropriate decisions with regard to Council Tax</li> <li>ensuring income generation schemes and savings plans are delivered in full</li> <li>consider whether the highways savings should be maintained or reversed depending on the funding available.</li> </ul> |          | The Council already has a mechanism in place to identify and highlight any issues with savings proposals and Government funding levels which involves monthly consideration at Directors, and reporting to Cabinet on a Quarterly basis. Appropriate action is identified as part of these monitoring reports to address any shortfalls in savings and other budgetary pressures.<br>The Council is also in the process of developing its financial strategy which considers the delivery of savings plans, funding announcements. As part of this process, consideration has been made of the required level of Council tax that needs to be set to minimise the funding gap where possible and this has been discussed with the Portfolio Holder for Finance and the Leader of the Council. | J Walton, Head of Finance, Governance & Assurance<br>28 February 2019 |

## Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

# Action plan

## Priority

| Rec no. | Recommendation  | Priority | Management response  | Implementation date and responsibility                   |
|---------|---|----------|--|--|
| 5       | Ensure data transfer supporting the transition from the old IT systems and hardware to the new is robust and complete, supported by parallel running until assurance has been gained over the new systems.  |          | A robust Service to Transition document has been developed to take the Transformation work, as in the implementation of new tools including parallel running, from a project and into Business as Usual (BaU). This document will give the organisation a level of assurance that the processes required to bring the software into operation have been carried out.   | A Boxall, Technology & Communications Manager<br>Ongoing |
| 6       | Promote and lead a cultural change to support innovation and agile working from the new Digital solutions, continuing to mitigate the risk that departments will redesign the system they already have and not focus on the required outputs and the outcomes for the customer. |          | <p>A barrier to culture change was identified in the Transformation Programme in the level of IT literacy of staff. This problem compounds the issue of IT adoption as staff struggle to use existing tools, let alone new tools. To try and overcome this, five levels of IT literacy have been developed which are backed up with promotional tools (such as posters and screen-locks) but predominantly using an E-Learning test to identify specific problems. There is also a range of videos showing people how to do various things with their IT equipment on Stream (an internal YouTube service).</p> <p>For some service areas, they have been taken on the Transformation journey and involved in the whole process – identifying failures of the existing arrangements to gain buy-in for the new tools. This has had varying levels of success but has been extremely effective in some areas.</p> <p>A range of posters regarding Transformation have also been displayed around key buildings, giving staff the opportunity to digest information collectively. The Yammer group also frequently attracts over 600 people viewing specific posts, with over 1000 not uncommon (depending on the nature of the post).</p> | M Leith, Head of Workforce & Transformation<br>Ongoing   |

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## Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

# Action plan

## Priority

| Rec no. | Recommendation  | Priority | Management response  | Implementation date and responsibility                                |
|---------|---|----------|--|---|
| 6       | Promote and lead a cultural change to support innovation and agile working from the new Digital solutions, continuing to mitigate the risk that departments will redesign the system they already have and not focus on the required outputs and the outcomes for the customer. |          | <p>The culture of a large organisation like Shropshire won't change overnight, but we are making positive steps to promote a good, future focussed culture. Work underway includes:</p> <ul style="list-style-type: none"> <li>• Equipping our staff with new skills - Leadership Programme; Future Leaders Programme; Upskill Shropshire; E-learning</li> <li>• Having honest and open discussions – e.g. the Yammer Transformation thread. This has included ideas on how to work differently and advice on how to solve technical/operational problems. It has also been used to stimulate discussions around 'cultural' topics such as printing and commercialism.</li> <li>• Working together across silos - Cross functional 'Squads' focussed on customer centric transformation of service</li> <li>• Mobile/Agile working - Trials in November will inform a co-ordinated strategy encompassing HR, IT, Property, Financial and Cultural aspects of agile working.</li> <li>• Keeping staff updated - Staff Workshops e.g. Impact Assessment and Operating Model workshops that give us the opportunity to explain the direction of the business and gives staff chance to explain the challenges they face. The learning from these sessions helps to inform future training and engagement activities.</li> <li>• Team working – Facilitated DiSC sessions to helping staff understand themselves and to work more effectively as teams.</li> <li>• Better use of Technology - The Legacy Applications/ICT Governance work is helping to curb purchase /renewal of systems and helping staff to assess how DTP technologies can be used instead.</li> </ul> <p>And finally, we are currently undertaking a Staff Survey. This survey will help us better understand current culture so that we can prioritise support for those areas in greatest need of help and further encourage those that are demonstrating forward thinking culture.</p> | <p>M Leith, Head of Workforce &amp; Transformation</p> <p>Ongoing</p> |

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# Informing the audit risk assessment Shropshire Council 2018/19

# Agenda

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# Purpose

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

## Background

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

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

## Communication

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

1. fraud

- laws and regulations
- going concern
- related parties
- accounting estimates.

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

# Fraud

## Matters in relation to fraud

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

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

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

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

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



# Fraud risk assessment

| Question   | Management response  |
|--|--|
| Has the Council assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?                                   | Fraud risks are identified by Internal audit in their audit plan, and fundamental systems which feed the statement of accounts are reviewed on a risk basis to ensure that controls in place are satisfactory. The statement of accounts is also subject to an analytical review each year which considers any significant or material changes to figures, to confirm that the accounts are presented without such misstatements.  |
| How are the Audit Committee satisfied that the overall control environment is robust.  | Specific fraud risks are identified in the audit planning process; in identifying key controls to be assessed as part of an audit; in targeted fraud prevention work and by raising awareness of the potential for fraud with staff, members and people working and involved with the Council. This is done through the Counter Fraud, Bribery and Anti-Corruption Strategy, Speaking up about Wrongdoing Policy, internal and supporting training packages.               |
| In particular what processes does the Council have in place to identify and respond to risks of fraud in the organisation?   | In addition systems and processes are designed by managers and users to minimise the risk of fraud and corruption. Areas where fraud is more likely to occur reflect nationally targeted areas including procurement with duplicate invoices or contractual frauds; time and resources abuse, payroll and expense claims; housing and council tax benefits; theft of council income; sub-letting of housing property and abuse of subsidised schemes, such as blue badges. |
| Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?   | No areas with a high risk of material fraud have been identified. If any risks are identified, recommendations for mitigation are made to managers who then implement as necessary.  |
| Are internal controls, including segregation of duties, in place and operating effectively?<br>If not, where are the risk areas and what mitigating actions have been taken? | Internal controls, including whether segregation of duties exist, are reviewed by Internal Audit as part of their routine and investigative work; exceptions are reported to managers and inform the Internal audit opinion.   |

# Fraud risk assessment (continued)

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| Question  | Management response   |
|---|---|
| Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? | There is always the potential for an override of controls within systems, however our control framework has established secondary compensatory controls in place that would identify any such override taking place. Financial reporting is produced and balanced from the financial system, and the reporting hierarchy allows for checks to be performed throughout the process, for example by the Section 151 Officer, Senior Management Team and Cabinet.  |
| Are there any areas where there is a potential for misreporting override of controls or inappropriate influence over the financial reporting process?   | No, as detailed above, there are compensatory controls in place to flag any overrides of controls.  |
| How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?  | The Internal Audit Risk Based Plan is approved by Audit Committee before commencement each year. Internal Audit complete a robust review of internal controls on a risk basis and reports regularly to Audit Committee. Audit Committee are informed of the audit opinions and seek management reassurance on the improvement of controls where the consequences are considered high risk. At each meeting, Audit Committee members receive an update on instances of actual, suspected or alleged fraud investigations that have occurred since the last meeting and their outcomes. |
| What arrangements are in place to report fraud issues and risks to the Audit Committee?   |   |
| How does the Council communicate and encourage ethical behaviour of its staff and contractors?  | The Council shares the whistleblowing policy with the public and all contractors. The terms and conditions within Council contracts also include ethical considerations for contractors and suppliers. The vision and values for the Council identify the need for staff to act with integrity in all the undertakings we make and this is tested and reviewed via team meetings and engagement surveys undertaken across the whole organisation.   |
| How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?   | Staff are encouraged to report their concerns about fraud as set out in the Speaking up about wrongdoing (whistleblowing) policy and the Council's Counter Fraud, Bribery and Anti-Corruption Strategy. No significant issues have been reported.   |

# Fraud risk assessment (continued)

| Question  | Management response  |
|---|--|
| Are you aware of any related party relationships or transactions that could give rise to risks of fraud?  | None identified.   |
| Are you aware of any instances of actual, suspected, or alleged fraud either within the Council as a whole or within specific departments since 1 April 2018? | All investigations of fraud are reported to the Audit Committee with internal audit present to consider the implications of the fraud. |
| Are you aware of any whistleblower reports or reports under the Bribery Act since 1 April 2018?   | No specific whistle blower reports or Bribery Act referrals have been made since April 2018.   |
| If so how does the Audit Committee respond to these?  |  |

# Laws and regulations

## Matters in relation to laws and regulations

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

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

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

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

# Impact of laws and regulations

| Question   | Management response  |
|--|--|
| What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?   | Each year the Council's corporate governance arrangements and risk management arrangements are reviewed and reported upon by Internal Audit and Risk Management teams. The Council has a robust corporate governance and risk management process in place.   |
| How does management gain assurance that all relevant laws and regulations have been complied with?   | The Council has a Monitoring Officer and Section 151 Officer who provide assurance that all relevant laws and regulations have been complied with. Also all Cabinet reports now have a standard section detailing any legislative issues.<br><br>Any non compliance is reported to management via Internal Audit reports and appropriate plans are put in place to remedy such issues. |
| How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?   | All reports on the Council's corporate governance arrangements are presented to Audit Committee to provide assurance that the appropriate arrangements are in place and that they are working well.  |
| Have there been any instances of non-compliance or suspected non-compliance with law and regulations since 1 April 2018, or earlier with an on-going impact on the 2018/19 financial statements? | The Section 151 Officer is not aware of any instances of non-compliance with relevant laws and regulations in 2018/19.   |
| What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?   | Risk management, insurance and legal work together to identify and evaluate any potential litigation or claims against the Council. Any potential liabilities are highlighted each year in the Council's Statement of Accounts.  |
| Is there any actual or potential litigation or claims that would affect the financial statements?  | The Section 151 Officer is not aware of any actual or potential litigation or claims that would affect the financial statements.   |
| Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate noncompliance?  | No such reports have been received.  |

# Impact of laws and regulations (continued)

| Question   | Management response   |
|--|---|
| What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations? | The Council has a robust Governance Framework in place:   |
| How does management gain assurance that all relevant laws and regulations have been complied with?               | <ul style="list-style-type: none"><li>• The Council has a Monitoring Officer and Section 151 Officer who provide assurance both supported by adequately staffed and trained teams of professional officers.</li><li>• Council/Cabinet reports include a Legal Comment which is completed and signed off by a senior officer in Legal Services.</li><li>• Internal Audit Work.</li></ul> |

# Going concern

## Matters in relation to laws and regulations

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

Going concern is a fundamental principle in the preparation of financial statements. Under the going concern assumption, a council is viewed as continuing in operation for the foreseeable future with no necessity of liquidation or ceasing trading. Accordingly, the Council's assets and liabilities are recorded on the basis that assets will be realised and liabilities discharged in the normal course of business. A key consideration of going concern is that the Council has the cash resources and reserves to meet its obligations as they fall due in the foreseeable future.

We have discussed the going concern assumption with key Council officers and reviewed the Council's financial and operating performance. Below are key questions on the going concern assumption which we would like the Audit Committee to consider.

# Going concern considerations

| Question  | Management response   |
|---|---|
| Does the Council have procedures in place to assess the Council's ability to continue as a going concern?   | The Financial Strategy considers the financial position of the authority over the short, medium and long term and is designed to ensure that the Council continues as a going concern. Internal Audit's work plan provides an on-going review of key elements of the Strategy to ensure its delivery or to highlight at an early stage any unforeseen risks.  |
| Is management aware of the existence of other events or conditions that may cast doubt on the Council's ability to continue as a going concern?   | No events or conditions have been identified.   |
| Are arrangements in place to report the going concern assessment to the Audit Committee?  | The Audit Committee consider a number of financial reports which provide them with assurance that the Council continues as a going concern. These include the Statement of Accounts, Revenue and Capital outturn reports including analysis of reserves held, and Treasury management Strategies. They also receive reports stating that all controls and risks have been managed appropriately and as Members will have access to all reports produced across the Council whether public or exempt.  |
| How has the Audit Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?   | <p>The Audit Committee receives both the draft and final Statement of Accounts and has opportunity to raise queries. Prior to approval of the final SOA officers provide an overview highlighting key matters in the accounts and again providing opportunity for queries.</p> <p>Members have access to all Council reports, including the budget and regular financial management reports which provide assurance on the current and projected financial position of the authority. The Council has a long track record of sound financial management having slightly underspent its budget in previous years despite having to deliver significant ongoing budget savings.</p>   |
| Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year? | The Financial Strategy considers the financial assumptions for the Council over the short, medium and long term. Each year an exercise considers the robustness of estimates and the adequacy of reserves and provisions which provides assurance to members that the Council's budget plans have been based on the best available information and assumptions. This also provides Audit Committee and Scrutiny Panels, as well as Cabinet and Full Council, the opportunity to comment upon and challenge the approaches taken and implications highlighted. Financial monitoring during the course of the year evaluates any variations from budget plans set out in the Financial Strategy and Budget Book, and also considers the effects that any variance has on the Council's General Fund Balance. This is monitored on a monthly basis and the implications and impacts for future years are updated within the Financial Strategy, reported to Cabinet three times during the year. |



# Going concern considerations (continued)

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

# Related parties

## Matters in relation to Related Parties

Local Authorities are required to comply with International Accounting Standard 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

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

A disclosure is required if a transaction (or series of transactions) is material on either side i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

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

Related party considerations have been set out below and management has provided its response.

# Related parties considerations

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

# Accounting estimates

## Matters in relation to Accounting Estimates

Local Authorities need to apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. This objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Council identified the transactions, events and conditions that may give rise to the need to an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Council are using as part of their accounts preparation: these are detailed in appendix 1 to this report.

The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

# Accounting estimates considerations

| Question   | Management response   |
|--|---|
| Are the management aware of transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgment? | No  |
| Are the management arrangements for the accounting estimates, as detailed in Appendix 1 reasonable?  | Yes – see Appendix 1 below.   |
| How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate?  | The accounting policies and notes included in the Statement of Accounts provide information.<br>External Audit provide assurance. |

# Appendix 1 - Accounting estimates

| Estimate                               | Method / model used to make the estimate  | Controls used to identify estimates  | Whether management have used an expert                        | Underlying assumptions:<br>- Assessment of degree of uncertainty<br>- Consideration of alternative estimates     | Has there been a change in accounting method in year? |
|--|---|--|---|--|---|
| Property plant & equipment valuations. | <p>Full valuation involving an inspection is carried out on a rolling basis every 5 years. An impairment and valuation review is carried out as a desk exercise for properties not valued in the year.</p> <p>Other assets are valued on the basis of depreciated replacement cost for specialised properties where there is no market-based evidence of fair value. Depreciated historic cost is used for vehicles, plant and equipment. Historic cost is used for infrastructure, community assets and assets under construction.</p> | Capital Accountant notifies the valuer of the program of rolling valuations or of any conditions that warrant an interim re-valuation. | Use Property Services (RICS valuer) for buildings valuations. | Valuations are made in-line with RICS guidance – reliance on expert. Assumptions are set out in valuer's report. | No  |

# Appendix 1 - Accounting estimates

| Estimate                                 | Method / model used to make the estimate  | Controls used to identify estimates   | Whether management have used an expert  | Underlying assumptions:<br>- Assessment of degree of uncertainty<br>- Consideration of alternative estimates  | Has there been a change in accounting method in year? |
|--|---|---|---|---|---|
| Estimated remaining useful lives of PPE. | <p>The following useful lives have been used in the calculation of depreciation:</p> <ul style="list-style-type: none"> <li>Council Dwelling – componentised depreciation, using a straight-line basis over their useful life (10-80 years) for Decent Homes Standard; with the residual amount (excluding land) depreciated over 150 years.</li> <li>Other Land and Buildings – average 10 to 60 years range.</li> <li>Vehicles, Plant, Furniture &amp; Equipment – average 5 years.</li> <li>Infrastructure – average 40 years</li> </ul> | <p>Specific asset lives applied to buildings.</p> <p>Consistent asset lives applied to each asset category.</p> | <p>Use District Valuer for Council Dwellings.</p> <p>Use Property Services (RICS valuer) for buildings valuations.</p> <p>Other assets considered by Property Services Manager and capital accountant</p> | <p>The length of the life is determined at the point of acquisition or revaluation.</p> <p>Major components are depreciated separately.</p>   | No  |
| Depreciation & Amortisation              | Depreciation is provided for all fixed assets with a finite useful life on a straight-line basis  | Consistent application of depreciation method across all assets   | No  | <p>The asset is not depreciated until it is available for use and each significant part of property, plant and equipment is depreciated separately. Asset lives are determined at acquisition/revaluation. Depreciation is calculated on a straight line basis. The asset lives are recorded in the asset register.</p> | No  |

# Appendix 1 - Accounting estimates

| Estimate    | Method / model used to make the estimate  | Controls used to identify estimates   | Whether management have used an expert                        | Underlying assumptions:<br>- Assessment of degree of uncertainty<br>- Consideration of alternative estimates | Has there been a change in accounting method in year? |
|-------------|---|---|---|--|---|
| Impairments | <p>Assets are assessed at the year-end for any indication that an asset may be impaired. An impairment and valuation review is carried out as a desk exercise for properties not valued in the year. The impairment of Housing Revenue Account assets is subject to an annual review of value in line with the requirements of the CLG; this is based on the previous December's house price statistics published by ONS. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.</p> <p>Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.</p> | This assessment is made by the internal valuer for land and buildings and by Property Services Manager and capital accountant (and other relevant officers for the asset type) for other assets | Use Property Services (RICS valuer) for buildings valuations. | Valuations are made in-line with RICS guidance.  | No  |



| Estimate                             | Method / model used to make the estimate  | Controls used to identify estimates   | Whether management have used an expert | Underlying assumptions:<br>- Assessment of degree of uncertainty<br>- Consideration of alternative estimates | Has there been a change in accounting method in year? |
|--------------------------------------|---|---|--|--|---|
| Overhead allocation.                 | Central support costs are apportioned to services based on an agreed criteria.  | All support service costs centres are allocated according to the agreed allocation. | No                                     | Apportionment bases are reviewed annually.   | No  |
| Measurement of Financial Instruments | The Council values financial instruments at amortised cost. (The fair value of financial instruments are disclosed in the notes to the accounts). | Take advice from finance professionals where appropriate.                           | External Treasury advisors & PWLB      | Take advice from finance professionals and external Treasury advisors.                                       | No  |

| Estimate                    | Method / model used to make the estimate   | Controls used to identify estimates                                   | Whether management have used an expert | Underlying assumptions:<br>- Assessment of degree of uncertainty<br>- Consideration of alternative estimates  | Has there been a change in accounting method in year? |
|-----------------------------|--|---|--|---|---|
| Provisions for liabilities. | Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. Provisions are charged as an expense to the appropriate service line in the CI&ES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties | Charged in the year that the Council becomes aware of the obligation. | No                                     | Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Council | No  |

| Estimate            | Method / model used to make the estimate   | Controls used to identify estimates   | Whether management have used an expert | Underlying assumptions:<br>- Assessment of degree of uncertainty<br>- Consideration of alternative estimates                                   | Has there been a change in accounting method in year? |
|---------------------|--|---|--|--|---|
| Bad Debt Provision. | A provision is estimated using a proportion basis of an aged debt listing. The finance team obtain the aged debt listings for the sales ledger and the aged debt lists for Council Tax, HRA rents and business rates to calculate the provision. | Outstanding debt informs management judgement.  | No                                     | Consistent proportion used across aged debt as per the Code.   | No  |
| Accruals            | Finance team collate accruals of expenditure and income. Activity is accounted for in the financial year that it takes place, not when money is paid or received.  | Review financial systems and question service managers to identify where goods have been received but not paid for. | No                                     | Accruals for income and expenditure often based on known values.<br><br>Where accruals are estimated the latest available information is used. | No  |

| Estimate   | Method / model used to make the estimate  | Controls used to identify estimates   | Whether management have used an expert                | Underlying assumptions:<br>- Assessment of degree of uncertainty<br>- Consideration of alternative estimates  | Has there been a change in accounting method in year? |
|--|---|---|---|---|---|
| Pension liability  | The Council is an admitted body to the Shropshire County Local Government Pension Scheme. The administering authority (the Unitary Council) engage the Actuary who provides the estimate of the pension liability.  | Payroll data is provided to the Actuary. Management reconcile this estimate of contributions to the actuals paid out in the year. | Consulting actuary                                    | As disclosed in the actuary's report. Complex judgements including the discount rate used, rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. | No  |
| Non adjusting events – events after the Balance Sheet date | Section 151 Officer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date this is an un-adjusting event. A note to the accounts is included, identifying the nature of the event and where possible estimates of the financial effect. | The Section 151 Officer is notified by relevant managers.   | This would be considered on individual circumstances. | This would be considered on individual circumstance.  | No  |

| Estimate                    | Method / model used to make the estimate  | Controls used to identify estimates  | Whether management have used an expert | Underlying assumptions:<br>- Assessment of degree of uncertainty<br>- Consideration of alternative estimates  | Has there been a change in accounting method in year? |
|-----------------------------|---|--|--|---|---|
| PFI Finance Lease Liability | The operators financial model is used as the basis for calculating the liability. | The operators financial model is used as the basis for calculating entries and this is reviewed by Finance on an annual basis. | No                                     | The construction elements of the annual unitary charge is accounted for as a finance lease. Minimum lease payments are made under these leases and assets recognised under these leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life. | No  |



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